Budget Paper D

FISCAL ARRANGEMENTS

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CONTENTS

INTRODUCTION

In Canada, the provinces and territories have primary program delivery and spending responsibilities for health care, education and social services, and social assistance. The federal government has a constitutionally defined role to collect revenues on behalf of all Canadians and provide ongoing funding to the provinces and territories to support their responsibilities in these and other areas. Most of this funding comes through the major federal transfers, including the Canada Health Transfer (CHT), Canada Social Transfer (CST), Equalization and Territorial Formula Financing (TFF).

Health care is the single most important priority of Canadians and the largest budget item for provinces and territories, typically accounting for about 40% of total program expenditures. As such, recent developments in the way the federal government supports health care are particularly concerning.

Manitoba is disappointed with the federal government's current approach and commitment to supporting health care for Canadians. In the past, the provinces and federal government funded eligible health care costs on a 50-50 basis. Today, provinces fund almost 80% of the cost of health care. This deterioration in federal support is set to continue. Over the next 10 years, Manitoba will receive far less through existing funding arrangements than it would have under previous arrangements.

Cooperation and collaboration between the provinces, territories and the Government of Canada has been critical to the development and evolution of Canada's system of fiscal federalism. Manitoba will continue to press the federal government to pursue sustainable, long-term fiscal arrangements that support the health and social programs that are important to Manitobans and Canadians.

CANADA'S FISCAL FEDERALISM

Fiscal federalism is about more than transfer payments between orders of government. It is about the types, quality and comparability of public services Canadians receive and the amount of tax they pay. It is about fairness and the collective notion of citizenship.

Fiscal federalism refers to the division of responsibilities among the different levels of government, and the system of transfer payments or grants through which the central government shares its revenues with other orders of government.

Since Confederation in 1867, Canada's system of fiscal federalism has evolved and adapted in response to changing circumstances and needs brought on by industrialization, the Great Depression, World Wars, the growth of social programs, urbanization, technological change and globalization.

Today, and in coming years, the aging of the population will create new and growing challenges for fiscal federalism and the system of intergovernmental fiscal transfers.

Governments must continue to work effectively in partnership to develop new mechanisms and solutions to address the changing needs of Canadians.

History of Fiscal Federalism

The *Constitution Act* of 1867 gave provinces exclusive jurisdiction over health care, primary and secondary education, natural resources, municipal institutions, social assistance and social services. The federal government has exclusive jurisdiction over criminal law, border security, foreign affairs, railways, telecommunications, money and banking. Direct taxation, pensions, immigration, agriculture and post-secondary education and training are examples of areas of joint jurisdictional responsibility.

The distinct division of responsibilities between the provinces and federal government initially envisioned at the start of Confederation soon began to evolve as governments adapted to changing circumstances and needs. Health, education, social services and social assistance, initially thought to be small, local services, soon grew to be the largest and most costly of government responsibilities. This created a financial strain for provincial governments and led to increased federal transfers and fiscal interdependence in areas originally intended for exclusive provincial jurisdiction.

The Second World War resulted in fiscal rebalancing between the two orders of government by way of temporary “tax rental agreements” under which provinces agreed to relinquish access to a number of their tax fields in exchange for grants from the federal government.

The decades following the end of the Second World War were highlighted by the development and financing of Canada’s major social transfer programs. Following the war, Canadians demanded more and better health, education and other social services. In response, and in collaboration with provincial governments, the federal government used its greater fiscal capacity and federal spending power to establish a number of shared-cost or conditional grant programs, typically on a 50-50 basis.

Although the use of federal spending power in areas of provincial jurisdiction has been criticized for distorting provincial spending priorities and creating fiscal uncertainty, it has played a crucial role in the evolution of Canada’s fiscal federalism and in the establishment of national programs for public health care, post-secondary education and social security, including the Equalization program.

INTERGOVERNMENTAL TRANSFERS

Canada’s system of fiscal federalism has adapted and evolved to meet the changing needs of Canadians and the federation, moving from a distinct division of government responsibilities at the time of Confederation to a system of collaboration and fiscal partnership that continues today.

A key principle of our federation is that Canadians should have access to reasonably comparable levels of public services and they should pay for those services at reasonably comparable rates of taxation.

Canada is different from countries with a single level or “unitary” form of government. In these countries, there is a single system of taxation and the central government can more easily provide a consistent level of public services in all parts of the country.

In Canada, while all provinces have the same constitutional spending responsibilities, not all have the same revenue-raising capacity due to differences in factors such as demographics, geography and natural resource endowments. The federal government helps the provinces and territories overcome these differences by redistributing the tax revenue it collects using intergovernmental transfers.

In the absence of such transfer arrangements, Canadians living in less wealthy regions of the country would pay higher rates of tax and/or receive lower levels of public services than Canadians living in more wealthy regions.

