Budget Paper D

UPDATE ON FISCAL ARRANGEMENTS

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Manitoba

UPDATE ON FISCAL ARRANGEMENTS

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INTRODUCTION

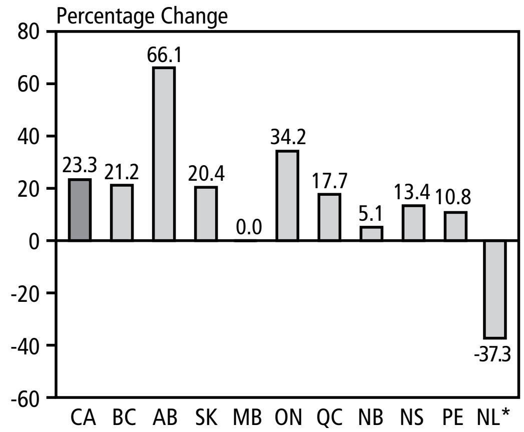
Canadians pay taxes to the federal government and a portion of those funds are used to provide all provinces and territories with federal transfer payments that help pay for essential services that families count on every day.

For a fifth straight year, Manitoba must serve a growing number of people with flat major federal transfers while nearly every other province has received increases, one as high as 66.1%. The federal government has increased major transfers to provinces and territories by $12 billion since 2009. However, Manitoba has received none of this increased funding and is getting a shrinking share of total federal support.

Manitoba has been hard hit by ongoing federal changes to federal-provincial fiscal arrangements. Particularly problematic are decisions by the federal government regarding the growth and allocation of the major transfer programs, including the Canada Health Transfer (CHT), Canada Social Transfer (CST) and Equalization.

Manitoba has also been negatively affected by recent downward revisions to the Statistics Canada population estimates used to calculate federal transfer amounts. These contested new population estimates have lowered Manitoba's anticipated transfer levels, creating an unexpected revenue issue for Manitoba this year and going forward.

Growth in Major Transfers, 2009/10 to 2014/15f



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*NL's Offshore Accord expired
Source: Finance Canada

Once population growth is taken into account, major federal transfers to Manitoba have been reduced by 5.7% since 2009/10, while the average growth across the provinces and territories is 16.6%.

Unilateral actions by the federal government have long-term fiscal implications for all provinces and territories. The federal government has decided to reduce the growth rate of the CHT, maintain the insufficient CST growth rate, and continue to constrain Equalization. Ongoing cutbacks to federal programs and reductions in funding provided through "other transfers" are also having a material impact on provinces and territories.

These changes have helped the federal government make progress towards achieving a balanced budget, however, these changes are creating challenges for many provinces. According to the Parliamentary Budget Officer (PBO), "The federal fiscal structure has been transformed from unsustainable in 2011 to sustainable—with substantial fiscal room—largely through spending restraint and reform of the CHT escalator. However, the federal fiscal room created by the change in the CHT escalator has transferred the fiscal burden to provinces and territories." (Office of the Parliamentary Budget Officer (2013). *Fiscal Sustainability Report 2013*)

Federal Support to Manitoba – Major Transfers, 2009/10 to 2014/15

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
			(Millions of Dollars)			
Canada Health Transfer	903	943	992	1,052	1,114	1,156
Canada Social Transfer	392	404	418	426	440	453
Equalization	2,063	1,826	1,666	1,671	1,792	1,750
Total Transfer Protection	n/a	175	276	201	7	n/a
Total Major Transfers	**3,359**	**3,348**	**3,351**	**3,350**	**3,353**	**3,360**
Per Capita Allocation (dollars)	**2,783**	**2,746**	**2,720**	**2,684**	**2,653**	**2,625**

Source: Finance Canada (http://www.fin.gc.ca/fedprov/mtp-eng.asp)

MANITOBA'S MAJOR FEDERAL TRANSFERS REMAIN FLAT FOR A FIFTH STRAIGHT YEAR

The reality for Manitoba is that it now must serve a growing population with flat transfer levels. Manitoba expects to receive $3.360 billion in CHT, CST and Equalization in 2014/15; virtually the same amount it received in 2009/10.

Manitoba expects to receive $1.156 billion in CHT for health care support, although this amount would have been greater if not for the fact that the CHT is now allocated on a purely per capita basis. Manitoba estimates it will lose $25 to $30 million annually because of this decision, which was first announced in 2007 and implemented in 2014.

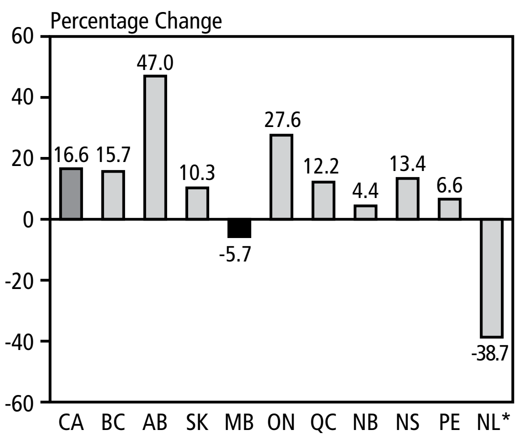
Manitoba expects to receive $453 million in CST to support provincial expenditures on post-secondary education, social assistance and social programs, and programming for children including early childhood development and early learning and childcare. The CST has been allocated on a purely per capita basis since 2007 (see Appendix 1: Description of Federal Transfers).

With the move to an equal per capita cash allocation for the CST in 2007/08 and the CHT in 2014/15, Equalization is the last remaining major federal transfer program that takes into account differences in provincial revenue-raising capacity. This makes the Equalization Program even more important in ensuring all Canadians can access the services they need (see Appendix 2: Why Equalization is Important).

Manitoba will receive $1.750 billion in Equalization in 2014/15, down $42 million from 2013/14. In 2009/10, the federal government introduced a revised fiscal capacity cap and growth limits on the program. In 2014/15, these will reduce Manitoba's Equalization payment by $83.8 million compared to what they would have been had the program not been constrained.

Prior to its termination by the federal government in 2014/15, total transfer protection (TTP) payments were provided to ensure no province received less in combined CHT, CST and Equalization than it did in the prior year. TTP played an important role in helping stabilize Manitoba's year-over-year revenues from 2010/11 to 2013/14 following the global recession in 2008 and 2009, and the major Manitoba flood in 2011. TTP also helped ensure Manitoba could provide stimulus funding as a partner under the federal Economic Action Plan.

Growth in Major Transfers, Per Capita, 2009/10 to 2014/15f



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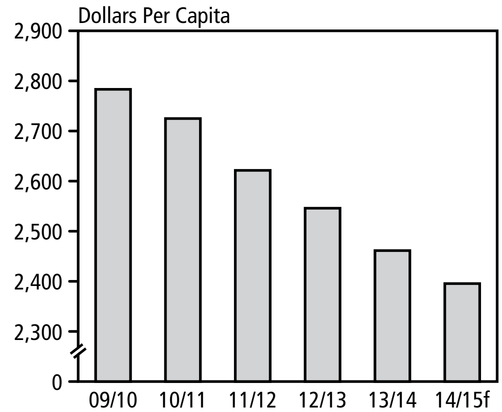
*NL's Offshore Accord expired
Source: Finance Canada

THE REAL VALUE OF MAJOR FEDERAL TRANSFERS TO MANITOBA IS DECLINING

Although major federal transfers to Manitoba, including TTP payments, have been virtually flat since 2009/10, aggregate payments to the provinces have grown. Furthermore, once population growth is taken into account, Manitoba's combined CHT, CST and Equalization transfers in 2014/15 are actually 5.7% lower than they were in 2009/10, compared to average growth of 16.6% across the provinces and territories. Taking into consideration the allocation of major federal transfers by province, Manitoba is one of only two provinces whose per capita transfers have fallen since 2009/10. All other provinces have seen growth, with transfers to Alberta and Ontario increasing the most.

Manitoba's growing population is not the only reason that "flat transfer levels" are a challenge. In order to get a complete picture of how federal transfers have declined, it is necessary to also take into account the impact of inflation. In doing so, we see the "real value" of major transfers has steadily deteriorated and is now 13.9% lower than it was in 2009/10.

