Market View
Economics and Strategy

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A robust actuarial picture of the Canada Pension Plan (CPP)

By Warren Lovely

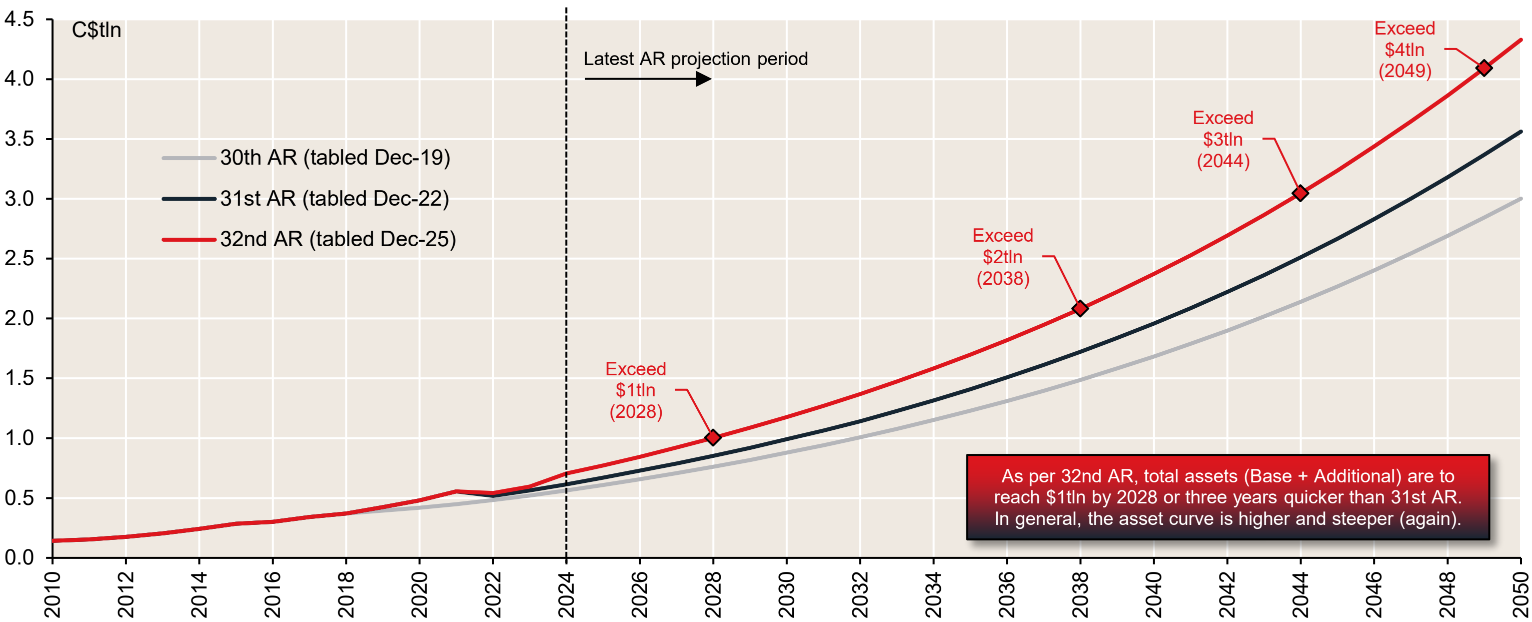
Every three years, Canada's Office of the Chief Actuary (OCA) provides a comprehensive assessment of the financial health of the Canada Pension Plan (CPP). The *32nd Actuarial Report (AR) on the Canada Pension Plan* (**link**) was tabled December 8th. Here you'll find detailed financial results up to December 2024, alongside comprehensive projections (and scenarios) for the next 75 years (i.e., out to 2100).

Given the fundamental importance of the CPP—to current and future retirees, to Canada's general government fiscal sustainability, and increasingly to financial markets (including a growing number of CPPIBC bondholders)—we consider the triennial actuarial report required reading. But if you've not sufficient time to explore all 215 pages of the official report our 3-page *Market View* aims to summarize key elements/findings.