In 2016/17, federal transfers accounted for between 16% and 39% of total revenue in each province. In Manitoba, federal transfers accounted for 26% of total revenue, up from 25% in 2015/16, but below the 29% 10-year average over the period 2006/07 to 2015/16.

The majority of federal support for health and social programs is provided through the "major transfers," which include the CHT, the CST, Equalization and TFF. Funding to provinces and territories through the four major transfers will amount to approximately $75 billion in 2018/19, or almost one-quarter of total federal program spending.

In addition to promoting equitable access to public services, federal transfers have a vital role in maintaining fiscal balance within the federation by ensuring provinces and territories have sufficient revenues to meet their constitutional spending responsibilities, particularly in the areas of health, post-secondary education and social assistance.

Adequate and stable federal transfers also help sustain economic growth.

The federal government also transfers funds to the provinces and territories through individual federal departments, often on a cost-shared basis, to support investments in specific program areas. In addition, the federal government provides direct funding to individuals and to entities under provincial jurisdiction, including municipalities and post-secondary institutions.

Total Major Federal Transfers to Manitoba, 2009/10 to 2018/19

	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
					(Millions of Dollars)					
CHT	903	943	993	1,057	1,124	1,156	1,229	1,310	1,354	1,410
CST	392	404	418	426	440	453	468	485	501	518
Equalization	2,063	1,826	1,666	1,671	1,792	1,750	1,738	1,736	1,820	2,037
TTP		175	276	201	7					
Total	**3,359**	**3,348**	**3,352**	**3,355**	**3,363**	**3,359**	**3,436**	**3,530**	**3,675**	**3,965**
Per Capita ($)	2,783	2,746	2,721	2,688	2,660	2,626	2,655	2,683	2,751	2,923

Source: Finance Canada

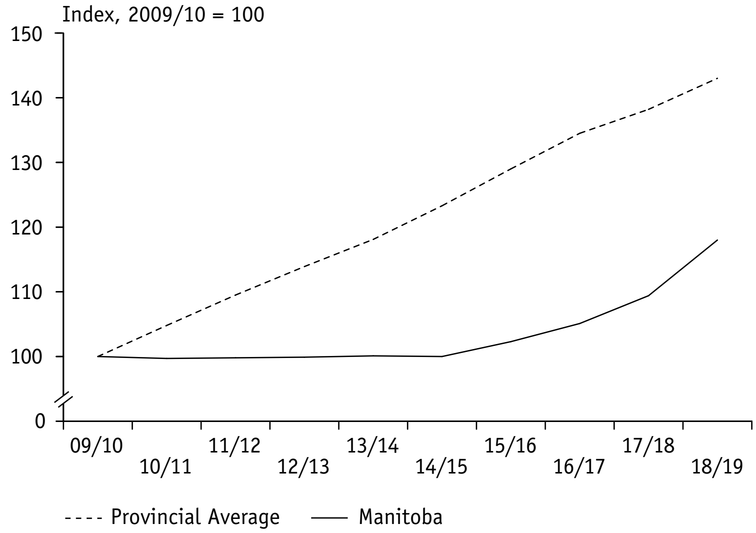
Notes:

The CST, CHT and Equalization all grew in accordance with their legislated rates. The CHT escalator fell from 6% beginning in 2017/18 and Equalization grants started declining in 2011/12 before returning to prior year levels in 2017/18.

When Manitoba's strong population growth is taken into account, per capita total major federal transfers have grown by only 5.0% since 2009/10.

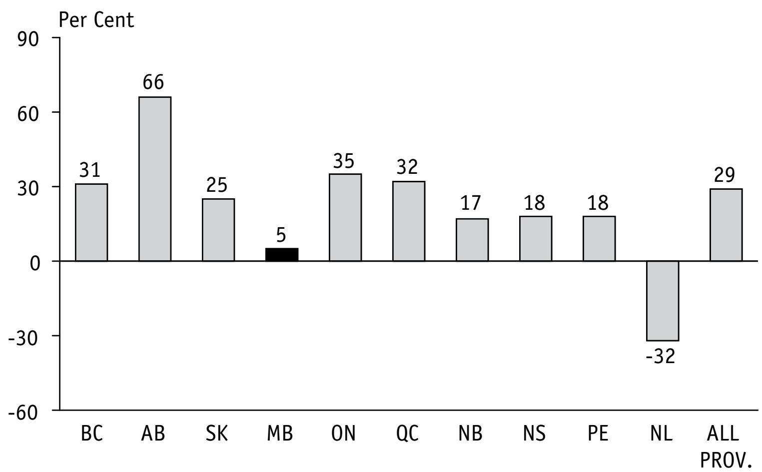
Total Transfer Protection (TTP) was available to all provinces and territories between 2010/11 and 2013/14 to ensure total major transfers in one of those years was no lower than in the prior year.