Real, per Capita Major Transfers to Manitoba, 2009 Dollars



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Source: Manitoba Finance

■ MANITOBA'S FEDERAL TRANSFER REVENUE LESS THAN EXPECTED IN 2013/14

Major federal transfer payments to Manitoba in 2013/14 are expected to be about $38 million less than first forecast in Budget 2013 due to an unexpected decline in CST and CHT payments. Manitoba's prior year major transfer entitlement levels and total 2013/14 major transfer payments have been reduced. This is a direct result of a significant downward revision by Statistics Canada of the province's population, which affects Manitoba's population estimates going back to 2006.

The controversial Census 2011 estimates, released in the fall of 2013, will continue to negatively affect the province's major transfer levels, including Equalization, into the future. The impact of this change will be about $100 million in 2014/15 and the cumulative impact could be more than a half-billion dollars before the next census is completed and new population estimates are released. For a more detailed discussion see the recent Winnipeg Free Press article by Manitoba's Chief Statistician "Statistics Canada underestimated Manitoba's population."

Statistics Canada underestimated Manitoba's population

Over the past two months, there have been considerable media articles and commentary regarding an under-count of Manitoba's population. Manitobans should understand the issue and why it is important.

As chief statistician of Manitoba, I categorically state Statistics Canada has substantially underestimated Manitoba's population. The issue is about statistical methodology which has serious consequences for Manitobans. An under-counted population has significant negative impacts on fiscal transfers, resulting in the province not receiving its rightful share.

Every five years, Statistics Canada conducts a census. Before population estimates are finalized, they complete a follow-up study to estimate how many people were missed by the census. MBS's concern lies with that follow up study and statistically unusual results, which have led to an under-count of Manitoba's population.

Statistics Canada's new population estimates were released Sept. 26, 2013, and effectively delete approximately 18,000 Manitobans. Before September, Statistics Canada had stated Manitoba's 2011 population estimate to be 1,251,690. Now, they reduced it to 1,233,728.

The following is an overview of the situation.

Prior to Statistics Canada finalizing its population estimates in September, the Manitoba Bureau of Statistics along with other provincial and territorial statistical agencies were involved in a six-month population evaluation process with Statistics Canada.

This evaluation process occurs every five years. The latest process was to determine the new population series based on the 2011 Census counts adjusted for estimates of the number of persons not completing a Census form. Due to these discussions, Statistics Canada's preliminary estimates for Manitoba and the other provinces and territories were revised a number of times.

Statistics Canada's own evaluation analysis identified their estimates of Manitoba's counted and missed persons were statistically very unusual and stood far apart from estimates for other provinces and territories. In fact, the Manitoba results were extreme, having never occurred before for any province or in any time period.

MBS raised concerns on the statistical challenges of the Manitoba estimates at meetings of federal-provincial-territorial statistics officials. These were followed up with written position papers that identified the issue, as well as recommending options to correct the statistical "errors."

MBS's position, based on Statistics Canada's own evaluation analysis, concludes the likely cause of the statistical estimation concerns lies with the samples of Manitobans selected by Statistics Canada to determine the number of individuals missed by the 2011 Census.

There is strong evidence these Manitoba samples were biased and not representative of Manitobans, in that they contained too many of the individuals who tend to participate in the census and an insufficient number of persons who tend to get missed in the census (e.g., immigrants, First Nations, Metis, young adults, inner city and northern residents and non-permanent residents). This resulted in a serious underestimate of Manitoba's population.

Statistics Canada's new population estimates for Manitoba are not consistent with available independent evidence. Before the deletion of 18,000 individuals from the population estimates, Statistics Canada had estimated Manitoba's population grew by 5.7% between 2006 and 2011. This is fairly close to the 6.7% increase in the number of individuals filing income tax returns over the same period.

It is also consistent with the strong economic growth Manitoba experienced over this period. Statistics Canada's revised numbers for Manitoba now estimate the population grew at only 4.2% over that period.

While Statistics Canada has acknowledged there are statistical issues with their population estimate for Manitoba, they have not been able to isolate the issues or "errors" and decided to make no adjustments at all to the province's 2011 population estimate. Again these "errors" are unique to Manitoba.

MBS strongly disagreed with Statistics Canada's decision. Our position is that Statistics Canada's revised population estimates for Manitoba have statistical errors and have underestimated our province's population and a resolution is required to ensure a more accurate estimate.

An MBS evaluation that brings Manitoba statistically in line with other provinces indicates that the under-count is 16,200, worth about $100 million in federal transfers, a significant amount of money.

MBS continues to have discussions with Statistics Canada on its underlying methodology. We trust there can be a resolution to Manitoba's population estimates that is reflective of the actual number of persons resident in our province.

By Wilf Falk, chief statistician, Manitoba Bureau of Statistics.

*Winnipeg Free Pres*s, February 7, 2014 A11

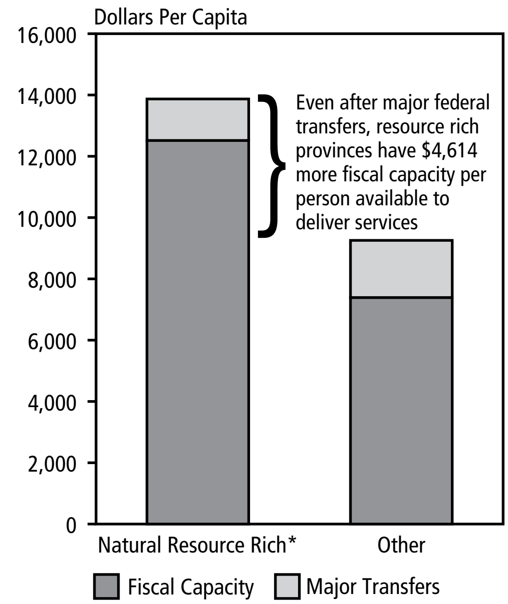
FEDERAL TRANSFER PAYMENTS ARE IMPORTANT TO ALL CANADIANS

Every province and territory receives major federal transfer payments to fund the delivery of essential services, such as health care and education. Each jurisdiction also receives other transfers, such as for infrastructure and labour market development, which support strategic investments and economic growth. Without stable and adequate federal transfer payments, provinces and territories have little choice but to reduce existing services, increase other revenues or accumulate debt.

In Canada, it is a fact that some provinces have a lesser capacity to raise revenues than other provinces. It is inaccurate, however, to suggest that this is the "fault" of any specific provincial government. While there are many factors at play, the primary reason for the existence of significant and ongoing fiscal disparities between the provinces is uneven access to direct and indirect natural resource (ex: oil) related revenue. Current fiscal arrangements only partially address this fiscal reality.

Regardless of which province or territory they live in, all Canadians should be able to access quality health care, education and social services. The federal government collects and distributes tax revenues on behalf of all Canadians to achieve this objective. This is a constitutional principle and a defining feature of our federation. Canada's premiers recognize the importance of effective fiscal arrangements and are working together on proposals to modernize the system.

Total Fiscal Capacity with Major Transfers, 2014/15 Natural Resource Rich and Other Provinces



*Natural resource rich provinces include AB, SK and NL.

Source: Manitoba Finance

In January 2012, the Council of the Federation (CoF), comprised of all of Canada's premiers, established the Fiscal Arrangements Working Group (FAWG). The FAWG is currently co-chaired by Premier Greg Selinger, Alberta Premier Alison Redford, New Brunswick Premier David Alward, and Ontario Premier Kathleen Wynne. The following principles continue to guide the premiers' work on fiscal arrangements:

- Find solutions that work for the benefit of all Canadians in all provinces and territories.
- Every province and territory must be able to provide its citizens with reasonably comparable levels of public services at reasonably comparable levels of taxation.
- No jurisdiction should be worse off.
- Canada's fiscal arrangements should be a win-win for all Canadians regardless of where they live.

■ UNILATERAL ACTIONS BY THE FEDERAL GOVERNMENT ARE HAVING A MATERIAL IMPACT ON PROVINCES AND TERRITORIES

Federal transfers are allocated to the provinces and territories through a complex system of fiscal arrangements. Unilateral changes by the federal government are undermining the effectiveness of these arrangements. In addition to changes to the major transfer programs, federal offloading of responsibilities and unilateral changes to other transfers are having a real impact on provinces and territories.

Premiers are concerned with the ongoing fiscal imbalance between the federal and provincial/territorial governments and how that is affecting their ability to deliver quality public services, noting they are "...witnessing an increasing pattern of federal decisions being made without adequate consultation, despite serious impacts on provincial and territorial policy and fiscal planning." (Council of the Federation (2013) communiqué *Canada's Premiers Focused on Growing the Economy and Creating Jobs – Backgrounder*)

Perhaps the most significant example of federal offloading in recent years is the December 2011 announcement by the federal government regarding the current renewal of the major transfer programs. Without consultation, the federal government announced that the annual growth in the CHT will decline significantly, from the current 6% to the rate of growth of national nominal GDP, expected to be between 3% and 4%.

