RECORD OF SOCIETY OF ACTUARIES
1981 VOL. 7 NO. 3

GOVERNMENT AND PENSION REPORTS

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In the U.S. we have received the reports of the President's Commission on Pension Policy and the National Commission on Social Security. In Canada we have heard the Lazar report and the Report of the Ontario Royal Commission on Pensions. This concurrent session will be a timely discussion on these major government reports and their implication for the pension business in both countries.

MR. JAMES L. CLARE: This is a panel, and each of our three panelists will be addressing our agenda. I say three panelists because that leaves me out of the fray of the discussion, and I will be doing the housekeeping and asking questions. I will, as some of you may know, admit that I have a certain involvement with the subject, not least with my colleagues in the firm, Yvan Pouliot and Yves G. Guerard. I am for my sins the chairman of the Pension Committee of the Canadian Chamber of Commerce. I am one of three actuaries representing employers on an international tripartite actuarial committee on Social Security. There are three government members and three labor members. I am the one actuary from Canada and the United States. Today I am going to be listening, and you are lucky because you have a good strong panel of three people who will be giving you mostly their reactions to the reports and mostly their comments about the future of the pension business.

To give you the rundown on the others at the high table, Peggy Pearson will be our leadoff and our bravest panelist in a sense in that she is covering the United States single-handed. She is from Milliman & Robertson, Portland, Oregon. Her specialty is multiemployer pension plans. She is a graduate of Purdue University and she started with Lincoln National, then secondly M&R, then Beneficial Life, a consulting firm, and now she has returned to M&R. She has been on Academy panels, and we welcome her to a Society panel.

Wayne Woods will be our second panelist. He is an FSA. He is with Mercers of Ottawa now. His only previous employer has been Metropolitan, but he was getting his changes out of first being in Ottawa and then in New York City and then back in Ottawa. He is our only panelist with real on-the-spot capital city experience.

Finally, we have Ken Ransby, FSA, TPF&C Toronto, and his area of responsibility is pensions and group insurance. Ken Ransby is a graduate of Manitoba -- after I was an assistant professor there, so he sailed through. He started work at Travelers in Hartford and then came to Toronto, which is really a bitter pill for somebody that had the opportunity of growing up in Manitoba. He has been with Charles A. Kench, and now he is with TPF&C. To start things going, covering the whole United States is Peggy Pearson.

MRS. MARGARET E. PEARSON: When Jim Clare was putting this panel together, the President's Commission on Pension Policy and National Commission on Social Security final reports had not been released. I cheerfully volunteered to be a member of the panel, not realizing the voluminous size of the reports, or worse, the torrent of words still to be published, both pro and con, that would follow on the heels of their release. The publication of the two reports has coincided with public interest in retirement matters in the U.S. seeming to be at an all-time high if newspaper and magazine articles are any indication. I notice that this week's cover story of Newsweek has to do with retirement policies and asks the question, "Can You Afford to Retire?" And true to the adage that "if the people are moving, their leaders cannot be far behind", Commerce Clearing House reports that more than 100 bills touching on retirement matters or fringe benefits have been introduced in the current session of Congress.

I would like to discuss the reports concurrently as they deal with particular aspects of retirement income. We have been generally taught to think of retirement income in terms of a three-legged stool composed of social insurance, private pension plans, and individual savings. The fact that this stool is out-of-balance and teetering is, of course, the primary reason the two Commissions were formed in the first place.

Turning first to Social Security, the National Commission was authorized to do a complete "study, review, and investigation" of all aspects of Social Security and related problems, the chief purpose being to find a solution to the financing problem. The President's Commission agreed that this was the basic problem with the current Social Security system in that the program cannot pay the promised benefits without requiring taxes above the level which the public would support. Since the 1977 Amendments were supposed to have solved the financing problem for the next 35 years, we are all aghast at the rapid resurgence of the financing dilemma in so short a period of time. The current problems have causes that are well known -- the rate of inflation, the inability of wage rates to keep pace, and high unemployment with the consequent lowering of revenues coming into the system.

What solutions do the Commissions propose?

On the benefits side of the equation, the two Commissions are of one mind -- reduce them! This would primarily be accomplished by increasing the "normal" retirement age to 68 over a period of years from the current age 65. In tandem with this change, the earliest retirement age would be increased from 62 to 65. The President's Commission on Pension Policy wants to do this sooner rather than later and has proposed phasing in the program over a 12-year period beginning in 1990. The 12-year phase-in is popular; the National Commission had the same recommendation, but the phase-in period would not begin until the turn of the century and would presumably be completed by the time the "baby boom" becomes the "retirement boom".

Why choose this method of decreasing benefits instead of changing the benefit formula itself? There are four reasons:

1. Increased longevity -- We expect the average worker age 65 in the year 2000 to live 3½ years longer than his counterpart in 1940.

2. Improved health -- More people are going to be able to work in their sixties.

3. Disability provisions of the Social Security system can act as a safety net for those unable to work.

4. By the turn of the century, because of changing demographics, we are going to need this age group in the work force in some capacity.

It is interesting that the current Administration's proposals left untouched the age 65 eligibility for unreduced benefits. However, the reduction in benefits at age 62 was such that it would preclude early retirement for most workers. The proposal created a near panic among those approaching retirement and was quickly abandoned.

Both Commissions recognize the special problem of the long-term low wage earner and the "windfall" benefits provided to some workers through the operation of the special minimum benefit. Both reports contain recommendations for strengthening the minimum benefit for the low wage worker and eliminating the "windfall" benefit for "double dippers".

