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GOVERNMENT AND PENSION REPORTS

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MR. FREDERICK J. THOMPSON: Pension plans are of big interest nowadays. I think in both of our countries, people are very concerned that the aged are not well looked after. The President's Commission has made a report; but, with the change in administration, it may be inoperative. There has been the National Debate on Pensions in Canada and it seems the federal government is going to become actively involved. The provincial government in Ontario has a Royal Commission studying pensions which recently brought in a report.

Ontario is an interesting jurisdiction since it was one of the forerunners in pension legislation with the Ontario Pension Benefits Act. It related to portability and solvency requirements many years before ERISA was conceived. Ontario, by being the largest province, has a lot of clout in the pension field in Canada.

Mr. Clark is going to talk to us first about the President's Commission. Mr. Short will then give us a rundown on the Royal Commission Report from Ontario and Mr. Beiles is going to follow up by telling us about the debate that was held in Ottawa last week. I think we will probably see certain similarities between Canada and the United States. I would hope we will be able to discuss where all of this is going to lead us and what public opinion and our elected representatives are going to be leading us into.

MR. CHESTER D. CLARK: The President's Commission was formed in 1978 under President Carter and began work in February of 1979. The report was published in February of 1981 under President Reagan and the commission will expire in May of 1981. A lot has changed during that time period, which will have a great deal of effect on the impact of the report. There has been quite a change in the political environment. On the other hand, it still represents a compilation of a lot of notably influential people's ideas about pensions. The mandate was to look at retirement, survival and disability benefits and to try to set some priorities and policies for this country through into the next century.

The composition of the commission is interesting to look at. There are ten people on the commission: three businessmen, including the Chairman of Xerox, two educators, four lawyers or legislators, one labour leader, and really only one person who would be probably regarded as a pension expert, Mr. Greenow, President of TIAA. And, interestingly enough, for this organization, there were no actuaries. Perhaps this says something about our image or at least our political acumen. Preston Bassett was an advisor, being uniquely qualified as an actuary and a retiree. The commission was created to advise only, and has no authority.

As far as the key recommendations are concerned, I'm going to cover them in four basic areas:

1. Public Retirement Plans,
2. Social Security,
3. Private Retirement Plans, and
4. Additional Recommendations.

In the Public Retirement Plan area, it was felt that the retirement ages were too low or excessive subsidies were provided. The Commission stated that many public programs in this country have tended to use the pension plan as a recruiting tool, particularly for safety work; for example, police and fire groups.

The Commission recommended that the Federal Plan be indexed only once a year. It is now done twice a year for the Federal Civil Service. That seems a rather modest change, but it does save money. Another recommendation was to try to change the very method of indexing. They suggested that the indexing in the Federal Civil Service be based on the average wage increase of federal workers, rather than on the C.P.I. This means that retiree's income would not increase more rapidly than the active workers. They also would stop opting out of Social Security. Public Sector plans in this country can either be in or out of Social Security. The Commission suggested that no more state and local plans should be allowed to withdraw and of those that have withdrawn, they would have to re-enroll over a period of time. They also spoke about putting a public employee's ERISA-type legislation of the state and local plan in so that they could share the protection and joys of ERISA-like regulations.

In the area of social security, it was suggested that the retirement age be raised three years to age sixty-eight. This has been a common recommendation of many other groups, including the National Commission on Social Security, who are in the process of issuing a report. In addition to raising the normal retirement age to sixty-eight, the early retirement age would go from sixty-two to sixty-five. This type of a change could have a very broad based effect across all retirement plans, depending upon whether the private plans follow suit or not. If the Social Security raises its retirement age, there certainly will be a decreased cost for Social Security. The question really will be how much of this decreased cost will be passed back onto the public sector. There could also be pressure for accrual of benefits past age 65. If the retirement age goes to 68, do medicare benefits also go to sixty-eight? If they do not, we would have increased costs in that area for the private sector.

Another substantial recommendation was that employee contributions under Social Security would become tax deductible . Their recommendation was to start immediately and include tax credits for lower income people, so they would also share in the benefit of this deduction. The companion recommendation was that all benefits would be eventually taxed. That would be phased in based on the percentage of the benefit that you received that arose from deductible contributions. Exactly how they would perform that calculation was not clear. Disability benefits would also be payable to the new higher retirement age. This would mean that people disabled between sixty-five and sixty-eight would presumably be eligible for disability. How this would affect disability rates and disability experience under Social Security is a little difficult to ascertain; but, one would assume that some of the gain of deferring the retirement age would not, in fact, be realized.

Another very significant recommendation and again one that follows through in several other areas, was the concept of sharing benefit entitlements upon divorce or separation. This is something that also runs through to the private sector. Those of us who practice in the pension field in California are quite familiar with the fact that as a community property state, generally when a divorce occurs, the private pension is split. People tend to just split the amount of the pension that actually is received at retirement. The general trend was to treat earnings as joint during a marriage. Similarly, there would be a concept of inheritance of the deceased worker's wage record by the surviving spouse, and this pertains to the situation where both spouses work and have approximately equal incomes.

