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REPORTS ON TOPICS OF PARTICULAR INTEREST

GOVERNMENT PENSION PLANS IN CANADA— THE CURRENT SITUATION

Old Age Security Act

The Canadian government has been in the pension business since January 1, 1952, at which time the Old Age Security program became effective. This program provides everyone who has lived in Canada for at least ten years with a life income beginning at age 70.

It is a flat-benefit plan and benefits are taxable. The monthly benefit started at $40 in January, 1952, and was increased to $46 monthly in July, 1957; to $55 monthly in November, 1957; to $65 monthly in February, 1962; and to $75 monthly in October, 1963. The Old Age Security program is financed from three federal tax sources: (1) a 3 per cent sales tax; (2) a 3 per cent corporation income tax; and (3) a 4 per cent personal income tax with a maximum tax of $120.

Old age assistance is also available to persons aged 65 to 69, subject to a means test. This program is administered by the provincial governments with financial assistance from the federal government.

Canada Pension Plan

Although the Old Age Security system has simplicity and low cost of administration to recommend it, it does not take into account differences in the cost of living in various parts of the country. In the past few years, all major political parties in Canada became more or less committed by their pre-election promises to adding a "second deck" of pension benefits to the flat-benefit program, in the form of a contributory earnings-related pension plan.

In March, 1964, the present Liberal government introduced a bill to parliament, which is generally referred to as the Canada Pension Plan. The government has since agreed to modify this plan considerably, in order to win the support of all ten provinces. While basic agreement seems to have been achieved, a bill incorporating the revised features agreed upon has not yet been presented to parliament.

Contributions to the plan will likely commence in January, 1966, but conceivably the starting date could be advanced to July 1, 1965. While many important details have yet to be made public, the main features of

the latest version of the Canada Pension Plan, as outlined by Prime Minister Lester Pearson, are given in the comments following.

Coverage under the plan would be compulsory for employees with salaries exceeding $600 a year and for self-employed persons earning more than $1,000 per year. Self-employed persons earning between $600 and $1,000 per year may participate on a voluntary basis. It is anticipated that more than 80 per cent of the working force will come under the plan.

Under the plan, benefits would be payable from age 65, but only if the participant has actually retired from his regular occupation. This retirement condition is eliminated at age 70. Also, up to age 70, benefits would be subject to reduction in any year in which earnings exceed $900. The reduction in pension payments where earnings are between $900 and $1,500 is $1.00 per month for every $2.00 earned. For earnings above $1,500, benefits are reduced $1.00 monthly for every $1.00 earned.

The pension benefit proposed is 25 per cent of a participant's average earnings from the effective date of the plan up to the time he begins to draw his pension. The maximum includable compensation for any year is $5,000. However, the maximum-earnings base and the corresponding pension payable will be adjusted periodically in accordance with changes in average national wage rates, but no change is anticipated for ten years. In figuring average earnings, there will be some provision for a dropout, during periods of low earnings—a one-year dropout for each ten years in the plan has been suggested.

There is also a provision in the plan for an increase in benefit payments in the course of payment to adjust for increases in the cost of living. Any such increase is limited to a maximum of 2 per cent in any one year.

There will be a ten-year transition period before full benefits become payable. Benefits will first be paid to those who retire after contributing for one year after the plan becomes effective, and their benefit will be one-tenth the full rate. Benefits payable will increase 10 per cent per year during the transition period, and full benefits will become payable after contributions have been made to the plan for ten years.

The plan will also provide benefits to widows, irrespective of age, and to orphans and disabled persons. The level of such benefits has not yet been indicated.

Contribution rates proposed, for both employee and employer, are 1.8 per cent of earnings above $600 per year up to the maximum-earnings base, which is initially $5,000. The contribution rate for self-employed will be the sum of the employee and employer rates, or 3.6 per cent. Contributions will be payable until age 65, or until actual retirement, but not

past age 70. Both individuals and corporations may deduct from taxable income the amount of contributions paid into the Canada Pension Plan.