At the risk of oversimplifying, the latest report paints a robust financial picture. In the Chief Actuary's own words: *"The findings of 32nd Actuarial Report on the Canada Pension Plan (CPP) reaffirm that the CPP is on solid financial footing and will continue to provide reliable retirement income for Canadians for decades to come."* See for yourself…

Chart 1a: Fresh actuarial assessment sees CPP net assets accumulating more quickly (again)

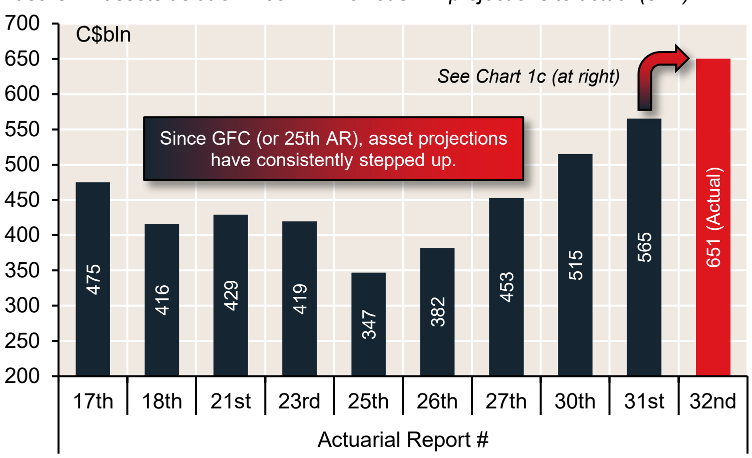
Actual & projected assets of Canada Pension Plan (Base + Additional), with projected levels based on latest Actuarial Reports (30th to 32nd)



Source: NBC, OCA | Note: The projection period varies by Actuarial Report; for 32th AR (as at 31-Dec-24; tabled 8-Dec-25), projection period is 2025 onwards (ultimately to 2100)

Chart 1b: CPP assets have repeatedly surprised to high side

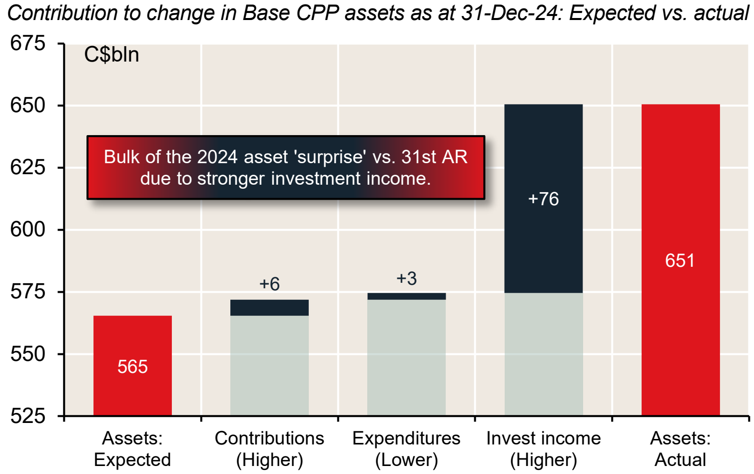
Base CPP assets as at 31-Dec-24: Previous AR projections to actual (32nd)



Source: NBC, OCA | Note: Evolution in asset projection for a specific time period (31-Dec-24)

Chart 1c: Reconciling latest asset 'surprise' (31st to 32nd)

Contribution to change in Base CPP assets as at 31-Dec-24: Expected vs. actual

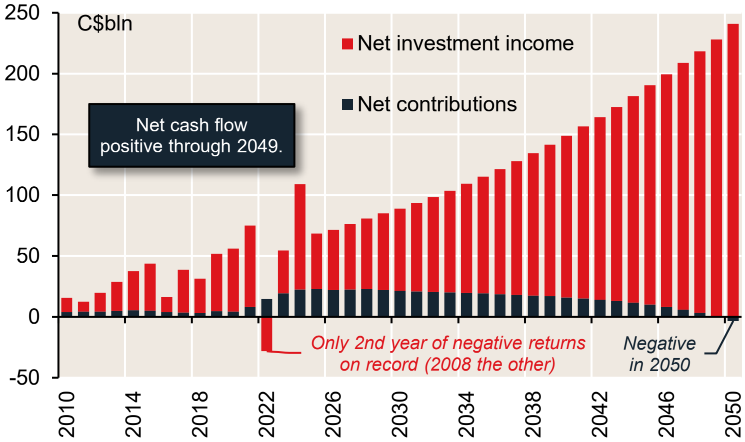


Source: NBC, OCA | Note: Expected from 31st AR; blue bars are net chg (actual vs. expected)

Up, up and away… or so it goes for CPP assets. For the Base CPP, the actual level of assets at the end of 2024 was some $85bln higher than expected in the 31st AR. A reconciliation finds that contributions were somewhat stronger than expected, while actual expenditures were a touch lower than anticipated. Really though, the bulk of the positive asset 'surprise' vs. the prior AR is down to impressive investment returns. This stronger-than-expected narrative is evident through the forecast horizon, with the OCA seeing key asset thresholds hit earlier than previously envisaged.

