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RETIREMENT INCOME SECURITY IN CANADA

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Panelists: ARNOLD SHELL, MICHAEL A.P. BECK, HOWARD A. TATE

Aspects of the current situation which are being debated and considered for change.

A review of some of the recommendations of various private and governmental committees which have reported on retirement income security.

A discussion of:

a) the role of government plans

b) efforts to improve portability

c) indexing of private and government plans

d) funding requirements and how they have developed

e) disclosure regulations

f) mandatory retirement ages and mandatory plans

g) recent Saskatchewan legislation

h) human rights regulations

i) recommendations of the Lazar Report

MR. JOHN A. MCLEAN: The panel has assumed that those attending this session either work in Canada and/or are reasonably familiar with the Canadian Income Securities system.

I shall name 6 Canadian reports concerning pensions and Social Security:

1. The Cofirentes + report, about income security in Quebec, September 1977.

2. Ontario Treasury Studies No. 16 on issues in pension policy, published by the Ontario Department of Treasury and Economics, September 1979.

3. "Retirement Without Tears", the report prepared by a Special Senate Committee on Retirement Age Policies. The Committee's chairman was Senator David Croll. Although the mandate of this Committee was to study retirement ages, they also made additional recommendations about the Canada Pension Plan.

4. "One in Three - Pensions for Canadians to 2030" prepared by the Economic Council of Canada.

5. "Report of the Task Force on Retirement Income Policy" prepared by a federal interdepartmental task force in Ottawa headed by Harvey Lazar.

6. The Report of the Royal Commission on the Status of Pensions in Ontario has not been released. This Commission was formed by the Ontario government to review income security prior to granting provincial approval to the Canada Pension Plan amendments. Since the chairman of the Commission is Donna Haley, it is sometimes referred to as the Haley Commission. This report was originally scheduled to be released a year ago.

MR. ARNOLD J. SHELL: The government of Canada is currently by far the largest supplier of pensions. In 1975 the government, through its three nationwide public pension programs - Old Age Security (OAS), Guaranteed Income Supplement (GIS), and the Canada and Quebec Pension Plans (CPP/QPP), accounted for 52% of the income reported by all those aged 65 and over. This compares with 12% provided by employer-sponsored plans and of this 12%, more than half is paid by employers in the public sector. The federal public pension program consists of three separate types of programs - a flat benefit paid to all, an earnings-related benefit paid to those who have contributed for it and a means-tested benefit payable to those with little or no other income.

The flat benefit program is OAS, the oldest and largest of the three. Under OAS, a flat benefit is paid to all those aged 65 and over, subject only to a residency requirement. The OAS benefit is currently $179.00 a month and is increased each quarter in accordance with the quarterly increase in the cost of living. This benefit level is equivalent to about 14% of average wages in Canada and is financed out of general revenue.

The earnings-related benefit is CPP outside Quebec and QPP inside Quebec. The Canada and Quebec plans are almost identical. They are contributory plans with the contribution rate, currently 1.8% from each of the employer and the employee, applied on earnings in excess of an exemption level and less than a maximum level. In 1980, the exemption level is $1300 and the maximum level is $13,100. Under current law, the maximum level is increased by 12.5% each year until it catches up with the average industrial wage, which is currently around $15,000. The major benefit under the CPP is the retirement benefit, which is currently 25% of the average maximum contribution level in the three years before retirement. Pensions are increased each quarter by the quarterly increase in the Consumer Price Index (CPI). In addition to retirement benefits, the CPP also provides survivors', orphans', disability and death benefits.

The means-tested benefit is GIS. It is payable to those over the age of 65 who do not have an adequate source of income. The maximum GIS benefit for a single person is currently $147.00 a month and is increased quarterly by the quarterly increase in the CPI. The maximum benefit is currently about 11% of average wages in Canada. GIS benefits are reduced $.50 for each $1.00 of outside income, including income under the CPP, so that any expansion of the CPP will result in smaller GIS benefits. GIS is financed out of general revenue.

A companion federal plan to GIS, called the Spouse's Allowance, assists low-income couples in which one of the partners is over 65 but the other is between 60 and 64 and so is not eligible for OAS or GIS.

In addition to these nationwide federal programs, six provinces provide "topping up" supplements to the GIS on an income-tested basis. The role of the government programs in Canada can thus be seen to be a very large one, dwarfing all other sources of postretirement income. This role has therefore been given a substantial amount of coverage in all of the recently published pension studies. The first study was the Cofirentes study, published in Quebec. The recommendations of this study were largely motivated by its finding that two-thirds of elderly people in Quebec live below the poverty level, which was defined in 1976 as $4000 for a single person and $6000 for a couple. The major recommendation is that the QPP benefit formula be modified from 25% of average wages to 50% of the first one-half of average wages and 25% of the excess. This would increase benefits to 37.5% for someone earning the average wage, with higher weights for those with lower earnings. In addition, the study recommended that the total employee/employer contribution rate be immediately increased to 6.8% from 3.6% and be gradually increased in the future.

The next study published was the Croll report, "Retirement Without Tears". This study has been described as coming "more from the heart and less from the chart", reflecting the lack of the rigorous analysis which went into the other reports. The recommendations of the Croll report are aimed at the CPP. The report recommends that the CPP should be the major vehicle for correcting the perceived weaknesses in the Canada pension system (i.e. low coverage in private plans, lack of portability, inadequate indexing and weak vesting rules). It is recommended that the combined employee/employer CPP contribution rate be raised from the current 3.6% to 8% over five years and that it should be paid on earnings up to 1½ times the average wage. It is assumed that this contribution level would provide benefits of 50% rather than 25% of the increased maximum level. The Croll report recommends no changes in OAS or GIS.

