

# Cost Estimate of Election Campaign Proposal

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Publication date: 2019-09-25

Short title: Canada Pension Plan (CPP) replacement rate enhancement

Description: Increasing the income replacement rate for CPP beneficiaries from 33% to 50%.

Operating line(s): Personal income tax, Corporate income tax, Transfers to persons

Data sources:	<u>Variable</u>	<u>Source</u>
	CPP contributions	PBO and Chief Actuary estimates
	CPP benefits	PBO and Chief Actuary estimates
	Personal and corporate income taxes	PBO and Statistics Canada (SPSD/M)
	Transfers to persons	PBO and Statistics Canada (SPSD/M)
	Income tax on CPP enhanced benefits	PBO and Statistics Canada (SPSD/M)
	OAS repayments	PBO and Statistics Canada (SPSD/M)

Estimation and projection method: Consistent with the CPP's legislation, any increase in benefits must be fully funded. Consequently, contribution rates have to increase in order to finance the increase in CPP benefits.

The cost of increasing the replacement rate from 33% to 50% was calculated by simulating the projected increase in contributions and benefits using the Chief Actuary's estimates in the 28<sup>th</sup> and 29<sup>th</sup> Reports, as well as Statistics Canada's SPSPD/M (version 27.1).<sup>1</sup> The decrease in personal and corporate income taxes and the increase in transfers to persons triggered by the increase in contributions were simulated by SPSPD/M. The increase in personal income tax driven by the enhanced CPP benefits was calculated by applying the marginal effective rate to the enhanced CPP benefits. OAS repayments generated by the increase in CPP benefits was equal to the recovery tax rate times the additional income received in excess to the OAS repayment threshold. The additional income was obtained by multiplying the CPP enhanced benefits by the proportion of people repaying a part of their OAS pension. This proportion was simulated by SPSPD/M. The estimated cost does not incorporate behavioural impacts.

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<sup>1</sup> This analysis is based on the Chief Actuary's estimates and Statistics Canada's Social Policy Simulation Database and Model (SPSPD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.

Uncertainty  
assessment:

The estimate has moderate uncertainty. The uncertainty arises due to the absence of a behavioural response. The estimated increase in contributions and benefits were also determined using the Chief Actuary's projections and SPSP/M which both have inherent uncertainty.

## Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	444	1,853	2,371	3,554	4,583	4,932	5,238	5,408	5,574	5,736

## Supplementary information

	Description	Operating line	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029		
Cost	Total		445	1,858	2,385	3,583	4,635	5,012	5,352	5,567	5,793	6,028		
	Increase in deductions	PIT	252	1,051	1,349	2,027	2,624	2,852	3,055	3,173	3,296	3,423		
	Increase in deductions	CIT	153	639	817	1,225	1,581	1,705	1,817	1,887	1,960	2,036		
	Increase in transfers to persons	Transfers to persons	40	168	219	331	430	455	480	507	537	569		
Revenues/savings	Total		-1	-5	-14	-29	-52	-80	-113	-159	-219	-292		
	Tax on benefits	PIT	-1	-5	-13	-27	-48	-74	-105	-147	-202	-269		
	OAS repayments	Elderly benefits	0	0	-1	-2	-4	-6	-9	-12	-17	-23		
Total net cost					444	1,853	2,371	3,554	4,583	4,932	5,238	5,408	5,574	5,736

### Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost