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Mr. James Rajotte

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● (0900)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order, colleagues and witnesses.

This is the 20th meeting of the Standing Committee on Finance. Pursuant to Standing Order 108(2), we are continuing our study on measures to enhance credit availability and the stability of the Canadian financial system. This is the first of three meetings on the specific issue of pensions within that larger study.

We have three organizations and one individual with us this morning: first, the Canadian Institute of Actuaries; second, the Canadian Association of Retired Persons; third, Federally Regulated Employers—Transportation and Communications; and fourth, as an individual, Mr. Leo Kolivakis.

We'll start with the Canadian Institute of Actuaries and move down the line. We have about five minutes allocated for each organization and individual for an opening statement.

Monsieur Lamoureux, I believe you are to begin. Please give us your opening statement.

[*Translation*]

Mr. Claude Lamoureux (Special Advisor, Canadian Institute of Actuaries): Mr. Chair and members of the committee, it is a great pleasure for me to be here today. My name is Claude Lamoureux and I represent the Canadian Institute of Actuaries, of which I am a member.

[*English*]

I have been working with the institute for many years on pension issues. The institute is the national organization representing over 3,800 members of the actuarial profession in Canada, many of whom work in a North American environment.

The CIA's number one guiding principle states that the institute holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice for actuaries practising in Canada, including standards governing the actuarial valuation of pension plans.

We appreciate this opportunity to present our views on the issues of Canada's retirement system and workplace pension plans. The institute has been very active on both these subjects for years.

In the view of Canada's actuaries, Canadians are not saving enough for independent retirement. A University of Waterloo study we commissioned asked the basic question, "Are Canadians who are retiring in 2030 saving enough for their independent retirement?" The short answer was no. The study concluded that only one in three Canadians expecting to retire in 2030 is saving at the level required to meet basic household expenses in their retirement, and many may need to sharply increase their annual savings or continue working past age 65 to avoid financial hardship.

The defined benefit plan, an important retirement savings vehicle, is quickly disappearing in the private sector. After years of decline, only 21% of workers are members of defined benefit plans, which I call DB for short. The move away from defined benefit plans, especially in the private sector, should be of great concern to legislators, regulators, and all citizens. This percentage, in fact, may overstate the number of members in DB plans, because today many members are members of both DB and DC plans, but the DB plan is closed to new members, and also members may not get any credit in the DB plan.

The resulting transfer of uncertainty, risk, and cost to individual workers in a defined contribution plan—or worse, no plan at all—is also distressing. Today there is a low level of solvency funding in DB plans as a result of weak markets, increasing risk, disincentives for plan sponsors to fund more prudently, and fiscal barriers to accumulation of surpluses larger that 10% of liabilities. These barriers are worrisome as well. Therefore, defined benefit plans today are less secure than they should be.

A great number of plans were underfunded before the economic crisis hit, and many more are underfunded now. To quote a report from OSFI last Thursday, "The results show that the average estimated solvency ratio of federally regulated defined benefit private pension plans at December 31, 2008 was 0.85, a decrease from 0.98 as reported in June 2008".

As Canadians with RRSPs and DC plans watched their savings melt away over the past year, it has become clear that defined benefit plans are plainly better for Canadians than other types of plans, but defined benefit pension plans, while superior in nature, need certain conditions to be put in place to make certain they endure. They need a cushion that is linked to the riskiness of a plan's investments. Tax changes are required to allow larger cushions to be accumulated before attracting tax.

Retirees need to be given priority in bankruptcy proceedings. Employers need to be encouraged to fund their pension promises conservatively; side funds can help. Private defined benefit pension plans are as important to Canadians as public plans. However, if the current downward spiral continues, the only members of defined benefit plans will be politicians and public servants. This is an untenable situation, as taxpayers and voters are unlikely to accept that their taxes are being used to pay for retirement plans that they themselves cannot access.

Some have suggested that increasing the CPP benefit might be a solution to the pension problem. This idea needs to be explored.

