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PENSIONS

Ontario Bill 165

A bill to provide for the extension, improvement, and solvency of pension plans and the portability of pension benefits has obtained first reading in the Ontario legislature, and provisional regulations thereunder have been circulated.

The bill requires for all employers with fifteen or more employees compulsory minimum pensions and compulsory portability and for all pension plans of employers of any size the satisfaction of minimum solvency tests.

Are the provisions in this bill practical and in the public interest?

How would the adoption of this bill affect private pension plans, both new and existing?

MR. ARCHIE R. McCRACKEN: While the Ontario government did not attempt to secure passage of Bill 165 this year, much discussion was aroused, and a new bill can probably be expected at some future date, with the intention of the government that it be enacted. One hopes that some of the technical defects of the present bill will be removed in any new one.

I shall attempt to answer the first question in a fairly broad sense only. One practical matter is that of timing. A tremendous amount of work in modifying old and developing new plans will be required, and I would assume the original effective date of January 1, 1965, will be set forward. Another difficulty arises when an employer has employees in more than one province. Other provinces have shown interest in the bill, and it is certainly to be hoped that other bills, if enacted, will be closely similar. Bill 165 did not specify whether benefits shall be provided by employee or employer contributions, but an employer attempting to establish a plan with little or no employer contribution might be in the same position as one paying less than established wage scales.

Is all this in the public interest? While many of us would like to say no, it might be argued that government does have a responsibility to see that people do save within their capacities to do so, so that they will not become public charges in later years. It has become politically popular in Canada to maintain that this responsibility is not discharged by the present flat benefit program and that a "National Contributory Plan" should be established. This seems an expensive and cumbersome approach and one likely to involve unjustified internal subsidies. If the enactment of legislation similar to Bill 165 can divert public attention from the clamors for a national plan of wage-related benefits, then it may be considered to be very definitely in the public interest.

If a pension plan is subject to Bill 165, benefits in excess of the minimum comprise a "supplementary pension plan." The bill requires full vesting of employer contributions and locking-in of employee contributions made toward supplementary benefits, on attainment of age 44 and completion of ten years of service. It may be argued that this is not in the public interest, as it may prevent an employer who desires to give more than the minimum from doing so because of an unwillingness to provide vesting to the extent required. On the other hand, the public interest may well be served by certain solvency tests required for all pension plans. If pensions are promised, employees will count upon them in planning personal savings programs; yet most employees are not in a position to test for actuarial solvency themselves.

MR. CECIL G. WHITE: In discussing the second question, I would like to review briefly the provisions of Bill 165. At least fifteen employees of the same employer will comprise a mandatory group. Each such employer will have to register a "standard" pension plan with the Pension Commission of Ontario. Features of such a plan must include the following. Membership is required on attainment of age 30. The standard pension is a single-life annuity beginning no later than age 70. The monthly amount for service after age 30 and after the legislation has been enacted will be not less than, in the case of a unit benefit plan, one-half of 1 per cent of monthly earnings up to $400 for each year of eligible employment; in the case of a money-purchase plan, the pension derived from a total contribution of 4 per cent of the first $400 of monthly earnings; and in the case of a flat-rate plan, $2.00 for each year of eligible employment.

The minimum death benefit before pension begins will be a return of the employee's contributions with interest at a rate not less than $2\frac{1}{2}$ per cent. On other terminations before retirement, the standard plan will provide for gradual locking-in of employee contributions beginning with 20 per cent at 30 and becoming 100 per cent at age 34. Accrued annuity benefits are to be similarly vested. The provisions relating to supplementary benefits—those in excess of the minimum—call for vesting on the basis of contributions rather than benefits, which will penalize the strongly funded plans. Every pension plan filed for registration is required to meet tests for solvency to be prescribed by regulations. The solvency requirement applies even to the employer having fewer than fifteen employees who establishes a plan on a voluntary basis. Such an employer may also elect to register his plan with the Pension Commission, in which case all the other regulations apply.

Employers of mandatory groups with existing pension plans must establish a standard pension plan either by amending the existing plan or by setting up a new one. Benefits which were continued and in excess of the standard plan minimums would then constitute a supplementary pension plan.

MR. JOHN C. MAYNARD: The negative side of Bill 165 has been discussed; it may be worthwhile to put down some points on the positive side. The first such point is that the legislation would retain within the orbit of private plans a significant segment of the pension business.

Canada already has a relatively generous government plan. It is reasonable that additions required by legislation should be self-supporting. Bill 165 provides for no subsidies between plans, and, to the extent that full funding is required, there would not be subsidies between different generations of employees.

There are now two decks of pensions in Canada—the present government plan and private plans. If a national contributory plan were added, there would then be three decks. This would be a complicated structure and would not permit employers as much freedom as is allowed under the draft bill. Under the latter, private plans integrate with one instead of two government plans, and the problem of contracting-out does not arise. In the case of many private plans modest rather than major changes would be required.

Perhaps the best thing in the public interest would be if legislation of this type were to emphasize solvency and portability in voluntary private plans rather than making private plans compulsory.

MR. JOHN K. DYER, JR.: One of the things that concerns me most about Bill 165 is its imposition of minimum standards of solvency for an unguaranteed benefit. Such standards may tend to become maximum rather than minimum standards, and this in turn could result in an unsound competitive situation as between uninsured and insured plans. Unless the insurance companies are prepared to sell guaranteed annuities at rates based upon whatever "minimum" standards of solvency may be imposed, I should think they would be wise to take a stand in opposition to such standards.

MR. WILLIAM M. ANDERSON: The philosophy underlining the bill is to the effect that pension plans, which are really small insurance companies, should have a similar kind of appropriate minimum reserve requirement to give employers assurance that the plans are going to perform. The requirement would not be a minimum standard in the full sense of the word, since there is no prescription intended for such factors as interest and mortality. It is really what amounts to a minimum prescribed method of funding. I think this is the kind of legislation which ought to have been enacted long ago.

MR. SAMUEL B. ECKLER: Some years ago the Canadian Income Tax Department required that a plan be actuarially sound or have adequate reserves, but this was dropped because some employers wanted to establish terminal funding plans. Then, three or four years ago, it was decided, for better or worse, that constitutionally the Income Tax Department did not have the right to refuse to register pension plans for reasons such as failure to be actuarially sound. The original instructions to the Ontario committee for this bill were to provide for compulsory portability between pension plans to encourage the hiring of older employees. This has now become relatively unimportant under the bill, with the significant features being compulsory pensions and solvency requirements. As far as I know, what is contemplated here is merely a report by qualified actuaries indicating that the plan is actuarially sound. There may be some precise definition of what this term means. An interesting side result will be an effort to set up solvency tests for public plans also.

MR. ALBERT PIKE, JR.: I still share Mr. John Dyer's concern over a minimum valuation standard for pensions. It may not be widely known that this same proposal has come up in United States government circles. If you put up a minimum standard, the employers with uninsured plans are likely to have the standard set lower than life insurance companies normally use, and this low standard will then have the governmental stamp of approval. This will create difficulties for insured plans. May I commend an alternate approach, the one found in Daniel McGill's "Fulfilling Pension Expectations." He proposes that the employer stand behind vested pension benefits. If his money is at risk, then I think he will see to it that standards are high enough, and that will be more effective than having the government set standards.