The Fiscal Effects of a Drop in Pension Coverage

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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%.

1. Introduction

Pension coverage has declined significantly in Ontario and Canada as a whole over the past thirty years, and the decline appears to be continuing. Among the concerns raised by this trend are its effects on the fiscal position of governments – in particular on the future cost of public pension programs and on the contribution of seniors to government tax revenues. The aging of the Canadian population heightens these concerns.

Several factors will condition the fiscal effects of a decline in pension coverage.

- First, what is the nature of the decline? If it is concentrated among workers at lower earnings levels, for example, then it might have a strong effect on the future cost of the Guaranteed Income Supplement (GIS) and other income-tested benefits. If not, then effects on tax revenues might be more important. Another question is whether the decline might be concentrated among those in plans of modest generosity. In this case, a coverage decline of, say, 10% could imply a less than proportionate decline in the amount of pension savings.

- Second, a decline in registered pension plan (RPP) coverage could be significantly offset by an increase in other forms of saving, particularly in registered retirement savings plans (RRSPs).
- Third, if workers responded to a reduction in their pension saving by remaining longer in the workforce, the additional income could offset some of the effects of the coverage decline on tax revenues and public pension costs.

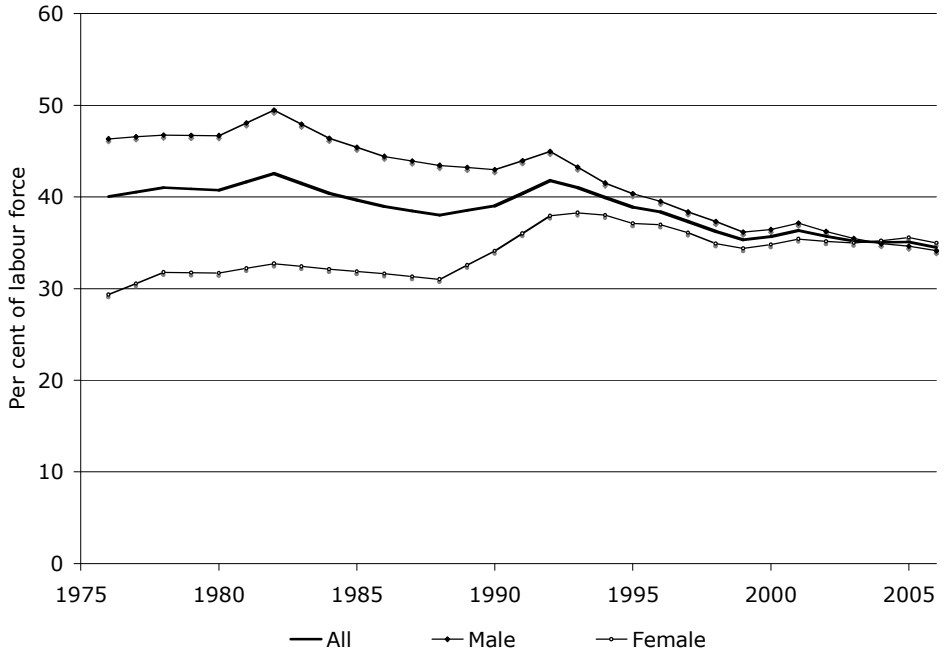
In order to be able to comment on the possible influence of these factors, we begin in this paper by examining changes in pension coverage and associated trends over the years 1995-2005 as a guide to possible future trends. Then we use the distribution of income among seniors in 2005 as a basis for simulating the effects of a coverage decline on future tax revenues and public pension costs. Section 2 documents the coverage trends, Section 3 outlines the simulation methodology, and Section 4 provides the results.

2. Trends in pension coverage and retirement income provision

Pension coverage

Figure 1 shows how RPP coverage has evolved since 1976 for men and women. RPP coverage is measured as the number of RPP members as a percentage of the total labour force (including employed and self-employed persons). We see that coverage among men has been in long-term decline and that, after rising in the 1980s, coverage among women has also declined since the early 1990s.[1]