The indexing of benefits to the Consumers Price Index (CPI) has caused much of the short-term financing problem. The President's Commission recommends leaving the current indexing scheme as is for Social Security recipients but mentions the possibility of developing a separate CPI for retirees. The National Commission recommends modifying benefit increases whenever the average wage increases are less than CPI increases for a two-year period. The National Commission is also in favor of a separate CPI for retired persons.

The financing problem remains since current tax schedules are still insufficient to fund the system in spite of the proposed reduced benefits. The short-term solution proposed by both Commissions is to permit interfund borrowing. The National Commission also proposes financing one-half of the Hospital Insurance program from general revenues beginning in 1983 with the one-half that is "saved" going into the OASDI fund. A 2½% surcharge on income taxes would furnish the general revenue funds.

The National Commission also proposed a revised tax schedule that would eventually "cap" total payroll taxes at 18% with the remainder to be paid from general revenues. The reason given for the "cap" was that this percentage would be the outside tolerance limit for the working population, although this distinction as to who pays the eventual cost is being lost on some of us. We should note that Robert Myers opposed all of the recommendations for general revenue financing. The President's Commission also strongly opposed general revenue financing of Social Security.

What about the second leg of retirement income? -- private pension plans.

The two Commissions part company here. The President's Commission has recommended a minimum universal pension system (MUPS for short) equivalent in value to 3% of a worker's annual compensation. Coverage requirements would be the same as ERISA minimums -- age 25, one year of service, and at least 1,000 hours of service.

You might ask why the President's Commission did not just recommend an increase in Social Security benefits. Their answer is that the U.S. is already too dependent on pay-as-you-go systems. The National Commission opposes a mandatory private system. The National Commission's report emphasizes the financial hardship MUPS could cause some small employers and that contributions might have to be financed through lower wages that would not be acceptable to workers.

The outlook seems very good for strengthening the third leg of retirement income -- individual savings. Both reports strongly favor expanding the concept of IRA's -- first by substantially increasing maximum contributions and secondly by treating employee contributions to employer sponsored pension plans as tax deductible. This approach is very popular in Congress right now. One problem is that this approach is feasible only for the middle and upper income workers.

Putting these three rehabilitated components of retirement income together still does not seem to offer the 100% solution we are groping for, and it appears that the three-legged stool may give way to a solid four-legged table. The wave of the future may be that the entire concept of retirement is changed, and we can expect to see a retiree's earnings through part-time employment provide a substantial portion of his retirement income.

The current Administration has certainly been thinking along these lines since they have proposed increasing the earnings limit for Social Security substantially in the near future and eventually abolishing it altogether. The National Commission still clings to the earnings test but proposes a tax credit for over age 65 workers to recognize the fact that the Social Security benefits they are giving up are non-taxable. The President's Commission has recommended abolishing the earnings test entirely, but has tied this recommendation to taxing Social Security benefits just like any other income.

There are many other items covered in the two reports that have implications for pension actuaries that I would like to save until the discussion period. Among these are universal coverage and possible changes in the treatment of women's benefits.

In conclusion, I would urge you to not only become familiar with the contents of the two reports we have discussed today, but to review some of the recent books, reports and articles that have been published on the same subject -- for example, the Citizen's Commission on Pension Policy report and A. Haeworth Robertson's new book, The Coming Revolution in Social Security.

Thank you for your attention.

MR. H. WAYNE WOODS: The present 'Great Pension Debate' in Canada started with a host of studies being initiated in 1976 and 1977 by various governments and government agencies. In addition, there have been many private, institutional and association briefs. These reports and briefs were epitomized with the National Pensions Conference held here in Ottawa on March 31 and April 1 and 2. The Conference, hosted by the federal government, was attended by delegates representing all interested parties in Canada. The conference had two objectives as outlined by the Prime Minister:

1. "To raise the general awareness of Canadians of the serious problems and frequent unfairness of our pension system.
2. To explore ways of reforming that system."

In July, a federal/provincial conference will be held to deal with these matters and to formulate the necessary measures for reform.

For the record I would like to mention the five major pension reports produced by these government sponsored studies. The first is the "Confirentes' Report of Quebec". This report was also called the "Financial Security of Aged Persons in Quebec". The Senate of Canada published its report on retirement age policies called "Retirement without Tears".

The third report was published by the Economic Council of Canada dealing with the implications of pension promises and population trends on economic growth. This report was called "One in Three". The federal inter-departmental task force on pensions published in 1980 its report entitled "The Retirement Income System in Canada: Problems and Alternative Policies for Reform". Finally, the most comprehensive and voluminous of the reports, the "Report of the Royal Commission on the Status of Pensions in Ontario", was published in March of this year.

These reports outlined what each group thought were the major issues and together offered many alternatives for the reform of the pension system which includes Social Security (OAS&GIS), government sponsored universal pension plans (C/QPP) and private pension plans (both in the public and private sector).

It is not my intention to reiterate the contents of these reports, as I am sure you are capable of obtaining this information yourself. I would like, however, to address some of the issues and possible solutions and comment on the role we as actuaries should play in the process. Although my presentation deals with the Canadian environment, many of the issues are common to the pension plan system in the United States. You should, therefore, adapt my comments accordingly. My presentation will discuss the problems of coverage, adequacy, post-retirement inflation, and women and pensions, and leave the other important areas to my associate, Ken Ransby, who will be addressing your shortly.