Chart 2: Overall, net cash flow positive till 2050…

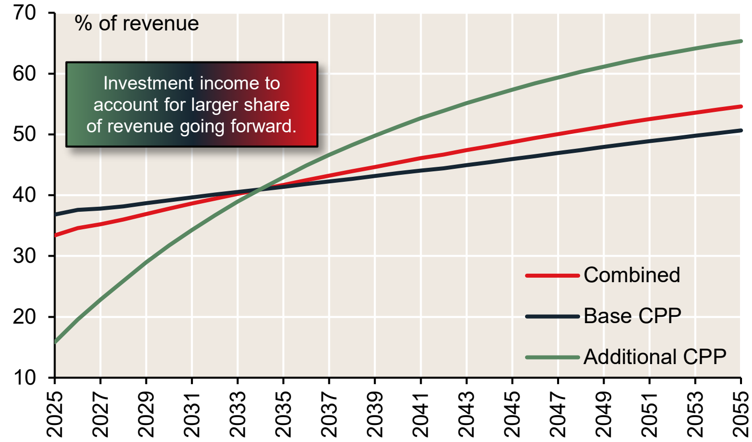
CPP net contributions & net investment income (Base + Additional)



Source: NBC, OCA

Chart 3: …with investment income key to long-term growth

CPP net investment income share of revenue (Base, Additional & Combined)

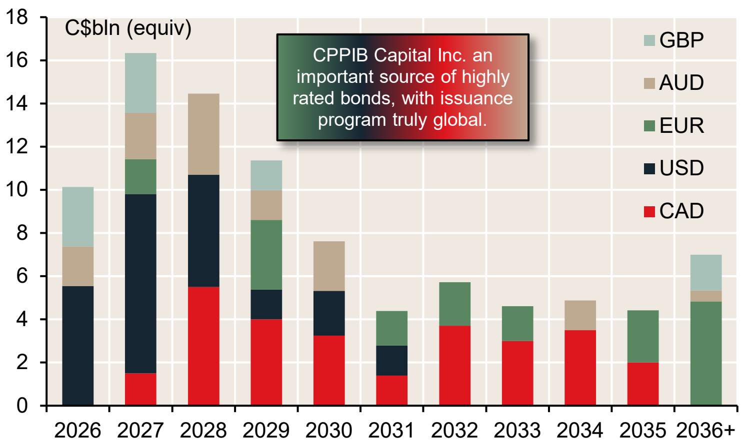


Source: NBC, OCA

The Base CPP is expected to be net cash flow positive through 2030. Net contributions via the Additional CPP won't turn negative until 2060. On balance, it's means roughly 25 years of positive cash flows (Base + Additional). Of course, CPP's rapidly expanding pool of financial assets would see investment income account for a steadily rising share of total revenue over the longer term.

Chart 4: Perspective on outstanding CPPIBC bonds…

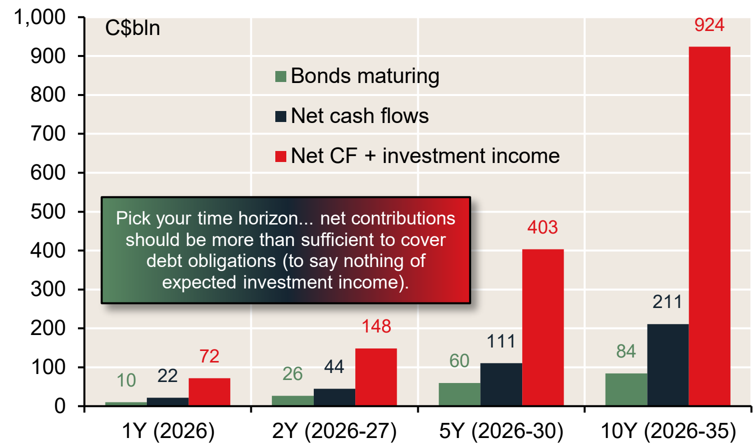
CPPIB Capital Inc. bond maturity profile (by calendar year & currency of issue)



