Long-Term Sustainability of Canada Pension Plan

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Introduction

The Chief Actuary of Canada conducts a financial review of the Canada Pension Plan (CPP) every three years. In his latest triennial review released in December 2013, the Chief Actuary reaffirmed that the CPP remains sustainable at the current contribution rate of 9.9% throughout the 75-year period of his report.

CPP Investment Board (CPPIB) invests the assets of the Canada Pension Plan not required to pay current benefits. Our mandate is to help sustain the pensions of over 18 million CPP contributors and beneficiaries through the disciplined global investment of CPP assets.

Overview

CPPIB is dedicated to seeking the investment returns that will help keep the CPP sustainable for generations. With a long-term investment horizon, we have the capabilities to manage a global broadly diversified and actively managed portfolio to create long-term benefits for Canadians.

CPPIB was created as part of the reforms of 1997. By 1996, it was clear the CPP was unsustainable. That year, the CPP paid out more in benefits ($17 billion) than it received in contributions ($11 billion), and Canada’s Chief Actuary projected that without changes, the plan’s reserve fund would be depleted by 2015. A contribution rate of more than 14% would be necessary by 2030, effectively forcing future generations to fund current pension obligations.

In February 1997, the provinces and the federal government reached agreement on major reforms to the CPP, to reflect the changing demographics in Canada. The reforms included the creation of the CPPIB to manage the assets of the CPP Fund in the best interest of contributors and beneficiaries. CPPIB’s goal is to increase the long-term value of the CPP Fund to help sustain the CPP for the benefit of 18 million Canadians.

The CPP Fund has grown from $36.5 billion held entirely in government bonds in 1997, to the current $264.6 billion broadly diversified and actively managed global portfolio.

The Chief Actuary’s triennial report in late 2013 reaffirmed the long-term sustainability of the Canada Pension Plan.

In February 2012 the Federal Government announced changes to the Old Age Security program. The government reiterated at that time that the CPP remains financially sound, and does not need to be changed.
Chief Actuary’s Report

Every three years the Chief Actuary of Canada reviews the financial state of the CPP and projects its financial health over the next 75 years. The Chief Actuary released his latest triennial review in late 2013, dated as at December 31, 2012.

The Chief Actuary’s report takes into account the increasing number of baby boomers who are entering retirement in the coming years, and the decreasing number of working Canadians who will be contributing to the plan in future years.

The report states that, despite the projected higher benefit expenditures due to an aging population, the Plan is expected to meet its obligations and remain financially sustainable over the long term at current levels of contribution and benefits, based on actuarially accepted assumptions.

Excess contributions and investment income are combining to build an asset base from which future generations will be able to draw retirement benefits. Total assets are expected to grow from $264.6 billion today, to $340 billion by the end of 2022.

Assets will continue to grow after 2022, but at a slower pace as a small portion of investment income will be used to help pay Canadians’ pensions. Even with those payments, the CPP Fund is expected to grow throughout the 75-year period of the report.

By The Numbers

- **75+ years**: CPP is sustainable for 75 years and beyond, according to the latest report of the Chief Actuary of Canada.
- **$264.6 billion**: Net assets of the CPP Fund as of March 31, 2015
- **2023**: Year at which a portion of CPPIB’s investment income will be needed to help pay pensions
- **$340 billion**: Projected assets of the CPP Fund by 2022 (Dec. 31)
- **$500 billion**: Projected assets of the CPP Fund by 2030 (Dec. 31)
- **18 million**: Number of CPP contributors and beneficiaries