

Expert Commission on Pensions**RESEARCH PROJECT # 1: MAPPING COVERAGE AND FUNDING OF OCCUPATIONAL PENSION PLANS****Research Project # 1: Mapping Coverage and Funding of Occupational Pension Plans****Research Paper: The Fiscal Effects of a Drop in Pension Coverage****Researcher: Keith Horner****2008****Executive summary**

By depressing future retirement incomes, a fall in pension coverage also has negative effects on government finances – reducing income and sales tax revenues and increasing the cost of public pension programs and other income-tested benefits.

Pension coverage in Canada declined by about 10% over the decade to 2005, and the trend appears to be continuing. Affecting younger and older workers at all income levels, the drop in coverage was most marked among those earning \$50,000 to \$100,000. It was not concentrated on those with low pension benefit levels, nor was it accompanied by higher benefit levels among continuing plan members.

While RRSP contributions grew faster than pension contributions before 1995, the aggregate RRSP contribution rate declined between 1995 and 2005, providing no evidence of an offset to falling pension coverage. However, a shift in contributions from RRSPs to educational savings plans during that period suggests that it might not be a good guide to future trends. Labour force participation rates among men and women over age 55 increased sharply after 1995, which did provide an offset to the drop in pension coverage.

This paper presents an estimate of the fiscal effects of the coverage decline in 2030, by which time the effects on pension incomes should be fully felt and all members of the baby boom generation will have reached age 65. The projection takes into account the effects of reduced pension contribution and benefit levels on program costs and on revenues from income and sales taxes.

A 10% drop in pension coverage is found to lead to a \$1.4 billion (\$2005) reduction in governments' net fiscal balances – an increase in the program costs of Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) of \$0.48 billion, reductions in federal and provincial income tax revenues (net of refundable tax credits) of \$0.68 billion and reductions in federal and provincial sales tax revenues of \$0.24 billion. Cutting the pension income decline in half to reflect an offsetting increase in RRSP saving or in the labour force participation of older workers reduces the fiscal effects by 40%.



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