Figure 1. RPP Coverage Rates

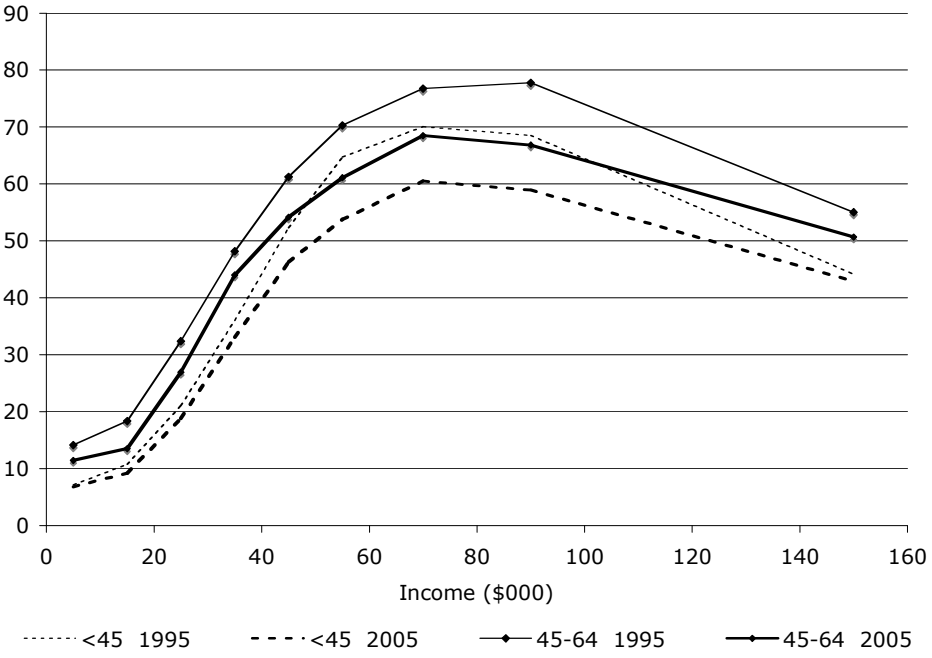


Source: Cansim tables 2800008 and 2820012.

[1] It is also evident that pension coverage is counter-cyclical, with the highest rates being recorded during the recessions of the early 1980s and 1990s. This reflects the fact that pension plan members are less likely to become unemployed during recessions than workers without pension coverage.

For men and women together, RPP coverage declined from 38.9% of the labour force in 1995 to 35.1% in 2005, a drop of 3.8 percentage points or 9.8% of the 1995 level.[2]

Figure 2. RPP Coverage Rates by Age and Income



Source: CRA, Income Statistics, Table 12.
http://www.cra.arc.gc.ca/agency/stats/gb05/pst/final/tables-e.html

For younger and older workers, Figure 2 compares the RPP coverage profiles by income level for 1995 and 2005. Here, RPP coverage is measured as the number of tax filers reporting a Pension Adjustment (PA) as a percentage of those reporting C/QPP contributions.[3] [4] In making this comparison, the income thresholds for 1995 were

[2] The rate declined further, to 34.5%, in 2006.

[3] The PA is a measure of the level of saving by a tax filer for a year in an employer-sponsored RPP or deferred profit sharing plan (DPSP). Plan members report their PAs on their tax returns. For defined contribution plans, the PA is the total of employer and employee contributions made in respect of the tax filer for the year. For defined benefit RPPs, the PA is an estimate of the level of the employer-plus-employee contribution needed to fund the pension benefit accrued in the year. Since over one-quarter of RPP members belong to non-contributory plans, the PA provides a much better indicator of RPP membership than the presence of an employee contribution. In principle, the number of PAs reported by tax filers should overstate the number of 'active' RPP members (i.e., those accruing benefits in a year, not those receiving pension income) because of the inclusion of DPSP members. They total perhaps 5% of RPP members. However, there is less than full reporting of PAs on tax returns. For 2005, the CRA estimate of the number of PAs was 5,248,950, 92.6% of the number of RPP members (5,670,684) reported by Statistics Canada (Cansim table 2820008); for 1995, the CRA estimate was 92.1% of the Statistics Canada estimate.

[4] The number of PAs reported by those under age 65 fell from 39.0% to 34.3% of C/QPP contributors between 1995 and 2005, a 12% drop. Thus, the tax statistics and Statistics Canada data provide a consistent picture of the pension coverage decline.

deflated by the factor 0.82 to reflect the 22% CPI increase over the period, and the number of tax filers in each income group in 1995 was adjusted to conform to the new thresholds based on the assumption of a uniform distribution of filers within each income group.

We see from Figure 2 that coverage rates declined over the decade for individuals at all income levels within both age groups (comparing the dotted lines for those under age 45 and the solid lines for those age 45-64). The drops appear to be somewhat larger at middle-to-high income levels ($50,000 to $100,000) than at lower incomes levels. There is no evidence of any concentration of the coverage decline among low-income earners.

