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## RRSPs and an Expanded Canada Pension Plan

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### Abstract

After their meeting in December 2012 at Meech Lake, Quebec, the federal and provincial-territorial finance ministers decided to put expansion of the Canada Pension Plan (CPP) and its sister program, the Quebec Pension Plan (QPP), back on the policy agenda. The idea of expanding the CPP is not new and, over the years, various individuals and groups have called for a more generous mandatory public pension system as a way to boost the overall retirement income of Canadians. With the global financial crisis of 2008-2009 and attendant decline in the value of retirement-savings portfolios, these calls have been renewed.

Recent proposals to expand the CPP call for an increase in the mandatory CPP contribution rate (payroll tax) to help fund larger benefits. Unfortunately, the debate about expanding the CPP has downplayed the basic economic insight that increasing mandatory contributions to the CPP could displace voluntary savings. Failure to account for this tendency could lead one to overestimate the increase in overall retirement savings that would result from an expanded CPP.

To find out if increases in mandatory contributions tend to displace voluntary savings, in RRSPs and an expanded Canada Pension Plan we provide a preliminary investigation of readily available historical data from the Canada Revenue Agency (CRA) on contributions to the Canada Pension Plan (CPP) and also to Registered Retirement Savings Plans (RRSPs), an important voluntary retirement savings vehicle in Canada. The period examined is 1993 to 2008, which includes several increases to the CPP contribution rate. Indeed, the CPP contribution rate nearly doubled between 1993 and 2003.

This preliminary investigation suggests that mandatory increases in CPP savings result in reduced voluntary savings in RRSPs. If the preliminary analysis is validated by more detailed microanalysis, the discussion about the efficacy of increasing the CPP contribution rate for all Canadian workers should then include the costs of reduced RRSP savings compared to increased CPP savings. Other aspects of this trade-off, such as the comparative benefits of the CPP (defined benefit in retirement) compared to the benefits of RRSPs (flexibility and choice), also need to be assessed and discussed.

The key to a successful system for providing retirement income through savings is a set of rules that allow for an optimal mix of savings for different people in different stages of their lives and with different preferences. There may be benefits to a compulsory expansion of the CPP. However, these benefits need to be weighed against the costs, which, as our analysis shows, likely include a reduction in voluntary RRSP savings.

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