The federal government also announced it would be moving to per capita CHT and would not be providing the same protection as it did in 2007 when the CST moved to per capita funding.

The Council of the Federation Fiscal Arrangements Working Group, led by Premier Greg Selinger and composed of finance ministers from all provinces and territories, assessed the fiscal impact of the December 2011 federal plan and found that the combination of the smaller CHT escalator and the limited protection provided for the move to per capita CHT funding would reduce federal transfers by $36 billion over the 10-year renewal period.

The PBO estimates that health spending will grow faster than GDP in the long-term, so the federal contribution to health funding through the CHT will decline steadily from around 20% today to less than 12% in the future. (Office of the Parliamentary Budget Officer (2013). *Fiscal Sustainability Report 2013*)

The December 2011 federal renewal plan also continues to constrain the overall size of the Equalization Program as well as maintaining the 3% annual growth rate of the CST. The impact of the ongoing constraints on Equalization has been significant, reducing payments by approximately $18 billion cumulatively since it was first implemented in 2009/10. Also, continuing to limit annual growth in the CST to only 3% per year, a rate lower than the expected growth rate in national nominal GDP, means that in the long-term CST as a share of provincial and territorial spending on social benefits and education will decline steadily.

When the federal government began their deficit reduction efforts in 2010, they assured Canadians that the budget would not be balanced on the backs of the provinces or citizens. This has not been the case. In addition to the unilateral changes to the major transfer programs, other federal government actions, such as cutbacks to federal programs and reductions in funding provided through other transfers, are having a negative fiscal impact on the provinces and territories, as well as on Canadians. The PBO has indicated that cuts to services and jobs will have a harmful effect on the economy. In fact, the "PBO expects that restraint and reductions in government spending on programs in Canada will act as a drag on economic growth and job creation." (Office of the Parliamentary Budget Officer (2012). *PBO Economic and Fiscal Outlook*)

■ CANADA'S PREMIERS COMMIT TO MODERNIZE FISCAL ARRANGEMENTS

Following the release of the premiers' July 2012 FAWG report assessing the impacts of the federal government's major transfer renewal plan, premiers agreed to work together on proposals to modernize fiscal arrangements. "Premiers stressed the need for the federal government to meaningfully consult provinces and territories before making changes to the major federal transfer programs that support fiscal federalism." (Council of the Federation (2012) communiqué *Fiscal Arrangements*)

However, in the absence of any meaningful engagement by the federal government, premiers committed, in July 2013, to continue their efforts to modernize fiscal arrangements. Premiers called on the federal government to "avoid further unilateral changes to programs affecting provinces and territories, and particularly measures involving cutbacks in financial support, including offloading or downloading responsibilities." (Summer 2013 CoF) Premiers agreed that "Premier Selinger, Premier Redford, Premier Alward and Premier Wynne will chair further work by finance ministers to develop a set of specific options for premiers' consideration at their 2014 summer meeting for modernizing both traditional fiscal arrangements and specific economic programs." (Council of the Federation (2013) communiqué *Canada's Premiers continue to work on modernizing fiscal arrangements*)

In addition to the major transfer programs, of particular importance going forward are infrastructure and labour market development arrangements, as they play a significant role in funding for initiatives in support of steady growth and good jobs. Changes to these federal programs must include consultation to ensure they meet local and regional needs.

Canada's retirement income system is another area where collaborative effort is required. Federal, provincial and territorial finance ministers have been working together to strengthen the overall Canadian retirement income system. Considering a modest, phased-in and fully funded enhancement to the Canada Pension Plan (CPP) is part of the comprehensive plan agreed to by all finance ministers.

Unfortunately, this co-operative spirit between the federal government, and provincial and territorial governments, has weakened. At the most recent Finance Ministers' Meeting in December 2013, the federal government unilaterally shut down discussions for enhancing the CPP despite an agreement among provinces and territories to continue discussions on options for how the plan could be enhanced. See Appendix 3: Finance Ministers' Review of the Retirement Income System.

