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CURRENT TOPICS: CANADIAN PENSION

Moderator: SHIRAZ Y. M. BHARMAL. Panelists: J. WELLS BENTLEY, PETER C. HIRST,
RICHARD T. MILES*

1. Pension reform in Canada from the government point of view.
2. Pension reform in Canada from the point of view of private plan sponsors.
3. Pension reform from the point of view of financial institutions.

MR. SHIRAZ BHARMAL: Pensions have been a subject of intense study in Canada for more than five years. It has generated much debate and has raised some very fundamental questions such as:

1. Who has the primary responsibility for ensuring adequate pensions?
2. How should they be financed?
3. What are the respective roles of the individual, the government and the private plan sponsors?
4. How is the present system working?
5. Should government benefit plans be expanded?
6. Are private pensions doing a good job?
7. What is the nature of private pensions - are they deferred wages or income protection plans?
8. How can private plans deal with an increasingly mobile workforce and with inflation?

Underlying all these questions are, of course, differing ideologies. There have been many studies to date and no less than five of these have been government-sponsored. Each study has grappled with the issues, and yet, no consensus has emerged. Most studies are agreed, however, that there is an immediate need to upgrade the benefits of single senior citizens and that this can best be done through government programs. They also agreed that there is a definite need to increase pension levels and that this can be accomplished through either the expansion of existing government plans, or the mandating of compulsory private plans, or the improvement of current private plans.

The private plans are perceived as falling short in certain areas such as:

1. benefits for terminating employee;
2. pension payments maintaining their real value in the face of inflation;
3. benefits for women as employees or as surviving spouses.

Different recommendations have been made to overcome these perceived shortcomings.

Underlying the entire debate, there is a jurisdictional rivalry between the Federal and Provincial governments. The Federal government, as well as most Provincial governments, has made pensions a priority issue. The Federal

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government has attempted to retain initiative by calling a National Pensions Conference which opened on March 30, 1981 and was addressed by the Prime Minister himself. At the close of the conference the Federal government had promised to sponsor a Federal-Provincial government conference during the summer of this year. This meeting has not, as yet, materialized. There has been, however, a very high ranking inter-departmental Federal task force set up to prepare an options paper. Meanwhile, Saskatchewan has gone ahead with changes in its pension standards law and New Brunswick has introduced a Bill to expand its law.

In all this maze, Ontario is a very key player. It has jurisdiction over pension standards and has the largest number of plans registered under the interprovincial reciprocal agreement. In addition, Ontario has an effective veto on any changes to the Canada Pension Plan (C.P.P.). This stems from the fact that any changes to the C.P.P. must be approved by two-thirds of the provinces representing at least two-thirds of the population. With Quebec's absence from the national plan, no changes can be made to the C.P.P. without Ontario's consent. Ontario actions are, therefore, very significant.

Ontario is also the sponsor of the Haley Report prepared by the Royal Commission on the Status of Pensions in Ontario. The major and more controversial recommendations of the Royal Commission can be summarized as follows:

1. No basic changes to the current combined Old Age Security (O.A.S.) and the C.P.P. with the exception of some minor amendments such as the immediate upgrading of income tested supplements for single seniors, pay as you go financing with a small contingency fund for the C.P.P. and the exclusion of child-rearing years for women in determining C.P.P. benefits.
2. The establishment of a compulsory provincial universal retirement system (P.U.R.S.).
3. A greater recognition of private plans in the areas of:
 - (a) vesting and locking in;
 - (b) the restriction that, for terminating employees, not more than fifty percent of the defined benefit may be financed by employee contributions;
 - (c) a minimum interest rate to be credited on employee contributions;
 - (d) the inclusion of permanent part-time workers in private pension plans;
 - (e) an automatic surviving spouse's benefits;
 - (f) greater disclosure.
4. The provision for a refundable inflation tax credit to taxpayers age sixty-eight and over.

The Haley Report recommendations contrasted with the Lazar Report prepared by the Federal government Task Force in some very crucial areas. The Lazar Report lay emphasis on the expansion of C.P.P. and on the greater role of the state in ensuring adequate retirement income for middle income earners.