The federal and provincial governments over the last five years have indicated that the private pension plan system was in need of reform. It was often stated that if the private sector did not deal with the inadequacies of the system, the government would intervene. The private pension system had a period of some five years in which to improve their pension plans to what the governments would deem acceptable. As actuaries, we had a key role to play during this period in counselling our clients on how to improve their pension programs so that the government would not find it necessary to take over or further regulate the private pension industry.

We can see that legislation will be forthcoming to insure that pension plans credit employee contributions with reasonable rates. This has already been legislated in Saskatchewan and is recommended by the Royal Commission on the Status of Pensions in Ontario. Young employees, especially in career average plans, not only get unrealistic interest returns on their contributions because the vast majority of them will change jobs before reaching normal retirement age, but also they are under the illusion that their employer is actually contributing a substantial amount towards their plan entitlements.

Actuaries are unique in Canada in that they have responsibility, not only to the plan sponsor but also to pension plan members as well as government, to insure that their recommendations regarding pension plans are equitable to all three. Are we living up to this responsibility?

Now let's look at some important issues which the federal and provincial government will address in reforming our pension system. When dealing with coverage, the most commonly quoted statistic is that less than 50% of Canadian workers are covered by pension plans. The conclusion, therefore, is that the present private pension plan system is incapable of covering a majority of the workers in the private sector. Certain studies, including the Ontario Royal Commission, refine this number to generate a percentage of coverage on a "Target Group". By eliminating those workers who have not met eligibility requirements of pension plans, as well as those of less than 25 years of age and more than 65 years of age, the percentage increases to 55%. By including those workers who contribute to registered retirement savings plans instead of pension plans, the percentage increases to about 61%. These statistics were based on 1977 information, and since the private pension plan system is still maturing, the actual percent of coverage today is probably higher; however, still at an unacceptable level. The Financial Executives Institute of Canada demonstrated in their survey of 205 major employers in Canada that approximately 80% of their employees were participants in a registered pension plan. The remaining 20% were not yet eligible; therefore, they concluded that a realistic percentage of coverage of all workers should be approximately 80% with present eligibility requirements.

Statistics indicate that coverage increases with income and that most uncovered employees are female and work for small companies or are self-employed.

The most important immediate issue, however, is one of inadequate benefits to our present retired folks. This is exemplified by the fact that 53% of those people 65 and over are receiving the federal Guaranteed Income Supplement which is based on an income test. Two out of every three unattached women over 65 live below the poverty line. In relation to the poverty level, Old Age Security and the Guaranteed Income Supplement (G.I.S.) combined are sufficient to provide an income which is slightly greater than the poverty level for married couples. This is not the case for single persons whose incomes would be 15% below the poverty level. We should temper these statements somewhat with the fact that some families can sometimes distribute income within the family unit in order to maximize Guaranteed Income Supplement payments. Also, the income test for G.I.S. payments does not consider the individual assets such as a home. Nevertheless, it is appalling to think that a great number of retired Canadians live below the poverty level. Statistics show that there is a marked decrease in incomes after retirement, especially for middle income persons. The average income of all Canadians in 1978 was a little over $16,000, while the average income of persons over 65 was approximately $7,000, or some 43% of the national average.

The majority of retired people who are now receiving private pension plan benefits are in plans which do not provide automatic increases due to inflation. The purchasing power of a fixed retirement benefit commencing in 1971 has already decreased 50%, and if current inflation levels persist, the purchasing power of a fixed income of $100 in 1971 will only be worth $25 in 1987. Providing some type of protection against inflation after retirement must be found.

The final issue is the inadequate survivor benefit for spouses before and after retirement. Even though most plans provide an option for a joint and last survivor benefit, most people do not make this election mainly because of inadequate information. Also of issue is the splitting of pension benefits upon marriage breakdown. This is a matter which should largely rest with the courts and should not really be an important issue in the pension plan system. The final area that requires attention is the problem of accumulating the required service under the Canadian and Quebec Pension Plans for those women whose working lifetime is interrupted by child raising.

What are the possible solutions?

It is evident from the recommendations from the various studies, and from a political and social point of view, that the easiest and quickest way to alleviate the problem of inadequate pensions for our present elderly is to increase the Old Age Security and the Guaranteed Income Supplement payments, especially for single persons.

In order to improve coverage there are three basic solutions which have been proposed by the reports to the government. The first is to increase the Canadian and Quebec Pension Plan benefits both as a percentage of final earnings and in the amount of earnings covered. One rumored proposal that the federal government is considering is to double the covered earnings (that is, the Y.M.P.E.) and increase the present maximum benefit level from 25% to 50% of the final three years of covered earnings. Of course, with such an increase, contributions would also increase dramatically.

This would certainly solve the problem of coverage; however, it would possibly eliminate the private pension plan system as we now know it. There would be a disastrous shift in the capital market structure which would severely affect the economy. Also, keep in mind that this proposal or a modification of it might be very politically appealing to a federal government who is desperately searching for tax revenues. Of all the reports, only the Ontario Royal Commission was against increasing the benefits under C/QPP. The recent Ontario Budget stated that the Ontario Government agreed with the Royal Commission, and since Ontario can veto any amendment to the CPP, there may be some hope that this will not happen.

Another alternative to improve coverage is to legislate a mandatory pension plan scheme such as that proposed by the Ontario Royal Commission on the Status of Pensions called PURS (The Provincial Universal Retirement System). I am not convinced that this is the right answer because of a number of factors. First, the present pension system is not a mature one and coverage will increase with the passage of time; PURS will take 47 years to mature. Second, by legislating that private pension plans must contain certain provisions such as making plan membership compulsory, after a reasonable eligibility period coverage will certainly increase. Third, efforts by the providers of pension plans such as the Life Insurance Industry can provide programs which are attractive and reasonable for small employers. And finally, self-employed persons have the RRSP as a means of retirement protection for them.