Ensuring that Canadians have secure ways to save for retirement, such as through the CPP, is especially important now that the federal government has announced they will be reducing support to seniors by increasing the eligibility age for the Old Age Security (OAS) Program (including the Guaranteed Income Supplement) from 65 to 67. This change will have a real impact on the standards of living of many Canadian seniors.

CONCLUSION

While Manitoba has been particularly impacted by ongoing changes to federal transfer arrangements, the effectiveness of fiscal arrangements is a concern for all the provinces and territories. Collaboration among governments is required to ensure future fiscal arrangements support economic development and the ongoing ability to deliver quality public services. Canada's premiers recognize the importance of effective fiscal arrangements and have agreed to work together to consider how these could be modernized to better reflect current realities.

Manitoba understands the important contribution federal transfers make and the impact they have on our ability to provide programs and services that are important to all Manitobans. Federal transfers have helped Manitoba move ahead with needed investments in health, education and training, social services, and infrastructure improvements. We have used transfers to support job creation and economic growth. Unexpected changes to transfer amounts, such as those that occurred as a result of Statistics Canada's downward revision to Manitoba's population, are problematic.

A lack of growth in major transfers over the past five years, combined with cuts to direct federal program spending, is an ongoing and increasing challenge for the province. Despite flat transfer levels and a growing population, Manitoba is managing by prioritizing and protecting front line services, ensuring federal cuts are not passed along to Manitobans.

Manitoba believes the Census dispute can be resolved

Manitoba has proposed to the federal government that a three-member expert consensus panel be established to review whether legitimate concerns exist regarding Manitoba population estimates. The panel would include a member from The Manitoba Bureau of Statistics, Statistics Canada, and an independent chair.

Appendix 1: DESCRIPTION OF FEDERAL TRANSFERS

About two-thirds of total federal program spending is targeted for transfers. This includes transfers to other levels of government, primarily through the major transfer arrangements; departmental transfers in support of specific program areas; and transfers to persons.

Major Transfers

Canada Health Transfer and Canada Social Transfer

The Canada Health Transfer (CHT) and Canada Social Transfer (CST) are the main federal transfers that support provinces and territories in the delivery of vital health and social programs to Canadians. In 2014/15, combined national CHT and CST cash payments will total about $44.7 billion.

The CHT is the primary federal transfer in support of health care, providing $32.1 billion in support to the provinces and territories in 2014/15. Allocation is on an equal per capita basis. In December 2011, the federal government announced the CHT would continue to grow by 6% annually until 2016/17. Starting in 2017/18, growth in federal health care support would then be determined by a three-year moving average of national nominal GDP, expected to range from 3% to 4% annually (with a minimum floor increase of 3%).

Prior to 2014/15, the CHT allocation included the value of equalized tax points transferred to provinces and territories in 1977 and was allocated on an equal per capita tax plus cash basis. A decision by the federal government to provide only limited protection to provinces and territories negatively impacted by the move to an equal per capita CHT allocation, will reduce Manitoba's CHT payments by $380 million over the next 10 years (even though the federal government promised to fully protect provinces and territories in Budget 2007). The CHT will not be renewed again until after 2023/24.

The CST is a block transfer to provinces and territories in support of post-secondary education, social assistance and social services, early childhood development and early learning, and child care. In 2014/15, the CST will total $12.6 billion. The CST has been allocated on an equal per capita basis since 2007/08. Prior to that, the CST allocation included cash and an equalized tax transfer component, similar to the previous CHT allocation. The CST will not be renewed again until after 2023/24.

In 2014/15, the federal government will transfer $44.7 billion in CHT and CST to the provinces and territories. While this is a significant amount, the Parliamentary Budget Officer notes in its latest Fiscal Sustainability Report that, nationally, the federal CHT only covers about 20% of total health care spending and the CST covers around 8% of social benefits and education spending.

Equalization

Equalization is Canada's formula-driven transfer program for addressing differences in revenue-raising capacity between the provinces. It reflects a long-standing Canadian commitment, enshrined in the *Constitution Act, 1982*, to sharing and equal opportunity for all Canadians regardless of where they live. Equalization facilitates growth, stability and the reduction of regional economic disparities. In 2014/15, Equalization payments to provinces will total $16.7 billion.