For the private sector there were a series of recommendations. They tried to add benefit rights for spouses. This would mean that people would have to jointly decline the spouse benefit that currently is mandated under ERISA, rather than just the individual retiree saying whether he does or does not want it. This will create some difficult administrative problems as well as possible domestic problems for the retirees. I would also suspect that there would be more and more pressure to provide joint and survivor annuities at no extra cost. They also suggested limitations on cash-outs. They suggested that no cash-outs be allowed on a pension plan above $500.00. This implies limits on profit sharing and thrift savings plans too. This is a rather radical proposal. However, one can see the basic idea. They are trying to stop the improvident individual from becoming a ward of the state.

The Mandatory Universal Pension System (MUPS) was set up to cover employees twenty-five years old and with one year of service. It suggests full and immediate vesting and it talked of provisions of portability. Benefit records would be maintained by Social Security. Contributions could be sent through Social Security to a MUPS portability fund for investment payout. The fund would be managed by a trustee appointed by the president, and the assets would be "invested in the economy." Again, that could create some very interesting problems depending upon how large that particular fund grows. Employers could use traditional kinds of trusts to handle MUPS if they chose to.

The MUPS program is a defined contribution type program which is basically 3% of payroll. It would be phased in over three years, so you would have 1% the first year, then 2% and then 3%. The rule would be that existing plans must provide an equivalent to the MUPS plan. This could be a defined benefit program if you could demonstrate that the program provided at least as large a benefit as MUPS would provide; however, how you would demonstrate that somebody had money equal to the 3% type of a defined contribution plan would be difficult. I think it would create some plan design problems in that it tends to tilt money more towards the younger people than is currently the case. If somebody at twenty-five receives a 3% contribution, that comes out to approximately 5.8% of salary at retirement at 68 based on a 6% interest. If you look at a final pay plan, it does not buy anywhere near as much as that; but on the other hand, if the twenty-five year old terminates, he would have to take away a benefit that would be equal to the value of the MUPS plan. Social Security integration would not be allowed in the MUPS situation.

There are also some special tax credits for employers under MUPS, the idea being that large firms should have an equal tax advantage to small firms, since small firms have a slightly different tax structure. The real advantage would come to people like ourselves, because all of us would have our retirements guaranteed if something like MUPS were passed. The actuaries and the bureaucrats would both win out. I am not sure the public would.

In the area of other recommendations, the commission did define an income replacement goal. The goal they defined was a 100% replacement of disposable income which is more than most private plans can now provide, even coupled with Social Security. They also spoke of deductible retirement savings which create a tax equity across the whole basis. They also spoke of the cost of living index problem and suggested a more realistic cost of living index be devised for retired employees. Although this solution provides a more realistic kind of indexing and would save money in terms of public plans, when such an index is actually defined and worked out, it would probably encourage more indexing on private plans where there is no indexing now. They also suggested that some new congressional committees be put together; basically a condensation. They now have about four committees working and this would break it down to two. Consolidating the administration into a single area was also suggested, whereas now the administration is spread out over several departments. One of the critical questions about pension assets involving the use and administration of these assets was avoided and the issue was effectively remanded for further study.

Looking speculatively ahead, perhaps the increase in Social Security retirement ages is apt to go through. It has fairly broad support. If these kind of changes are made, and if they talk about phasing the 68 retirement age in around the year 2000, private plans should begin to be ammended now, in the same type of phased in basis. However, the problem is that a delay in amending the private plans would make it more difficult to change them as this day got closer. It is easier to use the impetus that would be set up for the government in the Social Security area as a reason to do the same thing privately. Whether that happens remains to be seen.

The issue of deductible employee contributions to employer plans has almost gotten through congress in the last couple of years. This is a way you can cut people's taxes and the money does presumably go into capital formation. Income rights for surviving, divorced, and separated spouses is apt to go through the courts one way or another.

If we look ahead to things that might take a little bit longer to work through the system; items such as the changes in the public retirement plans should be included. There is a lot of interest in reforming the Public Retirement Plan. It is a very difficult political issue because the public employees all vote, they lobby, they work hard for their pensions and they are a strong vested interest group. On the other hand, the tax payers are groaning under the costs. Local tax reform bills go through and with the pressure of a tax reform on a local basis, one of the ways to squeeze a little extra money is to reduce public retirement plans.

There are tremendous savings in the area of pension indexing. One percentage point savings in the Social Security indexing system saves approximately two billion dollars a year. That's an incredible amount if you can adjust these largely indexed plans. Deductible retirement savings are similar to the deductibility of employer contribution. If we go to the 1990's and beyond, MUPS might actually be possible some day. It is very unlikely that anything like MUPS would go through in the near future, particularly after the Reagan election.

On the other hand, there are some basic forces that could push us towards some kind of universal pension system, unless those forces are reversed. One of the things that the President's Commission points out is that private plans are not expanding rapidly enough. It appears to be because they do not go across all industry segments - agriculture, trades, services and certain other industry segments are not covered. Smaller firms frequently aren't fully covered. So, to some extent, perhaps the private system is saturated - these areas may never be covered by private plans.

There would be tremendous revenue impact to make Social Security tax changes and to implement universal coverage. To create deductible Social Security contributions, it would cost about twenty billion dollars. That is a lot of lost tax revenue, and looking from a practical point of view, it is unlikely that the government would end up doing that in the short term. The universal coverage problem again is a real political football. Public plans are very difficult to handle especially with the vested interest groups being so strong.

In conclusion, the Commission's report should be read closely as there are many relevant points contained in them. Do not be complacent, it certainly would pay for you or your firm to be verbal about it, because it make a difference in the political process.