Canadian banks are said to be the most financially secure in the world at the moment. This is mostly due to the strong regulatory system in place. The same strong approach should be put in place in pensions. Perhaps the notion of a regulator, or of regulators who work together, ought to be studied.

● (0905)

Our goal is not to paint a completely negative picture of Canada's retirement system. Yes, it's being looked at as never before; however, Alberta, British Columbia, Nova Scotia, Ontario, and Finance Canada have either completed or are in the process of reviewing their pension legislation. Good ideas have surfaced in these reviews, and in our view, there has never been a better opportunity to reform the pension system for Canadians.

These are tough times, but they will pass. While governments have been responsive to short-term relief for pension plans, we need to think about long-term legislative and regulatory reform to ensure that DB plans survive and thrive.

The current problems of defined benefit pension plans cannot be solved overnight. We have seen stock markets decrease by 50% from the top, and in the last few weeks these markets have rebounded by 20% to 25%. If you do the math, that means that the stock market is now at 60% of the peak.

Clearly DB plans are not the only ones that can be invested for the long term, but they're one of the main ones. Last Sunday, the program *60 Minutes* demonstrated that the 401(k) plans in the U.S., the equivalent of our DC plans, have been a boon to the financial services industry but have not served their members well over the years.

The same can be said in Canada. Assuming we cannot reverse the trend to DC plans, we must ensure that people have good DC plans that provide them with the possibility of accumulating assets and of enjoying professional investment management. The role of a large DB plan or a professionally managed DC plan, in part, is to try to sell when stocks are expensive and to buy when they are cheaper. This is the opposite to what we see in mutual funds, where the public tends to buy when everyone is euphoric and sell when everyone is pessimistic.

Merci de votre attention.

The Chair: Thank you very much for your presentation.

We'll now go to the Canadian Association of Retired Persons.

Ms. Susan Eng (Vice-President, Canadian Association of Retired Persons): Thank you very much.

Our acronym is the legal name for the Canadian Association of Retired Persons, but we now use the name CARP because we act for people who are retired as well as those who would like to retire—and in this climate that's going to be a major challenge.

We're a national non-profit, non-partisan organization with 330,000 members across the country and 23 chapters. We advocate for the quality of life of Canadians as they age, and retirement security is one of our three main advocacy pillars. We're here to give you our perspective on retirement security as we see it.

There are huge challenges, which everybody is aware of. The demographic challenge is the first. The population is aging. The population of those aged 65 and plus numbered 4.3 million in the 2006 census, or 13.7% of the Canadian population. By 2026, it's expected to nearly double to 22% of the Canadian population. Those are the people who are 65 plus. However, people who are 45 plus and 55 plus are also thinking about retirement. Some already have. Those who are 55 plus numbered eight million in the 2006 census, or 25% of the population. Those who are 45 plus are the ones we particularly speak for, and they numbered some 13 million in 2006, or 41% of the population. That's nearly half of the population. I might point out that this part of the population is the most active part and has the most regular voters.

People are living longer and healthier lives. The most important premise for them is that they not outlive their money. The issue of retirement security has always been a challenge, but particularly in this market.

If we look at the context they're facing, most people know there is OAS and GIS to ensure they have at least $14,000 per annum. But as everybody knows, you cannot live on that. The Canada Pension Plan and the Quebec Pension Plan have a maximum payout of about $10,000.

Private pension assets consist of employer pension plans and RRSPs. That's all we have, but there's a lot of money in Canada in those. In private pension assets, there is $1 trillion in EPP or employer-sponsored pension plans and some $600 billion in RRSPs and other private savings.

That sounds like a lot of money, but the difficulty is that it's not distributed evenly. What we find is that there's a concentration, with 31% of families with $100,000 or more in retirement assets holding 90% of all retirement assets. In the public sector, as Mr. Lamoureux has mentioned, 85% of public sector workers have access to private pension plans, but only 26% in the private sector have any kind of access to a pension plan.

