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RETIREMENT INCOME SECURITY IN CANADA

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MR. FREDERICK J. THOMPSON: I will give an overview of the present situation and some of the recommendations of private and governmental committees. Mr. Camp will discuss indexing and portability. Mr. Miles will then talk about government plans and disclosure. Finally, Mr. McCaw will bring us up to date on mandatory retirement ages and funding requirements.

In Canada, there are three levels of financing of retirement income:

1. Personal savings
2. Private pensions (usually employer sponsored)
3. Government plans.

If you believe that no one in a society should live in financial hardship when retired, then the system in Canada is inadequate. Some feel that since people must be allowed to succeed, they must also be allowed to fail. They would argue that our retirement income is adequately secured.

I personally have met far more retired people who are not in financial difficulty than those who are. However, these people are of my parents' generation or older. They are far more self-sufficient than my children's generation. The younger generation seems to expect more for nothing.

Government plans form a net which saves people from the depth of poverty. There are ways to slide through this net and find yourself without a sufficient income. Today's retired generation feels that the income of these people is as secure as they deserve.

People of our generation as well are more concerned with the security of their retirement income. These people have been manning the different task forces and study groups which are looking into the situation in Canada. These groups include the following:

1) Cofirentes +
2) Treasury Board Committee on Financing of Federal Public Service Pensions
3) Royal Commission on Status of Pensions in Ontario
4) Joint Review Task Force of the Federal Department of Finance and Health and Welfare
5) Financial Executive Institute
6) Special Senate Committee on Retirement Age Policies
7) Lazar Report

These studies have made recommendations that include strengthening both government and private plans. Government plans are usually strengthened by raising the income level. Some of the means are:

1) Increasing the benefit percentage at all levels
2) Increasing the benefit percentage at lower levels
3) Counting fewer (and higher) years
4) Including non-wage earners such as housewives

Financing of these schemes is expected to be accomplished by increasing contributions as opposed to using general taxation revenues. Most schemes would raise employer contributions over and above the employee's contributions.

The view is that private companies are rich. The government can solve all problems so consequently, they should get money from the rich companies. Some believe the government should produce regulations to let private enterprise look after improvements. We've had legislation, primarily provincially sponsored, for several years which mandates funding of private plans. The stronger the funding, the more secure the retirement income. It comes down to the individuals who are doing the work to produce the money to provide this security.

One study attacked the concept of mandatory retirement at age 65. We know how much the cost of an annuity reduces if it starts at age 70, rather than at 65. This would be one way to keep the cost down. With the number of workers relative to the number of retired people reducing dramatically, there may be other good reasons for raising the mandatory retirement age.

Inflation is always on our minds these days. I think personally that a lot of people will admit private plans cannot afford to be fully indexed. The real solution is to curb inflation. Not many government officials are going to say that inflation is the cause of our problems, and therefore, we should get rid of inflation. They tend to say "we have inflation, we must expect it, therefore, we must offset it".

Another idea that would strengthen the private pension system is "increased portability". Portability in Canada is primarily derived from early vesting provisions. Saskatchewan has promoted some new ideas in strengthening vesting requirements.

There is a movement afoot in the form of provincial rules to improve the private pension system by greater scrutiny or moral suasion. This is the year of disclosure.

To summarize, we have had many studies of retirement security in Canada. Improvements of this security are expected to come from changes made to government plans and general strengthening of the private plans. The latter would be accomplished by greater portability and better funding, all kept alive by greater scrutiny accorded as a result of the new disclosure laws.

MR. ROBERT CAMP: Inflation in recent years has had the effect of seriously eroding the purchasing power of pensions being paid to retired employees. There has been much public debate about the desirability and feasibility of inflation-proofing of pensions. Many plans do compensate for inflation up to the time of retirement by basing pensions on final earnings, but relatively few plans contractually provide for the escalation of pensions after retirement. At the beginning of 1978, only 1.4% of pension plans in Canada provided for the automatic escalation of

pensions being paid, based on the upward movement of some index, usually the Consumer Price Index. These relatively larger few plans covered 32% of the members of all plans, and this basically in the public sector. In the private sector, less than 5% of the members are in plans which provide automatic indexing. In most of those plans full indexing is not provided, but limited increases of 2 or 3% are given.