The purpose of Equalization is to ensure all provinces have the financial capacity to offer their residents reasonably comparable public services at reasonably comparable rates of taxation. The program calculates, on a per capita basis, what each province could raise on its own at typical rates of taxation, and any shortfall relative to a "10–province standard" is paid out in Equalization. In the absence of Equalization, Canadians in less wealthy provinces would face higher debt, lower levels of public services or higher levels of tax than Canadians in more wealthy provinces.

In November 2008, the federal government announced changes to the renewed Equalization Program, which took effect in 2009/10. The key change was to set growth in total payments to the provinces to the rate of growth in national nominal GDP. The Expert Panel on Equalization and Territorial Formula Financing[1] had recommended against this approach. The impact of this change on Equalization has been significant, reducing potential payments by approximately $18 billion since it was implemented, compared to what would have been paid under the 2007 Program.

In December 2011, the federal government also announced the Equalization Program will continue to grow based on its current formulas. Also, a number of small technical changes were implemented in 2014.

Total Transfer Protection

Total Transfer Protection (TTP) was first introduced by the federal government in 2010/11 to help provinces address the challenges of emerging from the recession. TTP ensures no province receives less in combined major transfers (CHT, CST and Equalization) than it did in the prior year. It was not extended into 2014/15.

Territorial Formula Financing

Territorial Formula Financing (TFF) is an annual unconditional federal transfer to the territorial governments that recognizes the high cost of providing public services in the North. Its purpose is to give territorial governments the capacity to provide their residents with a range of public services comparable to those offered by provincial governments, at comparable rates of taxation. For 2014/15, TFF will total $3.5 billion.

In December 2011, the federal government announced that TFF will continue to grow based on its current formula. The program will not be renewed again after 2018/19.

Other Transfers

Specific program transfers by federal departments and agencies are often provided on a cost-shared basis that requires matching funding from provinces, territories and other parties, including employers and municipalities. Typical program areas include social development, transportation, infrastructure, justice, natural resources, Aboriginal affairs and agriculture. As well, these arrangements help cover natural disaster costs that would otherwise overwhelm provincial budgets. Other transfers also support economic growth.

Transfers to Persons

Another aspect of transfers includes payments made directly to individuals. Major transfers to persons include the Old Age Security Program, Employment Insurance and children's benefits through the Child Tax Benefit and the Universal Child Care Benefit. Federal changes to transfers to persons can have a significant impact on Canadians as well as on provincial programs.

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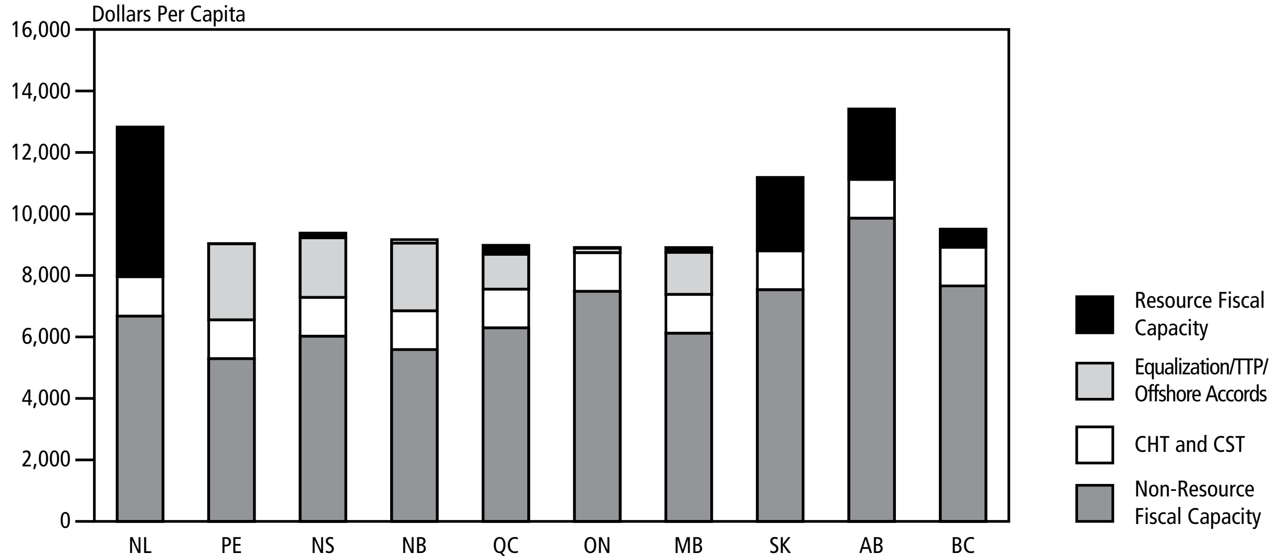
[1] In 2006, the federal government announced that it would undertake an "expert review" of Equalization. The "Expert Panel on Equalization and Territorial Formula Financing" considered a number of issues related to the allocation of Equalization among provinces and the treatment of various revenue sources, and provided recommendations to the federal Minister of Finance.

