



## CANADA

<p><b>Canada: pension system in 2008</b></p> <p>The pension system offers a universal flat-rate benefit, which can be topped up with an income-tested benefit, and earnings-related public schemes.</p>
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		Key indicators	
		Canada	OECD
Average earnings	CAD	43 000	43 400
	USD	40 200	40 600
Public pension spending	% of GDP	4.2	7.0
Life expectancy	at birth	80.6	78.9
	at age 65	84.3	83.1
Population over age 65	% of working-age population	21.6	23.6

### Qualifying conditions

The basic old age security (OAS) pension is subject to a residence test, with  $\frac{1}{40}$ th of the maximum pension earned for each year of residence after age 18 up to a maximum of 40 years. A minimum of ten years' residence is required to receive any benefit. It is payable from age 65.

For the earnings-related scheme, a full pension requires about 40 years' contributions but a single valid contribution is sufficient to generate an entitlement. Normal pension eligibility age is 65 but an early pension can be claimed from age 60.

### Benefit calculation

#### *Basic*

The 2008 full pension level for the OAS pension was CAD 6 082.23. The value of the basic pension is price-indexed.

This pension is subject to an income test operated through the tax system (a 'claw-back'). For income above CAD 64 718 a year, the basic pension in 2008 was withdrawn at a 15% rate. It is also indexed to prices.

#### *Targeted*

The guaranteed income supplement (GIS) is added to the basic OAS pension. The combination gave a maximum benefit of CAD 13 759.26 in 2008 for a single pensioner.

The GIS is reduced against income other than the basic pension at a 50% rate. The target benefit level is price-indexed.

#### *Earnings-related*

Earnings-related pensions and benefits are provided by the Canada Pension Plan (CPP)/Québec Pension Plan (QPP). The CPP and QPP offer broadly similar benefits. The scheme targets a replacement rate of 25% of earnings, based on average lifetime salary (excluding the 15% of years

with the lowest earnings). Earlier years' pay is re-valued in line with economy-wide earnings. As noted previously, the full benefit requires about 40 years' contributions with proportional reductions for shorter work histories. The maximum earnings-related retirement pension for 2008 was CAD 884.58 a month.

People earning less than CAD 3 500 a year are not required to contribute. There was a ceiling to contributions of CAD 44 900 in 2008. The ceiling is indexed to increases in average earnings while the contribution floor is frozen in nominal terms.

The value of the earnings-related pension after retirement is updated annually in line with prices.

### ***Voluntary private pensions***

There is an additional voluntary pension which is assumed to be defined contribution. The contribution rate is assumed to be 8.5%.

## **Variant careers**

### ***Early retirement***

Early retirement beginning at age 60 is possible in the state earnings-related scheme subject to a benefit reduction of 6% per year. Early retirement is not possible in the other two public schemes (basic and means-tested).

### ***Late retirement***

The earnings-related pension can be deferred, earning a 6% increment for each year after age 65 - up to a maximum of five years. The basic and income-tested benefits cannot be deferred. The income-test for the latter includes earnings, whilst for the former there is a claw-back against large incomes, again including earnings.

### ***Childcare***

Years of caring for children under the age of 7 are excluded from the averaging period in the pension calculation and these years are excluded from the contributory period under the earnings-related scheme.

### ***Unemployment***

Up to 15% of the contributory period may be excluded in calculating average earnings in the earnings-related scheme. This drop-out is intended to compensate for periods of unemployment, illness, schooling *etc.* There are no credits for periods of unemployment.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

Under the personal income tax, an additional age credit of 15% on an amount of CAD 5 276 in 2008 is available if total income is CAD 31 524 or less. The amount of age credit is reduced at a rate of 15% of income in excess of CAD 31 524. The credit amount and the income level over which it is reduced have been fully indexed to price inflation since 1988.

