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# Forcing Canadians to contribute more to CPP or Ontario pension plan will reduce voluntary private savings

Released by Charles Lammam, Director of Fiscal Studies at the Fraser Institute
Release Date: July 21, 2015

TORONTO—When Canadians were forced to contribute more to the Canada Pension Plan in the 1990s and early 2000s, they ended up saving less voluntarily, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"Calls for an expanded Canada Pension Plan, or the upcoming provincial pension plan in Ontario, often rely on the dubious claim that Canadians aren't saving enough for retirement. Yet if Canadians are forced to save more in government-run plans, they'll save less privately, with little change in their overall savings," said Charles Lammam, director of fiscal studies at the Fraser Institute and co-author of Compulsory Government Pensions vs. Private Savings: The Effect of Previous Expansion to the Canada Pension Plan.

The study, which builds on past Fraser Institute work, examines the saving patterns of Canadian households from 1986 to 2008. It focuses on major changes to the CPP between 1996 and 2004, when the total contribution rate rose from 5.6 per cent to 9.9 per cent of insurable earnings.

According to the study, past increases in mandatory CPP contributions were followed by a decrease in private savings among Canadian households. Specifically, with each percentage point increase in the total CPP contribution rate, the private savings rate of the average Canadian household dropped by 0.895 percentage points (after accounting for interest rate changes and demographics shifts in age, income, and home ownership).

"The research suggests that for every one dollar increase in CPP contributions, Canadian households, on average, reduced private savings by one dollar," Lammam said.

Interestingly, this reduction in private savings was more pronounced among the young (under 30) and mid-career households (ages 30-49) and less evident among those approaching retirement (ages 50–64). In addition, the study finds a larger drop in private savings among lower- and middle-income households and practically no drop for those with higher incomes.

So why does it matter that Canadians will save less privately (in RRSPs, TFSAs, and other private investments) when forced to save more in government savings (through an expanded CPP or the new ORPP in Ontario)?

Because private retirement savings can offer more choice and flexibility than CPP savings. For instance, with RRSP savings, Canadians can tailor their investments, pull money out for a down-payment on a home or to upgrade their education, transfer the money to a beneficiary in the event of death, and withdraw money in case of emergency.

These benefits are lost when Canadians are forced to save more in CPP or the Ontario Retirement Pension Plan.

“Canadians choose how much they save and spend based on their income and preferred lifestyle. If their income and preferences do not change, and the government mandates additional savings through government pension plans, Canadians will simply reshuffle their retirement savings, with more money going to forced savings and less to voluntary savings,” Lammam said.

“The benefits to a mandatory expansion of the CPP, or a new provincial plan in Ontario, should be weighed against the costs, which will include a reduction in private, voluntary savings.”