

# Canadian Financial Planner

**Fall 2007**

In this edition of the Canadian Financial Planner, we shall review the benefits provided by the Canada Pension Plan, plus an overview of the various administrative rules that may apply to retirement, disability and death benefit payments.

The Canada Pension Plan Investment Board currently manages approximately 120 billion in assets and their annualized return for the past four years was 13.6%. Prior to the late 1990's, the Canada Pension Plan was a "pay as you go plan" that was seriously underfunded. Without drastic changes, it would have been unable to pay the promised benefits to Canadians as they retire. Two significant changes were introduced to the Canada Pension Plan – increased contributions and professional investment managers. Currently, the contribution limit is 9.9% of pensionable earnings. For 2007, this represents a maximum contribution of \$1,990, an amount that must be matched by employers. The self-employed must contribute \$3,980. Although the benefits have remained relatively constant, there have been significant changes in the management of the plan. Consider the following:

- in the mid 1990's, the CPP was a conservative pool of funds that invested primarily in government securities. A component of this risk averse strategy was to avoid equity investments
- in order to increase the rate of return, the plan started to invest in indexed funds and later moved into actively managed equity funds

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Given the huge amount of assets under management by the CPP, perhaps their greatest struggle will be to keep the politician's hands off the funds. Given the government's unending thirst for funds, it will be a challenge for the Board to focus on investing the funds to meet the obligations of the Canada Pension Plan, rather than as a cash cow to meet various government objectives. This pressure could take the form of "encouraging" the CPP to invest in various regions of Canada or perhaps ensure their investments are consistent with the government's view of corporate governance, which may include various social or environmental objectives. To date, the management team appears to be quite successful in keeping the Canada Pension Plan apolitical.

### **Canada Pension Plan – The Benefits**

Although the Canada Pension Plan is considered primarily as a source of retirement income, it also offers various death and disability benefits. The maximum level of benefits payable by the Canada Pension Plan are:

Retirement at age 65	\$ 863
Disability Benefit	\$1,053
Children of Disabled Benefit	\$ 204
Death Benefit	\$2,500
Survivor Benefit (under age 65)	\$ 482
Survivor Benefit (over age 65)	\$ 518
Children of Deceased Benefit	\$ 204

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