In the third study, prepared by the Economic Council of Canada, the public plans are analyzed in terms of their income transfer characteristics. The OAS and GIS programs are characterized as intragenerational transfers from higher wage earners to lower wage earners. The CPP is characterized as an intergenerational transfer from future generations to current generations, due to the current policy of less than full funding. This intergenerational transfer works as long as the proportion of retired people to working people remains relatively constant, but may not continue to work if the proportion of retirees to workers increases to such a level that the workers have to contribute more than what their cost would be on a full funding basis. This demographic shift will, in fact, happen in Canada and for this reason the report recommends that CPP contribution rates be gradually increased beginning in the early 1980's to reduce the burden on future generations. Under low demographic growth assumptions, the combined rate is recommended to be 9% within 15 years. The report recommends that emphasis be placed on the GIS program and that the government use this program to ensure that the incomes of those aged 65 and over do not fall below a defined and acceptable low-income cut-off. The report suggests that there be no improvement in CPP retirement benefits now, and that private industry be given a reasonable length of time to correct the shortcomings of private plans. Should the pension industry fail to heal itself, the report recommends that another 25% retirement benefit, up to the average wage, be added to the CPP on a fully funded basis, and that employers be given the right to opt out of the additional 25% if they prefer to provide it through a private plan.

Another gap perceived in the report, is the exclusion of housewives from the CPP. A recommendation is made that a working spouse be allowed to contribute an additional 3.6% for the non-working spouse, or that the CPP benefit be considered to be split 50/50 between spouses.

The most recently published study is known as the Lazar Report. The Lazar Report concludes that the elderly who are in the most serious economic situation are those who receive GIS and who live alone in unsubsidized rental accommodation. The report suggests increasing the GIS benefit for these beneficiaries or, alternatively, adding a shelter component to the GIS. The study also recommends that OAS and GIS benefits should be increased in line with increases in wages rather than with increases in the CPI, so that economic growth can be passed on to the elderly. As far as improvements in earnings-related pensions are concerned, the report presents four options, one of which is an increase in the CPP benefit to 40%-50% of preretirement earnings up to 1½ times the average wage. The report mentions the same kind of opting out variant as is referred to in the Economic Council report. A gradual increase in the CPP contribution rates is recommended and it is suggested that as contribution rates increase, some thought should be given to directing some of the funds into the capital markets.

All these studies emphasized the perceived weaknesses of private pension plans - lack of universal coverage, portability, indexing and vesting. All of the studies are led, with varying degrees of reluctance, to the conclusion that the easy answer to these problems is to expand the CPP and QPP. The Cofirentes and Croll reports are in favour of an immediate expansion of these benefits, while the Economic Council and Lazar reports suggest a little more patience and express a willingness to give the private pension industry a chance to improve itself. Clearly, however, these improvements must be introduced soon if the government role is not to be dramatically expanded in Canada.

MR. MICHAEL A. P. BECK: The public want pensions which allow them to maintain, for the rest of their lives, a standard of living close to that to which they were accustomed, regardless of whether they have worked for one employer or several employers along the way. The current public opinion, or at least the opinion of people who say they speak on behalf of the public, is that the CPP and other social insurance plans achieve this while the private pension system does not.

There are a number of weaknesses in the private system, but the biggest weakness is the absence of portability and this weakness alone, if not overcome, is likely to lead to erosion and even destruction of the system by expansion of social insurance programs. By portability, I mean simply the right of individuals to carry credit for service in one employer's pension plan into the plans of succeeding employers, so that they arrive at retirement date with credit for a lifetime of service in the plan of their last employer. To achieve this, money in substantial amounts, must be transferred from one plan to another, and because it seems too difficult to get competing employers to agree on a fair basis of transfer, many pension experts have suggested other types of solutions. Some have suggested that immediate vesting would solve the problem, but when vested accrued pensions are calculated on frozen salaries, the final result is still inadequate. To overcome this inadequacy, it has been suggested that the vested pensions be indexed to the CPI. Because of the administrative complexity of this, it has been suggested that all plans be required to be on a money purchase basis and that unit benefit plans be abolished. All of these methods leave a trail of small pension credits strewn behind mobile employees. A central government-run pension agency, to gather up pieces of vested pension, is seen as the ultimate solution to these problems. However, why would the government form a central pension agency to ensure the survival of a private system which cannot manage its own affairs and meet the social need? Would the government not, instead, choose to simply expand the CPP, the machinery for which is already in place and working reasonably well?

I am a member of the Canadian Life Insurance Association Pension Committee and I will describe the CLIA portability plan. In 1976 we reached the conclusion that if we couldn't solve the problem, then perhaps nobody could, because we were the only group sufficiently small to be effective with both the motivation and the means. We had a vested interest in the survival of the pension industry and we could command the technical, actuarial and legal support we needed. We could also muster enough managerial clout to influence the managements of several large companies to implement a portability plan, if we could find a way to develop one. We set out to develop a workable portability arrangement which could allow transfer of money and credit for service between any private pension plans in Canada.

Portability has always been theoretically possible in Canada. Employers are allowed to enter written reciprocal agreements to transfer credit for pensionable service and funds between plans when an employee moves from one employer to another. In practice, the reciprocal agreements are cumbersome and difficult to effect except between employers with a mutual interest and the same benefits. For example, the federal government and provincial government employee pension plans have reciprocal agreements, as do certain industry wide union-run plans and a few companies with common ownership.