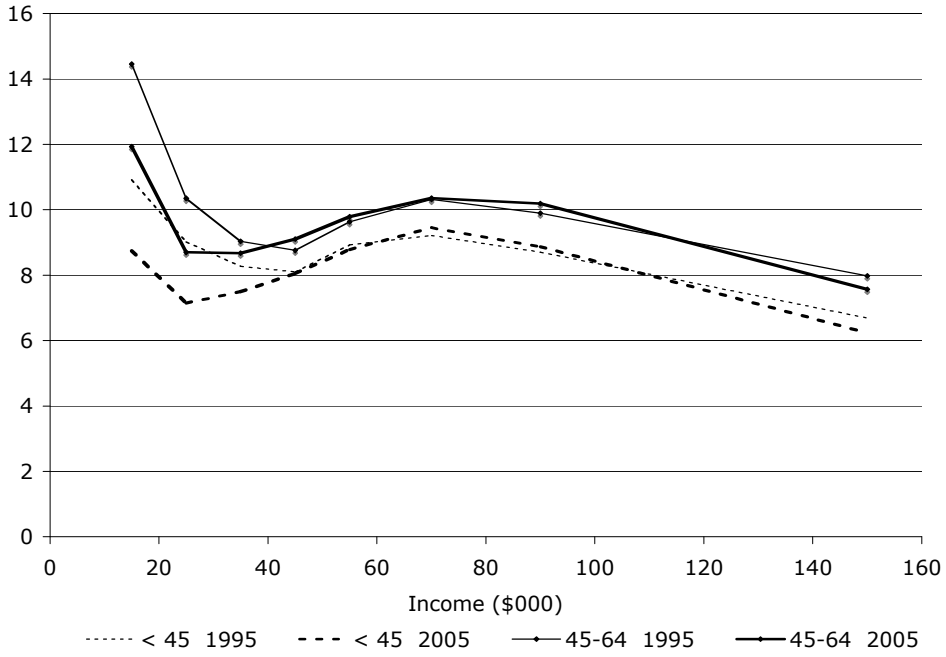
Pension savings levels

Next we consider changes in the level of pension savings among RPP members. Could the decline in coverage have been offset to some extent by an increase in pension saving among the remaining population of plan members? Alternately, could the effect of the coverage decline have been limited by its concentration on those in plans with lower-than-average benefit levels?

As evidence, Figure 3 presents pension savings levels, measured by PA amounts and shown as percentages of group-average income levels, by income level within broad age groups. As before, the 1995 distribution was adjusted to correct for inflation. In addition, the 1995 PA amounts were increased to correct for a change in the PA definition that took effect in 1997. For years up to 1996, PAs for defined benefit RPPs were calculated as 9 times the pension benefit accrued in the year less an ad hoc allowance of $1,000. From 1997, as part of a broader change in the pension tax rules, the allowance was reduced to $600. Thus, to avoid reporting a spurious increase in pension generosity between 1995 and 2005, each 1995 PA amount was increased by $340 (i.e., $400 times a factor of 0.85 representing the portion of PAs accounted for by defined benefit RPPs). Finally, all 1995 PA amounts were adjusted to be in 2005 dollars.

Figure 3 provides no evidence of increased pension savings levels among remaining RPP members or of any concentration of the coverage decline among low-benefit plans. The average levels of pension saving, as a percentage of income, remained the same in 2005 as in 1995 for middle and higher-income plan members; for those with incomes under about $40,000, savings levels declined. Thus, the change in promised pension benefit levels exacerbated rather than offset the decline in pension coverage.

Figure 3. Pension Savings Levels by Age and Income



Source: CRA, Income Statistics, Table 12.

RRSP savings

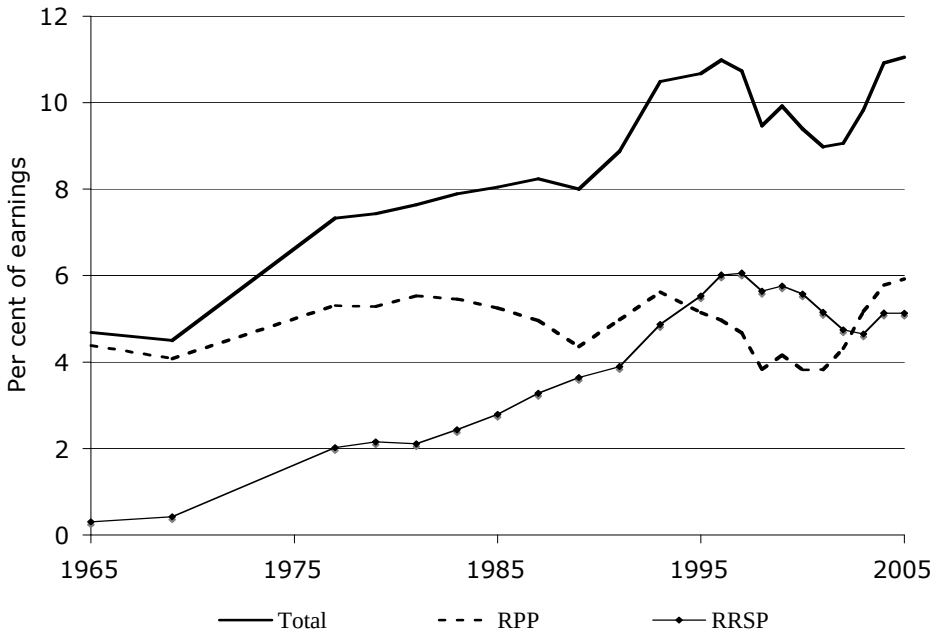
Savings in RRSPs provide a good substitute for pension savings, so an increase in RRSP saving could offset a reduction in RPP coverage. In this case, a decline in pension coverage would be better characterized as a shift between retirement savings vehicles. However, the evidence on the strength of such an offset is mixed.