Source: NBC, BBG | Note: Maturities as at 10-Dec-25 (CAD equiv)

Chart 5: …with debt obligations substantially covered

CPPIB Capital Inc. bond maturities vs. CPP net cash flows & investment income

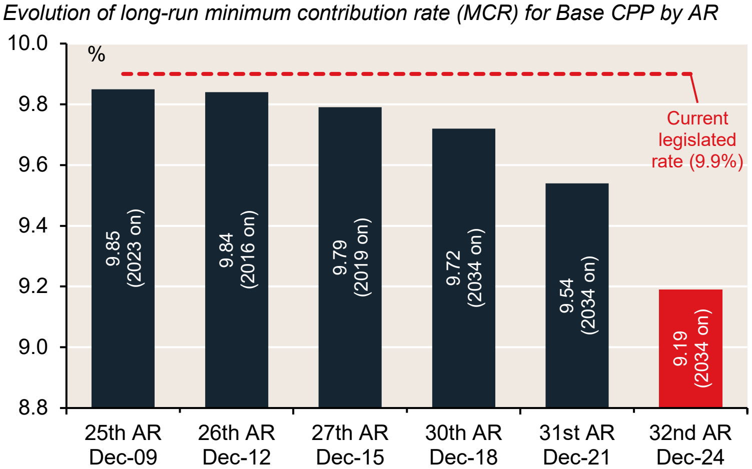


Source: NBC, BBG, OCA | Note: Maturities as at 10-Dec-25; CF/invest income are Base+Add'l

With revenues far outstripping expenditures, CPP assets are pointed sharply higher (as per Chart 1a). And the favourable net contribution / net investment income picture should ensure ample coverage of debt obligations. As it stands, anticipated net cash flows over the coming decade (Base + Additional) exceed relevant bond maturities by a 2.5:1 ratio (based on current outstandings).

Chart 6: MCR implies more breathing space for Base CPP

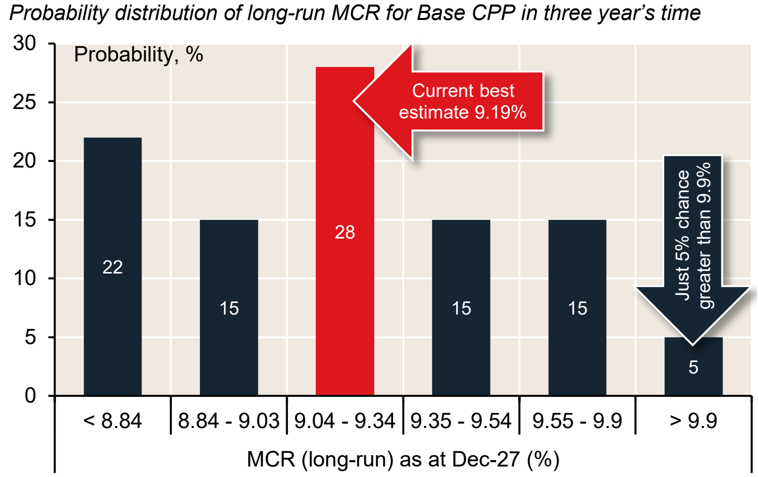
Evolution of long-run minimum contribution rate (MCR) for Base CPP by AR



Source: NBC, OCA

Chart 7: OCA sees low probability of MCR rising above 9.9%

Probability distribution of long-run MCR for Base CPP in three year's time

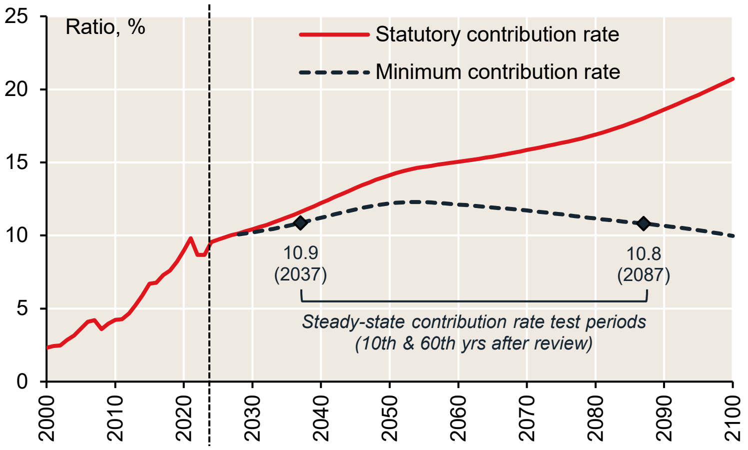


Source: NBC, OCA

Notwithstanding the increasingly impressive asset trajectory, gauging the long-term soundness of the CPP involves comparing the 'best estimate' of the minimum contribution rate (MCR) to the statutory rate. For the Base CPP, the long-run MCR (for 2034 on) has declined again, to 9.19%. This implies even greater breathing space vs. the 9.9% statutory contribution rate and thus a sustainable Base plan. Note that the OCA has assigned just a 5% probability that the long-run MCR for the Base CPP could exceed the current statutory rate come its next triennial review.