Major Federal Transfer Growth, 2009/10 to 2018/19



Note: Includes Offshore Accord and Cumulative Best-of Guarantee payments
Source: Finance Canada

Per Capita Growth in Major Federal Transfers, 2009/10 to 2018/19



Note: Includes Offshore Accord and cumulative Best-of Guarantee payments

Sources: Finance Canada and Statistics Canada

Federal taxpayers in all provinces and territories contribute to the costs of providing federal transfers. Manitobans contribute through personal and corporate income taxes, the GST, and other taxes and fees collected by the federal government. Manitoba also contributes when its businesses and citizens deal with companies based in other provinces and territories and these entities later pay tax.

Major federal transfers in support of Manitoba's health and social programs have not grown as fast as they have in other provinces and territories. In Manitoba, total major transfer support was generally unchanged from 2009/10 to 2015/16, while other provinces and territories benefited from much larger major transfer increases.

Manitoba's total major transfers have grown by only 18% since 2009/10, compared to average growth of 43% for the provinces and territories as a whole.

Strong population growth, and the resultant increase in demand for public services, has increased the financial challenge caused by lower than average growth in federal transfer support. In the past decade, Manitoba's population increased by 1.2% annually, 50% higher than the long-term average rate of 0.8%. In the last three years, Manitoba showed the fastest population growth among provinces, averaging 1.5% annual growth, well above the national average of 1.1%.

From 2009/10 to 2018/19, Manitoba's per capita major federal transfers have increased by only 5%, the second lowest rate of growth in the nation after Newfoundland and Labrador, and well below the 29% average increase for the provinces as a whole.

Equalization

Equalization is a federal transfer program established in 1957 and designed to address differences in revenue-raising capacity among the provinces (i.e. differences in fiscal capacity that result in fiscal imbalances). By supporting provinces with lower revenue-raising capacity, Equalization helps to ensure that Canadians in all provinces have access to relatively similar levels of public services. TFF serves a similar purpose for territorial governments.

The purpose of Equalization was entrenched in Subsection 36(2) of the Canadian Constitution in 1982:

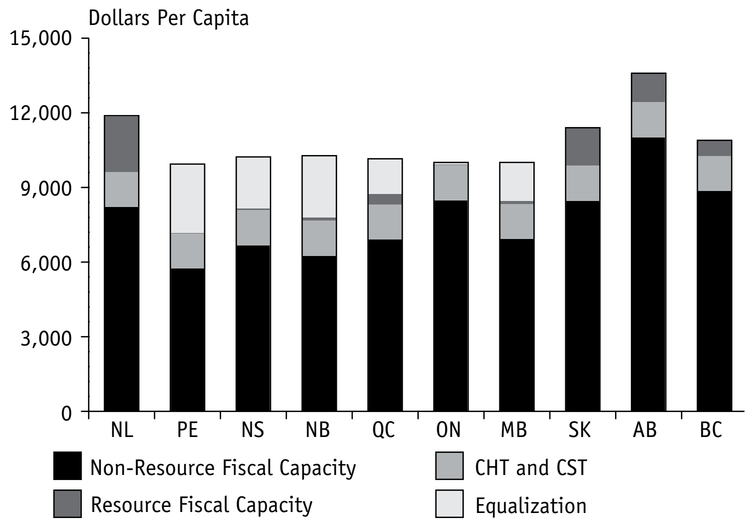
> "Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

In the absence of Equalization, provinces with lower fiscal capacity would need to apply higher taxes, have greater debt and/or offer lower levels of public services than other provinces.

Equalization payments are not intended to "level the playing field" between the provinces. Equalization only raises provinces up to the average; it does not reduce the fiscal capacity of non-receiving provinces. Large differences in fiscal capacity among provinces remains even after the equalizing grants are paid.

A common misconception is that provincial governments pay for all or part of the Equalization program. In fact, Equalization is 100% financed from Government of Canada revenues collected from Canadians across the nation. To respect the different preferences within the federation, there are no common standards or conditions on how Equalization payments are used, allowing provinces to spend the funds according to their own priorities.

Per Capita Provincial Fiscal Capacity After Equalization, 2018/19



Note: Equalization includes Offshore Accord and Cumulative Best-of Guarantee payments

Sources: Finance Canada and Statistics Canada

Federal Equalization Entitlements, 2018/19

	Payment ($ Millions)	Per Capita ($ Dollars)
PEI	419	2,835
Nova Scotia	1,933	2,046
New Brunswick	1,874	2,480
Quebec	11,732	1,419
Ontario	963	70
Manitoba	2,037	1,566
Total	**18,958**	**751**