Figure 4 provides a longer-term picture of aggregate savings levels in RPPs and RRSPs, expressed as a percentage of earned income. RPP savings are measured by the total of employer and employee contributions.

Here we see that the RRSP savings level has grown strongly over time, at least up to the late-1990s, while the RPP savings level grew less strongly up to the early 1980s and has been flat or declining since then.[5]

[5] The trend in RPP saving is obscured to some degree by fluctuations in the level of employer contributions in response to changes in the funding status of defined benefit plans. Thus, the sharp decline in RPP saving in the late 1990s reflects employer contribution holidays in the face of plan surpluses while the rebound since 2001 reflects high employer contributions needed to reduce plan deficits. A measure of aggregate RPP saving based on reported PA amounts rather than employer-plus-employee contributions would show a steady decline in the level of RPP savings from the early 1990s to about 2000 and little change since then.

Figure 4. Aggregate Savings Rates in RPPs and RRSPs



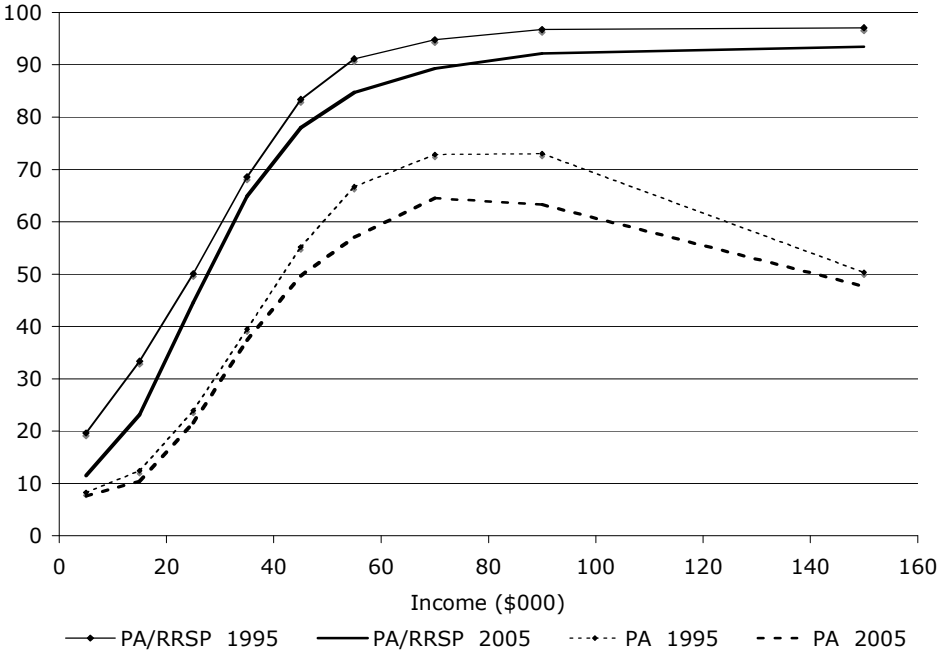
Source: CRA, Income Statistics, Table 2.

While there has clearly been a shift in registered plan saving from RPPs to RRSPs over the longer term, this trend appears to have ended in the late 1990s. It is difficult to say whether this situation is permanent or whether the shift might resume. One reason for the drop in RRSP saving in the late 1990s was the introduction of the Canada Education Savings Grant in 1998 which made saving in registered educational savings plans (RESPs) more strongly tax-favoured than RRSPs and so led to a shift from RRSP to RESP saving among parents.

Over the 1995-2005 period we have been focusing on, Figure 5 shows the how the drop in RPP coverage by income level relates to the change in the incidence of saving in an RPP ***and/or*** an RRSP. For those with incomes under $40,000, the incidence of RPP and/or RRSP saving declined by more than RPP saving alone. In this group, a decline in RRSP saving accompanied the drop in pension coverage. For those with income between $40,000 and $100,000, the incidence of RPP/RRSP saving declined by less than the fall in RPP coverage. This does not mean that RRSP saving replaced RRSP saving; it merely shows that, in this income range, many of those affected by the pension coverage drop were already complementing their RPP saving with RRSP contributions.