Chart 8: Asset-to-expenditure test for Base CPP

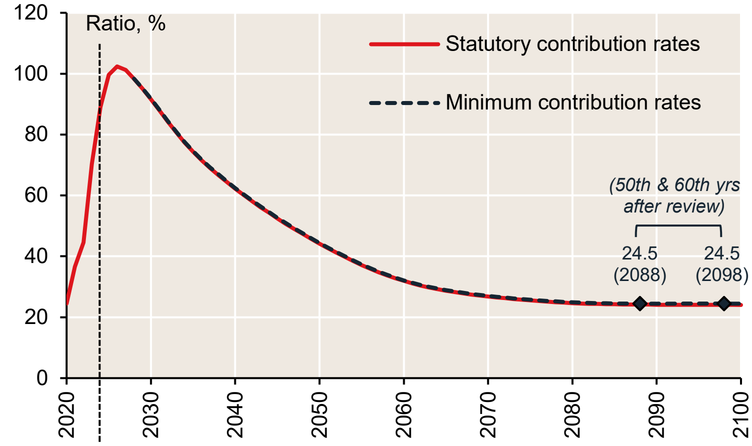
Base CPP ratio of assets-to-expenditures: Statutory rate vs. MCR



Source: NBC, OCA | Note: Steady state = same A/E ratio in 10th/60th years after review period

Chart 9: Asset-to-expenditure test for Additional CPP

Additional CPP ratio of assets-to-expenditures: Statutory rates vs. MCRs

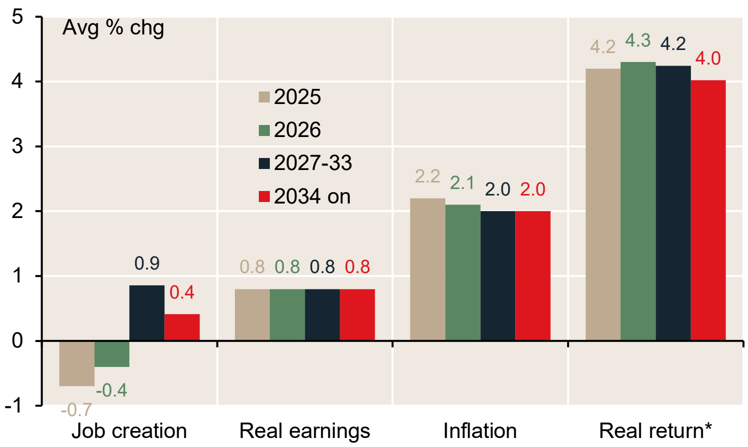


Source: NBC, OCA | Note: Steady state = same A/E ratio in 50th/60th years after review period

The sustainability of the CPP can be visualized through the assets-to-expenditures (A/E) ratio. For the Base CPP, a steady-state contribution rate requires the same A/E ratio in the 10th and 60th years following a review period. This test is passed with flying colours. For the Additional CPP, long-run MCRs are now estimated at slightly above current statutory rates (2.01% vs. 2.0% first additional; 8.04% vs. 8.0% second additional). But as per the OCA, the Additional CPP contribution rates "still fall within permitted deviations", requiring no action from fed-prov finance ministers.

