

# Big CPP increases are no silver bullet

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With a growing number of Canadians worried about their ability to retire, it is not surprising that many are calling for government policies to address retirement security. What is disappointing is that so much of the discussion is focused on an expanded Canada Pension Plan. CPP is an important piece of the retirement puzzle for Canadians. But it is only one piece — and not the fairest for everyone.

As Neil Mohindra pointed out in the *Financial Post* (“Pension overkill,” July 13), recent OECD research shows no link between mandatory pension contributions and pension income, and some Canadians may be better off paying down debt, or investing in a business or education, rather than building pension savings. But that touches on a broader point: Retirement-income policy affects a wide variety of people, at different stages in life, with different long-term goals and different short-term needs. A laser-like focus on the CPP as a single shining answer to retirement-savings problems has the potential to favour some generations unfairly at a cost to others.

CPP increases will affect age groups differently. Our social programs and related budget deficits unfairly discriminate against future generations, with the “give-get” ratio of contributions to benefits eroding for young Canadians — even as they are bequeathed responsibility for paying back the public debt. It is understandable that Canadians approaching retirement are concerned about their ability to afford it. But we cannot stick the next generation with the bill.

An expansion of the CPP structured on a fully funded basis to preserve intergenera-

tional fairness may seem the perfect answer to the pension-shortfall problem, but life is more complicated than that.

First, what happens when CPP contributions are increased? Higher CPP premiums are a tax on employers; like any payroll tax, they discourage job creation, impede wage increases and reduce economic growth. The brunt of this will be faced by young people just starting out in the workforce. What if higher CPP premiums were imposed fully on employees? Again, the youngest would be the hardest hit, as they would see these higher premiums eat away at their after-tax income even as they seek to pay off school debt, establish a family, buy a home or start a business. The problem with efforts to ensure Canadians have a financially sound retirement is ever the tyranny of averages and the desire for the silver bullet

## Smorgasbord needed, not a fixed menu

— a single solution to the average problem. But the problem with trying to solve the “average” problem is that the cost of the solution often falls on those outside the average. There are multiple challenges, requiring multiple solutions.

Rather than paying higher CPP premiums, young workers would be better off contributing to Tax-Free Savings Accounts (TFSA) and then converting the accumulated amounts into RRSPs once higher salaries provide a tax benefit. In the recent federal election, Prime Minister Stephen Harper promised to double to \$10,000 the allowable annual TFSA contribu-

tion, once the budget is balanced. This would make a solid component of not just retirement security, but a lifelong savings program. Another reform most would be able to agree on is removing payroll taxes from employer and employee contributions to employer-provided group RRSPs. The oft-heard justification for levying CPP and other taxes on these contributions is that, unlike pensions, RRSPs are not locked in and may be used for any purpose. But withdrawals are taxed and may be used for an investment in education, a new business or when out of work. Moreover, Canadians who do not cash in their RRSPs for non-retirement purposes (and their employers) should not be penalized for the sins of those who do.

And just because people have unused RRSP room at some time in their life is no reason to delay other RRSP improvements. While some yearn for the days of one job with one employer, things change, and retirement security policies should change with them. Increasing numbers of Canadians work on contract or freelance, with incomes varying widely from year to year. The self-employed should be permitted to base RRSP contributions on average income, with a carry-forward or back to years of leaner earnings. In the wake of the 2008 recession, it would also make sense to allow those who lost jobs to accumulate RRSP room based on an average of preceding working years' contributions.

It comes down to this: To be fair to all — regardless of age — when it comes to retirement security, we need to offer Canadians a smorgasbord, not a fixed menu. Canadians need the opportunity to maintain a good standard of living at all times of their lives.

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