While the automatic indexing of pensions being paid to retired employees was virtually non-existent in the private sector, affecting less than 5%, some employers have increased pensions on an ad hoc basis. An ad hoc adjustment is a single increase in the current monthly payments to pensioners, but with no commitment that increases will be awarded in the future. Under this arrangement, pensions under payment might be increased by a certain percentage or a flat dollar amount depending upon the needs of the retired employees and the employer's ability to finance the improvement.

Several reports in the last couple of years recommend improvements in indexation. The Financial Executive Institute report "Canada at the Pension Crossroads", recommends a limited post-retirement adjustment. It takes into account the decreased needs of the more elderly and uses 2% less than the Consumer Price Index increase. It discounts the need for indexing above the average industrial wage in Canada. It recommended regular ad hoc increases as being required and affordable. They say it should be examined at least every 3 years.

Another approach is the reduction of the initial pension in return for an escalation of benefits. Crown Life's experience is that people are not willing to take a reduction in pension at the start for escalation afterwards. They have had such a product for several years and their sales are somewhat disappointing. The other method utilizes the additional voluntary contribution or registered retirement savings plan account of the employee for indexing.

Cofirentes +, One in Three, and the Lazar Report contain recommendations that the government should become involved in the indexing of pensions. The Economic Council recommends a government-issued price-indexed annuity at retirement.

Cofirentes + goes for the Professor Pesando approach of an annual adjustment to pensions by "excess" earnings. The base is the actuarial assumption for interest which the report also states should be an inflation free figure. At the Economic Assumptions concurrent session they mentioned 2 to 3% would be a reasonable inflation-free figure.

The Lazar Report actually looks at four alternatives for indexing. The first is that retirement pensions should be increased in line with the inflationary earnings of the fund. The second uses a prescribed portfolio of securities as the earnings base. Under the other two alternatives pensions-in-pay would be indexed to the CPI. Pensioners would be entirely relieved of the risk associated with declines in the real value of their pensions, but employers would face substantial risks. Under these alternatives, governments would assist employers in preserving the real value of their pension assets in order to eliminate the risks.

This approach is called the stabilization facility under the third scheme. The government would help to preserve the inflation-adjusted rate of return earned on pension assets by transferring credits to the pension fund in years where the rate of return available on financial assets is below the previous 15-year average. Pension funds would transfer credits to the government in the reverse situation. The effect of the stablization facility would be to provide employers with greater certainty of pension cost. This derives from the fact that the government stands behind the facility, balancing good and bad times.

The fourth approach, called the real rate annuity scheme, is similar to the third method. Rather than adopting recent experience on financial assets to determine the amount of payments between pension funds and the government, a specific inflation-free rate would be chosen. This would be the basis for calculation of the cost of the pension benefit. When a pension or annuity came into pay, long-term government bond yields would be studied to determine the level of inflation anticipated by the capital market. If subsequent inflation were at this level, no assistance would be provided to the employer. If it fell, the pensions paid by the employer would be smaller than expected, and the employer would make a payment to the government. If inflation was higher the government would pay the employer.

The Croll Commission made no specific recommendation about indexing, but called for a "doubling" of CPP coverage to that provided by an aggregate contribution of 8% on a base larger by some 50%. This increase in government involvement would mean improved indexing as the CPP is indexed 100% to the CPI change on an annual basis. The OAS and GIS benefits provided by the federal government are both fully indexed to the CPI increases on a quarterly basis.

Current government benefits, not on an income test, provide a single worker with a base income approximating 45% of the lesser of his actual wages or the average industrial wage. These are fully indexed. Participants in the public sector pension plans also enjoy full indexing of their employment earned pensions. While some cosmetic changes were made as a result of the T-A report on the actual costs of the federal plan, indexing continues to be a large contributor to the excess benefit costs for government employees as compared with private sector employees.

The British Columbia government announced that they would limit indexing increases to an "affordable" level which is about 8% for government employees. This is contrary to the direction that indexing has been taking and may be a step toward fiscal maturity by provincial authorities.