Source: Finance Canada

How Equalization Entitlements are Determined

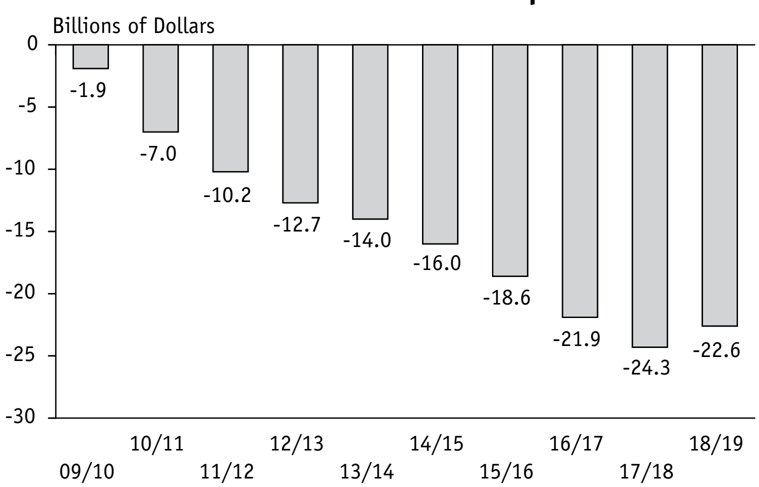
The design of the current Equalization program continues to largely reflect the recommendations of the 2006 federal Expert Panel on Equalization and Territorial Formula Financing. The program uses a formula that values accuracy and efficiency to determine which provinces are eligible for Equalization as well as the amount of each province's payment.

Rather than using actual provincial revenues to determine fiscal capacity (with the exception being natural resource revenues), the program uses "measured" fiscal capacity defined as the per capita revenue a province could raise if it applied the national average tax rate to each of four bases: personal income taxes, business income taxes, consumption taxes and property taxes. Because of the wide variation in the types of natural resources, and the royalty and fee structures used by the provinces, natural resource fiscal capacity is determined using actual revenues received by provincial governments.

To calculate Equalization, each province's measured per capita fiscal capacity in each of the tax bases is compared to the average per capita fiscal capacity of the 10 provinces. If a province's fiscal capacity is below the 10-province national standard, it receives a per capita equalizing grant to make up the difference.

In November 2008, citing the need to ensure Equalization growth was stable and sustainable and growing no faster than the economy, the federal government announced the program would be put on a new growth track based on a three-year moving average of Canada's nominal gross domestic product (GDP) growth.

Cumulative Losses for Receiving Provinces Under the Federal Growth Track for Equalization



Note: The cumulative losses includes $2.2 billion in federal transfer protection paid receiving provinces between 2010/11 and 2013/14.

Source: Finance Canada

The impact of the nominal GDP growth track has been significant, reducing Equalization to receiving provinces by $26.5 billion from 2009/10 to 2017/18 (partially offset by $2.2 billion in federal total transfer protection payments paid to the provinces between 2010/11 and 2013/14). Manitoba's cumulative loss under the growth path, after taking into account the federal protection payments, was $200 million over this period.

Although initially introduced to limit the cost of the Equalization program to the federal government, the nominal GDP growth provision also acts as a payment floor. In 2018/19, the nominal GDP growth track will, for the first time, act as a payment floor, providing $1.8 billion more in Equalization than that calculated based on measured disparities in provincial fiscal capacity. This will offset a small portion of the cumulative amount cut from the Equalization program and receiving provinces under the nominal GDP growth track.

The additional "adjustment payments" are primarily the result of a reduction in fiscal disparities among the provinces caused by the prolonged downturn in commodity prices and relatively strong fiscal capacity growth in Ontario that has resulted in the province no longer qualifying for Equalization. However, Ontario will still receive $963 million in Equalization payments in 2018/19, its per capita share of the $1.8 billion in adjustment payments. Manitoba also received an adjustment payment of $91 million.

The Equalization program is typically renewed on a five-year cycle. In consultation with the provinces, this extensive renewal process identifies and considers technical changes to the program's design and structure to form recommendations for fair, evidence based improvements focused on accuracy and efficiency. The federal government may or may not implement the changes recommended by the analysis.

Canada Social Transfer

The CST is the main federal transfer to provincial and territorial governments in support of post-secondary education (e.g. funding for universities and colleges), social assistance and social services (e.g. income replacement and programs and services to reduce poverty), including early childhood development, and early learning and childcare.

The CST program has a fixed, legislated growth rate of 3.0% per year. The distribution of the CST is on an equal per capita basis and reflects each province and territory's share of the national population. Manitoba's share of the national population is 3.65%.

Manitoba will receive an estimated $517.5 million in CST funding in 2018/19, an increase of $16.6 million or 3.3% over 2017/18 levels. Manitoba's 3.3% increase is higher than the 3.0% overall growth rate due to its above average population growth.

The CST generally accounts for a small share of total provincial government spending on education and social services. The federal government's decision to maintain a fixed growth track of 3% rather than increasing it at the rate of nominal GDP will, over time, result in the CST representing an even smaller federal share of provincial and territorial spending on education and social programs. The federal government will review the CST again in 2023/24.