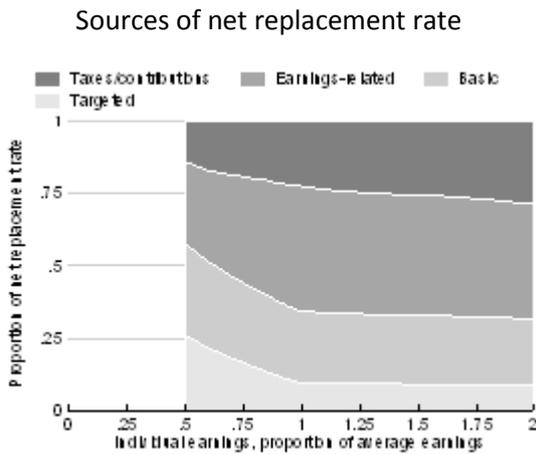
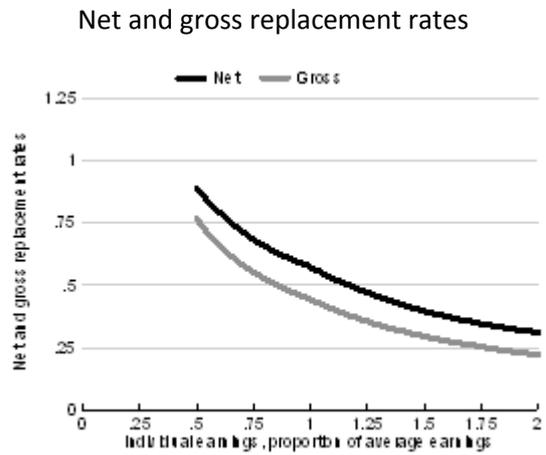
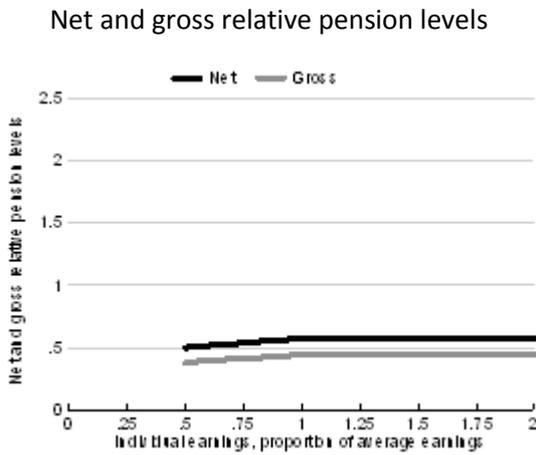
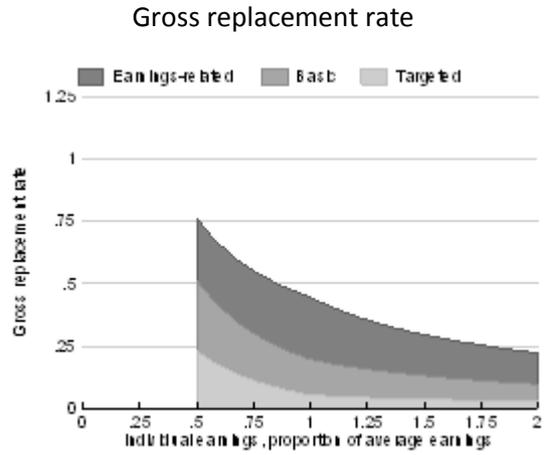
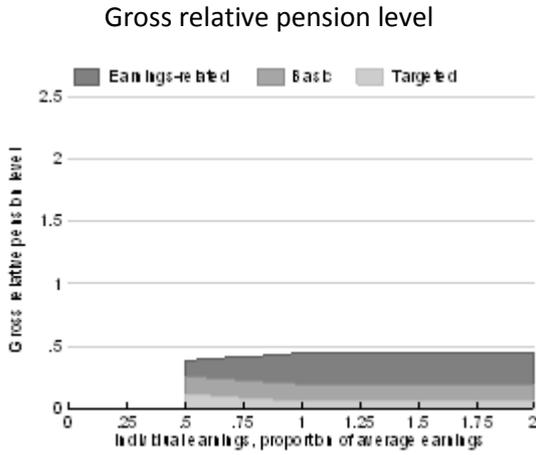
### ***Taxation of pension income***

There is also a credit of 15% provided on the first CAD 2 000 of pension or annuity income. Only pension income other than that from the public schemes (basic pension, CPP and/or QPP) is eligible for this credit. Public pension benefits are taxable with the exception of the targeted GIS.

### ***Social security contributions paid by pensioners***

Social security contributions are not levied on pension income.

## Pension modelling results: Canada



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	43.2	38.3	41.4	44.4	44.4	44.4
Net relative pension level (% net average earnings)	55.9	50.0	54.1	57.3	57.3	57.3
Gross replacement rate (% individual gross earnings)	48.5	76.6	55.2	44.4	29.6	22.2
Net replacement rate (% individual net earnings)	61.5	88.7	68.3	57.3	39.7	31.1
Gross pension wealth (multiple of average gross earnings)	8.1	12.9	9.3	7.5	5.0	3.7
Net pension wealth (multiple of average net earnings)	9.1	14.4	10.4	8.4	5.6	4.2
	8.1	12.9	9.3	7.4	4.9	3.7
	9.1	14.4	10.4	8.3	5.5	4.1