With the introduction of the Canada Pension Plan, the current Old Age Security program will be amended so that the $75 monthly normally payable at age 70 may be taken on a reduced basis at any time after age 65 without a retirement test. If taken at age 65, the benefit would become $51 monthly. The amount available at other ages between 65 and 70 would be interpolated between $51 and $75.

When benefits under the Canada Pension Plan and the Old Age Security program are combined, the resulting total pension is very attractive. For example, for an individual whose average earnings are $400 monthly, the benefit from the Canada Pension Plan will be $100 monthly and the reduced Old Age Security pension, if taken at the minimum amount at age 65, will be $51, making a total of $151 monthly, or a 38 per cent pension. If his wife is the same age, another $51 monthly will be available to her under the Old Age Security program at age 65, making a total income for the couple of $202 monthly, or more than a 50 per cent pension. Amounts available under the Old Age Security plan are, of course, greater if taken later than age 65. Whether the Canadian economy can afford such liberal benefits is another matter.

An interesting feature of the Canada Pension Plan is that reserves accumulated will be made available to the various provinces for investment in relation to their respective contributions. Nongovernment estimates of the amount of the fund that will be accumulated in the first ten years of the plan range between five and eight billion dollars. This part of the program will undoubtedly change provincial and municipal borrowing patterns and become a major factor in Canadian financial markets in view of the fact that anticipated provincial borrowing requirements over the next ten years are estimated to be only about twelve billion dollars.

Provincial Legislation

Concurrent with this activity at the federal level, we in Canada are also experiencing the entrance of the individual provinces into the field of regulation of private pension plans. The leader in this area is the province of Ontario. Ontario has just recently passed legislation, to be effective January 1, 1965, the main purposes of which are to regulate the solvency of private pension plans and to legislate minimum vesting provisions to guarantee the portability of pension benefits.

Briefly, full vesting and locking-in of employee contributions are required after attainment of age 45 and ten years of service. A central pension agency will accept the accrued pension credits of a withdrawing em-

ployee, if necessary, for disbursement at retirement. Regulations relating to solvency and investments will be forthcoming. Annual reports to the provincial Pension Commission will be required in this connection.

In Manitoba, legislation somewhat similar to the Ontario Act was introduced at the recent session of the legislature but was held over for further study. The province of Quebec has also indicated that it will establish regulations similar to those of Ontario.

Another province, Saskatchewan, has passed the Employee Pension Plan Registration and Disclosure Act, effective January 31, 1964. This act is primarily a "Disclosure Act," since it contains no provisions legislating pension plan provisions. It does give the registrar of pension plans the power to collect full information relating to private pension plans and requires that employees covered under such plans be given annually very comprehensive information regarding their rights and accrued benefits.

My only comment on the advent of provincial pension plan regulation and disclosure acts is that we are fortunate in having only ten provinces in Canada.

LESLIE A. CANNON

CURRENT STATUS OF MEDICARE PROPOSALS

There are literally dozens of bills pending in committee before the Eighty-eighth Congress on the subject of medical care for the aged. These bills are now being considered in executive sessions by the House Ways and Means Committee, which held several days of hearings on the subject last winter. The record of the Hearings consists of twenty-five hundred printed pages. Since it is expected that the Committee will submit its proposal to the House in the near future, this report of current status may be out of date any day now.

It has been reported in the press that a narrow majority of the Committee is still opposed to the principle of Social Security financing, as it was at the time of enactment of the Kerr-Mills law. Many qualified observers feel that the Committee will probably recommend a "beefing up" of the Kerr-Mills law, in the direction of increased benefits and liberalized eligibility requirements, in lieu of any of the now-pending bills. Such a proposal may well be coupled with a general increase in Social Security retirement benefits and perhaps an increase in the wage base.

Four of the bills now pending have received the greatest attention and represent the major approaches to the subject. The administration-sponsored King-Anderson bill would provide the individual with the choice of hospital care for 45 days with no deductible or 90 or 180 days with deductibles. It would also provide up to 180 days of skilled nursing-home care following a hospital confinement, up to 240 home health visits, and diagnostic out-patient services with a deductible of $20.