Why then create another bureaucracy unless it is absolutely necessary? The private pension plan system is more flexible and is more able to meet the individual needs of retirement.

The final alternative to improve coverage and adequacy, and the one which I think is most appealing, is to enhance the private pension system by encouragements from the various levels of government and with certain legislation changes in the present system. Changes to make the private pension system more attractive, adequate and equitable would provide interest on employee contributions to be more in line with interest rates obtainable on individual savings accounts of banks and trust companies. The Ontario Royal Commission recommended a rate of 1% below that given to non-checking accounts of the chartered banks. A similar provision has been already legislated in Saskatchewan. Joint and last survivor pensions should become an automatic option for all plans. Other forms would be available only upon the signed consent of both spouses.

Legislation requiring that the employer must contribute a substantial part of the value of pension benefits at all ages will provide more adequate pensions. Again, this has already been introduced in Saskatchewan.

Finally, some method of indexing benefits after retirement must be found. The reports suggest this can be accomplished by increasing the C/QPP via government assisted indexing or by adjusting pensions annually by the "Excess Inflationary Investment Earnings" above the actuarial valuation rate. I find this last approach most appealing and believe that properly structured will provide an equitable solution to the problem.

In conclusion, it appears that we could be rapidly going down the road which will lead to substantial increases in benefits and contributions to the Canadian Pension Plan. The private pension plan industry has been given adequate warning and time to put their act in order.

Certainly a universal mandatory pension scheme such as PURS would be preferable to a dramatic increase in the Canadian and Quebec pension plans provided. However, an enhanced private pension plan system can be the only method which would provide the flexibility and economic freedom to fulfill our overall needs.

No matter what happens, actuaries have a very important role to play and must take a responsible position as professionals in making recommendations to their clients and government which will lead to improved coverage and more adequate pensions, especially in the inflationary environment that now exists.

MR. KENNETH T. RANSBY: Since we are here today in the nation's capital, we thought it appropriate to firstly tell you what we will not be talking about. . . A tactic no doubt at least the Canadians at this meeting will recognize is used frequently by the honorable members in the nearby House of Commons.

Our objective with respect to the Canadian pension reports is not to rehash the various reports on a line by line basis. Rather, it is to address ourselves to several of the major issues which confronted the authors of these reports, to discuss the alternative solutions presented by these reports, and to provide you with our thoughts about future trends with respect to these issues.

For those of you who wish to have a brief summary outline of the major reports, I have with me copies of an outline which I would like to leave with you.

The major issue which I wish to discuss today is the question of benefit entitlements at the time of termination of employment.

The major government pension reports in Canada have stressed that there are serious shortcomings in our pension system with respect to benefit entitlements of pension plan members at the time of termination of employment.

> The first such shortcoming is the length of time usually required for calculation of the benefit -- the question of vesting.
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> The second is the fact that benefits at termination of employment under defined benefit plans are not usually transferable to other pension plans or to RRSP's -- the question of portability. Compounding the problem of portability is the fact that inflation after termination of employment may seriously erode the real value of these benefits.

With respect to vesting provisions, it was pointed out in the federal task force on retirement income policy (the Lazar report) that approximately 75% of all pension plan members belong to plans which require at least 10 years of service for full vesting. Canada, and the U.S. for that matter, lag significantly behind many of the countries in Western Europe, for example, where shorter vesting is much more common and is often mandated.

Given the traditional preference of employers to enrich benefits with respect to continuing pension plan members, earlier vesting for terminating members has been a priority of the major government reports. Also, the increasingly greater mobility of the labor force has served to add further impetus to this development.

The Lazar report also emphasized that, even in a situation where an employee terminates with a fully vested deferred pension, only in the case of a handful of Canadian pension plans is the deferred pension increased in any way to recognize future increases in the cost-of-living or in wages.

Moreover, it is common that an employee -- where permitted under pension laws -- will take a cash settlement of his or her accumulated contributions in lieu of the deferred pension. Valuable retirement security is thereby exchanged by the individual in favor of current consumption. It may be very important at the time that the individual buys household goods or even pays off part of the mortgage with these accumulations, but the fact remains that the employee's retirement security is not being directly enhanced.

The Royal Commission on the Status of Pensions in Ontario stated the following with respect to private pension plans:

> As plans are presently designed, to obtain full pension credits an employee must work for one employer for his or her worklife and that the worklife must usually span an unbroken period of at least 35 years;
>
> Job mobility decreases the likelihood of obtaining a pension due to the vesting provisions stipulated in these plans; and

vested pensions are not truly portable. Earlier vesting only provides a partial answer to the problem because:

1. At the young ages, deferred pensions under contributory plans are largely purchased by employee contributions, and the employee finds it difficult to ascertain how much employer money, if any, is involved in providing the vested pension.

2. There is no increase in the vested pension after termination, and the pension is subject to substantial erosion in real terms due to inflation.

3. Refunds under many contributory plans are still at outdated, low rates of interest.

Pensions are becoming firmly entrenched as a form of deferred compensation. This deferred compensation concept is difficult to justify in view of the fact that little, if any employer money is being allocated to individuals who change jobs during the early and middle employment years. Under our present system in which it takes a full career to produce an adequate pension, the result is that many of the employees of today will retire on inadequate pensions in the future unless such termination provisions are changed, and changed significantly. Obviously, such changes would entail a reordering of priorities with respect to short-service versus long-service employees.