Ontario, presumably wishing not to lose the initiative, promptly referred the Royal Commission report to the Select Committee of the Ontario legislature for review. Their first report was published on Thursday, October 15, 1981. While the report reserves recommendations on major issues such as the expansion of C.P.P. and O.A.S., the introduction of Provincial Universal Retirement System (P.U.R.S.), plan terminations, inclusion of part-time employees in private plans and the questions relating to public sector plans, it has

made recommendations which it believes can be acted upon quickly. Briefly, the recommendations are as follows:

1. The extension of income-tested supplement to single seniors equal to sixty percent of the married couple rate.
2. The funding of Canada Pension Plan on pay as you go basis with a small contingency reserve.
3. Five year vesting and locking-in with no commutation of the locked-in benefit except for small benefits amounting to \$25.00 a month or less.
4. Minimum interest on employee contributions equal to 1% below the non-chequing savings account rates.
5. Employee contributions not to finance more than one-half of the vested benefits upon termination.
6. Employees to have the right to transfer fifty percent of the value of the locked-in benefits upon termination to a Registered Retirement Savings Plan or a new employer pension plan.
7. Compulsory provision of 60% surviving spouse's benefit unless waived by the spouse.
8. Greater disclosure to employees.
9. Employee participation in pension administration.
10. No changes to funding rules.
11. The development of an excess interest approach for increasing deferred pensions and pensions in payment. The Committee has rejected the inflation tax credit.

Each of the panelists will now address these developments in context of the overall pension scene.

MR. WELLS BENTLEY: As Shiraz has said, pensions in Canada have been the object of many studies. I cannot think of any place that is so confused as to the direction in which so-called pension reform should go as we are in Canada. I happen to sit on five different committees, and all of them seem to be heading in different directions.

As far as I can tell, there are really only three alternatives open to Canada with respect to so-called pension reform. The first is an expansion of the C.P.P. with, perhaps, some expansion to the O.A.S. program. The second is the one developed by the Royal Commission, namely, the establishment of the P.U.R.S. program, a straight money purchase arrangement which will be mandatory. The third alternative, and the one that I personally favor, is that we leave the C.P.P. for now, that we improve the level of benefits for those currently in need of assistance by way of programs such as O.A.S., the Guaranteed Income Supplement (G.I.S.) and so on, and that the private sector pension plans be improved along the lines of the recommendations made by the Select Committee.

The development of coverage by the private sector could be materially assisted through the utilization of the various programs that are currently being developed such as the multi-employer plans being developed by the insurance industry and the community programs being developed by the Boards of Trade and the Chamber of Commerce. It is also possible that the approach being promoted by Manitoba commencing in 1982 (where they will promote voluntary pension arrangements and will materially assist in establishing the plans) may some day be introduced in Ontario.

In the event that this kind of approach fails to work, then we would have no choice but to develop a mandatory arrangement such as the one recommended by the Royal Commission, or to increase the C.P.P. The private sector has told us time and time again it can do the job. They are entitled to be given the opportunity to do the job with the support of the government. If they do not do the job, then it will be demanded by the people of Canada that they receive reasonable income replacements and that the government play a larger role.

One of the concepts that the Select Committee struggled with was the fact that pensions are really nothing more than deferred wages. Pensions, as deferred wages, have been talked about for many many years. It has, however, not been philosophically accepted until now. The Select Committee, who are all members of the legislature of Ontario, have said to the legislature of Ontario that pensions are deferred wages.

There was one other recommendation made by the Select Committee which I feel is very significant, and that is that the plan members have representation on a Board of Trustees and/or Board of Administration of a pension plan. This, you will note, is consistent with the concept that pensions are deferred wages. Pensions belong to the beneficiaries who are the members of the plan and who should have the right to know how their funds are being managed.

MR. PETER C. HIRST: As Shiraz has said, he has asked us to be provocative today. You can therefore appreciate that some of the positions I adopt may be an overstatement or perhaps an incomplete representation of my own views.

Shiraz and Wells have clearly and concisely outlined the recommendations of the Select Committee Report and the thinking that went into it. My immediate reaction to the Report is that it is a political compromise which avoids the main issues, except perhaps for the concept that pensions are deferred wages. The recommendations are essentially those which will be politically acceptable to most people and for all political parties. However, perhaps because of that, they are rather narrow in their scope. Rather than discuss the recommendations in detail, what I would like to do this afternoon is to address some of the main areas that Wells has touched upon.

First and foremost is the Committee's adoption of the concept of pensions as deferred wages. So that there is no misrepresentation there I think it is as well to read the section of the Report dealing with this concept.

"Pensions were once thought of as a reward for long and faithful service. However the current concept of viewing pensions as deferred wages has gained wide acceptance. The adoption of this concept implies many changes in areas such as vesting provisions and employee rights on termination of employment. For example it has been argued that if pensions are considered exclusively to be deferred wages then employers should be under no obligation to give post-retirement augmentation to compensate for inflation. The Committee believes however that the proposal to use excess interest to augment benefits is consistent with the deferred wages concept. The Committee accepts the broad concept of deferred wages."

