

Canada Pension Plan

an actuarially trained prophet to decide whether or not the individual's best interests would be served if indeed the option were exercised.

Therefore, Mr. Speaker, this motion would not serve the best interests of our farmers and fishermen mentioned in this motion, but would indeed complicate matters for them. Representing as I do a farming community, I cannot support such a motion.

• (1750)

Miss Aileen Nicholson (Trinity): Mr. Speaker, I would like to begin by commending the hon. member for Elgin (Mr. Wise) for raising this very important question. It is important to keep reviewing the very complex Canada Pension Plan to ensure that people are not penalized for periods of low earnings, and that as people age they receive the maximum benefits.

I am sorry that the hon. member for Okanagan Boundary (Mr. Whittaker) chose to try to make a distinction between the needs of senior citizens in urban areas and in rural areas. I am sure he is well aware that major changes in the Canada Pension Plan are only made by agreement with the provinces, and that they require the consent of two thirds of the provinces having two thirds of the population before they can be implemented. Experience generally seems to show that what is a problem for one section of the community may also be a problem for another. For example, the change which came into effect January last which deleted a special provision which had applied to self-employed persons, that is, the requirement that they must earn at least one and one third of the Year's Basic Exemption to qualify as a contributor, was an amendment which certainly benefitted fishermen, farmers, and also many other self-employed persons in cities. So I think when one is looking at this legislation one needs to consider the needs of all Canadians, whether they be farmers or city dwellers.

I am very much in agreement with the hon. member for Elgin that one wants to see this plan as inclusive as possible and to see that people get the maximum benefits and are not penalized for periods of low earnings, but I have some difficulty with the technicalities of the motion and whether the five-year averaging would really add anything to the existing provision for a 47 year averaging. In fact I can see some situations where five year averaging might work to the detriment of the contributor.

The motion before us does not deal with the key question of when that option would be exercised, and as one looks at the way the plan is constructed it seems that the best decision can only be made shortly before the pension is received, and that an earlier decision might put a person at a disadvantage.

The beginning phase of the plan is, of course, the paying of contributions and, unlike the Income Tax Act, the level of earnings does not change the contribution rate. As long as the individual's earnings in any given year are over the basic exemption, the participant pays the standard contribution rate on his or her earnings between the basic exemption and the earnings ceiling. The contribution rate in 1975 is 1.8 per cent on all earnings subject to the plan.

A five year averaging of income for CPP contribution purposes, as I see it, works two ways. The averaging of the

earnings can mean that a year or years become contributory years when such was not the case for the actual earnings. However, the reverse can happen with a period interspersed with low earning years and no earning years averaged out, so that none of the years in the average period would be assigned annual earnings in excess of the exemption, and thus all the years would be lost for contributory purposes.

As one considers the way the Canada Pension Plan formula works, a simple statement of this formula is that a retirement pension is equal to 25 per cent of the contributor's average monthly pensionable earnings. However, as previous speakers have said, the simplicity stops there. It is quite a complex formula, and the process involves four steps.

The process used to establish the average monthly pensionable earnings is, first, determining in each individual case the contributory period. There is a basic contributory period of 120 months for payment of the full pension, but this is a basic period. The normal contributing period runs from January 1, 1966, or on reaching age 18, whichever is later, to the month before the contributor begins to receive his retirement pension, which can be no earlier than the month after reaching the age of 65. From this period, however, are deducted any months during which the individual received a disability pension under either the Canada Pension Plan or the Quebec Pension Plan.

The second step involves looking at each month of the individual's contributory earnings which are those actual earnings in each month on which he made a valid CPP contribution, and these are updated. All the actual earnings are revalued in accordance with the movement in levels between the plan's earnings ceiling in the year of the earnings and the average of the earnings ceilings for the year of retirement and the two preceding years.

Third, once all the earnings have been revalued, then the special adjustment provisions come into play. These provisions will take effect January 1, 1976. The first deduction allowed is for an individual who contributes to the plan after reaching age 65. Any higher earnings for this period will replace months of lower earnings before reaching 65. The second adjustment is the drop-out provision which allows a participant to drop out at present up to 15 per cent of the number of months in his contributory period. Obviously the drop-out will be applied to delete months of low earnings. For both the over age 65 substitution of earnings provision and the drop-out provision, there is an overriding proviso that the total period cannot fall below the basic 120 months.

Fourth, once all the earnings have been adjusted, the total is averaged over the contributory period as established in step one, and 25 per cent of that average equals the monthly retirement pension.

This is the current method of averaging and adjusting contributory earnings. Considering this structure it seems that the advantage or otherwise of allowing the five year averaging will not be known until the end of the working career, which is the only time when it can be absolutely determined how many months are in the individual's contributory period, how the drop-out provision and the over 65 substitute earnings provisions will work, and how the earnings adjustment feature affects the benefit calculation.

[Mr. Ethier.]