The Lazar report recommended four options for the reform of the pension system. Although opinion varies as to relative merits of these reform options, it is clear that any of the four options would greatly improve the situation with respect to benefits at termination of employment.

Option 1 involved a strengthening of the present retirement system. This option included:

Earlier locked-in vesting (age 30 and 2 years of service was suggested);

updating of deferred pensions to maintain the real value of the entitlement; and

a prohibition of early retirement on unreduced pensions. This last feature was designed to equalize the treatment accorded long- versus short-service employees.

Option 2 involved a gradual elimination of defined benefit plans and encouraging defined contribution plans. The defined contribution plans would be required to provide for full and immediate vesting and locking-in of all contributions. Under this scheme, portability of the deferred pensions -- or at least the value of the accumulations -- would be ensured, and the value of this entitlement would be protected against inflation to the extent that the accumulations received inflationary rates of return following termination of employment.

Option 3 involved the mandating of employer-sponsored pension plans. Employers would be given the choice of providing a contributory defined benefit plan or a defined contribution plan. Alternatively, employers could offer a "decoupled" plan in which the employer would pay for a lower prescribed level of defined benefit plan, with employee contributions directed to the defined contribution plan.

These mandated plans would cover all full-time employees and would provide for full and immediate vesting and updating deferred pensions on the basis of a wage index. To reduce administrative difficulties, employers would have the option of paying short-service employees a double refund of contributions with interest. Refunds would flow into a locked-in RRSP.

Option 4 involved the expansion of the Canada and Quebec Pension Plans. Due to the nature of C/QPP, greater levels of pensions would be fully vested and portable. Deferred pensions would automatically be increased in line with future changes in pensionable earnings.

None of the four options is likely to be entirely satisfactory to the majority of concerned Canadians. Specifically:

> Strengthening the present system under Option 1 is no doubt desirable. However, such an approach will not in itself extend coverage to the millions of workers not presently covered by pension plans. Also, a simple updating of deferred pensions in relation to an index does not directly preserve the value of the benefit in relation to the individual's final pay.
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> Option 2, moving to defined contribution plans, places the employee entirely at risk with respect to the protection of the real value of the pension entitlement.
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> Mandating pension plans under Option 3 at a prescribed level may seem a reasonable approach to many. However, absolute protection of the real value of deferred pensions remains a problem. In addition, it may be that the prescribed benefit level may in fact become the maximum benefit level for a significant number of employers.
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> Expansion of C/QPP may solve the problems of vesting and portability, but at what price? Would the traditional reluctance of governments to recognize costs of statutory programs on an accrual basis lead to an even greater shifting of the cost burden to succeeding generations? Even if pension costs were recognized on a funded basis, are we prepared to place such economic control in the hands of the government?

The Ontario Royal Commission also examined in detail the problems of vesting and portability of pensions. In dealing with these issues and the issues of coverage and adequacy, the Commission weighed the pros and cons of an expanded C/QPP versus a mandated employer plan.

It is important to recognize that the Commission strongly advocated the idea that the primary responsibility for the provision of adequate retirement income rests with the individual. Also, it was stated that cost-benefit relationships must be recognized in order to ensure fairness between succeeding generations.

Unlike other major Canadian reports -- the Confirentes' Report in Quebec, The Economic Council of Canada Report, the Croll Report and the Lazar Report, which either advocated the expansion of C/QPP or at least presented such as a viable option -- the Royal Commission Report concluded that the basic C/QPP benefit should not be revised. The problems of increased intergenerational transfers under a partially funded plan or a pay-as-you-go plan, and the shift of massive economic power to the governments under a funded plan, were the detractions of an expanded C/QPP in the opinion of the Royal Commission.

The Royal Commission, therefore, recommended that portability and vesting of pensions in the province would be improved in two ways:

1. By introducing a mandatory pension scheme, the Provincial Universal Retirement System (PURS), and

2. By changing provincial pension legislation with respect to benefits paid under private plans at termination of employment.

Established on a money-purchase basis, employee and employer contributions to PURS would be immediately vested and locked-in. Individual PURS accounts would be established for employees, and the employee would have a choice of financial intermediary for the investment of his or her contributions and those of the employer. Opting out of PURS by employers would be permitted if money-purchase benefits equivalent to those under PURS were included in the private pension plan.

Under private pension plans, the minimum vesting requirement would be changed to 10 years (instead of the present 45 and 10 rule) if PURS were introduced, to 5 years if it were not. Upon termination prior to vesting in a contributory plan, the employee would be entitled to a refund of contributions with interest 1% below the rate credited by Canadian chartered banks on non-checking accounts. Moreover, the accrued benefit would be valued on a stipulated basis, with the employee's contributions allocated to not more than 1/2 of the total value of the benefit. Accumulated contributions in excess of the 1/2 would be refunded to the employee.

The employee's 1/2 of the value could be transferred to a locked-in RRSP or to the employee's PURS account. The remainder of the benefit which was funded by the employer would remain locked-in. However, there would be no compulsion on the employer to upgrade the deferred pension in the period following termination of employment.

The Royal Commission also recommended the formation of a central pension agency to carry out functions such as the following:

To offer an alternative investment medium for PURS accounts;

to hold pension monies arising from transfer rights at the time of employment termination; and

to record future pension rights for terminating employees.

The Commission also investigated the expanded use of reciprocal transfer agreements between private pension plans but concluded that the diverse characteristics of such plans precluded widespread improvement along these lines.

In conclusion, the Royal Commission's approach was two-fold:

To improve existing pension arrangements, and

to introduce a mandatory defined contribution plan.