MR. DAVID A. SHORT: I would like to comment on the recent ammendments to the Ontario Pension Benefits Act and on the report of the Royal Comission on the status of pensions in Ontario. It may seem provincial for a Canadian to come to California to talk about events in Eastern Canada. However, it is worth remembering that in 1965, Ontario was the first jurisdiction to adopt Comprehensive Pension Legislation in North America. Today, we have Comprehensive Pension Legislation in the United States and in six of the ten Canadian provinces, covering about eighty-five percent of the Canadian work force. Much of this legislation is patterned in some respects on the Ontario model. During the fifteen years following the adoption of the original Ontario legislation, there were a few ammendments to the act, but these were minor in nature, and the main provisions of the act, dealing with funding, solvency, vesting and investment of pension funds, were not significantly changed. Generally speaking, everyone is fairly happy with the legislation.

In December 1980, in response to pressure arising from a number of plant closings in the auto industry and the resulting pension plan terminations, the Ontario government made a number of changes in the Act relating mainly to plan terminations. The legislation was enacted so quickly that there was no opportunity for public discussion of its provisions prior to the amendments.

The new legislation provides that, where a defined benefit pension plan is terminated, the employer is obliged to complete the funding of vested benefits. The legislation also establishes a Pension Benefits Guarantee Fund, which will cover the unfunded cost of certain vested benefits where an employer goes out of business. The fund will be supported by a provincial guarantee, but is expected to be self-supporting from premiums paid by the employer. The new legislation will not apply to multi-employer plans or to public sector plans. The Guarantee Fund will apply to statutory vested benefits which are age forty-five and ten years service in Ontario and to those benefits which have been in effect for at least three years on the plan termination date, up to a dollar limit to be prescribed by regulation.

One interesting difference between the new Ontario legislation and ERISA is that on plan termination, the Ontario employer will have a period of time over which to amortize the unfunded vested liability and will be subject to a lien only if he goes out of business and the plan has a claim against the Guarantee Fund. There will be no upper limit to the lien which the Guarantee Fund will have against the employer's assets.

The basis for determining the premiums to be paid by employers to the Guarantee Fund is to be prescribed by regulations which have not yet been released. However, it is expected that the premiums will be based on the plan's unfunded liability, rather than being on a "per capita" basis.

The legislation also prohibits plan amendments which would reduce accrued pensions. This, coupled with the requirement that the employer must continue the funding of vested accrued benefits on plan termination, means that the employer is truly committed to providing the pension benefits which have been promised, at least for vested employees, unless he becomes insolvent. While this may very well be a good thing, it raises some interesting questions for the accounting profession. It may result in employers being required to report the unfunded liability for vested benefits as a balance sheet liability in their financial statements and clearly this could become a disincentive for the establishment of new plans or the improvement of existing plans.

Other important matters to be clarified, by regulations or by the courts, are the extent of the purchaser's obligations in the event of acquisition of a company whose pension plan has an unfunded liability. These include vested benefits, the treatment of plan terminations following a corporate reorganization and the rights of plan members in other provinces; none of which has enacted similar legislation.

The legislation also preserves the rights of vested employees to early retirement pensions and bridge benefits on plan termination and has broadened disclosure requirements, including the right of plan members to obtain copies of actuarial certificates and specified information from the most recent actuarial report.

The other item which I will comment on is the report of the Royal Commission on the Status of Pensions in Ontario. The Commission was established in 1977 to study the impact on the economy of different systems of financing retirement pensions and to examine existing public and private retirement pension plans in the province. The Commission was chaired by Donna Haley, a lawyer and the chairman of the Pension Commission of Ontario which is responsible for administering provincial pension legislation. Management, Labour, the Investment Community, the Self-employed and the Retired were represented on the Commission. As in the U.S. situation, there was no actuary on the Commission, although it did engage the services of consulting actuaries. The Canadian Institute of Actuaries and a number of individual actuaries presented briefs to the commission.

After almost four years of deliberation, the Commission has recently issued its report which runs to ten volumes, and which makes 163 recommendations. I will comment on a few of the major ones.

The Commission was opposed to the expansion of the Canada Pension Plan, which has been advocated by organized labour and which is widely believed to be the intention of the Canadian federal government. The Commission believed that the existing level of benefits under the earnings-related Canada Pension Plan and the universal Old Age Security pension together meet the objective of providing an adequate post-retirement income for low-income workers. They felt that retirement income in excess of this minimum standard of adequacy should not be provided through social insurance programs. They also noted that expansion of the Canada Pension Plan would not benefit those who retired prior to its maturity or their surviving spouses - these are the categories of the elderly for whom existing programs do not seem to be providing an adequate income. The Commission addressed that problem by recommending an increase in the Guaranteed Income Supplement for single people aged 65 and over. With regard to the funding of the Canada Pension Plan, the Commission was opposed to any increase in the level of funding as this would create huge pools of capital under government control, which the Commission considered inappropriate, and would reduce individual savings and would create pressures to increase benefits under the Canada Pension Plan.

The Commission considered the problems of incomplete coverage and lack of portability under private pension plans and concluded that the existing system is incapable of addressing these problems. Its proposed solution is the establishment of a "Provincial Universal Retirement System" or "PURS". Now PURS seems to be very similar to the U.S. model again.