Personally, I like the recommendations of The Research Foundation of The Financial Executives Institute and I see them being followed in the near future. The Lazar report is well done and will probably be the basis of government policy in the 1980's.

My second topic is portability. True portability is restricted currently to public service plans with reciprocity agreements, some multi-employer plans, (usually flat benefit rather than final average), and benefits provided through government schemes as well as registered retirement savings plans. A Group R.R.S.P. is very portable. Portability is often confused with vesting, and while there is some similarity, legislation is restricted to vesting and locking-in provisions.

Provinces having Pension Legislation have locking-in provisions which are conditional at a combination of attainment of age 45 and completion of ten years of service. Vesting requirements are the same in all provinces except for Manitoba, which has conditional vesting at the completion of ten years of service depending whether upon the employee leaves his contributions in the plan.

Cofirentes + recommends vesting at a total of 35 points, a combination of age plus service. The vested benefit would be converted to cash which is transferred to a central agency for administration. This would provide a measure of indexation for the deferred benefit.

The Economic Council recommended early vesting as well - 20% per year of service and the transfer of proceeds to a locked-in R.R.S.P. This would hopefully mean that the accumulated earnings on the R.R.S.P. would provide a pension at the end of the deferral period that has tracked inflation.

In "Canada at the Pension Crossroads", the recommendations are for vesting at 45 points, and locking-in should occur immediately. Other proposals are for "back balcony" benefits and increased reciprocal agreement provisions, although there is a statement that the administration of such things is very difficult.

Under "Back Balcony", the final employer assumes the burden of meeting the needs of the mobile employee. He calculates the employee pension as if he spent his career with that employer and offsets all previous benefits the employee has accumulated. This is extremely expensive and is likely to require non-deductible contributions.

The Croll Commission calls for vesting after one year of service with a transfer of assets to the Canada or Quebec Pension Plan Agency for the administration of deferred benefits.

The Lazar report recommends for improved vesting at attainment of age 30 and completion of 2 years of service, and agrees with the "Crossroads" report that reciprocity should be expanded. It also agrees with the other reports that deferred benefits should be inflation-proofed. The report goes into four options for the reform of private sector plans. The first option is improving the current situation in areas of vesting, indexing, survivorship, and splitting benefits on marital breakdown. The second option is encouragement of Money Purchase Plans instead of Defined Benefit Plans. However, recent human rights legislation will make it difficult to have Money Purchase Plans in Canada, unless a unisex table is used.

The third option is similar to the recommendation of nearly 20 years ago, by the Ontario Portable Pensions Committee. It requires that all employers offer, and all employees join the employer sponsored pension plans. The minimum plan would be:

a) 1% career average defined benefit plan indexed to the Consumer Price Index; or

b) 2.4% defined contribution from both the employee and employer; or

c) 1/2% "indexed" career average defined benefit paid by the employer in conjunction with a 2.4% defined contribution from the employee.

The final option is the one that "solved" the problem in 1966 - expanded government involvement - increase the Canada Pension Plan from the current 25% of average retirement earnings up to 45%, and increase the base from the current target of 100% of average wages to a 150%. This would ensure increased portability.

A couple of studies have mentioned the reciprocity approach. A group that is trying to do something about it is the Canadian Life Insurance Association. It has suggested that members of the association prove that portability of pensions was both possible and practical. A report concerning this was tabled in October of 1978. The major recommendations of the Report were:

1. Portability means the facility to transfer credit for service from plan to plan - not benefits - which are basically covered through vesting.

2. The same conditions for eligibility for portable benefits must apply to employees both entering and leaving the plan.

3. The additional credited service of a new entrant to a plan who is eligible for portable benefits must be calculated on the same basis as the transfer value would have been calculated if the employee were leaving the plan.

4. The full amount of the funds determined by the portable benefits valuation formula must be available for transfer to another plan.

Other points involved communication to employees, waiving of service requirements when transfers are involved, and regulatory requirements.

The latest change was announced in mid-May by the Saskatchewan Pension Commission. Saskatchewan vesting will go to 45 points in 1981 and employers must pay at least half of the cost of benefits to a terminating employee. If excess employee contributions are on hand after this benefit has been purchased, they can be transferred to another plan, to a R.R.S.P., or used to purchase additional benefits.

