

*Canada Pension Plan*

Both lower and upper limits will rise during the ten year transition period if the cost of living rises, and thereafter in ratio to an eight year moving average of earnings.

The combined contribution rate of 3.6 per cent on earnings between these limits, is proposed as a rate that can be expected to finance the plan for at least 20 years, without liquidating any of the investment reserve that will be built up meantime. After that, the estimates necessarily become less precise. There are too many uncertainties for us to predict what the contribution rate should be more than 20 to 25 years, that is, more than a generation from now.

There is, of course, a good reason why the cost of pensions may increase over the years. We can expect to live longer. All the estimates prepared by the chief actuary of the Department of Insurance are based on the assumption of a considerable continuing improvement in mortality rates; that is to say, more people will enjoy their pensions longer.

This, of course, will increase the total cost of pensions. What it does to the contribution rate, however, depends on what happens meantime to the total amount of earnings to which the contribution rate is applied. This, in turn, depends on a variety of factors—the rate of increase of the population of working age, the proportion of this population actually at work, the rate of increase in their productivity, and what happens to prices. I therefore propose to refer briefly to each of these.

As those who studied the actuarial report made public last fall will recall, the actuarial work for the Canada pension plan has been based on two different sets of assumptions about population growth. These were deliberately chosen by the chief actuary as extremes. That is to say, one is the slowest rate of population growth which seems at all reasonable and the other is the fastest which seems reasonable. On the first set of assumptions, that is, the slow population growth rate, the number of Canadians in the year 2050 would be 46 million; on the second set, the fast growth rate assumptions, it would be 156 million, or a difference of 110 million.

Even in the course of a generation the divergence between the two estimates is considerable. In 1990 the population of Canada would be 30 million on the first set of slow assumptions and on the second or fast set of assumptions it would be 37.2 million. That is to say, the difference between the two projections is, within 25 years, equal to the

present population of Ontario and Manitoba combined.

These alternative population projections produce very different ratios for the future number of pensioners compared with the number of contributors. On the first set of assumptions, that is, with a slow growth of population, the pensioners will increase much more than the contributors, and the contribution rate therefore has to increase. On the second set of assumptions, that is, fast growth, the ratio would not change much, even if the projections are carried as far into the future as the year 2050. That is to say, if our population increases fast the contribution rate required in the 2050's may well be no higher, and indeed could be lower, than the rate required in the 1990's.

The possible wide variations in population are the greatest of the uncertainties which affect the long term cost of the plan. Economic factors, however, are also of great importance. The actuarial estimates depend on, for example, assumptions about the proportion of people of working age who in fact will be at work. They assume that for the first ten years of the plan unemployment will average 5 per cent of the labour force and thereafter it will average 4 per cent.

Before hon. members jump to any conclusions I should like to emphasize that these assumptions, like others in the actuarial report, cannot in any way be taken to reflect what the government actually expects to happen. They are the independent assumptions of the chief actuary who has worked on the principle that he should choose, to use his words, "assumptions that would not underestimate the cost" in this as in other doubtful areas. In other words, he is being deliberately on the pessimistic side or, if my hon. friends opposite will permit me, he is being somewhat conservative.

The cost of the plan will also depend on the future development of prices and earnings and especially on the relation between the two, that is, on productivity or real earnings per person.

Many different projections could be made. In order to avoid so many that they would be confusing, the chief actuary has made two assumptions about prices. Pensions will cost more, of course, the more prices rise. For the long term estimates based on a slow rate of population growth a rapid increase in prices, by 2 per cent a year, is also assumed. Thus this is deliberately a "high cost" estimate on both counts. For the estimates based on fast population growth, and therefore "low cost"