Since the release of the Royal Commission report in February, two items of importance have occurred in the pension scene in Canada.

1. The National Pensions Conference, which was recently held in Ottawa, seemed to identify three schools of thought regarding pension reform in Canada:

   The renovators, who would seek to make changes within the private pension sector in order to solve these problems,

   the mandators, who would institute a mandated plan such as the PURS plan, and

   the expansionists, who would institute reform by expanding C/QPP.

   However, there was no clear consensus among the conference participants with respect to these options.

2. The Ontario government budget, besides levying upon the citizens a fat tax bill, indicated that the provincial government's approach to pension reform would include the following:

   The principal vehicle for reform should be the private sector;

   a clear identification of pensions as deferred wages and that vesting and portability must be improved;

   co-ordination of pension legislation across Canada; and

   cost of reform must be within the ability of the government, the taxpayer and the private sector to carry.

The Ontario government's view to pension reform is particularly noteworthy in that no changes can be made to the Canada Pension Plan without the consent of 2/3 of the participating provinces having 2/3 of the population.

Undoubtedly, there will be continued pressure from many sectors for significant improvements to the pension system in Canada. In addition, improvements to private pension plans alone may not be seen to be sufficient in the eyes of the public.

Therefore, it is entirely possible that we will be forced to accept either a mandated plan or an expansion of public pension programs.

The fact that the Ontario government presently appears to be averse to the expansion of the Canada Pension Plan should not lull actuaries and private plan sponsors into a false sense of security. We must also be cognizant of the fact that an expanded C/QPP could place a great deal more cheap money back with the provinces and -- looking at the recent Ontario budget -- it is quite apparent that the government is looking for additional sources of revenue.

The PURS system and the recommended changes to private plan provisions may not be everyone's idea of a perfect pension system. But the alternative is even worse. I fear, therefore, that failure to support a position similar to that adopted by the Ontario Royal Commission could well push the legislators over to the side of an expanded C/QPP.

Moreover, basic pension reforms such as those recommended by the Royal Commission could serve as an effective framework for desirable and necessary changes to the pension system over the years ahead.

MR. CLARE: There are three lines of defense on questions. First of all, yourselves; so if you come to the microphone now or at any time, you have priority, and then we will raise questions within the panel. And finally, as a last resort, I have a question for each of the panelists.

MS. SHERRY MILLER: I am with George B. Buck in New York, so I think obviously my question is going to be on the U.S. It is not a question really, it is more a comment with respect to something Ms. Pearson said before. It is that the problems with Social Security were such a big surprise to people. I do not think it really is a surprise; I am not surprised at all that this is going on right now. The reason I am somewhat skeptical is that everybody thought it was going to be okay in 1972. I think that was the previous major change. It is like there is a succession of changes where everybody has wishful thinking that everything is going to be okay, but within a few years it is not. And so they will make a change now, it will not be a good enough change because maybe they do not want to take the necessary measures that will make it a good enough change. Like for example, why age 68, why not 70? You say that it is going to be an extra 3½ years of life between the years 2000 and 2012, well combine that with maybe the better mortality that has taken place even from the 30's until now, that might be your extra five years that would take you to age 70. What is the difference between ages 68 and 70? Why not take the full measure needed to go that far?

People should be more realistically informed about what Social Security was intended to be. It was not intended to be the whole retirement income as people presume, so there have not been savings. That is going to involve a whole change around in terms of an idea of what provides what, where, when and how as far as pensions are concerned. I do not think the steps being taken are sufficient. I do not say they should take place right now. I do not think that the idea of changing, say the normal retirement age, should take place right now, within the next five years. There should be a gradual phase in on a realistic basis, and maybe even more pessimism in the assumptions of what is going to take place in the future. I do not think you can take the middle set of assumptions. Let's go pessimistic and be realistic about it.

MS. PEARSON: That is a good point. You know that under ERISA actuaries must use realistic assumptions. For the Social Security projections we have optimistic assumptions, intermediate assumptions and pessimistic assumptions; and the pessimistic assumptions have not proved pessimistic enough to be realistic, at least as far as the demographics go.

First of all, I want to talk about the retirement age. For professional people and high paid, even upper middle paid, employees, I think it is realistic to assume that they can work for a longer period of time as you said. I would still like to be working when I am 70, and I think women might feel that way because we have a lot longer period of retirement to look forward to. Also, professional people and high paid people in general are starting their careers later. If you are looking at somebody who has been on an assembly line since he was 18 years old and if you have been doing a job like that for all of your life, I think what the AFL-CIO said about the retirement age starts to make sense even though we cannot afford it. They talked about people just waiting until they are age 62 so that they can collect Social Security and get out of that work situation that they have been subjected to. I think they might have different thoughts about retirement age than we do. That is also a social problem -- what do you do about the work situation.

Interestingly enough, the President's Commission, I thought, had some really good suggestions on this. They talked about, not so much looking at a period of work as such and then retirement as such, but maybe having a couple of careers and part-time work, many things that could possibly extend your useful working life. That seems to me to make a lot of sense.

Regarding the 1977 amendments, I think that the reason so many people were so optimistic then is that there was so much publicity when Congress passed them that it just seemed that they were going to be the final answer. We were looking at considerably higher contribution rates to fund the benefits. Actuaries always seem to get done in by the realities.

MR. CLARE: Thank you Ms. Pearson. Very briefly, in one sentence or two, Mr. Wood or Mr. Ransby, do you want to say anything about Canada on that?