There is substantial change. More is expected once the Haley report comes out and I think we are going to be looking at improved indexing and portability standards in the next few years.

MR. RICHARD T. MILES: Government Plans are offered on two levels: the federal and the provincial level. At the Federal level there are three plans: Old Age Security, Canada Pension Plan and Guaranteed Income Supplement program. At the Provincial level there is an additional supplement program called GAINS. These plans operate in about half the provinces of Canada.

The OAS plan is a universal plan payable to all residents with limitations based on residency and attainment of age 65. The benefit currently is $186.80 per month. There is no income test. The GIS plan is payable on top of OAS on the basis of need. A spouse allowance is paid when the spouse attains age 60 . This is based on a combined income test. Under the provincial jurisdiction, low income persons, aged 65 and over have their income supplemented by an additional small amount.

The CPP benefits which are payable to most workers in Canada are based on a formula which is roughly 25% of the final 3 year average earnings, up to the Maximum Pensionable Earnings which are $13,100 in 1980. These pensions are not subject to a post-retirement income test. In fact, your income may commence at age 65 even though active employment is continued.

The pension is presently $244.44 per month. Contributions are 1.8% of income over $1,300 and up to $13,100. The Quebec Pension Plan is basically the same plan except that the province of Quebec operates funding separately.

All of these programs are indexed to the CPI. The yearly pensionable earnings is indexed to the Industrial Composite Wage Index. A person entitled to maximum OAS and CPP benefits would get a government pension amounting to approximately 40% of final earnings.

There is currently a bill before the Federal Parliament which would increase the Guaranteed Income Supplement paid to 1.3 million single pensioners by $35 per month. This would provide a minor improvement in overall benefits to retirees with low incomes. There continues to be a feeling that Government plans are inadequate because the retirement incomes payable from the composite of plans falls below the government's defined poverty level.

However, for those who earned $13,000 in 1978, it can be shown that their disposable income after retirement as a percentage of their disposable income before retirement is 44% exclusive of any private plan which is not bad. A married couple with two Old Age Security pensions would receive as much as 69% from government plans.

Various reports recommend changes in the government programs. The Cofirentes report recommended that the benefits be upgraded from 25% to 50% with regards to the first half of the year's maximum pensionable earnings. This would yield a benefit of 37.5% at the maximum pensionable level. The present plan contributions would rise from 3.6% to 4.2% immediately. If changed as proposed, the combined contribution would go up to 6.8%. Employer's contributions would be 2.1% and 3.4% respectively of total payroll as opposed to total maximum pensionable earnings. Their report was aimed more at social transfers than retirement pensions directly related to earnings.

The Economic Council report recommended:

1) The OAS and GIS plans should provide income at a minimum level presumably related to the poverty line.

2) The OAS and GIS plans should continue to be indexed.

3) The OAS plan should be reviewed on a regular basis.

4) The GIS plan should be upgraded in addition to regular indexing, based on changing demographics.

5) The intergenerational transfers of costs should be minimized by increasing the CPP contribution rate from 3.6% to 7 - 9% within a period of about 15 years.

The amount paid from Canada's public pension plans falls below the amounts paid in Europe and in the U.S. for single people, but are not so bad concerning couples. The Economic Council felt this should be improved but did not wish to see expansion of government plans to the detriment of the efficiency of money markets. They also felt that conversion of OAS and GIS plans to place heavy emphasis on income or means test was desirable in that it directed benefits to those who needed them. In dissent various members felt that CPP/QPP should be expanded along Cofirentes + lines and also as recommended by the Canadian Labor Congress. One member felt that the GIS plan with an income test should effectively replace the combined OAS/GIS program.