PURS would be a mandatory money purchase pension plan covering all workers in Ontario aged 18 to 65. The total employee-employer contribution would be 3% to 4% of earnings up to the Average Industrial Wage. All contributions would be immediately vested and locked-in. Each worker would be able to choose the financial intermediary for his or her account from existing financial institutions or a central pension agency to be established by the provincial government. Annuities would be purchased upon retirement on a unisex basis. Only employers with an equivalent money purchase pension plan would be permitted to opt out of PURS. In other words, however good your defined benefits plan is, you would have to either enroll in PURS or adopt a money purchase plan in addition to your defined benefit plan.

While the concept of PURS is quite attractive in terms of providing pensions through a fully funded private sector plan, a major defect is that the plan will do very little for the present generation of older workers who are not covered by adequate private pension plans, or for those on very low incomes. A large proportion of middle and upper income workers are now adequately covered by private pension plans and/or individual registered retirement savings plans, and for these workers the dislocation of existing arrangements and the administrative costs associated with PURS seem unnecessary. If private plans were required to provide a minimum level of lump sum termination benefits to all terminating employees for transfer to successor plans, or to a PURS-type plan if the successor employer does not have another pension plan, the objectives of PURS could be achieved without imposing another universal plan on employers who already have adequate plans. It would still be possible to require employers who do not have an adequate private plan to participate in a PURS-type plan and these would be mainly the smaller employers.

Another major problem which the Commission addressed is the impact of inflation on private pension plans. The Commission rejected any form of mandatory post-retirement adjustment of private pensions on the grounds that employers are not legally obliged to provide pension plans and those that do so should not be required to protect the benefits provided from inflation. This seems a remarkable line of reasoning for a Commission which advocates mandatory survivor benefits and mandatory earlier vesting, but it is not prepared to address the inflation problem on the same grounds. Instead, the Commission proposed the introduction of an "Inflation Tax Credit" which would, through the Income Tax system, provide protection against inflation for private pensions of up to twice the maximum pension available from government programs, and would benefit pensioners aged 68 and over. The amount of credit each year would be equal to the pensioner's after-tax private pension up to the prescribed ceiling multiplied by the percentage increase in the Consumer Price Index since the pensioner attained age 65. The credit would be applied against any income tax payable, with any balance being refunded in cash.

There are a number of serious flaws in the Inflation Tax Credit as proposed. The credit would apply to pensions provided by money-purchase pension plans and individual registered retirement savings plans as well as to pensions provided by defined benefit plans. However, the pensions provided by defined contribution arrangements are automatically compensated for inflation, at least to the extent that interest rates properly reflect future rates of inflation. Another defect is that pensioners receiving fully indexed pensions would receive double-indexing under the proposed program. Even if these defects were corrected, the program has the fundamental problem that eventually it would be paying huge amounts of pension on an unfunded basis which could only be financed by higher rates of income taxes for all taxpayers, including those who would derive little benefit from the program themselves.

Many observers in Canada believe that it would be preferable for private pension plans to be required, as a minimum, to provide a certain level of post-retirement adjustments using the "excess interest" approach. If this requirement were phased in over a number of years, the burden on plan sponsors would not be unmanageable.

Another of the Commission's recommendations of particular interest to actuaries is that only specified actuarial cost methods, namely, the accrued benefit, entry age normal, and attained age normal methods would be permitted for funding purposes and the Pension Commission of Ontario would have the authority to designate the types of plan for which each method is appropriate. Also, the Pension commission would be required to establish guidelines for the choice of actuarial assumptions. These recommendations arose from the Commission's opinion that there is, at present, too much flexibility available to the actuary in determining actuarial assumptions and methods, making it very difficult for the non-actuary to assess the adequacy of the funding of a plan.

The Commission also recommended that retiring employees be required to receive their pension on the joint life and last survivor form with at least 60% continuing to the spouse. An actuarial reduction would be permitted. Other forms of pension would only be permitted with the written consent of the spouse. This is similar to a requirement recently enacted in Saskatchewan, which is due to come into force on July the 1st of this year. It remains to be seen whether this will lead to a sharp increase in the divorce rate around age 65 in that province.

With regard to vesting, the Commission recommended compulsory vesting after 10 years service if PURS is adopted or 5 years service if PURS is not adopted.

The commission took the view that social policy is more important than demographic realities and recommended that pensions from money purchase pension plans and individual registered retirement savings plans be based on unisex annuity premiums. Incidentally, the Canadian federal government recently enacted a similar requirement for money purchase plans under federal jurisdiction - it is probably fortunate that there are very few plans subject to this requirement, as nobody has yet figured out an acceptable method of compliance.

With regard to pension plans for public-sector employers, the commission recommended that pension indexing under these plans be subject to the same funding requirements as for private sector plans. At present, indexing under these plans is financed on an essentially "pay-as-you-go" basis.

An interesting post-script is that the Commission recommended against the establishment of a program of plan termination insurance, such as the one which was established a couple of months prior to the issuance of their report.

The recommendations of the Royal Commission are by no means certain to be accepted by the government of Ontario. However, the Commission's report will be given serious consideration in determining the direction in which Canada will proceed in the pension area.

MR. HERB N. BEILES: The Canadian Federal Government under the co-chairmanship of the Hon. Allan J. MacEachen, Deputy Prime Minister and Minister of Finance and the Hon. Monique Begin, Minister of National Health and Welfare sponsored a National Pensions Conference in Ottawa on March 31 to April 2, 1981.