The CLIA plan was designed with 8 basic principles in mind. It must do the following:

1. Accommodate a variety of different plan types.

2. Allow for varying degrees of commitment to the portability concept by not being dependent on any sort of "adequacy" standard.

3. Be consistent with accepted and developing social, employment and political concepts.

4. Permit a stage by stage upgrading of coverage.

5. Not be excessively complicated to administer.

6. Be equitable in its cost implications.

7. Be an obvious improvement on current practices but not be too far out of touch with them.

8. Be acceptable to employees and capable of being easily understood by them. We felt that if the employee did not accept a portability plan, no matter how technically good it was, it would fail.

The result of our labours was a unilateral portability provision which can be included in any pension plan. We laid down 6 conditions which must be in every portability provision. Within these, we tried to leave enough flexibility so that employers could move into a portable arrangement on an incremental basis, at their own speed, and specifically so that benefit consultants would not feel obliged to oppose the plan on the grounds that it constrains their freedom to create new plan designs.

The key to the whole concept is this: Each plan sponsor can calculate transfer values for terminating employees any way he likes; but he must use exactly the same basis to calculate the additional service credited to new employees who bring a transfer value with them from another plan. The whole plan could hang on this one concept, but in order to keep things honest we added 5 other rules as follows:

1. The terms of the portability plan must be specified in the plan document.

2. If a new employee brings a transfer value from another pension plan it must be accepted, even if the employee is not yet eligible to join the plan.

3. If an employee, who is eligible for portability as described in the plan rules, terminates service, you must be willing to transfer the amount specified in the rules.

4. The conditions for eligibility for portable benefits which are specified in the plan must apply identically to new members joining and old members leaving.

5. When an employee, who has brought a transfer value from a previous plan, becomes eligible for portability, he must be given credit for additional service.

When you actually start drafting rules, you find that you have to make exceptions to some of these principles to fit your plan design, or that you have to bend your plan design to fit the principles. For example, if you have a minimum entry age of 25 and an employee younger than 25 brings a transfer value, you may not be able to give credit for service although you are required to accept the transfer. It is very easy to get bogged down with these details, but they can be overcome and we haven't yet found one we could not solve.

Having designed the plan, we approached the regulators and found them very receptive, even enthusiastic. Revenue Canada willingly amended their circular governing pensions to permit portability arrangements. None of the provincial authorities object to transfers of funds between plans as long as solvency is not affected. There are certain difficulties in making transfers for unfunded benefits, but these can be overcome if you are determined to do so. Since January 1, 1980, 15 life insurance companies in Canada have introduced portability into their pension plans and we hope this number will grow to 50 within five years. There is a tendency for people looking at this arrangement to think that we have created a portability arrangement solely for the benefit of employees in the insurance industry. This is very far from the truth. Our motivation was not altruism toward employees but survival of the private pension industry. The problems could be overcome and portability among competing private enterprise companies <u>is</u>

possible. We are actively encouraging employers, who are not insurance companies, to write portability provisions into their plans. The real measure of our success will be the number that we can persuade to do this.

MR. SHELL: Social security benefits in Canada are currently indexed quarterly by the quarterly increase in the cost of living. There seems to be general support and little controversy about this indexing. If the purpose of the social security programs is to provide a basic level of benefits for all Canadians, then it seems to make good sense that these benefits should be indexed to the cost of living. The government has taxing power and so will not be driven to bankruptcy because of indexed benefits.

Pension benefits for retired civil servants also generally provide good protection against inflation, but here the process is a lot more controversial. Retired federal civil servants receive automatic indexing of their pension benefits by the full increase in the CPI. There have been some recent proposals in Parliament to limit the indexing to a formula related to excess interest earnings, but these proposals have died with the election earlier this year. In general, pension plans for provincial civil servants and other provincial employees, such as teachers, provide very generous indexing provisions, although sometimes with a cap on the amount of annual indexing.

The issue of these indexed benefits for federal and provincial government employees has become a very emotional one, especially with respect to the benefits available to retired federal civil servants. Private sector employers look at their plans and can see no way that they can provide such benefits. They see the existence of these benefits for government employees as just one more example of uncontrolled spending by governments, and are particularly offended by the lack of cost considerations, or even cost estimates, before these benefits were promised. Automatically indexed benefits are generally not available in private pension plans. A substantial number of plans do provide adjustments of pensions in payment to reflect increases in the CPI. These adjustments, generally, are non-contractual "ad hoc" adjustments, provided only by the larger employers, and increase the pensions by something less than the full increase in the CPI. Private sector employers are simply not able to undertake the "blank-cheque" approach of promising automatic indexing of pensions by the full increase in the CPI no matter what that increase may be. Such an approach has unpredictable costs, and could, in the extreme, bankrupt a firm offering it. A private enterprise does not have access to unlimited revenue sources as governments do through taxation.

An indexing issue, which is equally important to the issue of indexing pensions in payment, is that of indexing deferred pensions for people who leave employment before their dates of retirement. In the major government programs, there is usually full portability from one government plan to another, so the problem does not arise for an employee moving to another government job. If the government employee does not move to a reciprocal plan, then the deferred benefit usually enjoys the same indexing provisions before retirement as it does after retirement. Private sector plans generally do not provide for the indexation of the deferred benefits of mobile employees.

Clearly, the problem of inflation, as it applies to private sector plans, must be solved if private plans are to become a major source of retirement income. Inflation has been called the "Achilles Heel" of private pension plans and the Economic Council report refers to inflation as "a method by which the able-bodied rob the aged".