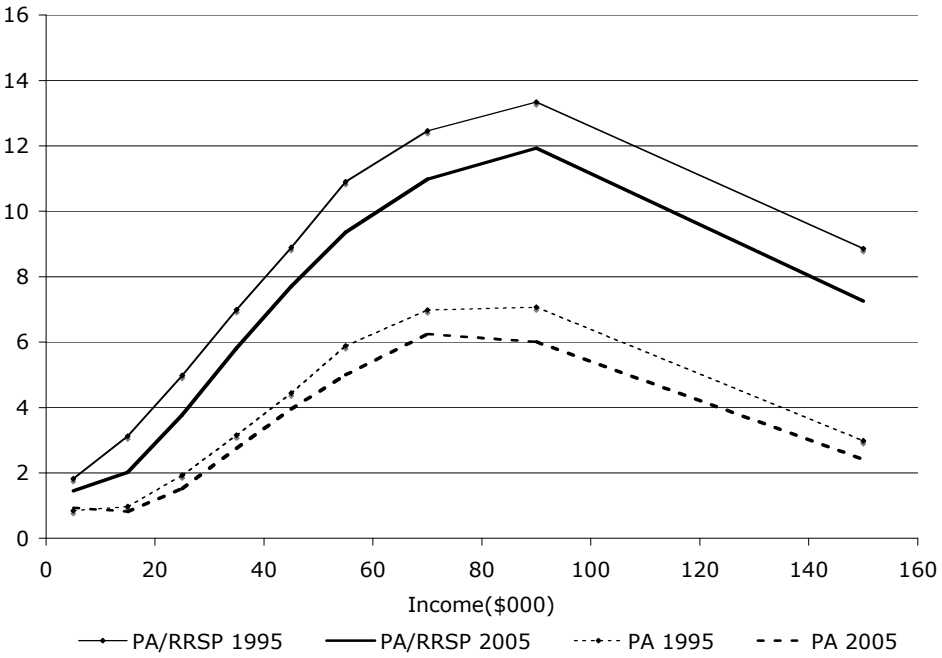
This interpretation is supported by Figure 6, which shows for 1995 and 2005 average savings levels by income level, in RPPs and RRSPs together and in RPPs alone. Unlike the case in Figure 3, these average savings levels are calculated based on the income of all tax filers, not just those with positive savings.

Figure 5. RPP and RRSP Coverage Rates



Source: CRA, Income Statistics, Table 12.

Figure 6. RPP and RRSP Savings Levels



Source: CRA, Income Statistics, Table 12.

Figure 6 shows that over the decade to 2005, for all income groups, the declines in RPP-plus-RRSP savings levels exceeded those of RPP savings levels alone. Thus, the decline in pension saving was accompanied by a significant decline in RRSP saving rather than an offsetting increase. However, the event of an important shift from RRSP to RESP saving suggests that the RRSP trend from this period may not be a sound guide to the future.

Delayed retirement

Extending the years of work provides another possible response to the decline in expected retirement income associated with a drop in pension coverage. The experience of the past decade is consistent with such a response. Table 1 documents the labour force participation rates since 1995 for older age groups. Rates increased strongly between 1995 and 2005 for both men and women in the 55-64 age group, with smaller increases among those over age 65. Rates increases continued through 2007.

Table 1. Labour Force Participation Rates among Older Age Groups

				Change	
	1995	***2005***	***2007***	***95-05***	***95-07***
		(%)		(%)	
Men 55-64	58.3	66.7	67.1	8.4	8.8
Men 65+	9.9	12.1	13.0	2.2	3.1
Women 55-64	36.2	49.4	53.3	13.2	17.1
Women 65+	3.4	5.0	5.6	1.6	2.2

Cohort effects relating to the increase in female labour force participation rates at younger ages must explain a good part of the increase for older women. However, the strong increase for older men suggests that it is not the only factor. Studies have documented the tendency for low-income workers with health problems and higher-income workers with large pension accumulations to retire earlier than others (Compton 2001, Wannell 2007). This supports the hypothesis that a decline in pension coverage would encourage delays in retirement among those affected by it.

3. Simulating Fiscal Effects

Different approaches can be followed in defining the fiscal effects of a decline in pension coverage.

Tax expenditure estimates

In the annual tax expenditure reports prepared by the federal Department of Finance, tax expenditures for saving in RPPs and RRSPs are estimated on both a ***cash-flow*** and ***present value*** basis.

Cash-flow estimates. These estimates respond to the question of how current tax revenues would be affected if RPPs and RRSPs did not exist. The implicit counter-

factual is that both employer and employee pension contributions would be paid to employees as taxable employment income, and the employees would save the after-tax amounts in accounts in which the investment income is subject to full taxation. Because the cash-flow estimates focus on current year effects, they are based on current contributions but on investment income and benefits generated by contributions made in the past. Thus, the approach is not well suited to examining the present and future effects of a current event such as a drop in pension coverage.

Present value estimates. These are estimates of the tax benefit associated with the favourable tax treatment accorded to the contributions made in a particular year. Again the counter-factual case is taxation of the contributed amounts in the hands of employees and allocation of the after-tax amounts to savings accounts in which the investment income is subject to tax. The estimates respond to the question of what the net revenue gains to government would be if taxpayers saved the same amounts for retirement as they currently do, but without the tax advantages accorded to saving in RPPs and RRSPs. Thus, they are a bit more relevant to our question than are the cash-flow estimates, but they still miss the mark. Those affected by a drop in pension coverage are likely either to save less or to compensate by saving more in RRSPs rather than by saving more in fully taxable accounts.