Approximately 370 delegates representing the federal and provincial governments, the pension and insurance industry, employers, pensioners, labour and groups representing women were invited to Ottawa to participate in the reshaping of the future of the public and private pension systems.

Prime Minister Pierre Trudeau, in his opening remarks stated the two important objectives of the conference: The first was to raise the general awareness of Canadians of the serious problems and frequent unfairness of our pension system. The second was to explore ways of reforming that system. He identified four problem areas:

> The first was coverage by the private sector plans. The Canadian government, Mr. Trudeau said, has pledged that people will be better protected in the future than they are now.
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> The second problem area is the erosion of pensions due to inflation. The unfairness of that situation is not tolerable in a nation which believes in social justice, said the Prime Minister.
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> The third important issue was portability and vesting. Mr. Trudeau said that he wished to ensure that Canadians are able to move freely across Canada, seeking the best opportunities and contributing to the national development, without feeling concern that they will leave themselves permanently crippled in their old age.
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> The fourth issue is the treatment of women in the field of pensions. The government said they were concerned about pension entitlements which were drastically reduced or eliminated upon the deaths of their spouses.

The Prime Minister hoped that the Pensions Conference would bring forth proposals and solutions to these four questions. He said that his government gives very high priority in bringing about substantial pension reform during his mandate. A concrete set of federal objectives would be prepared based on the advice from the National Conference and Mr. Trudeau called upon the provincial governments to meet with him in July, to refine the objectives together, to learn more about provincial points of view and to work out ways in which Canada and the provinces would jointly implement the pension reform. The federal-provincial discussions would be necessary because of the provincial jurisdiction in both private sector and Canada Pension Plan.

The format of the meeting was as follows:

The first morning there were two keynote speakers. The first speaker was Shirley Carr, who is Executive Vice-president of the Canadian Labour Congress and the second to talk was Claude Castonguay, who is an actuary, life insurance executive, and a former Minister in the Quebec Provincial Government. The afternoon of the first day consisted of four panel discussions on the future shape of private sector pensions. On the second day the delegates were assigned to workshops and they discussed their views on these four topics.

The third morning was used to report back to the delegates on the results of these workshops. Then the conference was brought to a close by Co-Chairman, Hon. Allen J. MacEachen. In addition, they had luncheon speakers who were well chosen by the government. One of them was Senator David Croll, who is Chairman of the Special Senate Committee on Retirement Age Policies. He happens to be eighty-one so he certainly knows about retirement. The second speaker was the Hon. Gordon T. Snyder, Minister of Labour of the province of Saskatchewan. Monique Begin, the Co-Chairperson, talked to us at a Banquet held on the second evening.

Now, what was actually discussed?

First of all, Shirley Carr from the CLC in her keynote address stated that three standards should be used to judge whether retirement incomes are adequate. First, they should be above the poverty line. Second, the move from active employment to retirement should not involve a substantial decline in living standards and third, retirement income should grow with the cost of living. She cited statistics that as of 1978 more than one quarter of all family units with the chief income earner over 65 were living on incomes below the poverty line. Of the various forms of retirement income available to the current population over 65, the national pension programs (OAS, CPP and GIS, which is a means test related benefit) account for approximately 60% of all income going to the retirement group and this is all fully indexed. Investment income accounts for 25% and employment-based pensions for the remaining 15%. Therefore, in Canada, the total amount coming from the private sector in pensions is about 15% of the total income over age 65.

She points out that these latter sources of income, that is the private sector plans and the investment income, are not normally indexed. She went on to criticize the private sector pension system, saying there was inadequate coverage, undue long vesting periods, a general lack of portability of pension credits and erosion of retirement benefits due to inflation. Her conclusion was that improved benefits from public plans are absolutely essential if all Canadians are going to enjoy an adequate retirement income. This conclusion was certainly not very surprising since the CLC has been advocating a substantial increase in benefits under the Canada Pension Plan for the last few years. Mrs. Carr's keynote address seemed to set the tone for every other labour speaker at that particular meeting. No matter which topic was discussed, Labour's solution was always the same: increase the benefits under the CPP/QPP.

Mr. Castonguay's address was entitled Public and Private Dimensions of Pension Reform. First he traced the development of the Canadian public and private pension systems. He pointed out these systems have gradually been improved upon in stages and that in each stage these improvements have been aimed at adequately meeting the needs at the time, taking into account repercussions on the economy and the wealth available. He goes on to point out that the nature of the problems which confront us today were largely unforseeable when the main elements of the present system were established in the middle 1960's.

During the 25 years following World War II the growth of our economy out of our collective wealth was continuous and rapid, but over the past decade this growth has slowed appreciably. The rapid increase in energy costs, changes in values and behaviour as they relate to work, environmental concerns and other reasons lead us to expect a long period of very weak economic growth. In the absence of growth, new resource allocations can only be made at somebody else's expense. Thus the period of great new social measures seems to be over, and Mr. Castonguay pointed out that we will have to follow the path of making adjustments to the system already in place, being very conscious of the new costs that these adjustments would involve.

He called upon the public not to condemn too quickly retirement plans in the private sector for not always knowing how to respond efficiently and appropriately to the relatively new problem of inflation. Inflation itself is what one should be fighting, rather than searching out new ways to reduce its consequences.