Where does this leave us? Of those without any pension savings at all, whether in the form of an employer-sponsored pension plan or retirement savings or socks under the bed, there are some 3.9 million Canadian families who have no pension assets whatsoever. That's about 29% of the Canadian population. Unattached individuals fair even worse, with 45% of them not having any pension savings or retirement savings. In the 65 plus category, including singles, 27.5% had no retirement savings whatsoever as of 2005, when this survey was last done. The 45 plus and 55 plus age groups fair slightly better, as 23% of them have no pension savings of any kind to get them through their retirement years.

So what are we talking about when we talk about a pension system? The World Bank has defined some core principles that any country seeking to have a pension system should have. One is that the pension system should be adequate, that is, it should provide benefits for the fullest breadth of the population, sufficient to prevent what the bank calls old age poverty and sufficient to be a reliable means of smooth lifetime consumption. Moreover, the pension system has to be affordable for both employers and employees. And it has to be sustainable over the longer term. Importantly, it must also be robust; that is, it has to be able to withstand economic, demographic, and political volatility. In economic terms, we've just had a crushing blow; and demographically, I've described the aging population; and politically, we've had volatility. I'll leave that to this committee.

● (0910)

The robustness of our pension system has been shown to be deficient. In the current climate, you will see headlines that you've never seen before, including the fact that even the gold-plated pension plans, the indexed defined benefit plans, are at risk. Whoever has heard of that?

The only pension fund that is not at risk is the CPP, and it has performed better than all the others we've seen. So the question then becomes, during this economic crisis, which has affected even the retirement security of those with pension funds, what should be done and what should be done immediately?

Well, we have some recommendations. Our first recommendation is in relation to the existing pension funds and the need to rebalance the interests of the employers and the employees—not to put too fine a point on it—because the changes that have been made to the regulations have destabilized some of the pension funds and made them less solvent. That's why we're facing some of the crisis we're seeing now. It's not just the market downturn; it's the fact that all of the rules that were put in place have not been observed.

The second point is that there should be a universal pension plan for all of those who do not have any access to pension savings.

Finally, we should immediately call a pension summit, at which people who represent retirees and plan members have a material seat at the table.

That is for the future. But for the immediate needs of retirees who are facing this crisis, we are recommending increases to OAS and the GIS, and that RRIF withdrawal requirements be removed and that people have access to their own money in locked-in funds.

Thank you very much.

● (0915)

The Chair: Thank you very much, Ms. Eng.

We'll now go to FETCO. Who will be presenting on behalf of the organization?

Mr. Siim Vanaselja (Executive Vice-President and Chief Financial Officer, BCE and Bell Canada, Federally Regulated Employers - Transportation and Communications (FETCO)): Good morning. I am Siim Vanaselja, executive vice-president and chief financial officer of both BCE and Bell Canada. I am appearing today with Mr. John Farrell. John is the executive director of FETCO. And I'm also appearing with Mr. Brian Aitken, the chief financial officer of Nav Canada. We're appearing on behalf of Federally Regulated Employers - Transportation and Communications.

FETCO is an organization consisting of a number of employers and associations in the transportation and communications sectors, and they all come under federal jurisdiction. FETCO members employ approximately 586,000 employees. Many members are sponsors of pension plans, which are federally regulated.

The current funding regime governing defined benefit pension plans has led to a critical juncture where the very ongoing existence, I'd say, of defined benefit plans is being severely threatened. We are here today to present the way forward, one that we believe strengthens the security of benefits while not unduly constraining the financial flexibility of plan sponsors to maintain appropriate levels of investment in their business. Our recommendations have already been made to the government as part of the public consultation process led by your parliamentary colleague Mr. Ted Menzies, and we greatly appreciate this opportunity you've given us to present our recommendations to the finance committee members.

Pension funding is a burning issue, as you know full well. In the case of federally regulated companies, many large plan sponsors are having difficulty continuing to fund their pension contributions under the current rules without significantly reducing investment in their businesses in the form of capital expenditures that they desperately need to remain competitive and healthy. The pension situation predates the current economic downturn, but I'd say the financial market turmoil has most definitely exacerbated this situation.

