This, of course, is the very purpose of the special averaging provisions of the Income Tax Act, and presumably why the motion proposes the same technique for the Canada Pension Plan.

However, such an arrangement is not necessary for the CPP: under the plan, the contribution rate is the same whether actual or average earnings are used. Then, for CPP benefit purposes, these five years of earnings will automatically be averaged along with all other years in the contributory period and so, apart from the updating of earnings feature of the benefit formula, the year to year fluctuation in earnings' level will be negated. In order to appreciate just how the CPP benefit formula does affect various earnings patterns, it is useful to examine the formula a little further. The general formula for a retirement pension—which is also the basis for the earnings-related component of a survivor's or disability pension—is 25 per cent of the participant's updated earnings, averaged over the period during which he was required to contribute to the plan. Before taking the percentage, the following steps are performed.

Some hon. Members: Hear, hear!

An hon. Member: Carry on.

Mr. Collenette: I thank hon. members for their encouragement. It is always nice to be encouraged at this hour. As I was saying, the following steps are performed: First, the individual's contributory period is established; this is generally from January, 1966—or reaching age 18, whichever is later—to the month before the retirement pension begins, (which is age 65 or later); second, the individual's actual contributory earnings for each month in his contributory period are updated. This updating or adjustment operation is designed to give a current value to the actual contributory earnings and involves restating the actual earnings in terms of the average of the maximum earnings levels under the plan for the year of retirement and the two preceding years. Third, the total updated earnings are averaged over the individual's contributory period.

If the fluctuations in an individual's earnings are such that each year's earnings are between the yearly basic exemption—the amount to be earned before contributions can be made—and the yearly earnings ceiling, the averaging and updating processes which are carried out before the benefit is established will smooth out the fluctuations which throughout the career are in this range. Because most people fall into this category, the net effect of the proposal would be a great deal of effort to no real avail.

The plan in its original design also provided for an adjustment in this earnings averaging process to allow for years when earnings would be very low, or even below the basic exemption. The first such special provision applies to the contributory period, where the plan provides that a participant's contributory period is reduced if he receives a disability pension under the Canada or Quebec Pension Plan, that is, the averaging period does not include any month during which the participant received a CPP or QPP disability pension.

There are, in addition, two provisions dealing specifically with periods of low earnings which come into play on January 1, 1976, upon completion of the retirement pension transition period. First, an individual who continues to work past 65 and continues to contribute to the plan will, if it is to his advantage, have his earnings for the months after he reaches age 65 replace lower earnings for any months before he reached age 65. In other words, high earnings are substituted for low earnings, and this is clearly to the contributors' advantage; it is obviously better to substitute $6,000 for $1,000 than to average the two. In addition, an individual can drop out up to 15 per cent of the remaining months of his contributory period; this drop-out provision is, of course, applied to the months of lowest earnings. An overriding condition attached to both these provisions is that they cannot serve to reduce the contributory period below ten years.

As an example of the combined effect of these two provisions, we can take the case of an individual who comes under the plan in 1966 and retires at the age of 66 in 1977, and who during that 12-year period has experienced two years with no earnings and ten years at maximum earnings. Because he contributed to the plan for a year after reaching the age of 65, that year of maximum earnings replaces one of the years of zero earnings. The drop-out feature is then applied and this provision serves to eliminate the other year of zero earnings. In this hypothetical example, then, the operation of the over age 65 earnings substitution and the drop-out provision mean that the individual will receive a maximum pension, even though he had two years of nil earnings during his working career. The elimination of low earnings via the drop-out provisions means, in the example, a 100 per cent pension rather than an 83 per cent pension; if low earnings were not dropped but diluted via an averaging process, the result would not be a 100 per cent pension.

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To summarize this point, the career-long averaging of earnings provided for in the plan and the special earnings adjustment features to provide for years of low or nil earnings mean that by far the majority of different patterns of earnings have already been provided for in the plan. Adoption of the motion would involve the contributor in a great deal of record keeping and complex analysis which would likely result in no real advantage. Indeed, exercise of the option could work to his disadvantage.

One worrisome pattern that became so with the new technique for accelerating increases in the plan's yearly earning ceiling is where the individual has a number of years below the annual basic exemption. That is, up until January 1, 1975, an employee had to earn over 12 per cent of the annual earnings ceiling in order to contribute to the plan in that year. The self-employed contributor had to earn over 1⅓ times the basic exemption before he could make a CPP contribution for that year. With the earnings ceiling increasing at the rate of 12½ per cent a year, these qualifying formulae could well have kept a number of people from contributing to the plan in respect of low income years.

Accordingly, when the new technique for establishing the annual earnings ceiling was introduced, the plan was also changed to have the basic exemption dropped to 10 per cent of the earnings ceiling and the extra one-third threshold for self-employed contributors deleted. Without these changes, a self-employed person would have had to