MR. RANSBY: I do agree with what Ms. Pearson was saying. I think that the idea of a later normal retirement age or a flexible retirement age or something later in general is certainly a future development. It is starting now. I think the situation is quite a bit different today than it was even four or five years ago. I have noticed a great deal of difference in interest in the whole idea of flexible retirement, but it is a social problem, and I think until we really get programs like second career programs and counselling and that sort of thing on the road, that in itself may help this whole matter.

MR. WOODS: Right now, with the inflation that we have, there are many people who cannot afford to retire, and I think that has a bearing on the situation. I agree with Ms. Pearson, though, that retirement is viewed differently by different sectors of workers. Certainly the people in the coal mines are looking forward to getting out and doing something else, even if it is a second career, but in a semi-retired state. Going back to the general trend of the comments that were made, the Social Security system in the United States is in financial difficulty. I guess we can say that the Canada and Quebec Pension Plan is not in that bad of shape. However, we are going to have to do some thinking ahead. If we are not careful, we will find ourselves in the same situation.

MS. PEARSON: I have a comment about this. You mentioned in your talk that you were kind of looking, or thinking along the lines of increased contributions and increased benefits. So you do not see Canada getting into the same problem that we are in because that is what happened to us. Promising benefits that we find that we cannot afford to pay for.

MR. WOODS: We might very well find ourselves in the same situation if we are not careful. Especially if we start doubling or quadrupling the benefits under the Canada Pension Plan. I do not think it is realistic to fund, in the manner that we are doing it now, the Canada Pension Plan, because the monies are going to the provinces. They are going at very attractive interest rates from the provinces point of view. I do not think that that money will ever be seen in the Canada Pension Plan system again. I think the money is gone. I do not know, I have not heard very many politicians referring to that money as being available for benefits, so I suppose the most realistic way to think of the Canada Pension Plan is that it is actually a pay-as-you-go program; and especially if you consider the population bulge as we refer to it here in Canada, it is going to make matters even worse. More people are going to retire, and I think we could very well, if we are not careful, find ourselves in an even worse situation than the United States.

MR. DICK CRAWFORD: My question is going to be in the form of a statement, a description of an update technique in a particular pension plan, then asking the panel if they see it as having any application to other plans. It is a rather special circumstance. It is the United Church of Canada Pension Plan which was looking for a method of improving pension benefits for its ministerial workers and the non-ministerial workers, with the desire to have an absolutely fixed and known contribution because they certainly could not handle any open-ended benefit formula, and also the desire to provide the greatest update benefit to those with the least level of earnings. Within the Church there has been historically a minimum scale of salaries for ministers. We took that scale and used it as the foundation of an update technique, so that in the first event we raised all units of benefits, say from the 1955 base up to the 1962 base, then up to a '67 base and so on. The technique of using that as an add-on means that there is a fixed dollar benefit being added to the higher paid workers, and in the case of the lower paid salaried workers we used the proportionate increase to increase their benefits. It has worked successfully because it is a known salary scale within the Church, it also has not created that concept of a permanent automatic system because the year we have used each time is special and is announced and does not have any apparent pattern to it. As we go into the 70's, it is going to be harder to make as many years advance. We submitted an interbrief to the Royal Commission. I think in some circles it has received some favorable commentary, and I just wondered if the panel might wish to comment on it.

MS. PEARSON: I have a question. In the future, is there any indication of how often that will be updated, or is it strictly voluntary?

MR. CRAWFORD: We intend a further update and a review at either two or three year cycles, but at each time it is an event which compares the available funds that will merge in the pension plan at that point and any additional contributions will be formally committed against the array of possible updates that the actuary has prepared to get a match.

MR. CLARE: Especially where the finances of the organization are progressing steadily from year to year, and where the total complement of employees is also progressing steadily from year to year, there is much to be said for doing what the United Church of Canada has done. You have the best of both worlds if you fix the contributions as a percent of payroll, and you also fix the basic rate of benefit accrual, and then have as your "balancing item" the year-by-year rate at which you make post-retirement adjustments. There is one key consideration. For the rate of increase of post-retirement adjustments to be reasonably adequate, the initial planning (i.e., contributions, normal retirement age, basic benefit, etc.) should not be based on "funding" arithmetic. Rather, the initial planning should be based on "costing" arithmetic, in the real common sense business meaning of "costing". Either use implicit assumptions, or use thoroughly consistent explicit assumptions, and in either case value benefits from the point of retirement onwards at a "real" rate of interest such as 3.0% or thereabouts.

Any more questions or comments before we let loose amongst ourselves within the panel?

MS. MILLER: Just a quick comment. Apropos of the kind of workers that Ms. Pearson mentioned, what you would call the blue collar worker, I think it is even more essential possibly to think about extending the retirement age than for professional people. Also using the approach of second careers because I had the same thing in mind as you were talking. The simple reason is that it was found that men retiring at 65 receive this little jump in mortality curve right after that age. Basically, you have someone in an assembly line job, in a coal mine or whatever, I would imagine just to be able to function you do not think about what you are doing, you just keep doing it and doing it and doing it. All of a sudden, they retire and they do not know what to do with their lives; and that is difficult to deal with. I think any professional person can see better in terms of knowing what to do possibly with himself than the blue collar worker. I think for both the extension of retirement age, either in the same job they have been in or in a different one, it is more valid to forget about Social Security just for their own benefit.