On the subject of adequacy of present retirement income levels, Mr. Castonguay said that it should be kept in mind that 59% of older Canadians own their own homes and that the needs of persons owning their own homes are clearly not as great as those persons who rent. The available statistics on older persons with low incomes does not reflect home ownership nor is it taken into account in qualifying for the Guaranteed Income Supplement (GIS) or other income-tested formula. Thus, he concludes, the plight of the present elderly may not be as bad as it appears.

He discussed the option of improving the Canada and Quebec pension plans. The advocates of this approach, he said, find it has a number of advantages: All workers would be covered and they would obtain immediate rights to the new pension credits which would be fully portable and indexed, and the problems of protecting women could be solved by appropriate amendments. Administratively, the existing mechanisms would absorb the strain on two plans without too much difficulty. However, he pointed out that in its present form, the true cost of CPP over the long term is between 8% and 10% of the work incomes although the present contribution rate is only 3.6%. Thus, he says, expanding the CPP would generate extremely significant costs which, in the present forseeable economic context, do not appear to be feasible. Those advocating increasing CPP because it provides results faster than private plans should also be aware that if the period of maturation of a public plan is shortened, as was done in 1966, the workers with the higher incomes gain the most from this proposal.

Mr. Castonguay also wondered whether future generations will be able and ready to support all of the financial burden passed on to them when you take into account the shrinking work force relative to retirees. Also, the consequences of another massive transfer of savings from the private sector to the public sector could very well add to our present high unemployment rates. Finally, the government is currently confronted by enormous budgeting problems and an improvement in the CPP would only worsen this situation.

For these reasons Mr. Castonguay feels that the way to proceed is to improve and strengthen the private sector plans. He rejects mandatory schemes such as those suggested by the Royal Ontario Commission and, also, the Canadian Life & Health Association. Owing to their irreversible nature, they may risk excluding in the future more dynamic and effective approaches. Instead, he prefers to solve the problems of workers in small businesses by facilitating the establishment of pension plans through easier registration procedures related to the income tax and provincial pension boards. He would also like to see small employers be allowed to contribute to the Registered Retirement Savings Plans of their employees within greater limits than are now allowed. In order to improve the situation of women outside the work force he would like to see the exemption limits raised so that their spouses could contribute for them.

In his concluding remarks, he confirmed that for pensions, progress will follow best from a quest for agreement rather than through the route of confrontation and that confrontation should be avoided by any means.

The luncheon speaker on the first day was Senator David Croll, Q.C., and as I said before, he was chairman of a task force, which tabled in 1980 a report called "Retirement Without Tears". Not surprisingly, he called for a significant increase in the Canada Pension Plan to solve our current pension problems. I say not surprisingly, since this was the same conclusion reached in his report. As previously mentioned, panel discussions on the four major topics were held in the afternoon. Representatives from business, labour, women groups, pensioners and the pension and insurance industry gave their views on Coverage, Women and Pensions, Portability, Vesting and Locking-in, and Protection against Inflation. What follows is a brief summary of these panels.

The panelists appeared to agree on two points. First, that poverty among the current elderly has not been alleviated and cannot be alleviated by changing the present employment-based pension plans. Relief for the current elderly poor must be provided by our OAS and GIS. In addition, there was a general agreement that private pension benefits should be considered deferred wages.

In the panel on Coverage, Mr. John Panabaker, who is President and Chief Executive Officer of the Mutual Life of Canada, rejected an expanded CPP/QPP as it would result in a lack of savings and investment capital if it is unfunded or would cause problems of state control over funds if it is funded. He personally favoured mandatory minimum plans which was the same as the CLHIA for which he is spokesman.

Mike Rygus, General Vice-President of the International Association of Machinists and Aerospace Workers and representing Labour, rejected an expansion of the private system in solving basic coverage problems and was against mandatory private coverage saying that mandated plans amount to personal savings plans and not pension plans. As expected he saw an expanded public system as the only solution.

The third speaker was John Bullock. He is the President of the Canadian Federation of Independent Business. He pointed out that pensions are relatively uncommon among small and medium sized employers because they are prohibitively expensive. The majority of the members in his Federation use RRSP's for themselves and their spouses and he argued for an immediate increase in the RRSP limits due to inflation. His members reject mandatory retirement and support voluntary participation of housewives in CPP/QPP. He cautioned government to not be too hasty in legislating new pension arrangements.

Louise Dulude, Lawyer-Researcher and Feminist was extremely critical of the low coverage of women and felt that the only efficient way of providing better coverage was for an expansion of the CPP/QPP. She feels that the current public plans are highly discriminatory against women and should be changed to meet the needs of women. She suggested that homemakers caring for young children should be able to participate in the CPP/QPP and yet not have to contribute.

From the Panel on Women and Pensions, the Honourable William Hamilton who is President and Chief Executive Officer of the Employer's Council of British Columbia, and also a former cabinet minister in the Federal Government, called upon a change in the traditional way of thinking of women as dependents when it comes to pension reform. Improved spousal benefits, such as an automatic joint and survivor benefit of at least 60% and an equal division of pension credits on marriage breakdown, would go a long way towards correcting the current inequities. He called for careful consideration to be given to the use of unisex tables in calculating pension benefits under money purchase plans.

Kevin Collins, who is a senior economist from the Canadian Labour Congress, said that only an expansion of the CPP would deliver on all fronts. In the private sector, he called for unisex mandatory tables, a minium survivor's pension of 60%, full independent rights to disclosure, the treatment of pension credits as property on marriage break-down, and an accounting of maternity leave towards meeting membership and vesting requirements.