This is a very, very significant statement because it is coming from politicians who are going to make the law. I do not have much quarrel with the statement that the excess interest approach is consistent with the deferred

wage concept. What I do have a major quarrel with is the concept itself, namely that pensions are deferred wages. I am of the view that if you accept pensions simply as deferred wages then you are forced to adopt the money purchase plan with immediate vesting and employees having a major say, if not the only say, in how the assets are to be invested. Can you really say that a defined benefit plan which, because of the ages of the employees, requires different contributions for two employees earning the same wages and accruing the same benefit, is consistent with the deferred wage concept? Also, when you start looking at the retirement provisions such as thirty and out or eighty-five points and age fifty-five which provide the flexibility and desirable features that pension plans have, then any semblance to the deferred wage concept is completely lost. You are thus forced to the money purchase approach whereby the risks, particularly the investment risks, are transferred to the employees. It is because of this that you are forced to the position that the employees must be given a major say, if not the only say, as to how the assets are to be invested. To deviate a little bit from this theme, the Select Committee does, in fact, recommend that the Pensions Benefits Act be amended to require that employees be allowed to choose at least one member on the body directing the affairs of the plan. However, this is a very wishy-washy recommendation since it does not stipulate what sort of power, if any, this individual or individuals are to have. The employer can still stack the administrative body in his favour if he so wishes to do so.

The Select Committee perhaps demonstrates its complete lack of understanding of the concept of deferred wages when it recommends no changes to benefits or funding of the C.P.P. They adopt the Royal Commission recommendation that the C.P.P. not be increased and be funded on a pay as you go basis with a contingency fund equal to two years' benefits plus two years' administration costs. How such an approach can be reconciled to the concept of pensions as deferred wages completely baffles me. In this approach to C.P.P., wages are not being deferred. Costs are. We all know it is the future generations who are going to have to pay for them.

The fact of the matter is that pensions are not deferred wages. There may be an element of deferred wages but you cannot properly design a pension plan, let alone a complete pension system, without recognizing that pensions constitute a part of what may broadly be called income security. Regardless of the Committee's confusion with respect to the deferred wage concept, its recommendation on the funding of the C.P.P. is a bad one. It not only transfers significant costs to future generations of contributors, but, worse yet, it transfers costs to people who may not even be in the C.P.P. In 1986, when the cash flow to the province is expected to turn negative, instead of contributions being raised to prevent this as recommended by the Committee, the province will either have to raise taxes or borrow money from other sources. Borrowing money means interest and principal repayment which means taxes, so it is taxes one way or the other. In other words they are going to finance C.P.P. from taxes and it seems far fairer to me to raise taxes from contributions than to tax everyone regardless of whether or not they are in the C.P.P. This is the only recommendation the Committee makes with respect to the C.P.P. and the real "gut" issues such as what pensions should be provided, by whom and how they should be financed were not addressed.

The recommendations deal mainly with changes to private pension plan legislation. I would agree with Wells that most of the changes are likely to be acceptable to the private sector and that these changes need to be legislated. The private sector has basically taken the view that yes, things need

to be done, but I as the ABC Company am not going to increase my costs unless I know XYZ Company is also going to increase its costs. When you get into a situation such as that, legislation is required to break the "dead-lock". The private sector accepts this type of legislation and, in fact, almost wants it.

It is not clear from the Report if all the implications of the recommendations have been thought through. For example, imposing minimum interest returns on employee contributions may result in a far more restricted or conservative investment policy. Overall returns may, therefore, be reduced resulting in lower pensions than would otherwise have been the case. On another track, if employees are to have some say in how the funds are managed, are they also prepared to accept the risks and/or the cost of poor investment performance. As far as the excess interests approach to inflation protection is concerned, I believe the private sector is prepared to contemplate such a system. What is to be applauded is the disappearance of the word "indexing" since it is recognized that the excess interest approach is not the same as indexing. It does, however, provide for a fair distribution of the impact of inflation. Nevertheless, for all its merits, the excess interest approach is fraught with difficulties and has to be carefully thought through. This is what the Select Committee recommends and I applaud it for doing that.

In conclusion, the Select Committee raises the old cry for uniformity of legislation. Everyone wants uniformity of legislation but the real problem we have is that each provincial government wants its legislation to be the standard for the norm. Unless the provinces get their acts together on this, the political door is being opened for the Federal government to step in and take major initiatives in this area through tax regulation. They have done it before and they can do it again.

MR. RICHARD T. MILES: What I am going to try to do is identify a few of the problems which I see in the recommendations from my own point of view and from an insurance company point of view, and to comment on how the proposed legislation can impact on what we do with our insurance company products.

As Peter said, the Select Committee has produced a politically expedient report. They have established recommendations which have taken a safe middle line and which will not rock the boat. It is, however, going to keep the issues in the public eye and get things on the road. They have also left the door open for industry to take the initiative. If we put our minds to it and address the problem, we can find solutions and perhaps avoid mandatory pension plans.