The Canadian Labor Congress also recommends some changes. They feel OAS should be increased by 20% and GIS by 170% for singles, 120% for couples. Benefits should be indexed to the average industrial wage for new recipients. The CPP benefit should be increased from 25% to 50%. However, this should be phased in over a seven year period. At times they talked of an increase in the benefit level to 75%. They also feel that the government plan should make an actuarially reduced pension available at age 60. Their objective is to create government benefit programs which, for a person earning the average industrial wage, would produce retirement income equal to 70% of pre-retirement earnings. As a minimum requirement, all retirees should be provided with a retirement income which is above the poverty line, which is a substantial portion of moderate pre-retirement incomes and which is indexed to the cost of living.

The Croll report on Retirement Age Policies made some sweeping recommendations. Like the CLC they suggested that contributors to the CPP be permitted to take actuarially reduced pensions at age 60. Maximum pensionable earnings should be raised to 1 1/2 times the average industrial wage instead of 1 times. Contributions should be immediately increased to 4% from each of the employer and the employee. A contributor should be permitted to pay higher contributions with respect to past years to buy higher pension entitlements.

In its submission to the Royal Commission on the Status of Pensions in Ontario, the Canadian Pension Conference affirmed its support of the current indexing of government programs. They state "it is recognized that as long as inflation continues at high levels there must be a floor of protection against its effects for those pensioners who have below average incomes. We believe that the indexing provision of the OAS and other government programs provide that floor at an appropriate level". They identified present costs of OAS and C/QPP exclusive of GIS, to be 10% of covered payroll. Costs must be controlled. The cost of proposed expansion of public plans is not fully understood. They acknowledge there is room for improvement for persons earning less than the average industrial wage. The Conference felt expansion of government plans was not the answer.

The Lazar report identified a range of choices. Single GIS recipients, living alone in unsubsidized rental units, were the ones who really needed the additional benefits. Current elderly people, who had been in a middle income group before retirement were the ones most at a disadvantage. The maturation of the C/QPP will improve the situation but the middle income groups fully dependent on the government programs will experience a significant reduction in their living standards. GIS might be altered to give more to singles living alone or build in a shelter cost component related to a percentage of costs of accomodation.

The balance of governmental reports due in the near future will bring many issues to a head. For government plans there is no concensus whether they will be expanding at all or to what degree. Primarily, the problem is for the current elderly people. The best solution appears to be an expansion of the GIS with perhaps a contraction or limitation on the universal plans. Some mandated level of benefit as a supplement to the C/QPP would protect the middle income earner and minimize the effect on capital markets.

Present regulation of disclosure of pension plan information to participants is minimal in most provinces. Manitoba introduced some limited requirements and was followed by Quebec. Ontario has yet to introduce new disclosure requirements but it is expected that the Haley report will propose new regulations. The government may go ahead with regulations before the major report is produced. It is not expected that the Ontario regulations will be as onerous as in Quebec. To demonstrate how far disclosure can be taken, let's examine an extreme case in Quebec.

All plans having Quebec members are affected. Regulations apply not only to plans supervised by Quebec authorities but also to plans in other provinces which have Quebec members. Federal plans are excluded. The following documents must be available for examination on request:

1. Plan provisions and all amendments

2. Two most recent cost certificates and Statement of Extracts of the Actuarial Valuation or if not these then the corresponding Valuations themselves

3. Last two Annual Information returns which summarizes contributions

4. For uninsured plans, the two most recent audited financial statements plus the lists of investments

5. General correspondence between the regulators and the plan administrator over the last two years

Within 180 days after the date of a triennial actuarial valuation of a plan or in the event of death, disability or termination of membership within 60 days of the event, the following employee benefit statement must be provided:

a) Total employee contributions and any accrued interest

b) Total voluntary contributions with interest

c) The employer's contributions for money purchase plans

d) The vested percentage of employer contributions for money purchase plans, and the vested percentage of annuity benefits along with any conditions associated with vesting for unit benefit plans

e) The pension amount payable to the member at normal retirement age must be disclosed - the amount is either accrued pension payable at retirement or projected amounts

f) Benefits or methods of calculation in the event of death, disability or termination

g) Overall funded ratio of a plan on a going concern valuation basis

h) Description of integration, if applicable

Generally government has waited to see what industry would do voluntarily. Since little appeared, ERISA stepped in with extensive disclosure requirements in the U.S. The Canadian Association of Pension Supervisory Authorities discussed the problem at length. Each province is introducing their own rules. Cofirentes, the Croll report, and the Economic Council all recommended full disclosure.