Louise Delude spoke again for the groups representing women, and she said that the private system could do little to improve the benefits of women. She calls on the CPP expansion for this problem.

There was a panel on portability, vesting and locking in. Minimum vesting standards were seen as necessary by all the members of the panel.

The first speaker was Charles Perrault, President of Perconsult Limited. He pointed out that a number of private sector organizations had called for full vesting with five years of service or less. He also believes that a consensus is emerging on the need for some form of inflation protection of deferred vested benefits. He suggests that not more than 50% of vested benefits be financed by the employee. The employee and employer shares should be locked in and that the value of vested benefits be protected by ad-hoc adjustments or the vested benefits transferred to individual Registered Retirement Savings Plans.

Herbert Hanmer, who is Secretary of Legion Seniors Programs, Royal Canadian Legion, felt that the only answer to improved vesting and portability was an extension of the Canada Pension Plan.

Vincent D'Ajeunais, a Union Advisor, echoed the other Labour spokesman, and he again had the same comments.

The final panel was on the subject of protection against inflation, and here the lead-off speaker, Ron Riley, who is Vice President of Administration of Canadian Pacific Limited, felt that full indexing would involve overwhelming costs for the private sector.

Andy Stuart, President of the Public Service Alliance of Canada, argued that full indexing was essential. He felt the excess earnings method would transfer the risks to pensioners and in summary he said that the public plans must be the major vehicle for retirement income.

The last panelist was Jean Louis DeLeo, President of the Committee for Gerontology, Laval University. He pointed out that inflation was out of control and price increases in food, housing and clothing presented an urgent problem for retirees. He called upon the state to take action to meet the needs of retirees.

In summing up the panel discussions, Dr. James Nininger, President of the Conference Board of Canada warned that it is important to view Canada's public and private pension systems as an integrated system. If we want an improved pension system in this country, he said, we must be prepared to forego present consumption in favour of greater savings. In the final analysis, said Dr. Nininger, what will determine the future shape of the pension system is a political decision, which will be based on broad consensus of the primary responsibilities of individuals, employers and the state in providing for retirement.

On the second day of the conference, delegates were given an opportunity in workshop sessions to voice their opinions and recommendations on the four problem areas. Each workshop had representation from the different sectors, resulting in lively and, at times, heated discussions. Many constructive solutions were put forth and a summary of these discussions was made to the Conference, at large, on the third day. The participants of the workshops tended to follow their predetermined views and few, if any, were won over by the debate. As expected, labour, pensioners, and groups representing women argued for increases and improvements in the public plans, saying that the private sector could not cope with the deficiencies in the current system. Naturally, representatives of employers and the pension and insurance industry had the opposite view.

The view of the government representative was mixed. Certain federal Members of Parliament, who were involved with the establishment of the Canada Pension Plan argued for an expanded role of these plans. Federal M.P.'s from the Conservative party were worried about what governments would do with the large amount of revenue received from an increase in the public plans. Most government representatives of the provinces were unusually quiet on many of the main issues. Some say this was because they were against the whole idea of Ottawa holding this National Pensions Conference in the first place since the provinces have jurisdiction in the regulation of private sector plans.

However, the luncheon speaker, the Hon. Gordon T. Snyder, Minister of Labour of the Province of Saskatchewan was far from quiet. He told the Conference that the expansion of Canada's public pension system is "simpler, easier to understand, satisfies the criteria for an adequate retirement income system, and is generally more effective and efficient than mandatory private pension coverage ever could be". This point of view was hardly surprising when you realize that it comes from the Labour minister of a socialist government.

Coming back to the workshop discussion, most agreed that private plans should be indexed in some form. Several approaches to indexing were discussed but some observers preferred "ad hoc" pension adjustments. Proposals such as the direct indexing to the CPI and the inflation tax credit - as advocated by the Ontario Royal Commission generated considerably less discussion. There was serious concern over the additional costs involved in providing meaningful inflation protection.

On portability and vesting, a strong consensus emerged supporting improved vesting to move progressively towards full and immediate vesting with perhaps an initial move to 5 years or less of service as a requirement. Also, benefits should be transferrable from an employer's pension plan to a new employer, or to a locked-in RRSP.

On coverage there was general agreement that governments should take the full responsibility for providing a minimum income floor and that the national Old Age Security and GIS programs should play key roles in the future. Government's responsibility should be limited to providing replacement incomes up to a certain level. Most delegates cited the average industrial wage (AIW) as the relevant upper limit but some said it should be as high as 1.5 times the AIW.

On pensions for women there was general agreement on the need to include mothers in a retirement income system but there was no consensus on how this was to be done. Most delegates rejected the notion that some housewives might volunteer to contribute to CPP since this would only benefit the better-off segment of our society. Almost everyone favoured mandatory survivor benefits and most said they should be at least 60%.

At the banquet held on the second evening, Co-chairperson Hon. Monique Begin related information on how four European countries, which she recently visited, have been able to deal with the pension problems similar to those we are having in Canada. The West German public system encountered problems because of the growth of the pensioner population as compared to the working population and was further aggravated by an economic slowdown following the oil crisis and by the introduction of many generous early retirement benefits. However, they were able to get their plan back on sound financial footing by putting a temporary cap on indexation. In France, the private plans are operated on a pay-as-you-go basis. This came about after repeated monetary crises had shaken public confidence in the value of pensions.