The Committee was not prepared to take a stand on whether to go the G.I.S. route or the GAINS route or with a universal program like O.A.S. to solve the problem for the elderly today. They, for some reason, were not prepared to say whether or not a universal program is better than a needs related program. I cannot understand why they would not automatically consider a needs related program the best approach to solve the problems of the elderly. A universal program benefits everyone but it does so at a very, very significant cost to us all. They really are trying to provide solutions but it seems to me that they have not established what the overall scope of the problem is. They have not established what a desirable replacement ratio for any kind of pension legislation or social security program should be. We do not have an adequate handle on what the true needs of the elderly are and on how inflation affects their costs. The first step has to be for us to establish a target replacement ratio.

The second area that they did not take a stand on was the question of coverage. Throughout the Report they attempted to identify the coverage problem but no answers were given. They reserved conclusions on the severity of the coverage problem and have not made any recommendations on appropriate action. They have reserved their recommendations until the final report. The indications are that they would like some help from industry in identifying the real nature of the problem.

The deferred wage concept is, perhaps, the most far-reaching statement in these recommendations. It is a key statement because it is a fundamental which leads in lock-step fashion to money purchase pension plans and sets the groundwork for the introduction of the P.U.R.S. program. I prefer not to see the government mandate this program. It seems, however, that unless we do something before the final report, they will do just that.

The principal of employer and employee splitting the costs of pensions is not an unreasonable one and is quite livable. The mandating of the rate of interest to be credited to employee money and tying it to the rates on non-chequing accounts is, however, introducing a very substantial cost to plan sponsors. In fact, today it is difficult for most plan sponsors to invest in any vehicles like the non-chequing account. So, with this type of legislation, we could end up with plans investing their pension monies into bank accounts.

The Committee made a statement that portability is unworkable, and therefore have not tried to address it. They do acknowledge that the Canadian Life and Health Insurance Association has a system for portability which is supposedly workable. Many of the union plans also have portability which is in operation. The Committee did opt for the Saskatchewan route and provided for the transfer of 50% of employees' money to non-commutable RRSP's. In fact, they went one step further than Saskatchewan and recommended that the Federal government introduce a non-commutable RRSP arrangement.

The Royal Commission Report had made specific recommendations with respect to the legislation of assumptions, funding methods and standards. This Committee has stepped back from that which seems to indicate that there is not a severe problem of abuse and, therefore, there is no need to change the present funding requirements.

The principle of augmenting benefits for retired and deferred vesteds is quite acceptable. The big step is how they go about adopting this augmentation and what form of excess interest approach is to be adopted. The problem with the excess interest approach is that it is not necessarily related to need when it should be. Another problem with the excess interest approach is that it depends on the term of assets chosen. It seems the way the recommendations have come out that it is the panacea and that, therefore, it is just a question of what form of excess interest approach they will choose.

For the insurance industry there are a few specific areas in which problems may be created. Under current group annuities, employee contributions are accumulated with a very low rate of interest. There are paid-up group annuities and there are active group annuities. Presumably the active group annuity contracts will be modified, cancelled or cashed out. I am not sure however, how this legislation will impact on paid-up contracts where there is no plan sponsor. Saskatchewan took the approach of telling the insurance companies that they had to cash out all their old group annuities which was fine, except that they then decided they did not like the way the cases were

being cashed out and proceeded to prescribe the basis for cashing out the policies, notwithstanding that they may have been inequitable in relation to all of the policy holders of the company. It did not bear any time relationship to the time value of the monies. That is, no consideration was given to when the monies were invested.

The recommendation that requires a minimum rate of interest on employee contributions ring the death knell of the conventional group annuity. It impacts very heavily on single premium group annuities. There will have to be some form of control over what rate of interest the employee's money can accumulate at and, if it is tied to an outside indicator, the insurance companies are going to need to design some way of handling these outside indicators in their contract and in their pricing. Money purchase plans will most likely increase in popularity and these recommendations are going to lead, I suspect, to more use of DPSP/RRSP combinations as well. There will be a fair amount of surrendering of old group annuity contracts which will present financial problems for insurance companies.