Canada Health Transfer

Health care is the single largest budget item for provinces and territories, typically accounting for about 40% of total program expenditures.

The CHT is the federal government's main transfer supporting provincial and territorial government expenditures on health care.

Where in the past the provinces and federal government funded eligible health care costs on a 50-50 basis, today provinces fund almost 80% of the cost of health care, with federal funds only representing about 20%.

Like the CST, the CHT is distributed on an equal per capita basis and reflects each province and territory's share of the national population.

From 2006/07 to 2013/14, the national CHT amount increased by 6% per year. This growth was a key feature of the 10-Year Plan to Strengthen Health Care, the $41 billion multilateral Health Accord signed by all First Ministers in 2004. The 6% annual escalator was extended for an additional three years to 2016/17.

However, starting in 2017/18, the federal government reduced its support for health care by reducing the rate of growth in the CHT from a fixed 6% to 3% minimum per year, or a three-year moving average of Canadian nominal GDP growth, whichever is higher.

A November 2016 report prepared for Canada's Premiers through The Council of The Federation estimated the cut in the CHT's annual growth rate would reduce federal health transfers to provinces and territories by $1.1 billion in 2017/18 and $61.7 billion over 10 years. The reduction in the CHT's growth rate is occurring at a time when cost pressures on the health care system are increasing. The aging of the population, combined with longer life expectancies, are expected to result in billions of dollars in added health care costs as well as lost government revenues associated with a declining workforce and slowing economic growth.

Manitoba Finance estimates the reduction in annual increases in the CHT will cost the province about $2.25 billion over 10 years when compared to the 6% growth rate. In 2017/18, funding growth to Manitoba was about $39 million less when compared to the previous growth rate. Manitoba will receive an estimated $1.41 billion in CHT funding in 2018/19, up $56.5 million or 4.2% from 2017/18. However, the province's share of the national CHT amount would have been $69 million higher in 2018/19 had the CHT growth rate remained at 6%.

Manitoba believes the new federal growth rate for the CHT is not sufficient to maintain, let alone improve, the health care system, particularly over the medium and long-term. Put simply, the current CHT is just not enough to cover the federal government's share of the growing costs of health care, and the recent 10-year commitment from the federal government for targeted initiatives will not fill that gap.

Manitoba and the federal government reached an agreement on targeted health funding in August 2017. The province received $10.9 million in 2017/18 ($7.3 million for home and community care services and $3.6 million for mental health services and addictions) of about $400 million promised over the next 10 years. This amount represents Manitoba's per capita share of $11 billion announced by the federal government in its 2017 Budget. On average, these annual amounts will cover less than 1% of the province's expenditures on health care.

"Manitoba will continue to work with local Indigenous organizations and communities to identify collaborative health-care improvements and advocate for appropriate long-term federal action and investment." – Kelvin Goertzen, Manitoba Minister of Health, Seniors, and Active Living

Furthermore, the targeted funding will not come close to offsetting the $2.25 billion Manitoba estimates it will lose over the same period due to the reduction in the annual growth rate of the CHT, the core source of federal support for health care.

While Manitoba welcomes the new federal funding for home care and mental health services, it accounts for a very small amount of what Manitoba plans to spend in these two areas.

Manitoba will continue to press the federal government for a long-term funding partnership and a real Health Accord, ensuring each order of government has adequate resources to fulfill their constitutional responsibilities for the delivery of health care.

OTHER TRANSFERS TO GOVERNMENT

The federal government also provides funding through other transfers to support services and initiatives in a wide range of areas, including labour market and workforce development, minority language education, early learning and child care, infrastructure, winter roads, legal aid, youth justice services, flood protection and disaster assistance.

Such shared cost and other transfers from federal departments and agencies amounted to almost $600 million or 3.8% of the province's total summary revenues in 2016/17. While not always as visible as the "major" transfers like the CHT, these transfers provide support for important programs and services in Manitoba.