Nevertheless, it may be worth noting how the present value tax expenditure estimate would be affected by a 10% reduction in pension contributions. The federal present value estimate of the tax expenditure for RPP and RRSP contributions for 2005 is $8,340 million.[6] This represents a federal tax expenditure cost of 12.95 cents for each dollar of the $64,380 million of RPP and RRSP contributions made in 2005. Including the provincial tax expenditure would bring this estimate up to 18.39 cents per contributed dollar. A 10% reduction in Canadian RPP contributions in 2005 would amount to $3,738 million. The reduction in the present value tax expenditure associated with this drop in contributions would be $687 million.

Simulating a drop in future pension contributions and benefits

Fiscal effects can also be estimated using year-by-year projections of variables such as earnings, contributions, pension income, tax revenues and program costs. Jackson and Matier (2003), for example, have used this approach to examine the effects of population aging on federal and provincial fiscal balances. In our context, this approach focuses not on the tax advantage associated with RPP/RRSP saving but on the effects on current and future tax revenues and program costs of a permanent change in pension contribution levels.

Projected effects in 2030. Fully implementing this approach would be a major undertaking, but we can obtain a reasonable estimate of the effects of a fall in pension coverage by projecting pension contributions and benefits to a particular year. We need to pick a year some distance in the future because a change in pension contribution levels affects benefit levels for several decades. Also, the population of seniors will grow rapidly in the future as baby boomers – including many of those affected by the recent

[6] Present value tax expenditure estimates are not made separately for RPP and RRSP contributions because unrecorded transfers of RPP benefits to locked-in RRSPs and registered retirement income funds (RRIFs) make it impossible to model separate distributions of holding periods for the two types of plan.

drop in pension coverage – move into their retirement years. We choose the year 2030 for the projection because it has two advantages. First, the effects of a current drop in pension coverage should be well reflected in pension benefits by then. Second, in 2030, the survivors of the baby boom generation, born in the period 1946-1965, will range in age from 65 to 84.

We examine the effects of a 10% drop in pension coverage, and we assume that it is permanent, so we take into account the fiscal effects of lower contributions as well as lower pension incomes in 2030.

We project contribution- and benefit-related fiscal effects to 2030 by adjusting estimates for a 2005 base year by factors representing the growth in the contribution and benefit levels, as a percentage of GDP. The growth factors are taken from projections made for the paper, "Long-Run Projections of the Tax Expenditure on Retirement Savings" (Department of Finance Canada, 2003). In those projections, based on historical RPP/RRSP contribution levels up to 2001 and constant contribution rates thereafter, contributions grow from 4.60% of GDP in 2005 to 4.69% in 2030 – a growth factor of 1.020, and benefits grow from 5.37% of GDP in 2005 to 7.97% in 2030 – a growth factor of 1.484. Though projected to 2030, the amounts are expressed in 2005 dollars.

Two Cases. We consider two cases based on the response of RRSP contribution levels.

Case 1. In this base case, there is no induced increase in RRSP contributions. Among workers, the 10% decline in pension contributions results in an increase in income tax revenues (due to lower RPP tax deductions) and an increase in sales tax revenues since we assume that the funds no longer used for pension contributions (net of the foregone income tax deductions) are used to increase consumer spending. Among pension income recipients, the contribution decline leads to a 10% decline in pension income that has three fiscal effects – reductions in income and sales tax revenues and, for seniors, an increase in OAS/GIS costs.

Case 2. Here, we assume additional RRSP contributions that offset half the reduction in RPP saving. This case could also be considered to represent the effects of a delay in retirement age that delayed the drawdown of RPP/RRSP income. The changes in pension contribution and benefit levels are one-half those of Case 1, but the fiscal effects need not be reduced proportionately.

Estimates for Canada. For reasons of data availability and robustness, we estimate effects for Canada rather than Ontario. The estimates could simply be scaled down to apply to Ontario based on the fact that Ontario accounts for about 38% of each of Canada's population, its GDP and its RPP membership.

Base year data. The most important and most complex fiscal effects are those flowing from the reduction in pension income among seniors. For that reason, we employ a detailed analysis based on disaggregated data to estimate them. For non-seniors, we simply estimate the fiscal effects of reduced contributions and benefits by applying average marginal tax rates to aggregate amounts.

To examine the effects of pension income declines among seniors, the best data base would be a microdata file of tax data, organized on a family basis so that spouses' incomes could be combined to simulate changes in levels of benefits, such as GIS, that

are conditioned on family income. However, time and cost constraints precluded this approach. Instead, the estimates are based on a constructed semi-aggregate distribution of seniors' income. The distribution was created using as much information as possible on the actual income distribution in 2005. Information taken into account includes:

- The distribution of singles and couples over age 65 by family income ($5,000 income ranges to $50,000 and $10,000 ranges to $100,000) – source: Cansim Table 1110012;
- Aggregate amounts of different income sources – source: CRA Income Statistics, Table 4; and
- Distributions (from tax data) of pension income by total income level for singles and couples for 2000, parallel distributions of GIS benefits, and distributions of those in receipt of both pension income and GIS.