The problem of inflation has been addressed on two different levels, yielding two different conclusions. On the economic level, it is contended that inflation is simply an environment under which income is redistributed in a certain way. There is no reason that inflation, in the long term, should cause any reduction in real Gross National Product (GNP). As there is no reduction in GNP, for each "net loser" under an inflationary environment, there must be a "net winner". If the real income of pensioners drops, they are able to buy fewer goods and services, and so they are net losers. The winner may be the plan sponsor, who enjoys a lower annuity rate to provide the fixed pension benefit because interest rates are high, or the issuer of an old fixed income security, who is being charged a lower than current interest rate for the use of the funds which had earlier been contributed to the pension fund. From an economic viewpoint, the cost of inflation to the economy is the same whether or not pensions are indexed; the question is who bears the cost. With no indexing, the pensioners are bearing the cost in the form of reduced purchasing power. If benefits are indexed, it is other economic agents who are bearing the cost of inflation. On the economic level, there is no reason why the Canadian economy cannot provide indexed benefits in an inflationary environment just as easily as it can provide fixed benefits in a non-inflationary environment.

The other level on which the question is attacked, and which leads many to the opposite conclusion, is the level of the financial health of the individual sponsoring firm. There are unknown costs due to unknown future inflation rates and in some cases, the yield on pension assets falls when inflation rises. Some firms do less well when inflation increases and would be in no position to increase benefits at that time. The prudent employer simply cannot undertake full automatic indexing in the face of these possibilities.

All of the recent reports address the problem of indexing of both deferred and immediate retirement benefits, and all, except the Croll report propose specific solutions. It is maintained in the Croll report that the private sector will not be able to be persuaded to provide indexing and the report recommends an expansion of the CPP as the only alternative. All of the solutions proposed in the other reports utilize the relationship between inflation and interest rates.

The Cofirentes report recommends that the excess of the interest earnings over the valuation rate in defined benefit pension plans should be used to adjust pensions in payment and deferred pensions. The valuation rate should be some average "real" rate of return net of inflation. The Economic Council report bases its indexing recommendations on a paper entitled "Private Pension Plans in an Inflationary Climate: Limitations and Policy Alternatives", prepared in 1979 by James E. Pesando. Pesando characterizes the problem not simply in terms of inflation per se, but rather in terms of the problems caused by unexpected inflation. If inflation was predictable, the cost of indexed benefits, while high, could be similarly predicted. The unknown rates of future inflation, and their probable divergence from the rates built into current interest rates, cause the problem. Pesando considers that the problem cannot be solved in the private sector alone and that any solution must involve the government as a partner. Pesando recommends three possible solutions:

1. Issuance by the federal government of indexed bonds under which each year's interest rate is a real rate plus the increase in the CPI. These bonds would be used as investments by the various private sector pension funds.

2. Sale, by the federal government, of indexed annuities out of the proceeds of pension plans.

3. Setting up, by the federal government, of an inflation insurance scheme through which life insurance companies would be able to sell indexed annuities.

Pesando favours the third approach as it involves the smallest amount of government involvement and control of assets. The Economic Council recommends the second approach.

The Lazar Report lists four possible solutions to the indexing problem:

1. Pensions in payment and deferred pensions be increased by each pension fund's earnings in excess of a real return.

2. The rate of increase be determined by the excess earnings on a prescribed portfolio of securities.

3. A recommendation similar to Pesando's inflation insurance scheme.

4. A recommendation similar to Pesando's real rate annuity scheme.

Lazar also looked at the idea of indexed bonds, but rejected the idea as too disruptive of the capital markets in Canada.

Both the Lazar Report and the Economic Council report recommend that if a solution to this problem is not instituted soon, serious thought should be given to an expansion of the CPP either on a mandatory basis or on an opting-out basis similar to that being used, apparently successfully, in the United Kingdom. There are now some good ideas on the table, and they all are developed using the relationships between inflation rates and interest rates. From a public policy point of view, indexing of pension benefits seems to be required and from an economic point of view, it seems to be possible.

MR. HOWARD A. TATE: Right now there is more controversy and concern over the funding requirements of the CPP than there is over private pension plans. The CPP is supported by specific earmarked contributions, and the excess of those contributions over expenditures is accounted for as a fund which is credited with interest. The present contribution rate was never intended to be full funding, and that fact seems to escape the people who are talking about the CPP going broke. In the 1973 actuarial report, contributions were expected to rise by 1982 to keep them from falling below the level of benefits. Now that we are nearly there, we hear cries that the CPP is going bankrupt, despite the fact that the 1977 actuarial report showed the 1982 "change over year" had receded to 1985. In fact, the CPP is operating a little better, from the point of view of contribution rates needed, than was originally anticipated. With the possibility of an expanded CPP, it would be anyone's guess what the contribution rate will be in the next few years. The rate is not set by actuaries, but by politicians.

Returning to private pension plans, funding requirements are contained in provincial Pension Benefits Acts, and the federal counterpart Pension Benefits Standards Act (PBSA). These were enacted in the mid-sixties and they require that current service be fully funded year by year. Ontario requires that employee contributions be paid into the fund in the month following deduction, and employer contributions within 120 days of the fiscal year-end. A recent development of concern to some employers is an amendment in Quebec, effective January 1, 1981 which will require employer current service contributions to be paid monthly. This raises some practical problems. When do you know what employer costs will be? If, at the start of the year, the rate has not been determined, the back-log must be paid promptly as soon as the rate is known. Any indexing of pensions in course of payment is exempt from funding requirements. These benefits need not be pre-funded and may be included in current costs on a pay-as-you-go basis.