The insurance industry has worked with government on two programs to facilitate money purchase plans. The UPP program, Universal Pension Plan, is a facilitating investment vehicle plan document/administrative package made available by the Canadian Life and Health Insurance Association (C.L.H.I.A.). It is virtually the same as the voluntary employee pension plan arrangement that Manitoba is introducing. So we are quite well equipped as an industry to handle a PURS type arrangement. Money purchase arrangements seem to be coming forth and it seems the recommendations are leaning in this direction. The group annuity will soon be a thing of the past. We are going to have to look at new types of excess interest products to accommodate the indexing of post-retirement pensions. We will have to develop some sort of flexible escalating annuities, as opposed to selling our current products which are indexed at a flat rate. We will now have to somehow formulate a contract which can be related to some outside indices. There is obviously a tremendous need for us to innovate and that is quite a change for the group annuity field or pension field in the insurance companies which has been fairly stable. In contracts we are going to have to design new and facilitating contracts. Many insurance companies have been going through a process of segmenting their assets and this should help in facilitating a functional allocation of excess interest earnings. There will be some problems however in orienting our asset matching towards an outside marker and immunizing ourselves. The insurance companies have never really been able to come up with contracts that can live with an outside marker, and that is going to be a real problem for us.

MR. BHARMAL: Thank you very much, Rich. There was one particular subject on which the Committee was conspicuously silent, and that is the question of unisex rates. Unisex rates, if adopted, would question the entire concept of deferred wages.

Prior to my opening up the subject for general discussion, I think Wells wants to come back on two or three items.

MR. BENTLEY: You must recognize that the determination as to where we will be headed in the future with the so-called pension reform will basically be a political decision. Whatever the decision is, it is up to you to get as much

input as you can into the changes if the committee is to steer in the direction you desire. The political document, the Select Committee's interim report, is a political position. It was agreed to by three major parties in Ontario. There were no dissenting reports on the interim report. Undoubtedly there will be when we reach the stage of producing the final report. However, up until today, there has been agreement among the parties that this is a reasonable and logical approach from a political viewpoint and that it will permit the flexibility that the private sector indicates they need in order to develop the programs that are going to carry out the social needs of the people of Ontario. You must recognize that it is a political determination. These decisions have to be made at the political level if we are to see pension reform take place in a reasonable length of time. It is true that the Select Committee did dodge many of the issues. This is principally due to the fact that they were twelve politicians, none of whom had any great knowledge of pensions nor of the pension programs in existence, and who had five short weeks in which to absorb a tremendous amount of information. You could not have expected them to deal with every aspect of pension plans. Part of the process, when they resume hearings in January, will be to call before them people who can provide the information necessary to assist them in determining the political direction of pension reform.

MR. FREDERICK J. THOMSON: One of the more important messages here today is that pensions are now to be viewed as deferred wages. Peter commented that if you are to view pensions as deferred wages, then we are being pushed towards money purchase plans. This, I feel, is a narrower interpretation of deferred wages than I would think is necessarily appropriate. If you look at the term deferred wages, it is an amount of money that should be taken and put into a pot for the employee to be his to keep and cherish forever. When he retires, the pension is what the deferred wage will produce. The idea of deferred wages is more of a concept, something that you do not think of so literally. I agree that pensions should be viewed as deferred wages. However, it is the deferred wage that he is entitled to, whatever it may be. This differs from the view that if pensions are deferred wages, the employees are immediately entitled to them.

MR. THOMAS O. LEVY: In the United States we have done a marvelous job of ignoring everything that Canada had learned prior to our regulating pension plans. May I suggest that you not ignore what we have learned and draw on some of the work done by the Employee Benefit Research Institute. The first thing is to recognize that the C.P.P. and the private pension plans are work-related. As such, if the problem you are trying to solve is not work-related you are not going to solve it with a work-related solution. In particular, some of the studies have indicated that you are less likely to have an income below the official poverty line in the United States after retirement than before. Well, if that is the case, then there really is not much you can do in a work-related program. You are not going to solve the post-retirement poverty problem with a retirement system that is related to work when that is not where your problem comes from.

The second thing is that it is very easy to generate a problem from statistics when a problem is really much smaller than it seems. A recent study indicated that 93% of people who left their jobs during the year would not get a pension from that job. However, the author of the study had counted people who left several jobs in one year. He had also counted people with

very short service. The other statistic that we get thrown at us is that half the people in the work force are not covered by private pensions. Well, it turns out that the work force includes everybody over 15 years old who is working when they do those studies. If you eliminate the people below 25, eliminate the people who are self-employed who can be thought of as building up equity in their firm to be used as retirement income, eliminate agricultural employees for whom mobility is so high that it is unlikely that any kind of a pension system would take care of them no matter what you do with it in design, you come up with a much higher percentage covered. If you then look at the probability of benefits received, it goes higher still because people as they get older tend to gravitate towards jobs that provide pensions and stay with them. If you then allow for spouses' benefits and ask "What is the chance of somebody who has spent his life in the work force or who was married to somebody in the work force of having some sort of income from a private retirement system?" it goes up still further. Is that a perfect solution? Does it mean it is all taken care of? Absolutely not, but the problem has to be viewed in its real perspective of what it is trying to do, which is to provide people with a retirement income that is adequate.

Finally, what we have found out in the United States was that the amount of money being spent on pensions had been going up about 15% before E.R.I.S.A., it went up 15% a year during the first years after E.R.I.S.A. and it has continued to do so since. What happened was that the money was used in a different way. Before E.R.I.S.A. it was used to provide more adequate benefits to people who actually received benefits. With E.R.I.S.A., it was used to provide more people less adequate benefits. Once that was taken care of, benefits started going up again. So it was not that there was increased cost or increased benefits. It was just a different allocation of the pension money and you have to look at the issue in terms of, "Are the political advantages of allocating pension money in some different fashion more important than providing a higher level of benefits to those who do get benefits", and you may very well decide that that answer is yes, but think of it in those terms, not that you are giving everything that you would have given otherwise and something more besides.

MR. CHRISTOPHER S. MOORE: I would like to just say a few words about two of the issues raised by the panelists. One was portability and the other was the excess interest approach for pensioners. There is not much question that these are desirable changes and that they are mechanically feasible. However, I understood that the problem all along has been the tremendous cost increases that could result to the employers. In the past, there have been tremendous savings in pension costs due to the lack of portability. In addition, there have been savings in costs from excess interest on assets related to pensioners. Up until now, employers have been reluctant to increase their costs of pension plans by implementing these changes. How will we be able to overcome the problem of additional costs to pensioners and the priorities that have to be placed on pension costs?

MR. HIRST: There have been a few comments made which I find interesting. Fred Thomson argued with me on deferred wages and yet I suspect we are not in that much disagreement.

There is an element of deferred wages in pensions and that has to be recognized, which would lead us to such things as immediate vesting. However, in order to design a pension system you must come to what the second speaker

mentioned, that really what you are trying to do with a pension system is to design a system which provides adequate retirement income. That raises the question of what adequate retirement income is and I suggest that adequate retirement income is not consistent with the concept of pensions purely as deferred wages.

The second thing is the question of where the resource is going to come from. Any social legislation of this nature implies an increase in costs and it is important that any introduction of legislation of this sort should be phased in so that the costs can be absorbed reasonably easily. The excess interest concept is not necessarily an increase in costs and I have heard a lot of people and a lot of arguments made that are very difficult and they have got to be very carefully thought out as to what you are going to do and how you are going to achieve it.

I do not subscribe to the view that the high interest returns have been used to reduce the employer's cost. What has happened is that the excess interest earnings and inflation earnings that they have been receiving have gone to the benefit of the active members. What we have had over the last few years is that inflation has not created costs but rather redistributed income. It has redistributed income very largely from the deferred vested, who has absolutely no inflation protection, to the active membership. The retirees have suffered to a degree but not nearly to the same extent as the deferred vested. What the excess interest method does is not protect you against inflation, but rather to redistribute the excess interest in a fair way. This does not necessarily mean an increase in costs.

MR. BENTLEY: The Select Committee was attempting to do exactly that, Peter, to redistribute the so-called excess interest in a way that would materially assist those who can no longer protect themselves. The actives could protect themselves through the process of negotiation. The deferreds and the retirees, on the other hand, were not and are not in this position, so it was felt that there should be some redistribution of the excess income of the pension plan.

MR. DAVID A. PELLETIER: One more word about deferred wages, and then on to something else. We are wasting our breath if we continue to argue about whether pensions are deferred wages or not. Regardless of what we think or what the philosophy is, the employees perceive it that way and so do the politicians. Frankly, plan sponsors do too. At the Canadian Pension Conference meeting earlier this year, preceding the National Pension Conference, there was a survey prior to that meeting asking members of the Canadian Pension Conference to identify their view of the philosophy of pension plans, and "deferred wages" was the prevailing point of view. So plan sponsors themselves have come to accept that. I agree with Fred Thomson in that the concept of money purchase does not necessarily follow. It is simply a broad concept that means that there should be reasonably quick vesting and reasonably equitable benefits for people terminating.

On to another point about the Select Committee Report. I was surprised that the whole area of funding of pension plans was dismissed in a couple of sentences. Something to the effect that "This is a very technical issue and we recommend that there be no change" was all that was said. The Royal Commission Report did discuss funding problems. Particularly in the area of flat dollar plans, where it specifically recommended that the Pension Commission

examine that whole area further. Furthermore, the C.I.A. made a presentation to the Select Committee in which I believe they made some recommendations in the area of faster funding.

MR. BENTLEY: The rationale is simply that the funding standards that have been in place in Canada for the last number of years seem to be working reasonably well. We have had no bad experiences in Canada. In fact, Ontario now has a guarantee fund to assist even if a bad experience does come about. At this particular moment the Committee did not feel that there was any need to change the funding standards.

MR. DAVID H. HART: I had a very recent experience last fall with this whole subject of deferred wages in a labour negotiation situation, and I have to disagree entirely on the idea that we are all wasting our breath. I do not think you understand what you are unleashing by open acceptance of the words "deferred wages". First and foremost no one here seems to be able to define it and in fact, it could very well mean something different to everyone here. What happened in the case that I dealt with was that a union made the concept of pensions as deferred wages the single issue to take the company on strike. They did not care about benefit levels in any way whatsoever. The only issue was that pensions be treated as deferred wages and deferred wages, in turn, be the property of the employees. The employees had the right to control that asset and to appoint their representative of the union to say what exactly would happen to the accumulating assets. Now when you think in those terms it is not just a simplistic thing to say, "You are wasting your breath on deferred wages". It is a lot more serious and will indeed result in more problems than I think any of us can handle. It will unleash a political motion that will be very much a labour movement situation. I am surprised that the report, coming from the Ontario Government, would so openly just turn the issue over because deferred wages then get you into, "What do you do with the surplus in the plan? Who does it belong to? What if there is a surplus this year and a huge deficit next year?" I am sure you have all run into the situation and so if you are going to use the term deferred wages and imply ownership, you have a real need to define what happens to the surplus/deficit and then the actuaries really come into focus in producing a variation that takes account of all those possibilities.

MR. SAMUEL ECKLER: So much of what I was going to say has been said. I do want to perhaps continue the discussion of deferred pay. I am going back many years when there was a classical paper written by Harvey Robbins, on the issue of whether pensions are deferred pay or a reward for services. What was interesting as a result of that paper is that the Teachers' Insurance & Annuity Association started and developed into CREP later on, and they literally accepted the arguments and philosophy in the Harvey Robbins' paper that pensions were completely deferred pay. A plan was developed which covered many of the academic employees in the United States in which the employer and employee made contributions and it was a complete money purchase plan. The reason I bring this up is that one important concept comes out of this, and that is how do you preserve pension rights? How can you preserve pension rights unless you have some elements of money purchase? Even in the most liberal suggestions that are made from many of the various Pension Acts, going down even to five years without any age requirements, you have a problem with final pay plans, because if an employee moves from employer to employer he is going to pick up a lot of little bits and there is not going

to be any escalation of that with the salaries going up. So you have to have a money purchase element, and that is the thesis in the Robbins paper, and in fact, the thesis behind many of the faculty retirement systems both in the United States and in Canada, to really preserve pension rights.

I want to come to the defence of Wells as well as the politicians. I have worked with politicians most of my life, and have a great secret admiration for them. They are much more sensitive than we here. We are kind of academic here in terms of the kind of way that the beneficiaries of plans may see them. They have a problem and they have to resolve it. We have to be sympathetic to some extent to the political problem and should try to help these people that come up with concrete suggestions too.

In terms of the overall picture of income security, there is a belief that we really should not waste too much money with legislated benefits or universal plans. We should use a needs test program. Sounds good, and those of you from Toronto and Canada know that the Globe and Mail has been espousing this point of view for some time, not to mention some of the political parties. It makes a lot of sense if one does not really take a look at the implications and repercussions of this needs test approach to security programs. We could enlarge our G.I.S. to cover everybody that needs it, but you know what that does to a marginal person, that is, on a margin in terms of a private pension plan. I do not know how many of you in your consulting practices have had to talk to employees and employers where you deal not with very rich 2% final salary plans but very modest plans, and the employee wonders, "What do I need it for?". My neighbor next door has not put a cent into his plan, has not had any of his wages cut on the deferred pay principle to have a pension system and he is getting from G.I.S. just what I am getting, because I had to claim the income I get from my pensions. So I think myself if you want to cover most people, as expensive as it may appear to be in very nominal terms, an O.A.S. approach is really much better than G.I.S. approach.

MR. DOUG. S. MAGNUSSEN: To put my comments in perspective, I have spent 4 years dealing with small employers' and/or employees' pension plans in Ontario. The point of view that most employees had during that time was, in fact, that their wages were being talked about. My job was often to persuade them that it really was a good idea to join this pension plan their employer had installed for them, or to persuade them that a plan that had been in effect for a while was a good deal. The perspective at the time was very much, "If I do not put my money in this pension plan, I can put it in the bank and I can earn interest. I do not want to put my money in there because in 10 years it will be locked in. At age 45, it will be locked in". I have known people who have terminated employment just prior to age 45 in order to obtain a refund of their pension contributions. If the employee will not voluntarily join the arrangement, then the small employer, who is very dependent on a few key employees, will not voluntarily put his employees in the position of having to join through a mandatory plan, unless he is prepared to pay the entire cost and that is not the Canadian way. Thus, one of the things that the Select Committee does not seem to have touched on in much detail is the question of coverage. I know the industry has been criticized for lack of coverage in the past. If we are going to extend the coverage, then we have to have a set of rules to attract the people who are not now in pension plans by choice.

MR. JAMES D. CHRISTIE: I would like to pick up on Doug's comment that non-contributory plans are not the Canadian way. The Saskatchewan legislation and the recommendations of the Select Committee may be steering us in the direction of non-contributory plans. Especially if pensions are to be considered as deferred wages. "Why am I putting my money into it? If it is deferred wages, it should be employer money only".

MR. BENTLEY: If you watch developments that have taken place in the last 10 years in Canada, you know that the whole thrust has been towards non-contributory plans. Contributory plans, other than for civil servants, are almost a thing of the past because I am sure that many employees have thought of pensions in terms of deferred wages even though they have not consciously been aware of it. They have negotiated the non-contributory plan and have given up wage demands in place of the pension.

With respect to coverage, the Select Committee has a number of studies before it as well as a number of presentations made to it about coverage. Coverage, as far as they could determine, came anywhere between 30% and 88%. We were not able to determine what part of the full-time or part-time workers, how many, what percentage, or anything else. What the Committee does recognize, however, is that there is a need for coverage of some kind. What they have not been able to determine is whether or not to go the C.P.P. expanded route, the P.U.R.S. route or the voluntary route such as in Manitoba.

MR. DAVID S. WILLIAMS: I guess it is fair to say that pensions are in a state of crisis in Canada. It is worthwhile standing back a little and trying to obtain a global perspective on the situation and to ponder as to what extent pensions are in a state of crisis due to inflation. There are many overlying problems regarding social justice and so on, but I wonder if the problem would be anywhere near as critical today if we did not have a very high level of inflation. Many people say inflation is at an unsustainable level. If you agree that this is true, then why is it that we have largely accepted inflation at its current level and regard it as a continuing situation that is going to be roughly the current level for the next 5 years and then gradually decline from there. I am from Canada, and it is worthwhile looking at it from a "what if" point of view. Inflation is basically a de-stabilizing influence and what if it gets worse? Then what will the political requirement be upon the system? What are we going to have to do in that case? Before we get into a lot of very detailed work to make the system better, should we not be considering how responsive it is going to be to further problems of an economic nature, such as inflation.

MR. M. DAVID R. BROWN: I will resist making a number of comments that occur to me but there was one that seemed to be dropped. A point that was originally raised by Mr. Moore, and that was the redistributive effects of the excess interest idea and the notion that most employers are really somewhat piling their gains back into the plan for somebody's benefit. I do not know that these statistics are public or confidential. I can tell you that we see in the Pension Commission of Ontario, and I am a member of the Commission, a number of applications for refunds of surplus. That might surprise you; and they are not all from little plans. The fact is that the plan on a flat benefit or career pay basis may be generating gains of such a size that the surplus is available to the employer and they are taking them out of the plan. This is another aspect of this coverage question. That is, the people

in those plans are covered by pension plans but their coverage is becoming progressively less effective because there is no way of assuring that they get some compensation for the redistributive effects of inflation. The employer avails himself of what is available to him. Maybe he is not fully compensated either but he is in a position to do something with it. One of the corollaries of the excess interest method is that it protects the beneficiary to some extent.

MR. BHARMAL: Even if we accept that the final resolution of the pension problem will be that which is politically practical, we should at least attempt to focus on the main issues rather than on a certain limited number of solutions. We seem to be giving more emphasis to the means rather than the end. The problem is the preservation of pension benefits. The excess earnings and the portability are one means of solving that problem. There are technical problems. So why not focus on the real question, which is the preservation of pension benefits.

Portability is almost impossible because of the technical problems between different employers, different funded levels of plans, different industries, and resistance by the employers to part with money that they think belongs to their fund. If the same end can be achieved by persuading employers to preserve the value of the vested benefits, through earlier vesting and updating regularly, then that is one solution that may be more palatable. If we pursue such questions as portability in a narrow sense we may be inviting a universal plan. Portability, in the end, is possible only in a completely universal uniform plan.

The point of excess interest has a similar connotation to my mind. What we are trying to do is preserve the value of the benefits and that is why I do not agree with the concept of deferred wage in a pure sense. The first and foremost rationale for a pension plan is to secure income, and in inflationary times, this probably means securing it in real terms.