MS. PEARSON: I think that is right. One of the problems that we get into is that historically unions themselves have opted for the earlier retirement age to make way for the younger craft workers. I am thinking, for example, of the construction industry. You will often find substantial incentive for early retirement in their pension plans, the exact opposite of what we want to happen; and strict penalties for coming back to work, perhaps by way of losing the pension; so we have a ways to go there. I think in corporate plans that is not so much a problem.

Another thing that I might mention is that it seems that professional people might have a better opportunity to switch over into a second career than somebody who just worked at a blue collar trade all his life because the professional might have the educational background, hobbies or what have you, from which a second career can be developed.

MR. RANSBY: The business that you are mentioning about pre-retirement counselling, I really believe very strongly. I know that at the prior company I was working for several years back, we were involved with a particular client who started up a pre-retirement counselling service and they initially started with people at retirement, and over the years they graduated to younger people. I remember the reactions, at the time, of the employees; saying that it was literally the best program the company had ever had for them. With a small expenditure of money, really, in terms of the overall investment they had in their pension plan and all the other benefit schemes of the company, it was just overwhelmingly received very favorably by the employees. I am thinking not only of the social aspects of retirement but the financial details as well. So many of us were involved with the business of business and other people's business over our entire careers, but many employees I am sure wake up at age 64 saying, hey, I really have not done much about my retirement. And it is really too late to start then.

MR. CLARE: Within the panel now, would anybody like to make another comment?

MS. PEARSON: One of the things that I did not get a chance to mention before because I was not sure of how much time we would have left, is the whole question of equity in the overall retirement system. I am not just talking about equity for women as the National Commission has mentioned on Social Security or the inequities the President's Commission has examined, but in the United States, at least, we seem to be having a tug-of-war between all sorts of groups. The majority of our pension plans, first of all, are integrated in some way or another with Social Security, in either excess benefit programs or Social Security offsets, and some people see this as a kind of discrimination. We have the problems of the younger workers versus the people who are just ready to go out on Social Security, an inter-generational conflict and the public is very aware of it. In the United States this has been brought out in the media over and over again. There are conflicts between working women and women who stay at home on their eventual benefits from Social Security. For instance, a husband and wife, where just the husband has been working throughout, who has always worked at the maximum Social Security Wage Base, when he retires at 65 will get a larger family benefit than the husband and wife who together have earned the maximum Social Security between them. These kind of inequities are really hard to resolve; it is going to be very interesting to see how they are resolved. Some of the most interesting ways to resolve these problems have not come from the reports themselves, but have come from the comments in the back of the reports. I recommend to all of you reading these comments because they provide some interesting viewpoints that are not discussed in the body of the reports.

MR. CLARE: To prime the pump for you, Mr. Woods, we are talking about differentiating the immediate need between the married and the single, and for Canada, at any rate, you are putting your finger on the single. I will tell you who the sources are. They have been further subdivided between those who own their homes versus those who are renting. The Lazar report touched on it. I understand the National Pensions Conference talked about it. Do not be surprised that I am quoting from the briefs of both the Canadian Chamber of Commerce and the Canadian Manufactueres' Association this year. Both of them zero in on relative need of marrieds, as against the needs of singles, and especially the singles who are renting, and reference is made to special programs already in effect, both in the province of Quebec and the province of Alberta for the elderly renter. Do you have any quick reaction to that? Is that something that you personally think is getting too complicated, or would like to see more study, or what?

MR. WOODS: Definitely, there is an advantage for those folks that have their own house, and when they come up with the income test, something should be done, as I mentioned in my presentation. We do not take into consideration assets, and I think they should be taken into consideration. A couple of other things, just listening to Ms. Pearson, I just started to think about human rights in general. I think everybody in Canada is obsessed with human rights. I think much of it is good, but it has led to unfortunate situations. Federal human rights have basically eliminated money-purchase plans. If you look at the legislation and the regulations, they are in conflict. Then we have the problem of unisex tables, and that is an issue in the United States as well. So I see many things on the horizon for actuaries. I really do believe that we have an important role to play, and I think we can and will play an important role in the development in this area. People are talking about retirement systems, and they are sort of isolating their retirement system from all other social and economic problems. I think that is bad. For instance, probably there is more need for increased benefits and protection for those widowed people, females between 55 and 65, who have never worked, or have worked maybe 30 years ago. There is perhaps a real need.

MR. CLARE: Mr. Ransby, talk about whatever you want. Just to prime your pump a little bit, if I may, by talking about the one excellent report that you have not, that I recollect, talked on today, from your two TPF&C colleagues, Keith Cooper and Colin Mills, for the Financial Executives Institute (FEI) in a round about way through the FEI Research Foundation.

MR. RANSBY: What I wanted to do was just to urge the actuaries in the room, and anybody else who happens to hear us, to speak out on these issues. I think they are very important. I was dismayed and I would assume some of the people in the audience were also dismayed, that at the National Pensions Conference the invitees really, to my way of thinking, did not include enough actuaries. It strikes me somewhat similar to trying to redesign a whole health care system without asking doctors what they thought of it. I was very dismayed by the fact that there were so very few invitees from the actuarial profession. So we have to try that much harder, I guess, to speak out on these issues to make our feeling clear, because just maybe somebody will start listening to us.

MR. CLARE: Every actuary participating in public helps greatly. A couple of weeks ago, here in Ottawa, I met one day with the Liberal Caucus and another day with the Progressive Conservative Caucus, as a pension spokesman for the Canadian Chamber of Commerce. When I said I was an actuary, there was instant recognition, followed by comments such as: "Oh, yes, we knew Paul McCrossan, as a Member of Parliament, and as a Parliamentary Secretary." The more those of you who are here today speak up in public, as actuaries, the better.