SUPPORT TO INDIVIDUALS

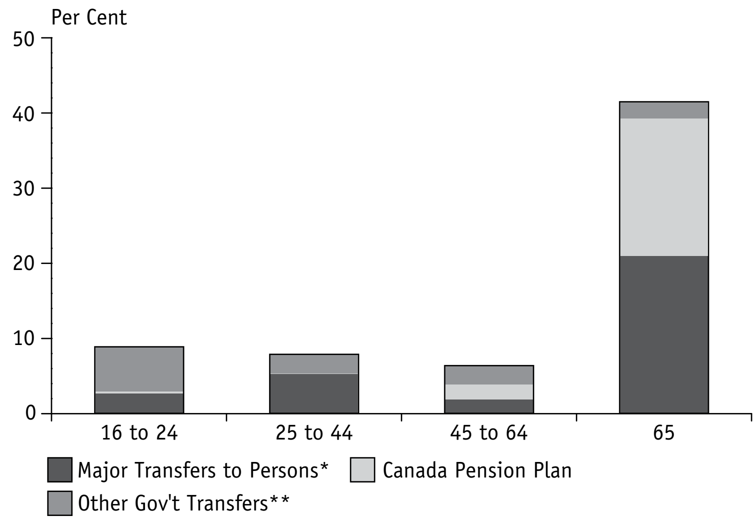
In 2018/19, the federal government will transfer around $98 billion directly to individual Canadians through the major transfers to persons. These include $53.6 billion in elderly benefits through the Old Age Security (OAS) program, which includes the Guaranteed Income Supplement (GIS) and the Allowance, $20.7 billion in Employment Insurance benefits and $23.7 billion in children's benefits. These major transfers to persons will represent almost one-third (31.4%) of total federal program expenses. Provincial and territorial governments also provide transfers to persons.

In addition to the federal major transfers to persons, Canadians will also receive around $47 billion in Canada Pension Plan (CPP) benefits (retirement, survivor and disability benefits) in 2018/19.

The design of government income programs matters to Canadians, especially to seniors. Including the CPP, government income programs account for around forty per cent of total income for individuals aged 65 and over, compared to less than ten percent for those under 65.

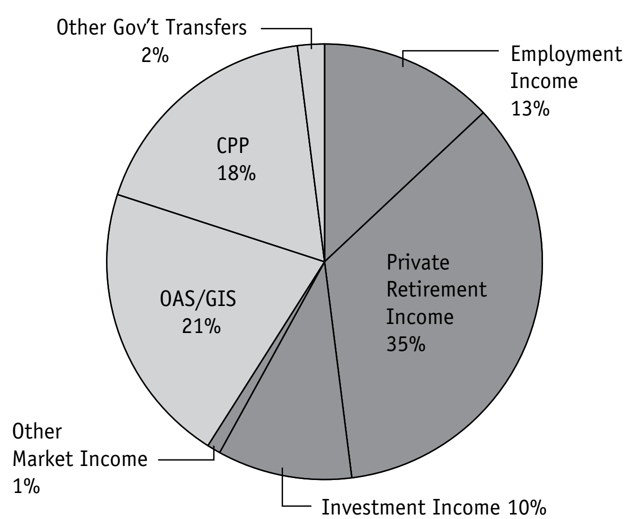
Canada's retirement income system is comprised of several pillars, including public pensions (the OAS and the CPP), as well as workplace pensions and other voluntary, privately administered savings options. Most Canadians count on a combination of these programs to meet their retirement savings and income needs.

Share of Total Income from Government Programs by Age Group, Canada, 2015



* OAS/GIS, Children's Benefits, Employment Insurance
** Provincial income assistance and other programs
Sources: Statistics Canada, Canadian Income Survey; Manitoba Finance calculations

Distribution of Total Income by Source, Persons Aged 65+, Canada, 2015



Source: Statistics Canada, Canadian Income Survey
Note: Some individuals draw upon other sources of funds (which are not considered "income" in the Canadian Income Survey) to help cover expenses in retirement, such as housing and small business equity.

Overall, about three-quarters of the total income of Canadians aged 65+ comes from the retirement income system: including around forty per cent from the OAS and CPP combined, and another thirty-five per cent from privately administered pension and retirement savings plans.

Federal, provincial and territorial finance ministers, as co-stewards of the CPP, have worked collaboratively on a review of the retirement income system. The finance ministers' research suggests that some Canadians, particularly middle-income earners and younger workers, are at risk of not maintaining their standard of living in retirement. Research shows that one-in-four families nearing retirement are at risk of under saving, and that share increases to one-in-three for families without registered pension plan assets.

Finance Ministers have taken a broad approach to address these risks and strengthen the retirement system, which includes enhancing and modernizing the CPP, and introducing pension innovations to encourage employers to maintain/offer workplace plans.

For example, the Government of Canada and the provinces and territories worked together to develop Pooled Registered Pension Plans (PRPPs) as a low cost savings option for those without access to workplace pensions.

Pooled Registered Pension Plans

Finance Minister Cameron Friesen is encouraging all licensed Pooled Registered Pension Plan (PRPP) providers to promote these new and innovative plans in the province.

Many employees and self-employed Manitobans do not have access to a workplace pension. These plans provide another option to help Manitobans save for retirement.

PRPPs are a new tool for small businesses in Manitoba to attract and retain employees. Offering a PRPP requires minimal administration on the part of the employer, making it much easier for small businesses to offer employees the opportunity to participate in a pension plan.

There has been widespread support for making these low-cost plans available to Manitoba employers and workers, including from organizations such as the Winnipeg Chamber of Commerce, the Manitoba Association of Seniors Centres, and the Manitoba Hotel Association.