In the U.K. private plans can contract out of the public scheme provided that the plan is at least as good as the public one. Private plan members continue to contribute to the public scheme at a reduced rate but the government picks up the tab for inflation protection. Sweden, said Mrs. Begin, has the most similar pension system to Canada. However, their earnings-related public plan covers a much higher level of earnings and private plans cover 90% of workers - almost double the private coverage they have in Canada. What Mrs. Begin found of most interest in the Swedish system is the way in which they invest part of the surplus of their public pension funds in the private sector.

In comparison with all four countries, the Canadian 3.6% contribution rate was extremely low. I think she was trying to give us a hint. For example, the contribution rate is currently 18% in Germany. She suggested that Canadians can well afford to contribute more towards their retirement incomes.

The final speaker at the Conference was Co-Chairman Hon. Allan MacEachen and he told the delegates that there now was growing agreement on the nature of the problems and some of the directions reform must take. This is a sharp contrast to the situation in the mid-1970's when "we scarcely knew what was happening". He said "not only must the Government take into account the cost of reform to federal and provincial budgets but it must consider its impact on the competitive position of business, on the structure of capital markets, on the growth of the economy and on future generations of Canadians". He said "he would be a staunch advocate of reform the country can support".

Mr. MacEachen said the meeting showed that no simple solution to pension problems is on the horizon. Increasing support for the single elderly is the leading priority of the federal government when it can afford to move, and the consensus of the Conference is that it can be solved by increasing government support.

The Conference is over. What happens from here? Most observers of the Conference agreed that Mrs. Begin's mind is made up and that the conference was well orchestrated to obtain the results she wanted. She appears to favour an improved and expanded Canada Pension Plan but in order to satisfy industry critics and to some extent her co-chairman, Mr. MacEachen, she will probably opt for something similar to the British System. That is, a mixture of a bigger and better Canada Pension Plan with the option for employers to opt out of the public system provided they have just as good a plan in the private sector. This would guarantee the private pension system much more growth and would cushion the cost of the Canada Pension plan increase. However, only time will tell and the forthcoming Federal/Provincial talks scheduled for July should provide more input.

MR. THOMPSON: I am sure we can all see the common theme that runs through this issue. The governments are very much in favor of greater involvement. In the States, they may not expand the system but they may bring in new ideas of covering females and protecting people when there is divorce. Special interest groups are in favor of the government getting in with both feet. In Canada, we are going to have the provinces and the federal government fighting over pensions the way they are now fighting over oil and the constitution.

MR. AILEY BAILIN: I am going to make reference to the report that Mr. Beiles has just given. On the one hand, you had Labour agreeing with Women's Groups, the Aged, and the Liberal Party of Canada, which is currently the federal government, and agreeing with the NDP Party, which is the ruling government in Saskatchewan. All of these groups, which is not an inconsiderable part of the Canadian scene, seem to be in agreement on the solution, maybe not the best solution, but a solution to the perceived problem.

On the other hand, you had the Conservative Party. You mentioned that their concern was over the use of the large pool of capital that would be derived. You then reported that private industry just couldn't get their act together. Is the conclusion not something along the lines that private industry cannot get their act together and that there is a real problem that has to be solved and one solution would be to expand part of the CPP/QPP?

MR. BEILES: Well, maybe that is the solution. Inflation has come so quickly when we were not expecting it, particularly at the rate it is today. They can make necessary changes in the private sector to solve most of the problems that were put forward at this conference. Being in the private sector, we don't all think as one. We all have our own solutions and that is what is nice about the private sector. Each plan is different. Everybody can go ahead in their plans and do the things that they need to in order to solve the problem. Other groups, feel there is one solution and they think of it as being very easy and inexpensive to do. They tend to forget that they are getting a real bargain for what they are paying in. Who is going to pay for all these new benefits?

MR. RICHARD A. BURR: Everybody is familiar with the problem of the declining working population ratio to the future retired population. However, the former Commissioner of Social Security, when talking about increasing Social Security, suggests that maybe we should look at the total picture. Everybody who depends upon the working population should be included. The child population is declining. Maybe there will be more funds to transfer from the children to the retired population. There is some substance to that. However, the thing that bothers me about that is that you have a personal choice in whether or not you are going to have a child and support that child. You don not necessarily have a personal choice as to whether or not you are going to support the aging population.

MR. BAILIN: You have charged private industry to come up with some solution. I would like to see actuaries providing more input, coming up with positive suggestions. But, do actuaries have the time or the inclination?

MR. JAMES G. BRIDGEMAN: The reason actuaries cannot get organized to provide a position is that the entire debate is focusing on outcomes, not on systems. A system should absorb a shock or two without falling apart. We had systems that were not flexible enough to absorb the shock of a sudden slowdown in economic growth. We, as a profession, ought to be the experts on how you build a system that has some flexibility in it. We need to improve the funding system; thus, the focus should be on systems not on outcomes.

MR. THOMPSON: There are two solutions. One solution is that the government pensions are expanded. The other is government telling private enterprise what is to be done. I find this is less distasteful because the government is acting more as a referee. We need to discuss solutions rather than being negative and not contributing anything. Otherwise, the solution will be forced upon us. We will have nothing to say about it.

We, as actuaries, who presumably know the implications of different solutions and can see the problems developing into the future should be taking a lead in helping reach conclusions. I think it is important that we say something positive, rather than always being negative and having adverse reactions to everything. We should try to help develop systems that will work.