NEWS RELEASE

Expanded Canada Pension Plan could decrease investment in Canada by up to $114 billion over next decade

May 3, 2018
For immediate release

VANCOUVER—By forcing Canadian workers to contribute more to the Canada Pension Plan (CPP), Ottawa and the provinces will inadvertently shrink the pool of money available for investments in Canada—potentially up to $114 billion by 2030, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"A shrinking pool of domestic investment means there will potentially be less money available in Canada to finance start-up businesses, the maintenance and expansion of existing operations, and investments in new machines and technology—all of which are critical for improving the economy and the living standards of workers," said Charles Lammam, director of fiscal studies at the Fraser Institute and co-author of ***Expansion of the Canada Pension Plan and the Unintended Effect on Domestic Investment***.

Starting January 2019, the federal and provincial governments will increase the amount Canadian workers have to pay into the national pension program, with the payroll tax increases being phased in over seven years.

In the past when Canadians were forced to increase their CPP contributions, they saved less money in personal savings accounts, such as RRSPs and Tax Free Savings Accounts.

As more and more money shifts from private saving vehicles to the CPP, there will be a decline in domestic investment. In fact, it could be as much as $114 billion less between 2019 and 2030.

Here's why.

The private savings of Canadian households are predominantly invested in Canada, the result of a phenomenon known as "home bias," wherein private investors prefer investing in their home country instead of foreign ones. For example, in 2016/17, Canadian households kept 82.2 per cent of their investments in Canada, with only 17.8 per cent invested in other countries.

But the opposite is true for the Canada Pension Plan Investment Board, which manages the investments of the CPP contributions. In 2016/17, 83.5 per cent of the CPPIB's holdings were invested outside Canada, and only 16.5 per cent in Canadian investments.

"We're not suggesting that governments impose domestic investment requirements on the CPPIB—but our analysis highlights an unintended consequence of forcing Canadians to increase their CPP contributions," Lammam said.

"Governments across Canada could help offset the looming reduction in domestic investment by pursuing policies that encourage both domestic and foreign investment in Canada."

(30)

MEDIA CONTACT:
Charles Lammam, Director, Fiscal Studies
Fraser Institute

To arrange media interviews or for more information, please contact:
Bryn Weese, Media Relations Specialist

Fraser Institute
Tel: (604) 688-0221 Ext. 589
E-mail: bryn.weese@fraserinstitute.org

Follow the Fraser Institute on **Twitter** and **Facebook**