The semi-aggregate distribution of senior families includes 92 cells – 32 for singles (16 with and 16 without pension income) and 60 for couples – 15 each for couples with: (a) no pension income, (b) higher-income spouse only with pension income, (c) lower-income spouse only with pension income, and (d) both spouses with pension income.[7]

For couples, pension income, earnings, C/QPP income, investment income and so on were assigned to spouses individually. The general aim was a 70/30 distribution of non-GIS income.

Modeling the fiscal effects. With this synthetic distribution of the incomes of individual spouses within families by family type (single, couple), pension status (each spouse with or without pension income) and family income level, the next step was to model the main taxes and transfers for seniors. While the population base included all Canadian seniors, the Ontario provincial tax and benefit regime was applied to everyone. The programs and taxes so modeled were: OAS (and the OAS claw-back), GIS, Ontario GAINS (a GIS top-up), the GST credit, the Ontario sales and property tax refundable tax credits, the federal income tax (including the pension credit and the income-tested age credit), the Ontario income tax, and the Ontario surtax and health premium.

(In the simulation results, Ontario GAINS is combined with the GIS, the GST credit is netted from federal income tax, and the Ontario surtax and health premium is added to, and the Ontario sales and property tax refundable tax credits netted from, provincial income tax.)

In modeling tax regimes, the tax structures applicable for 2007 were used, including the splitting of pension income between spouses. However, all tax bracket and credit amounts were deflated to 2005 dollars.

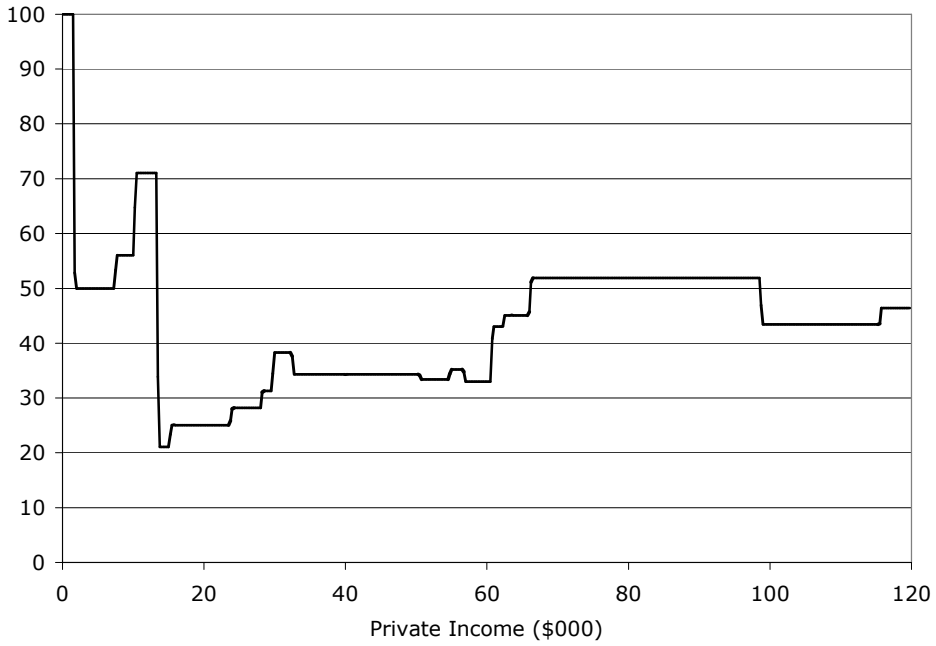
The effect of a drop in pension income on federal and provincial fiscal positions (and on families' after-tax income levels) depends on the tax rates and benefit reduction rates applicable at different points in the income distribution. For example, a single senior with OAS, C/QPP benefits and RPP income totaling $12,000 who received an extra dollar of income might face an income tax rate of 21.05% (15% federal and 6.05%

[7] In creating these distributions, the CRA definition of pension income – 'other pensions or superannuation' – was used. It overestimates RPP income to some degree as it includes all RRIF income.

provincial) on that dollar as well as losing 50 cents in GIS benefits. That individual would face an 'effective marginal tax rate' (EMTR) of 71.05% (= 21.05% + 50%).

For single seniors, Figure 7 shows EMTRs by private income level. 'Private income' includes C/QPP benefits but excludes OAS and GIS. Where EMTRs are high, extra private income produces relatively little extra after-tax income for the individual and a strong fiscal boost for governments. Conversely, private income declines among high-EMTR individuals tend to reduce government fiscal balances more than the individuals' disposable incomes. We see that income declines affecting low-income seniors hurt government fiscal balances the most, followed by declines affecting those in the OAS claw-back range (about $61,000 to $100,000). The variability of EMTRs also suggests that the response of government fiscal balances to pension income changes could be non-linear.