Supplemental liabilities arising from past service benefits or plan improvements must now be funded over no more than fifteen years. When the legislation was introduced, the maximum period was twenty-five years, and it was reduced year by year until it reached its present level. The funding of experience deficiencies was initially prescribed to be over five years, but in the mid-seventies there were mounting deficiencies and this funding period was too strict. As a result, for instance in Ontario in 1976, the regulations were amended and they allowed part of the experience deficiency to be funded over fifteen years. To calculate that part, you have to do a "test" valuation, which is essentially a "wind-up" valuation subject to certain constraints. If, on that basis, the plan is fully funded, then any deficiency on the regular basis may be funded over fifteen years. To make things difficult though, there isn't uniformity. The federal regulations require that the "test deficiency" be funded over three years rather than five, even though they have the original five year requirement for the funding of deficiencies. The federal regulations cover the pension plans that are subject to regulation by the government of Canada.

There is some misunderstanding in Canada, about the use of frozen initial liability funding methods where no deficiency is identified. It is quite permissable to use such methods. In Ontario, the authorities are only concerned that the contributions and assets be at least as great as they would have been under the unit credit method. It is not even necessary, in all cases, to do an extra unit credit valuation. For example, if the contribution rate does not go up using say, the aggregate method, that is satisfactory. Even if it does, you may be able to avoid a unit credit valuation if you can demonstrate acceptable reasons for the increase.

The other source of regulation, Revenue Canada, imposes maximums on current service contributions by employee and employers. They recognize that an approved defined benefit plan may require an employer current cost of more than the stated $3500 per member. Until this year, it was necessary to go through a somewhat artificial calculation of a "future service deficiency" which was only available for those employees with past service. The latest information circular, published in January 1980, allows the excess cost for all employees to be treated as an experience deficiency if payment is delayed until the next taxation year. Common sense would indicate that if the current service benefits meet the maximum rules, and the actuarial basis is reasonable, the cost of such benefits should be fully deductible without using these gimmicks. Revenue Canada does concede this off the record, but the $3500 limit is written into the Income Tax Act and they don't want to tinker with it right now because of all the studies going on.

I have referred mostly to Ontario because that province has been the leader in pension legislation. There are Pension Benefits Acts in force in Quebec, Alberta, Saskatchewan, Manitoba and Nova Scotia. Their requirements are similar, with some differences in the grace periods for paying contributions.

MR. BECK: Disclosure means giving information to pension plan members about their rights and benefits under the plan. Who can deny that pension plan members ought to be told about these things? However, there is a real possibility that excessive missionary zeal by some of our regulating authorities will put pension plan sponsors in the position of having to spend unreasonable amounts on disclosure, discouraging them from making benefit improvements. The general increase in the level of pension regulation, including disclosure requirements, is certainly pushing many small employers out of pension plans and into group Registered Retirement Savings Plans (RRSP's) and Deferred Profit Sharing Plans (DPSP's) which have less strict requirements. I will describe disclosure in the various provinces which have legislation and the federal PBSA. There seems to be 3 trains of legislators going at different speeds and not always in the same direction. With only 7 regulatory bodies seriously looking at pensions, surely there is no excuse for the increasing lack of uniformity to which the public is being subjected.

The first train is the Ontario train which tends to be followed by Nova Scotia, Alberta and Saskatchewan, although Alberta is beginning to show signs of wanting to go its own way and Saskatchewan has just jumped off the train by introducing amendments to its Pension Benefits Act which depart substantially from uniformity. The Ontario group is the most moderate in its disclosure requirements. They want the following:

1. A written description of the plan terms and rights and duties of the members must be provided to each member.

2. A member who terminates service with benefit entitlements must be given a written description of these.

3. Aggregate information about total employee and employer contributions to the plan, number of members and total value of plan assets must be given to members annually. This is readily available from the annual information returns which employers are required to send to the Pension Commission.

4. Certain other documents must be available for inspection by plan members, including the full text of the plan and amendments, annual information returns and the latest actuarial valuation.

In general, these requirements apply only to plans which are registered in the province.

The second train is the Manitoba train and it seems that Saskatchewan is now on this train. Although present Manitoba requirements are not greatly different from Ontario's, they are not identical and they do not seem to be travelling at the same speed. Manitoba has begun to show an alarming tendency to push forward with its own regulations without waiting for the others.

The third train is Quebec, and there are a number of serious differences here from the other provinces. Quebec requires all of the disclosures that the other provinces require. In addition, every three years a detailed statement must be given to each plan member showing the member's contributions and the employer's contributions on his behalf, with and without interest, accrued pension benefit, accrued death benefit, withdrawal benefit, and the percentage of vested employer contributions. Details of integration with government benefits and the name of the most recently appointed beneficiary must also be provided. The funded ratio, which is broadly the ratio of invested assets to liabilities must be included. The purpose of this funded ratio is to disclose to plan members the extent to which promises of benefits, accrued for past service, have not yet been paid for by the employer. There are differences of opinion among pension experts about whether this requirement adds clarity or confusion to the issue. While insisting that the ratio be shown when a plan actually winds up, Quebec has wind-up requirements which do not provide benefits in the same proportion as the ratio. Quebec has a further requirement that pension plan assets and contributions be supported by an audited statement and this has created some difficulty, particularly for pooled unitized funds.