Under this bill all persons aged 65 years or over would be covered, including those not eligible for Social Security or Railroad Retirement Act benefits.

The bill provides for an increase in the Social Security payroll tax rate of $\frac{1}{4}$ of 1 per cent each on the employer and employee and $\frac{2}{5}$ of 1 per cent on the self-employed, coupled with an increase in the taxable wage base from $4,800 to $5,200 per year. Similar increases would be made under the Railroad Retirement Act, and general revenue would be used for those not covered by either system. In his testimony before the Ways and Means Committee, Mr. H. Lewis Rietz presented a cost analysis showing that the proposed increase in tax rate and wage base would be totally inadequate to cover benefits for those eligible under the Social Security system.

It is reported that the administration will exert a maximum effort to

obtain at least a curtailed version of the King-Anderson bill, being willing to accept a very limited number of days of hospital coverage only in order to establish the principle of Social Security financing.

The Javits bill, introduced by Senator Javits and five other Republican senators, would provide for 45 days of in-hospital care, up to 180 days of skilled nursing-home care, and up to 240 days of home health visits, without any deductible. It is similar to the King-Anderson bill in those covered and the proposed method and level of financing.

The Javits bill would also authorize establishment of an association of insurance carriers and group service companies voluntarily joined together for the purpose of devising and offering for sale by its members standard policies of health insurance providing various medical benefits subject to minimums spelled out in the bill. Purchase by the aged of policies offered by the association would be strictly voluntary.

Premiums for these policies would be placed in a common fund, belonging to the association, from which benefits and expenses would be paid. The association would be permitted to have regional divisions, each with its separate benefits, rates, and funds.

Operations connected with these standard policies would be exempt from state regulation, premium and income taxes, and the provisions of the Sherman, Clayton, and Federal Trade Commission Acts but would be subject to the exclusive regulation of the Secretary of Health, Education, and Welfare. An executive committee of three individuals elected by an advisory council appointed by the President would manage the funds and conduct the affairs of the association.

The Javits bill was developed by a nonlegislative committee, the National Committee on Health Care of the Aged. Referring to his bill, Senator Javits said that the complementary private program would limit the federal role to hospitalization coverage and would prevent any threat of socialized medicine.

The Bow bill would provide for an income tax credit, or certificate for those who pay no tax, of up to $150 per year for the purchase of private insurance covering hospital, convalescent, and physicians' services, for any person aged 65 or over whose income is $4,000 or less, if single, or $8,000 or less, if married, or for specified relatives or employers on behalf of such persons.

Participation would be voluntary, and the participant would have a choice of two qualified, guaranteed-renewable private insurance plans. One would be a basic-benefit-type plan providing coverage for semi-private hospital care, convalescent care following discharge from a hospital, surgical charges and doctors' charges according to schedules and within

limits set forth in the bill. The other would be a major-medical-type plan with a deductible and 75 per cent coinsurance.

The Social Security system would not be involved in financing this plan, since the tax credits and certificates would come out of general federal revenue.

The Saltonstall bill would provide federal funds to assist the states to provide voluntary basic health insurance to single individuals with annual income not over $3,000 a year or married persons with a combined annual income not over $6,000 a year who are aged 65 or over and are not recipients under federal public assistance programs. The state plans could be administered either by the state or under contract with a voluntary private organization.

The program would be administered by the Department of Health, Education, and Welfare through approval of state plans. To be eligible for federal grants, state plans would be required to contain three options: (1) a short-term illness program of the basic benefit type; (2) a long-term illness program of the major-medical type; and (3) a private insurance policy program, under which an individual could elect to receive a certificate to assist him in defraying the costs of a qualified private health insurance policy.

The Saltonstall bill, like the Bow bill, would be financed by general revenue rather than through the Social Security System.

Turning now to Kerr-Mills, the present law provides federal grants-in-aid to states financed from general revenue to reimburse them for 50 to 80 per cent of their expenditures under approved state plans, according to a formula based on per capita income.

