

6. For the first five years of the plan, contributions will be made, and benefits will be paid, on the first \$4,500 of annual earnings. This level will be adjusted in 1970 and thereafter in line with increases in average earnings.

7. Contributions will be deductible from taxable income. This is the same as for private pension plans.

8. The Canada pension plan will be entirely self financing. The contributions are designed to cover both the cost of benefits and the cost of administration. The costs of the flat rate pension will be met from the old age security fund.

Timing

The legislation will be designed to permit collection of contributions to begin in January 1965, so that payment of benefits can begin in January 1966. At that date also, people will become able to draw pensions, both flat rate and earnings-related, at age 69. By 1970 these pensions will be available at age 65.

Until the plan is ten years old, the rates of the new pension will build up steadily. In 1966, the earnings-related benefit at age 69 or 70 will be 2 per cent of earnings, or \$7.50 a month for anyone who retires after contributing on earnings of \$4,500 for a year. For anyone retiring at age 68 or older in 1967, the maximum will be \$15 a month, and so on until the top rate of 20 per cent of earnings is reached after ten years. The flat rate pension will, of course, be available in addition to the Canada pension. The amounts available in total pensions will therefore rise from \$75 to people already retired to \$150 for contributors aged 70 with average earnings of \$4500 in 1975.

Financing

Contributions under the plan will not be required before the age of 18. They will stop at whatever age, between 65 and 70, a pension benefit is taken.

For the first 15 years of the program the contribution rate will be 1 per cent of contributory earnings payable for the employee and 1 per cent of contributory earnings for the employer. During the following 35 years, these rates will rise in steps of a quarter of one per cent, to a rate of 2 per cent for the year 2015 onward. There will be provision to defer these contribution increases if they prove to be financially unnecessary.

The ratio of benefits to contributions is especially favourable for those who retire during the early years of the plan. It is therefore reasonable during this period to assess the voluntary contributor at the combined employer and employee rate. However, after the program has been in operation for a

period of time and adjustments are made in contribution rates, the rate paid by voluntary contributors will remain at the rate for the employee, plus 1 per cent. For example, when the employee's rate is 1½ per cent, with an equal contribution by the employer, the rate for the self employed will be 2½ per cent.

The contribution rates set out above will result in the building up of fairly substantial reserves, estimated at about \$2.5 billion (before interest) during the first ten years. Periodic actuarial reports will be published on the anticipated revenues and expenditures of the fund in the future. These will be reviewed by an advisory committee in its report to the government on the operation of the plan.

From 45 per cent to 55 per cent of the plan's reserves will be invested by the Minister of Finance in the securities of provincial governments, or securities guaranteed by provincial governments, in proportion to the amount of contributions paid into the plan by residents of each province. Provincial governments will thus have an important interest in the operations of the plan, and in any proposed amendments which might affect the future size of the reserves.

There will be provisions to require a special actuarial report on the future cost of any proposals to amend the benefits or other features of the plan.

Calculation of Benefits

Pensions are to be 20 per cent of "what a man has been earning".

This obviously cannot mean what the pensioner earned in, say, the last year, or even few years, before beginning the pension. That would be very unfair to the man who suffered sickness or unemployment in the last few years before retirement. On the other hand, the pensioner cannot be allowed to pick the best year or few years of his earnings record; that would excessively favour the man whose earnings have been erratic and it would tempt voluntary contributors to contribute only in good years.

The pension benefit will therefore be based on the man's average earnings from the effective date of the plan to the time when he starts to draw his pension. These earnings cannot, however, be used without adjustment. To do so would mean that, as the general level of earnings rises over the years, there would be a widening span between earnings recorded in the early years and those shortly before retirement. The pension benefits paid would therefore be a declining proportion of "what a man has been earning" shortly before retirement.

Accordingly, for calculating pensions, earnings will be adjusted in line with changes in