The Quebec requirements apply to all pension plan members living in Quebec, regardless of where the plan is registered, or indeed whether it is registered. This concerns pension plan sponsors and technicians because it breaks the tradition of reciprocity which had previously existed among the regulating authorities. The recent report by the Economic Council of Canada recommends disclosure requirements very similar to those adopted by Quebec.

Pension plan members, in the provinces which are regulated, have had, for many years, the right to find out almost everything they wanted to know about their pension plan, if they took the trouble to ask for it. The regulators have concluded that very few people have the initiative to ask for information which they ought to have, so the information must be handed to them. Whether people will read the information given to them is another question and the expense of pension administration continues to rise. Perhaps we have reached a plateau and the pension system will be allowed to digest the flurry of recent disclosure regulation while the regulators turn their attention to other matters. I'm afraid I do not believe this.

MR. TATE: In most provinces of Canada, mandatory retirement at age 65 is legal and widely practiced. Human rights legislation is widespread, but protection against discrimination by age does not extend beyond age 65, except in Manitoba and New Brunswick.

In 1977, the Canadian Senate set up a Special Committee to look into all aspects of public and private policies governing retirement ages. Headed by Senator Croll (who is well over 70), the Special Senate Committee went beyond its terms of reference and delved into such matters as the inadequacies of the private pension system and the level of pension from the public system. The report is the major indication of the direction in which Canadian legislation is likely to move.

It was felt that people should not be forced to stop working at an arbitrary age, and that there should be much more flexibility in retirement policy, with individuals having the choice of retirement age, subject to some rules about competence and physical fitness. The following five recommendations were made:

1. That the progressive abolition of mandatory retirement based on age become a general policy

   (a) by amendments to the rules governing public servants and employees of companies under the jurisdiction of the federal government

   (b) by similar action with respect to provincial and municipal public servants.

2. That the mandatory age of retirement be increased one year at a time for five years by amending pension plans or retirement rules or conventions, and that at the end of five years the concept of mandatory retirement at a particular age be abandoned completely.

3. That all human rights legislation be reviewed to eliminate any loopholes which permit age discrimination because of employee benefit and similar plans.

4. That a policy of flexible retirement become the standard for both public and private enterprises.

5. That amendments to both federal and provincial human rights legislation be sought at the earliest opportunity to minimize the possibility of discrimination based on age.

The proposal to increase the mandatory age one year at a time for five years is rather curious. Those who are 64 or less, when such a proposal is introduced, would not mandatorily retire at 66 or 67, but the mandatory age would stay one jump ahead, and they would effectively have no mandatory retirement age. The rationale given by the Committee is that "this gradual approach is intended primarily to permit the actuaries to accumulate data on various aspects of the behaviour of employees over age 65. This becomes of some importance in connection with pension benefits, group insurance and disability benefits". The Committee didn't elaborate on the problems of disability benefits. In the case of a permanent disability, is the LTD income to go on for lifetime with no payment from the pension plan? If not, when does the transition occur? Can disability occur at any age, while working? If the disability occurs at, say, age 68, for how long does the disability insurance benefit go on? Do we have clear procedures for differentiating between retirement due to incapacity, and disability at advanced ages? Perhaps it is questions like these that lay behind the reservations that several bodies made when they appeared before that Committee. The Canadian Manufacturers Association and the Canadian Chamber of Commerce, in a joint brief, warned against hasty implementation, without further study of long-term effects, and stressed the need for a phase-in period, although they didn't oppose the idea in principle. Several briefs expressed concern about possible inordinate expenses of justifying the retirement of an employee who is no longer productive. The Lazar Report covers the topic but defers to the Croll Committee, whose findings were apparently not published at the time that part of the Lazar Report was written. In the opinion of the Lazar Task Force, the onus is now on those who wish to maintain mandatory retirement to justify that, rather than being on those who wish to eliminate it.

Since mandatory retirement involves human rights and pension benefit legislation, it is very much a provincial matter. It will probably be a year or more before the long-awaited Ontario Royal Commission report has been issued and debated and legislation revised. One of the reasons that Senator Croll's Committee objected to enforced retirement at age 65 was that many workers have very little or no pension from the private system. The committee decided that the solution was to increase the CPP contribution from 3.6% to 8%, and said that if no other changes were made in the structure of the CPP, it may be assumed that the approximate doubling of the contribution levels would yield a pension of roughly twice the size of present levels. Almost everybody in the industry knows that contributions must go up very soon just to maintain the present pension level!

Expanding the CPP/QPP is only one option suggested by the Lazar Task Force. Another was the mandating of pension plans for all employers. Under the mandatory plans, there would be a choice between a contributory 1% career average plan and a money purchase plan based on 4% contribution from each of the employee and employer integrated with the CPP. Together, the mandatory plan and CPP would cover earnings up to 1½ times the average wage. As a third alternative, they would allow a combination of money purchase and defined benefits. From hereon, the ideas for a mandatory plan become somewhat more radical. Specifically, there would be immediate vesting and immediate locking-in. Vested deferred pensions would be indexed by a wage index, not a price index, during the deferred period. The career average pension credit would be updated. Pensions would be protected against inflation. A two-thirds joint and survivor pension would be the normal form of pension. Part of the immediate vesting requirements allows an alternative for those with less than five years of service. The employer may, instead of providing a little bit of deferred pension, pay an amount equal to two times the employee contributions with interest into another fund. Employers who already have a plan would have to ensure that their plan provides all the features of the mandatory plan, at least in respect of the benefit up to the mandatory plan level.

MR. MCLEAN: The following 8 points summarize the major changes in the Saskatchewan Pension Benefits Act as amended by the bill introduced on May 14, 1980.