The Economic Council felt disclosure should include:

1. Plan text and amendments available on request for collective bargaining purposes

2. Written explanation of the plan and its rules, basis for employee and employer contributions, benefits on termination, death and retirement

3. Annual statements of portfolio composition and rates of return, triennial statements of actuarial valuation, outlining assumptions

4. Individual employee statements available on request at intervals of not more than three years, showing contributions to date by employer and employee, accumulated benefits purchased to date and current benefits in event of death or termination of employment

Whether the information needs to be sent out automatically is open to question. Many believe that due to its often technical nature such information would only be meaningful to a few. Others have said give them the information, even if only a few use it. To avoid problems of misinterpretation it is necessary to make some elaboration on the meaning of the items disclosed. This will make disclosure meaningful to a greater number. For example, without interpretation, companies could expect complaints when funded ratios are low on a going concern basis even though on a wind-up basis the plan may be fully funded. While the costs of producing this information can be high, the trend to full disclosure is there and is being accepted by many authorities.

Disclosure also includes the financial statements of corporations. The Canadian Institute of Chartered Accountants have advised that unfunded liabilities be shown on the the balance sheet - normally as a note. To be meaningful, some feel that in addition, there will be a need to disclose the actuarial assumptions, the funding methods and/or targets, investment performance, etc.

It's likely that disclosure legislation will be adopted in most regulated provinces in the near future. Unfortunately, legislation may be different in each province and we will have administration problems throughout Canada.

MR. DANIEL L. McCAW: There has been much interest in Canada in mandatory retirement. Human rights activities have increased on the issue of age discrimination as well as on the implications of a mandatory retirement age. High rates of inflation, combined with a pension system in its evolutionary stage in Canada has caused some people to work beyond age 65 to preserve their standard of living. Recent legislation in the U.S. raised the mandatory retirement age to 70 for most private sector employees but removed it completely for Federal employees. Population projections indicate that the declining birth rate after the baby boom will contribute to an aging of our population. Some people believe there is a possibility of labor shortages and unbearable social security costs, unless individuals are allowed to work beyond age 65.

We have had very specific proposals with respect to mandatory retirement. A subcommittee of the Senate was appointed to investigate retirement age policies in Canada. The committee recommends the mandatory retirement age be increased by one year at a time over a 5 year period, and then be abandoned completely. Furthermore, the committee recommends that the Federal and provincial human rights legislation should be amended to minimize the possibility of discrimination by age.

In sheer numbers, the removal of a mandatory retirement age is not expected to create a flood of requests to work beyond age 65. Many firms are experiencing requests for more generous early retirement benefits because of health reasons, pursuit of a second career, or simple boredom. As the private sector continues to improve pension benefits, the desire to postpone retirement for financial reasons will diminish. Few firms establish a mandatory retirement age without a pension plan. A considerable number of small firms will not be affected unless they are faced with mandatory pension plans for all employers. Small businesses will continue to have difficulties influencing the timing of retirements in the absence of a pension plan. There is a serious shortage of skilled labor and tradesmen in certain industries in Canada. Companies facing this problem are making efforts to encourage skilled senior workers to continue beyond age 65. Abolition of a mandatory retirement age will neither hinder nor facilitate these efforts.

I think the opportunity to remain on the job indefinitely may undermine savings ethics. Given the responsibility for providing an adequate retirement income, the employer's role may have to expand. U.S. employers are not required under the legislation to provide any additional or increased pension benefits due to continued employment beyond the retirement date. A final pay plan may ignore salary increases beyond retirement age. Savings may be realized if postponed retirement pensions are not increased to recognize the lower costs. If a pension starts at 70 for the same amount as at 65, the cost would be reduced 40%.

Firms which already permit postponed retirement probably did not place much emphasis on it when designing the plan. Many plans freeze accruals at age 65 and then provide an actuarial increase. Others continue accruals to the actual retirement date, and a few freeze accruals at age 65 without any increase. When the expected legislation removes age 65 as a mandatory retirement age, we will have to consult our clients as to which option to follow, assuming the legislation allows this flexibility.