The Manitoba government has completed all the steps necessary to allow PRPPs to be offered in Manitoba. Manitoba's PRPP legislation and regulations came into force on August 1, 2017. Effective November 15, 2017, Manitoba is now a party to the PRPP Multilateral Agreement with the federal government and several other provinces, which allows the federal government to licence and regulate PRPP plans and providers in participating provinces across the country.

PRPPs, developed through extensive consultations with pension industry stakeholders, are defined contribution-style plans designed to help people defer their income and save for retirement. With PRPPs, contributions from many individuals are invested together, which helps lower administration costs.

Individual employees are automatically enrolled in a PRPP by the employer if an employer chooses to participate in a PRPP. Processes are also being developed to allow self-employed individuals, or employees whose employer does not offer a pension plan, to open a PRPP account directly.

In the summer of 2016, finance ministers agreed to an enhancement of the CPP that will see the proportion of eligible pre-retirement income replaced by the plan increase from one-quarter to one-third. Survivor and disability benefits will also increase as part of the enhancement, based on contributions to the plan.

Due to the legislated requirement for the CPP enhancement to be fully funded, full benefits under the enhancement will be available only after about 40 years of making contributions, meaning that each generation will pay for its own enhanced benefits. Partial benefits will be available sooner and will be based on years of contributions.

Manitoba is in the process of completing its five-year review of The Pension Benefits Act. The intent of the review is to reform and strengthen the province's pension system and secure stable retirement income for Manitobans.

The end goal of both the CPP enhancement and the introduction of PRPPs is to reduce the share of persons and families at risk of not maintaining their standard of living in retirement. However, these measures are primarily aimed at younger workers given the amount of time it will take for pensions to accrue.

The CPP enhancement makes the plan bigger, but primarily for future generations of retirees. Manitoba continues to believe that consideration should also be given to how to make the plan better now for all Canadians. As the plan gets bigger, Manitoba wants to ensure it responds to the situations of all Canadians who have paid into it throughout their working lives.

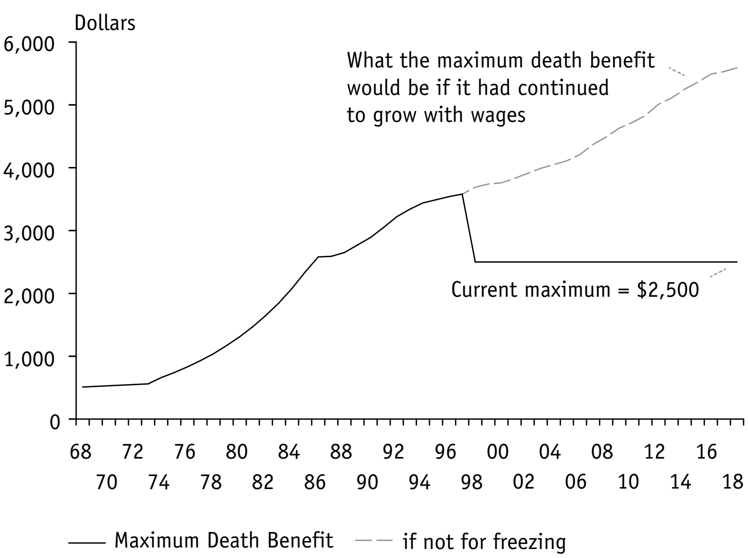
Manitoba's support for the CPP enhancement was conditional on agreement from the federal government to add consideration of the following proposals to the finance minsters' CPP agenda:

- Elimination of the claw back of Guaranteed Income Supplement payments for widowed seniors' CPP survivor benefits;
- Indexation of the CPP death benefit;
- Comprehensive review of CPP survivor and disability benefits; and,
- Keep child rearing and disability drop-out provisions in the enhancement.

Federal, provincial and territorial finance ministers review the financial state of the CPP every three years, referred to as the Triennial Review of the CPP, and make recommendations as to whether there should be changes to benefits and/or contribution rates. Such changes require the approval of the federal government as well as the agreement of at least two-thirds of the provinces, representing at least two-thirds of the population of all the provinces.

Discussions with the federal government led to Manitoba's proposals being addressed through the 2016-2018 Triennial Review process.

Maximum CPP Death Benefit



Source: Employment and Social Development Canada, Manitoba Finance calculations

Modernizing the Canada Pension Plan

In December 2017, Ministers agreed-in-principle to the following changes to CPP benefits as part of the 2016–2018 Triennial Review:

- Introduce child-rearing and disability drop-in provisions in the CPP Enhancement. This modification to the originally agreed to CPP enhancement will help to protect benefits for individuals with years of lost or low earnings due to child rearing or disability.
- Remove the age-based restrictions on survivor benefits for individuals who become survivors before age 45. This improvement will make the program fairer, more responsive and less complex.
- Provide a disability top-up benefit in the Base CPP to early retirees who become disabled and meet eligibility requirements. This improvement will bring the disability pension in line with earlier CPP reforms that make the program more flexible and encourage CPP beneficiaries to continue participating in the labour market.
- Make the death benefit a flat $2,500 for all eligible contributors. This change will increase the value of the Death Benefit for many contributors, and will be particularly beneficial for the families of lower-income workers.