1. Statutory vesting occurs after one year's service, provided age plus years of service equals at least 45.

2. In a contributory plan, not more than 50% of the vested deferred or immediate annuity may be provided by employee contributions plus interest thereon.

3. Where accumulated employee contributions plus interest equal more than 50% of the value of the vested deferred or immediate annuity, the excess may be transferred to another pension plan, an RRSP or an annuity.

4. The 25% commutation of benefits provision is repealed and replaced by a requirement that, in contributory plans, an employee must be allowed to withdraw 1/2 of his own accumulated contributions with interest on termination prior to retirement.

5. A plan that does not provide a married employee with a 50% or greater surviving spouse's benefit as the normal benefit must provide an actuarially adjusted surviving spouse's benefit of 50% or more, unless the employer receives a written and witnessed waiver from the spouse.

6. The present requirement that an employee be given a written explanation of the terms and conditions of the plan is repealed. Disclosure requirements are to be prescribed by regulations.

7. The regulations will prescribe the rate, times and manner of paying interest on employee contributions.

8. The tables of values used to determine the values of deferred or immediate life annuities must be approved by the Superintendent, subject to the conditions prescribed in the regulations.

The Federal Human Rights Commission introduced new regulations, effective on March 1, 1980, which apply to any employer in Canada that is subject to federal, not provincial, labour law and are applicable to all employee benefit plans. The regulation that causes the most problem is the one that specifies that equal benefits must be available for males and females in a pension plan. This regulation plays havoc with money purchase plans subject to this law. Mr. Fairweather, the Chief Commissioner of the Canadian Human Rights Commission, stated that there were many submissions and strong arguments both for and against this regulation. He also specified that arguments were received from actuaries who supported that approach as well as those who opposed it. To date, I personally have not heard from any actuary who supports the argument for equal benefits by sex on a money purchase plan.

There are three main solutions to change money purchase plans so that they will abide by the regulations.

1. A unisex table could be employed which would work, if the rights contained in most Canadian pension plans to shop the market for benefits at retirement are removed. If the right of the employee and employer to shop the market at retirement remains in the plan, male employees would shop the market for a male rate and female employees would shop the market for a unisex rate.

2. All money purchase plans could be changed to unit benefit plans, resulting in the same retirement benefit for females and males.

3. Plans could be continued on a money purchase basis, but an unallocated side fund would be required to provide equal retirement benefits for female employees. The side fund would require either an additional contribution by the employer, which is discriminatory by sex, or the plan would require redesigning to decrease the basic employer contribution per employee, with the balance entering the unallocated side fund.

To conclude, I will summarize the four main alternatives given in the Lazar Report.

The first option is to strengthen the current employer sponsored pension plans by:

a) earlier vesting and locking-in of benefits

b) updating deferred pensions for employees who have previously terminated

c) prohibiting early retirement on unreduced pensions for long service employees to reduce discrimination between long and short service employees

d) maintaining the real value of pensions in payment by indexing

e) compulsory joint and two-thirds survivor pension to the spouse of the employee

f) splitting of the benefits between the employee and the spouse on marriage breakdown

It is estimated that if all of these strengthening features are added to an existing plan that currently does not contain any of them, an additional cost of 6% of payroll would be required.

The second option could be named "eliminate the actuary option" and recommends that all defined benefit plans be gradually eliminated and replaced by defined contribution plans. This would involve changes for 95% of the present plan members in Canada. One of the reasons for this suggestion is that every employee will be on a similar footing. This option also contemplates immediate vesting with locking-in of benefits.

The third option is mandatory employer sponsored pension plans with a minimum scale of benefits. Suggestions for the minimum requirements are:

a) a 1% defined benefit final average earnings plan

b) a contributory defined contribution of at least 2.4% of salary from both the employee and employer

c) a combination of a) and b).

Immediate vesting and locking-in is also contemplated.

The fourth option is to expand the CPP/QPP with or without a provision for employers to contract out for similar benefits. The benefit suggested is 45% of the average preretirement earnings up to one and a half times the average industrial wage. If contracting out of benefits is not available, part of the assets under the government plan could be invested in the capital markets.

Are there any comments or questions from the floor?

MR. GEORGE W. POZNANSKI: I would like, first of all, to congratulate you, John, and your panel for a very comprehensive and complete description of the situation in Canada. Let me add that the Saskatchewan Bill was actually enacted into law on the 22nd of May. However, I believe that this new legislation is not to become effective until July 1, 1981. Prior to that date, we expect a National Pension Conference in Canada. This Conference was announced in the Speech from the Throne last April and will be convened sometime this fall. Perhaps, therefore, there is still hope for some degree of uniformity in the pension legislation in Canada.

With respect to the four options for improving the pension system in Canada that you just described, I believe you indicated that one of the proposals was a 1% career average pension plan. A very important aspect of that proposal is that the career average earnings be updated by the index of average wages and salaries in a manner similar to that used for updating earnings under the CPP for benefit purposes.

Howard mentioned that the indexed portion of benefits in private pension plans can be provided under the legislation in Canada on a pay-as-you-go basis. I believe that this approach is permissable only in Ontario. Certainly under the federal PBSA that is not the case.

MR. TATE: I agree with you, George, that the revaluation of the 1% career average plan is a very important feature. Also very important is the indexation of the deferred pensions. The people that lose out worst are those who are fully vested at age 40, and 25 years later, they get the same number of dollars they were promised when they quit the company. Employers have been getting away with quite a bit, when the valuation interest rate is perhaps double what it was 20 years ago, only because of inflationary expectations, and the costs are therefore lower. George, I agree it was Ontario's provision for cost of living that I was referring to.