Figure 7. Effective Marginal Tax Rates (EMTRs) for a Single Senior



Source: Author's calculations from benefit and tax parameters.

Note: EMTR 'spikes' occurring at incomes where the Ontario health premium jumps to a higher level, have been removed.

In Case 1, the 10% decline in pension coverage was simulated in the following way. For singles, the population 'with pension income' was divided into two groups: one group (90% of the total) with the same incomes as before, and the second (10% of the total) with their pension income levels set equal to zero. For couples, a parallel procedure was followed for the groups in which one or both spouses have pension income. Program benefits, tax credits and tax levels were then recalculated based on the adjusted income levels and the aggregates compared.

In Case 2, the same procedure was followed except that RPP income was reduced in each case to 50% of its original value rather than to zero.

For non-seniors, the total income tax reduction flowing from reductions in pension income was simply calculated by multiplying the aggregate pension income decline by an assumed (federal-plus-provincial) average marginal tax rate (MTR) of 27.1%, the same average MTR as for seniors. While younger pensioners may be expected to have higher incomes than seniors, leading to higher MTRs, they also qualify for fewer income-tested credits (e.g., GST credit, age credit) that contribute to the MTRs of seniors.

For RPP contributors, the fiscal gain from the reduction in tax-deductible contributions was based on the assumption of an average MTR of 32.0%. This MTR was calculated from the details of the cash flow tax expenditure for 2005 with an adjustment (a factor of 1.48) to take into account the effect on provincial taxes.

As noted above, we assumed that net changes in after-tax income would be spent rather than shifted to some other form of savings. Thus, we estimated sales tax revenue effects based on an assumed tax rate of 11.9%. This tax rate is derived from the ratio of aggregate sales tax revenues to aggregate consumption spending for 2005. Thus, it takes into account the fact that not all consumer spending gives rise to GST or PST. Also, the rate so computed was adjusted by the factor 13/15 to reflect the recent 2-percentage-point cut in the GST rate.

4. Simulation Results

In Table 2, we present detailed effects on program costs and income taxes for seniors for Cases 1 and 2. As noted above, the income tax effects are net of changes in benefits under the GST credit and provincial refundable tax credits.

Table 2. Fiscal Costs of a 10% Decline in Pension Coverage

Seniors, 2030

	Program Cost Increase		***Income Tax Reduction***		
	OAS	***GIS***	***Federal***	***Provincial***	***Total***
Case 1		*($ millions)*			
Singles	15	343	223	140	721
Couples	24	99	438	265	826
Total	39	442	661	405	1,547
Case 2					
Singles	8	258	131	76	473
Couples	20	39	262	146	467
Total	28	297	393	222	940

From these results, we may observe that the strongest effects are those on tax revenues. However, the effects on GIS costs are significant, particularly in respect of singles. The effects on OAS costs are small but non-negligible.

Another observation is that, if 50% of the lost pension income is replaced by RRSP income (or earnings), the fiscal costs are reduced less than proportionately (by about 40%). The second half of the 10% pension income decline has a smaller fiscal effect than the first half.

Table 3 provides a fuller accounting of the fiscal costs of the fall in pension coverage. It takes into consideration the effects of reduced pension income among younger pensioners, the offsetting effects of the reduction in tax-deductible contributions, and the effects of consumer spending changes on sales tax revenues.

Table 3. Net Fiscal Costs of a 10% Decline in Pension Coverage, 2030

	Increase in	***Drop in tax revenues***		
	OAS/GIS	***Income***	***Sales***	***Total***
Case 1		*($ millions)*		
Drop in benefits - seniors	482	1,066	284	1,832
Drop in benefits - others	0	831	266	1,097
Drop in contributions	0	-1,220	-308	-1,528
Total	482	677	242	1,401
Case 2				
Drop in benefits - seniors	325	615	122	1,052
Drop in benefits - others	0	480	125	537
Drop in contributions	0	-705	-143	-789
Total	325	390	104	819

Taking sales tax revenue effects into account, the net fiscal cost for seniors in Case 1 rises from $1,547 (as in Table 2) to $1,832 million. Taking into account the tax revenue losses from reduced benefits among younger pension-income recipients raises the aggregate fiscal cost by $1,097 billion. However, this is more than offset by the higher income and sales taxes, totaling $1,528 million, associated with the assumed continuation of lower RPP contribution levels. The net fiscal cost to the federal and provincial (and territorial) governments is $1,401 million.

This total cost (expressed in $2005) is a consequential amount, representing about 0.7% of the consolidated income tax revenue of federal and provincial governments in 2005.

Again, we see that a 50% offset to the coverage decline, produced by an increase in RRSP saving, for example, reduces the net fiscal cost by about 40%.

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