Each state formulates its own eligibility standards within its plan, except that benefits must be limited to persons who have attained age 65 and are not recipients of old-age assistance but whose income and resources are insufficient to meet the cost of medical services, as determined by the state. Eligibility may not be conditioned on an enrollment fee, certain types of property liens, or length of residency.

Since any consideration of modifications of the Kerr-Mills law has been in executive sessions of the Ways and Means Committee, there is no official report of what the modifications might be. However, news reports indicate that they may fall in the two general areas of eligibility and the formula for federal sharing in the cost.

There has been criticism of what has been called, somewhat inexactly, the "pauper's oath," required to establish eligibility for benefits under some plans, including lien type provisions, family responsibility provisions, and stringent income and asset disclosure requirements. In some in-

stances the eligibility requirements may make it difficult for an individual to tell in advance whether he will qualify for benefits or not. One modification purportedly under consideration would ease eligibility requirements for the elderly, mainly by permitting the states to ignore the so-called means test and to substitute less harsh criteria. While the power to set income limits or establish other tests for persons eligible to receive benefits would remain with the states, a set of guidelines might be established in the federal law.

It is anticipated that any modification of the Kerr-Mills law would increase the percentage of the cost borne by the federal government and standardize the federal sharing of costs within a state for all public assistance programs. There have been instances where states have shifted the medical care of old age assistance recipients to the Kerr-Mills program to take advantage of higher matching grant provisions, thereby reducing the effectiveness of the latter program in reaching those now commonly referred to as the medically indigent, those who are not aid recipients but whose income and resources are insufficient to meet the cost of medical services.

Illustrative of the many variations receiving consideration, it was recently reported that the Committee had under study a plan which would (*a*) increase Social Security cash retirement benefits 5 per cent across-the-board and (*b*) provide an additional $4 to $5 per month cash retirement benefit which could be taken as an option in the form of federally financed hospital care for a period of about 45 days—possibly administered through the Blue Cross system.

In closing, perhaps I should mention a hearing conducted on April 27–29 by the U.S. Senate Subcommittee on Health of the Elderly, under the chairmanship of Senator McNamara, to determine the scope and adequacy of health coverage for the aged being furnished by the private insurance industry and Blue Cross–Blue Shield. While the report of this subcommittee has not yet been released, I understand that, despite the testimony concerning the broad scope of coverage being provided, the report is likely to be critical of the effectiveness of these organizations in providing coverage for the aged, presumably for the purpose of pushing the King-Anderson bill.

EDWARD A. GREEN

RELATIONSHIP OF ACTUARIES AND CERTIFIED PUBLIC ACCOUNTANTS

I think one factor that makes this subject most interesting is the fact that it is extremely controversial and when the matters at issue have been discussed between CPA's and actuaries it has been with a great deal of vehemence at times.

One might ask why this is a matter of current interest, because certainly differences have existed for a great many years between industrial and commercial accounting and life insurance and property and casualty insurance accounting practices.

In recent years the paths of the CPA's and the insurance companies have begun to cross more often, and this has emphasized accounting differences and made them a matter of current interest. The Life Insurance Company Income Tax Act of 1959, for example, has brought the two professional groups closer together. There have been an increasing number of independent audits that insurance companies desired, as well as a number of SEC registrations that required the services of the CPA. For a great deal longer period, there has been contact in the pension field. The accountants have long been interested in pension plans, particularly in the question of companies' making appropriate current charges for pension costs against current earnings. The Society of Actuaries, recognizing that this was a difficult area, created a special committee to study pension accounting problems under the chairmanship of Mr. Frank L. Griffin, Jr., Vice President and Actuary of the Wyatt Company. This particular committee has been conducting discussions with representatives of the American Institute of CPA's. I have no knowledge or facts to report with regard to the progress of these discussions, but the group is active.

The area on which I particularly want to dwell, however, is the one involving the issues arising upon audits of insurance companies. It is here that the CPA feels that certain insurance company accounting practices are occasionally at variance with the CPA's accounting standards that have evolved over the years and that serve very well in the broad field of public accounting. As actuaries, we have maintained that our business is unique and that there are valid reasons and long standing precedents for the accounting practices that have served the insurance industry well for many years.