If a significant number of employees are retiring early, perhaps normal retirement age might be redefined at an age lower than 65. The definition is important for the employer who uses an actuarial increase beyond normal retirement. Is there something fundamentally different about service after age 65? If not, why would we discontinue pension accruals? Legislation may mandate what we do to prevent age discrimination. How does the concept that pensions are deferred wages affect the choice? Those who do subscribe to the theory are placing an emphasis on value of the pension benefit rather than the amount.

What tools are available to us to help our clients prepare for the expected abolishment of age 65 as a mandatory retirement age? Our clients will have to rely increasingly on job evaluation and performance appraisal techniques to weed out the unproductive worker. These techniques are fairly common now, although it has been my experience that they are not being utilized to the degree they should. The employer may be understandably timid in applying such an approach where an employee is protected by a bargaining unit. We are in an era of instant litigation and claims for wrongful dismissal, so it becomes very difficult to administer these programs effectively. Some firms will probably adopt a softer approach and encourage employees to retire before age 65 by offering more generous benefits. Savings from postponed retirement may be eliminated in some firms due to better early retirement provisions to weed out the unproductive worker. The role of the pre-retirement counselling in most companies has to change. No longer will it mean calling in an individual at age 64 and a half and providing the amount of his pension on optional forms of payment. Pre-retirement counselling will be the channel for employees to express their intentions about the timing of the retirement, second careers, etc.

In the area of funding requirements, the various commissions have said very little about the financial burden that will be created by the proposed benefit improvements.

One alternative is greater employee contributions. In government programs with specified employee contributions, generally 1% is allocated for the indexing portion of the pension program. If the same approach is adopted in the private sector, the increased contribution will provide part of current service costs, and no doubt, all past service is going to fall on the employer.

Most provincial legislation allows funding for past service over the greater of 15 years or 25 years from the date of the legislation. Since most legislation has been in effect for more than 10 years, it is effectively 15 years. Initially, an amortization period of 5 years was allowed for experience deficiencies. The experience deficiency rule has been amended to allow funding of an experience deficiency over the 15 years, subject to the ability to meet a test. The results of the legislation might preview the future of funding requirements in Canada. Some pension plans, subject to collective bargaining, despite having protective legislation in effect for 15 years, are in a worse funding position than 15 years ago. The employer is in the position where for two or three years he may make some gain in his funding position that is more than offset by the next round of negotiations.

We're also faced with stricter funding requirements than in the United States with respect to unfunded liabilities and some employers in labor intensive industries claim that this puts them at a competitive disadvantage.

None of the studies referred to earlier have made any recommendations with respect to funding. I would not predict any change in the funding requirements for experience defiencies. For general benefit improvements, I think we might see something like the current test for experience deficiencies. The better funded plan may be able to fund improvements over a longer period.

The Financial Executive Institute in their most recent survey indicated about 65% of major plans in Canada have made benefit improvements to pensions in course of payment in the last three or four years. Most of these improvements reflect a portion of changes in cost of living and are on an ad hoc basis. We might see legislation in this area where the 15 years maximum on funding applies. Perhaps the maximum will become the lesser of the initial annual amount of increase or a payment based on the mean expectancy of the group. On the basis of the current fifteen year funding requirement, it would be possible to fund the cost of a pensioner improvement on a negative cash flow basis. The annual instalments going towards the unfunded liability would be less than the initial amount of benefit improvement.

In the area of experience gains there is currently no restriction. People from the U.S. are often surprised by the flexibility that we have in Canada. In effect, if there is an experience gain in the plan, we can do just about anything with it. I think we might see some legislation, depending on the funding position of the plan. If a plan was not in a strong funding position, the gains could not be recognized immediately, but would be spread.

MR. ROBERT H. STAPLEFORD: I would like to ask the panel about indexing. One concern is the employees who terminate and have several different careers over their working life. Government legislation forces them to take paid up annuities. The benefits are frozen and therefore really get hammered by inflation. What changes do you expect with indexing of benefits for terminated members? The CLIA approach attempts to deal with this, but it will be a while before their approach becomes widespread. One specific idea that has been discarded is using R.S.P.'s and transferring the value of a pension valued at 2% or 3% real rate of return. This seems to be a solution that could be used now before we have a universal reciprocity agreement for all claims.