No changes to the legislated contribution rates will be required because of these changes.

In particular, the comprehensive review of CPP supplementary benefits requested by Manitoba, including consideration of the proposal to index the death benefit, was a big part of the work undertaken by finance ministers as part of the Triennial Review. Based on this work, and with a priority placed on avoiding upward impacts on contribution rates, ministers agreed to a package of modest CPP changes in December 2017.

Manitoba feels the changes agreed to by finance ministers are positive steps in what should be an ongoing process to modernize the CPP. Finance ministers agreed-in-principle to make the death benefit a flat $2,500 for all eligible contributors. This change will help the families of many lower income workers. However, the value of the death benefit will continue to erode for most contributors, while the cost of funerals and other expenses continue to rise.

The Manitoba Financial Literacy Forum promotes lifelong financial education and skills to Manitobans and forum members have collated many resources on financial planning, retirement planning, and estate planning. Manitoba Finance will also work with the federal government to ensure Manitobans understand recent improvements to the retirement income system, including the enhancements to the CPP and the introduction of PRPPs.

Furthermore, the death benefit is the only CPP benefit received by some contributors, making the ongoing deterioration in spending power of the death benefit particularly unfair to some Canadians. Manitoba has asked that, as part of the next triennial review, ministers carry on with their work on the death benefit, within the broader context of overall survivor benefits, with a view to finding cost effective ways to fairly address this issue.

Manitoba recognizes the value of having a comprehensive retirement system that meets the needs of workers and retirees. This is why Manitoba ultimately supported enhancements to make the CPP bigger, but also continues to advocate for ways to make it better. It is also why Manitoba recently made it possible for employers and employees to access PRPPs in the province.

The Retirement Income System and Lower Income Seniors

Manitoba also raised the challenges faced by lower income seniors as an issue that should be considered by finance ministers as part of their efforts to strengthen the retirement income system. The percentage of unattached seniors with income below Statistics Canada's after-tax Low Income Measure quadrupled between 1994 and 2015, increasing from 8% to 32%.

Federal, provincial and territorial finance ministers are aware of the challenges faced by lower income single seniors. In 2016, the federal government increased the GIS by up to 10% for the lowest income single seniors. Manitoba proposed that, given the special circumstances facing single seniors in particular, the federal government may want to consider eliminating the claw back of guaranteed income supplement payments for widowed seniors' CPP survivor benefits. Manitoba would also be open to discussing other ways this issue might be addressed.

Percentage of Persons in Low Income, Canada*

*Below the low income measure (after tax)

Source: Statistics Canada

Although Manitoba's GIS proposal was not discussed as part of the recently completed CPP Triennial Review, in December 2016 finance ministers did agree that Governments should continue to collaborate via Ministers responsible for Social Services and Ministers of Finance on issues related to income support for seniors that are of mutual concern. These issues include the coordination of federal, provincial and territorial financial support programs for low-income seniors, and how programs interact with one another.

CONCLUSION

Canada's system of fiscal federalism has adapted and evolved to meet the changing needs of the federation. Our system of major social programs is indicative of what governments can accomplish when they work together to develop a fiscal partnership for the good of all Canadians.

For example, federal, provincial and territorial governments worked cooperatively to enhance the CPP so that future generations of retirees are better able to maintain their standard of living in retirement. Manitoba supports that initiative, but continues to believe in, and champion for, more work to modernize the CPP so that it meets the needs of all Canadians, now and in the future.

Canada is also facing another common challenge in coming years. The aging of the population will create new and growing challenges for fiscal federalism and the system of intergovernmental fiscal transfers that play a vital role in maintaining and strengthening the federation.

Addressing the higher costs associated with an aging and growing population and improving access to high-quality health care and related social services will require cooperation and fiscal partnership among the orders of government. However, unilateral decisions by one order of government can erode the system of trust and collaboration necessary for the effective functioning of the federation.

Recent unilateral decisions by the federal government, such as the cut to the annual growth rate of the major transfer for healthcare (i.e. the CHT), will help the federal government's fiscal position. However, changes such as these come at the expense of provinces and territories, who must address ongoing and growing cost pressures resulting from inflation, new technology, population growth and population aging.

While the recently announced targeted health care funding will help, it will not come close to filling the funding gap caused by the reduction in support through the CHT, the main source of federal support for health care.

Manitoba believes the federal government must come to the table as a true fiscal partner with provinces and territories if we are to establish a shared agenda for the renewal of health care and other priorities for Canadians.