Chart 10a: Glimpse at underlying economic assumptions

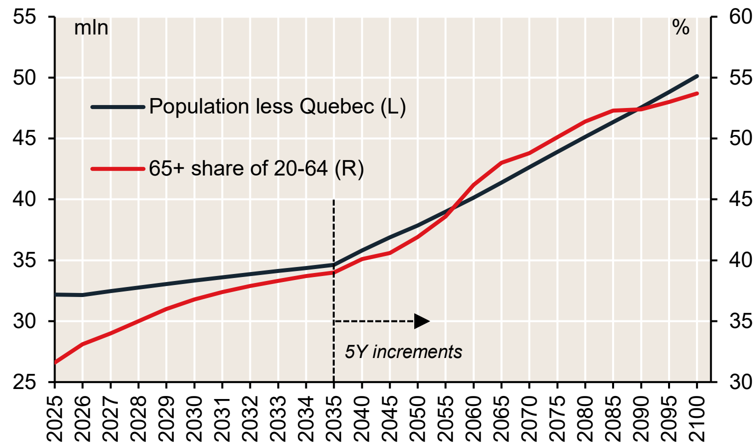
Select economic assumptions used for 32nd AR projections



Source: NBC, OCA | Note: Real return refers to Base CPP; see 32nd AR for full details

Chart 10b: Factoring in an aging population

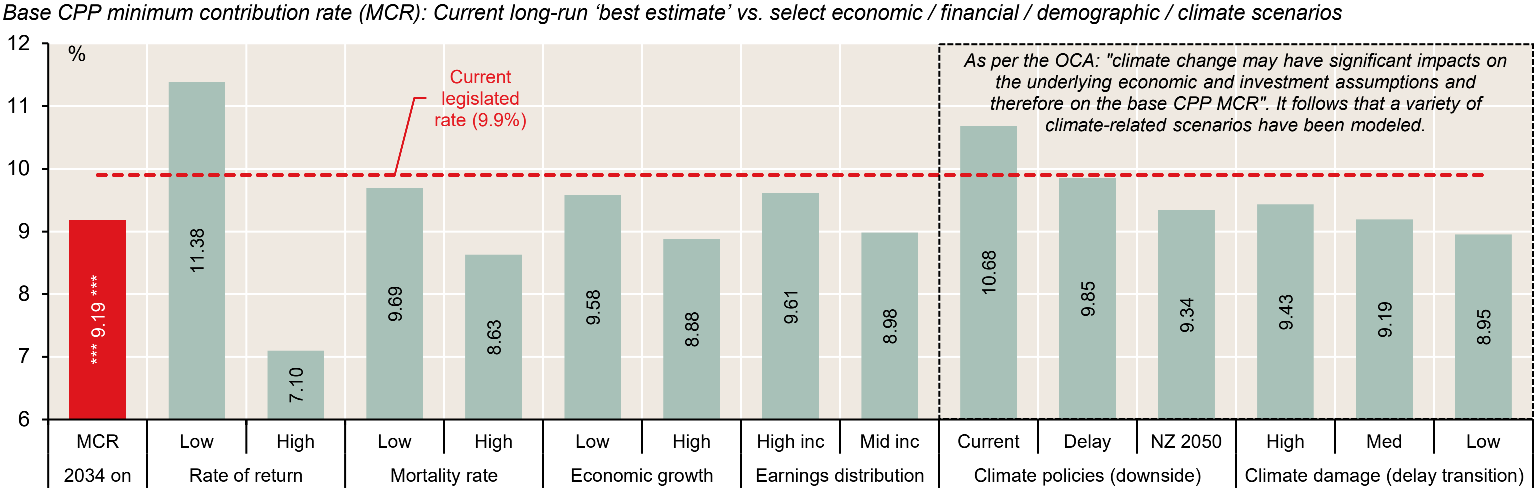
Population projections & ratio of those aged 65+ vs. those aged 20-64



Source: NBC, OCA | Note: Dotted line denotes change in frequency for projection period

Chart 10c: Actuarial Report tests a variety of scenarios, with rate of return an obvious focus given large pool of assets

Base CPP minimum contribution rate (MCR): Current long-run 'best estimate' vs. select economic / financial / demographic / climate scenarios



Source: NBC, OCA | Note: Base CPP only; refer to 32nd AR for full scenario details

The OCA's 75-year actuarial forecast incorporates a vast array of inputs. To gauge risk to the latest 'best estimate' for the MCR, alternative scenarios are regularly tested. As per Chart 10c, the majority of those scenarios still leave the long-run MCR for the Base CPP below the current statutory contribution rate (9.9%). Given the large and growing pool of financial assets, the assumed rate of return is clearly vital and one area where tested scenarios produce greater relative deviation in the MCR vs. the current 'best estimate'. Climate-related stress testing continues to evolve, with two sets of scenarios tested in the 32nd AR: (i) severe / downside risks for three climate policy choices; (ii) three different climate damage functions under a 'delayed transition' policy approach.

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Subscribe to our publications:
NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca