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THE CANADIAN PENSION DEBATE

By James G. Paterson

An appetite for suggestions on how to reform a nation's retirement system is bound to be satisfied by recent Canadian offerings. The last four years have seen no fewer than five government-commissioned studies, viz.,

"Cofirentes + ", a Quebec committee.

"One in Three", the Economic Council of Canada.

"Retirement Without Tears", Special Senate Committee on Retirement Age Policies.

"Retirement Income Policy in Canada", the Federal Government's Lazar Task Force.

Report of the Royal Commission on the Status of Pensions in Ontario.

Their tasks varied from narrow to extremely broad. The Economic Council's main theme was, "Can Canada insure its older generation an adequate income without risk to the economy?" (its answer was Yes). The Senate Committee focussed on retirement age, mandatory or flexible retirement, age discrimination in employment, and need for cooperation among governments, unions, business and the public. The other three (and to a large degree, the Economic Council as well) examined all pension types ranging from government programs, through social insurance and private pensions, to personal savings. They examined design, financing and administration of pensions and their regulation.

Consensus

On some issues all five reports more or less agreed: that among the elderly there's too much poverty which is heavily concentrated among women; that current vesting and portability systems hurt mobile workers; and that better pension protection against inflation must be found. Four wanted increased funding of the Canada and Quebec Pension Plans (CPP & QPP), though the Ontario Royal Commission favored reduction to a virtual pay-as-you-go system. Three recommended that all public service pensions be governed by funding and investment rules like those in the private sector, and that at least part of their funds be invested in private sector securities.

Cleavage

On just how to improve Canada's pension system, agreement was lacking. The Quebec report recommends that CPP and QPP benefits be raised on earnings up to half the earnings ceiling, (from 25% to 50% of pre-retirement earnings). It also seeks greater vesting, portability and indexing in private plans. Despite its criticisms, the Economic Council fell short of recommending either that CPP and QPP be expanded or that there be mandatory minimum private pensions; it proposed that governments "encourage and induce" greater coverage through better vesting, portability, indexing (and perhaps surviving spouse rules) for private pensions, and through locked-in registered retirement savings plans.

The Senate Committee called for improved CPP and QPP benefits and for flexible retirement as well as broader coverage, vesting, portability in private plans. The Task Force offered four alternatives for pension reform via government legislation, and estimated what each would cost. All include tighter rules for vesting, portability, indexing and surviving spouse pensions. *Option* 1 would continue the present voluntary private system—predominantly a defined benefit system. *Option* 2 would convert it to a voluntary money purchase system. *Option* 3 would create a mandatory level of private pensions, imposed on all employers and employees. *Option* 4 would expand CPP and QPP, increasing the earnings base by half to one-and-one-half times the average industrial wage, and raising benefits from 25% to 45% of pre-retirement earnings.

The Royal Commission proposes no change in the CPP but recommends a mandatory universal, fully vested and fully portable money purchase plan invested totally through the private sector and producing replacement ratios between 15% and 20% of pre-retirement income. It also recommends improved vesting and tighter retirement age and surviving spouse rules under private programs, and addition to each plan of a "participating annuity" optional form of pension on the "excess interest" principle.

Vesting proposals for private sector plans differ widely, the maximum being that of the Senate Committee—100% after one year of service.

Indexing

Diversity also features indexing recommendations. "Cofirentes +" wants present and future pensions adjusted by excess investment earnings over the real net-of-inflation yield; it would also require that pension liabilities be valued using what the government prescribes as the real rate of return. The Economic Council suggests that the federal government underwrite and issue price-indexed annuities to retired persons. The Senate Committee offered no specific indexing proposals, but the Federal Task Force presented four alternatives, each embracing either the excess interest principle or government underwriting of indexing. The Royal Commission proposes an "inflation tax credit" through the income tax system, payable from age 68.

The Debate Continues

A National Conference organized by the federal government will have been held before this article appears. Three hundred, representing all provincial governments and various regional, national, social, economic and professional groups, have been invited. Consensus is sought on private pension reform with particular attention to the proposals outlined here. □

EARLY COMPUTER DAYS IN CANADIAN LIFE INSURANCE

by Hudson J. Stowe

Ed. Note: Mr. Stowe was a pioneer in the introduction of computers to business use in Canada. He gratefully acknowledges the help of Messrs. Albert L. Wright and J. T. Bradbury in supplying and confirming details for this account. The Actuary *would welcome letters from readers that would help to enlarge the record of Canadian actuaries' early contributions in this field.*

In 1936 William Phillips ("Ahead of His Time," November 1980 issue) sent a copy of his Institute paper, "Binary Calculations," to me in Toronto. I immediately showed it to I.B.M. and offered to act as their agent in acquiring his now famous model. But soon after this the war started, causing computer design to be concentrated on machines suitable for scientific problems to further the war effort.

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