I would like to present the issues in a framework of questions that some accountants have raised. There is not a hundred-per-cent agreement among accountants as to what "generally accepted accounting practices"

are when applied to insurance or even other types of companies; consequently, the list that I am about to give would not find complete agreement among all accountants.

The question has frequently been raised concerning the valuation of assets, particularly in connection with bonds. A number of accountants believe that the cost basis is the proper basis for the valuation of bonds rather than amortized cost, which is the practice long followed by life insurance companies. There is apparently somewhat of a shift in the position taken by some CPA's with regard to bonds, and they are beginning to see the reasoning for the amortization of bonds as applied to long-term investments of the life insurance business.

The accountants have also questioned, as certainly did the taxing authorities, the treatment of certain nonadmitted assets. I do not think there is as much a difference of opinion in this field among CPA's as there is in the case of bonds. It should be recognized that, in the insurance companies' statements, the principle of not admitting certain assets has been adopted for very definite reasons that have been quite logical in the insurance business. The accountants, however, take a somewhat different view of the function of financial statements and hence the treatment of assets.

On the liability side, some accountants have raised questions regarding the basis of calculating reserve liabilities, that is, whether or not they are calculated in accordance with generally accepted accounting principles.

Another feature of the liability section that has come into question, particularly in connection with the casualty business, is the unearned premium reserve, which is customarily figured on a gross basis. Some accountants believe that this basis is unduly conservative. This particular question ties into a general point at issue in which the accountants believe that initial costs for first-year commissions, medical and inspection fees, and other heavy acquisition costs should in some manner be amortized over the premium-paying period or the lifetime of the policy. The thinking behind this is that net earnings should show up in the proper year, and, they argue, the effect of charging off acquisition costs is to defer such income.

I believe that the insurance companies hope that more experience on the part of the CPA's with these special problems will result in an appreciation of the point of view of the companies concerning the long-term nature of the business and the special problems not duplicated in other industries.

In addition, I think that the companies are greatly concerned with the question of publishing more than one form of annual statement. Actuaries can perhaps understand the accountants' difficulty when they undertake an audit and, according to their professional standards, must certify that

the statement has been prepared in accordance with generally accepted accounting principles. Some accountants do not feel that they can make this certification at the present time. If qualifying statements are appended to the certification implying that the annual statement was not prepared in accordance with generally accepted accounting practices, the companies will not be satisfied. Naturally, the CPA's wish to undertake more of this type of work in the insurance field, and in the matter of their self-interest they certainly want to see the problems reconciled.

The insurance companies, for their part, want to avoid negative statements in connection with independent audits by CPA firms. They also want to avoid the preparation of one form of statement for the state insurance departments, a different balance sheet and earnings statement for federal income tax purposes, and still a third one to satisfy the public accountants. Quite obviously, this is a situation that is to be avoided, if at all possible.

There have been some suggestions that the accountants should be able to certify the statement as having been prepared according to NAIC requirements. Any qualifying notations that the accountant feels compelled to append to the statement could then be handled by explanatory footnotes or tables that are not a part of the actual statement of certification.

The CPA's, as well as the actuaries, recognize that the NAIC blank and its rules governing the valuation of assets and liabilities are primarily aimed at the solvency of the companies because of the paramount financial interest of policyholders. I believe this trusteeship goes a long way toward explaining the conservative accounting practices in the insurance business. Some accountants, however, say to us, "We recognize this is quite proper and necessary for solvency purposes, but your statements are not adequate for the interests of stockholders. A stockholder is concerned with his investment in relation to company earnings and company asset values in order to decide in his own mind the value of that investment." I have no opinion to express on this contention, except to point out that it is an issue that the accountants have raised.

In conclusion, I would mention the fact that the Society of Actuaries does not have a committee in this particular field; however, there is a group, informally organized, with representatives from the life insurance and property and casualty insurance companies and representatives of CPA's from national public accounting firms. This group has been meeting informally in an effort to thresh out these problems, to air the opposing views, and to reach some meeting of minds that will enable the interests of both parties to be recognized.

WILLIAM E. LEWIS