MR. JAMES R. SWENSON: My sympathies are extended to those of you in Canada for having to deal both with the federal and provincial governments. The array of reports with which you deal is mind boggling. I have two questions. First, you mentioned that there is serious consideration being given to expanding the CPP and expanding it on a basis where it would be advance funded. This would create a tremendous pool of capital and I am wondering how that pool of capital would be invested. My second question relates to a practice which I thought was prevalent in Canada, which is referred to as performance indexing, wherein an actuarial valuation assumes only the real rate of return, and the excess investment earnings, which in large part reflect inflation, are used to improve benefits. Several of you mentioned that this was encompassed in some of the reports. It was my impression that it was actually being adopted by some employers.

MR. SHELL: Most of the reports were silent on the question of how the funds arising from a fully funded CPP would be invested. The technique which you referred to as performance indexing has certainly been talked about a great deal, but I don't think there are very many employers yet who are using it.

MR. ALLAN B. NIELSEN: At what point does the panel expect the contribution of the private pension industry to the retirement income of our retirees to become something that is significant?

MR. BECK: With pension plans worded as they now are, I do not think it ever will because so much money is slipping through the system in non-vested benefits. I don't think the private system will catch up until we have some form of vesting or portability, so that people can get to retirement with enough money in their pockets to buy the pension that they need.

MR. SHIRAZ BHARMAL: I'm not quite sure that the private industry will not be a factor in the future. There has been a tremendous growth of pension plans and pension funds in the past fifteen years which has not translated into payouts yet. The static figures in 1975 or 1976 do not do justice to what might be the private portion of pension incomes in the future. We talk about the lack of vesting and portability in the private industry. This may be true in the earlier years of employment, but even allowing for the increased mobility of the labour force, employees do tend to spend quite a large portion of their later careers with one employer, and often the employers will provide a larger accrual of benefits for a limited number of years of service. There has also been tremendous amounts of money, including some employer sponsored money, which has been channelled into RRSP's, DPSP's and profit sharing plans of other natures. The 12% 1975 figure may have not reflected the growth of the RRSP. The whole nature of our society could be fundamentally changed, depending on which role the government takes. We forget that the employee himself has the obligation to plan for his retirement. How much do we want the government to take over, or influence, that accrual of money for future consumption?

MR. SHELL: As the relatively young private pension plans and the younger RRSP's and DPSP's mature, we expect a higher portion of retirement income to be provided by the private sector. However, there are some reasons why you might expect the government proportion to rise. In 1975, the CPP was not yet fully mature, even for people who had been in the CPP since its inception, and for each year after 1977, more and more people will get the full CPP benefit. In addition, the CPP benefits are being raised and the yearly maximum pensionable earnings is being raised by 12½% a year, which we hope exceeds the increase in the cost of living. The government plans are now fully indexed and the private plans generally are not. Much of the RRSP money is not really retirement saving money, but tax deferral money, and I am not as confident as you are that it will all find its way eventually into retirement income.

MR. TATE: I agree. One further reason why the CPP proportion will increase is that those who retired before 1966 have no CPP income at all. It seems to be a bit unfortunate that the employer, who introduced the pension plan to satisfy his own personnel-industrial relations needs, is now being required to be an instrument of social policy. We should be clear about the role we are asking the employers to play.

MR. POZNANSKI: Lazar commented on, and expressed a lot of concern about, the funded status, or more precisely the lack thereof, in the case of flat benefit plans. I had hoped the panel might express opinions on the suggestions contained in that report with respect to the funding rules for private pension plans in general, particularly because these suggestions seem to point to a more stringent requirement than is currently in place in the legislation of the various provincial and federal jurisdictions. The Lazar Report, suggests, and I am saying suggests, because it is not a recommendation, that pension plans which are unfunded on a termination concept valuation, be funded within three years up to the point of being solvent on that basis. Lazar goes on to suggest that if a pension plan is funded less than 60% on a going concern basis, the rate of liquidating unfunded liabilities should be speeded up as compared to the present situation which allows a maximum period of fifteen years. It is only if a pension plan is funded between 60 and 80%, on a going concern basis, that the fifteen year period, in conjunction with equal annual installments with respect to the amount below 80%, may be utilized. Finally, he suggests that if a pension plan is funded in excess of 80% on a going concern basis, then the funding, which still has to be completed within the maximum period of fifteen years, may be either by means of equal annual amounts, as is currently the requirement, or as a percentage of payroll, with a proviso that installments in any year under this approach be not less than the interest on the unpaid balance. I wonder if anyone has any comments, first, as to how practical those suggestions are, in particular the suggestions for varying the speed of funding based on the funded status of a pension plan. Second, whether the suggestion that unfunded liabilities under certain conditions may be liquidated as a percentage of payroll, subject to the conditions that he proposed, is really a relaxation or a more stringent funding requirement when compared with the current requirement for equal annual installments.

MR. TATE: It depends if you're being optimistic or pessimistic whether you think that means a faster or slower rate of funding.

MR. BHARMAL: There are many pension plans which have been converted from career pay benefit to final pay benefit in the past few years. Employers are improving vesting. They are looking at transfer arrangements and the maintenance of the real values. Employers are acting to restore some of the erosion due to inflation. There have been many improvements which will not ever show in static figures in the mid-70's or any other figures that you look at. We need to look at a more dynamic model before we make conclusions.