Appendix 2:
WHY EQUALIZATION IS IMPORTANT

Source of Provincial Government Fiscal Capacity, Per Capita, 2014/15



Sources: Finance Canada, Statistics Canada, Manitoba Finance

- A primary objective of the Equalization Program is to address differences among provinces in terms of their ability to raise revenue.
- The chart provides an overview of the various sources of revenue available to provinces to fund public services in 2014/15. It takes into account each province's per capita fiscal or revenue-raising capacity (as measured by the Equalization Program) from natural resources and from the various tax bases typically used to raise revenue. Each province's per capita Canada Health Transfer (CHT) and Canada Social Transfer (CST) revenues are included as are Equalization, Total Transfer Protection (TTP) and Offshore Accord payments, if any.
- It can be seen from the chart that the six Equalization-receiving provinces (as well as BC) have roughly similar per capita fiscal capacity. However, the three energy rich provinces (NL, SK and AB) have a substantial fiscal advantage over the other provinces.
- The substantial fiscal inequalities among provinces are due to the significant differences in access to non-renewable natural resource revenues. In 2014/15, per capita resource fiscal capacity range from $4,863, $2,390 and $2,289 in NL, SK and AB, respectively, to $1, $110 and $157 in PE, NB and Manitoba.
- The chart clearly shows that even after Equalization (under the current capped program), there remains two fiscal tiers of provinces in Canada, those that have access to significant natural resource revenues and those that do not.

APPENDIX 3: FINANCE MINISTERS' REVIEW OF THE RETIREMENT INCOME SYSTEM

Research commissioned by finance ministers shows that some Canadians, particularly middle-income earners, may not be saving adequately and are at risk of not maintaining their standard of living in retirement. This finding is supported by other independent studies.

In June 2010, finance ministers outlined their overall strategy for strengthening the retirement income system, committing to work together on developing the following measures:

- Consider a modest, phased-in, and fully-funded enhancement to the Canada Pension Plan (CPP) in order to increase coverage and adequacy;
- Pension innovations that would allow financial institutions to offer broad-based defined contribution pension arrangements to multiple employers, all employees, and to the self-employed; and
- Help people who are saving for retirement make better-informed decisions through greater financial literacy and disclosure in relation to retirement savings.

Since finance ministers first agreed to consider an enhancement of the CPP, they have been exploring different possible approaches which include: increasing the CPP replacement rate (currently 25%); increasing the yearly maximum pensionable earnings limit (YMPE = $52,500 for 2014); or a combination.

Canada's premiers agreed in November 2013 that retirement security is a pressing issue for governments across the country and directed their finance ministers to continue to assess options for enhancing the Canada Pension Plan and the Quebec Pension Plan. They also agreed that this work should be guided by the following objectives:

- Be responsible and fully funded and focus on today's workers;
- Analyze and evaluate both the short-term and long-term effects on business, families, and the economy should the enhancements proceed;
- Improve the future retirement incomes of middle-income earners; and
- Protect lower-income workers.

Premiers also directed their finance ministers to discuss the work on objectives and options at the December 2013 federal, provincial and territorial Finance Ministers' Meeting. However, at the December meeting, the federal government stated that they are not supportive of further consideration of a CPP expansion at this time, preferring to wait until the economy is stronger for finance ministers to continue any discussions.

Manitoba continues to be supportive of the federal, provincial and territorial finance ministers' comprehensive strategy to strengthen the retirement income system, and believes that enhancing the CPP is necessary and a key component of the plan.