MR. McCAW: The Ontario Commission report in the fall will make specific recommendations on indexing. They may endorse the concept of establishing a low interest rate on pensioner reserves, with the excess interest being paid to pensioners. I do not think that this concept will be limited to pensioners. This recommendation may also apply to deferred vested pension entitlements. This will provide some form of modified indexing. The deferred pension would not be frozen, but would be indexed by the excess interest earnings on his reserve.

MR. KENNNETH T. RANSBY: With respect to paying for indexing, the Lazar report recommended we establish a 2% or 3% reserve and the government would insure we earned inflation plus 2% or 3%. I think the actuarial profession should take a very strong stand as far as government involvment in this area is concerned. I don't feel there's much difference between inflation before and after retirement. The employer through excess investment earnings is funding for salary increases for final pay plans. Insuring the availability of full inflationary protection of pensions in the private system would be very expensive. I'm not sold that we even need it. I think the problem should be solved entirely within the private system without getting involved with government insurance.

Mr. McCaw, were you not trying to make a distinction between pre- and post-retirement indexation, or were considering indexing in post-retirement to the exclusion of indexing in the pre-retirement period?

MR. McCAW: I'm saying we already are indexing for active employees one way or another in most plans, even if we have to negotiate every two or three years to get it. If you take the logic of insuring the investment necessary to provide post-retirement indexing to a conclusion, why shouldn't the employer be able to run to the government when his investment earnings are not sufficient to cover salary increases? Employers give salary increases because of inflation. Shouldn't employers also be protected from inflation. The same concept was suggested by the Lazar report for post-retirement. I don't like to see the government get involved in post-retirement indexing.

MR. RANSBY: Do you advocate the isolation of a block of assets and comparing the return on the assets with the actuarial returns?

MR. McCAW: I don't think it's a bad approach but it depends how far you take it. I know of clients who do it with no guarantee to their employees. In the last 4 or 5 years they may have established 4 1/2% reserves for pensioners. The assets have been earning sufficient excess interest to provide 50% to 60% of inflation for the past 4 or 5 years. In effect, their excess earnings have been in the 5% to 6% range, about half of inflation over the last 5 years.

Yesterday morning, it was mentioned no one can guarantee an investment that is going to give inflation plus 1, 2 or 3% every year. It may be possible over the long term but most pensioners can not afford the luxury of thinking long term. That is the problem with this approach.

MR. RANSBY: This is what concerns me. It places the pensioner completely at risk.

MR. McCAW: I agree, I think it's a good method of funding and for explanation to the employer. On a year by year basis it won't work out, but hopefully it will over the long term. I think the principle can be applied by taking the risk from the pensioner and putting it in the hands of the employer.

MR. STAPLEFORD: I would like to ask Mr. Miles about Old Age Security. In 1977 the government paid out 5 billion dollars for OAS and GIS. Considering the deficits these days, can we afford to pay universally? Do you think some day the government would combine it with GIS and base it all on need?

MR. MILES: Most reports have said that a means test is a better way of distribution and would save the economy a lot of money in the long term. It would be difficult to eliminate OAS over a reasonable period of time due to people's present expectations. It would take a generation.

MR. DOUGLAS W. ANDREWS: Could you go through the various reports by name and indicate which have possibly some application to prospective pensioners and may be legislated?

MR. CAMP: The Economic Council of Canada, Croll, Lazar and the Human Rights legislation have a Federal effect. Haley, Saskatchewan and Cofirentes are provincial and only affect the other provinces as trend setters.

MR. RANSBY: Mr. McCaw, do you think the government will legislate the kind of assumptions that actuaries might want to use?

MR. McCAW: Hopefully, standards for assumption setting or establishing ranges of assumptions will be by the profession itself. This is currently under review by the Private Pension Committee. It has been my experience, in talking with both provincial and Federal authorities, that they would prefer that the profession establish the standards. I think the responsibility should be with the actuarial profession.