The current rules for measuring the solvency position of pension funds as well as the current requirement to fund solvency deficits over a short five-year period result in a severely volatile system that can cause swings from surplus to deficit positions, or from small to large deficits from one year to the next, and from requirements for massive cash injections to positions of over-contribution or trapped capital amounting to hundreds of millions of dollars. Clearly, such volatility and uncertainty is untenable in managing business operations that have long-term capital projects, particularly in today's economic climate.

It is our firm belief that without the reform measures we are proposing, companies will have to significantly lower their capital spending programs that fuel economic growth and employment. Sponsors of defined benefit plans are also at risk of having to eliminate their defined benefit plans altogether in order to remain competitive. That does not spell good news for companies, for employees, or for the government.

FETCO represents some of the largest and most well-known companies in Canada, as I've said. And in terms of capital spending plans, I would cite BCE as one example where our plans call for investment of more than $3 billion in Canada this year alone.

For the last four years, our member companies have been advising Finance Canada that the solvency rules require urgent change. Twice in the past three years the government responded with a temporary regulatory fix that addressed only the funding period. I believe the government recognizes that the temporary fixes are no longer sufficient and that permanent change is necessary. In January, the government launched its consultation process on pension reform.

● (0920)

Let me turn to our proposals, which we believe address the important principles of balance, transparency, and benefit security.

FETCO's recommendations were developed with two key objectives in mind: first, to protect the health of pension plans and the security of pension benefits for all plan members; and second, to address the counter-cyclical and highly volatile nature of solvency funding which impedes the capital investment needs of large plan sponsors. I'd now like to turn to my colleague Brian Aitken to describe the specific proposals that we believe achieve these important objectives.

Brian.

Mr. Brian Aitken (Chief Financial Officer, NAV CANADA, Federally Regulated Employers - Transportation and Communication (FETCO)): Thank you, Siim.

First, I'll mention several of our proposed changes that are designed to address concerns of plan members.

We support, in conjunction with our other recommended improvements, the following conditions being made mandatory: first, a requirement that the plan sponsor fully fund any deficit upon plan termination, either in lump sum or amortized over five years; second, a requirement that each plan file an actuarial valuation report each and every year; and third, a requirement that each plan provide greater financial disclosure to all plan members, disclosure that would include the plan's funded status, the plan's investment policy, and a statement of funding policy. These are important changes that will provide plan members with greater confidence in the security of their pension plans.

We also believe that the best security for plan members is a financially strong plan sponsor. To further enhance that security and justify that confidence, other improvements are also needed. The first is a permanent extension of the solvency deficit funding amortization period from five years to ten years without conditions such as member consent or letters of credit.

The second is a discount rate for solvency calculations that is better aligned with the marketplace and that takes into account the long-term nature of our pension liabilities, which extend decades into the future. The AA corporate bond index is the preferred benchmark discount rate. The former Governor of the Bank of Canada, David Dodge, provided BCE and Bell Canada with an expert opinion highlighting the importance of a prescribed discount rate that is more stable and better representative of the true discount. He notes the disconnect between using a discount rate at a point in time to measure liabilities that stretch decades into the future. Canada's solvency funding rules are among the most conservative in the world, in particular when compared to the United States and the United Kingdom.

The third improvement we are seeking is to allow sponsors to retain asset-smoothing methods for solvency funding purposes without a deemed trust requirement.

And finally, the fourth improvement, for sponsors of indexed plans, is the exclusion of indexing from the calculation of solvency liabilities when determining solvency amortization payment requirements. We believe that our recommendations work extremely well to provide balance. The extension of the amortization period is the first. It's designed to calculate the funding to require all future pension liabilities as if the plan sponsor were poised to terminate or wind up the plan. The unfortunate consequence of this is that the resulting funding requirements can be very large and thus actually pose a harmful risk to a company's financial health. Lengthening the amortization period to 10 years is critical to making solvency funding more manageable for companies.

Recognizing the need for a balanced approach, and therefore in conjunction with the longer amortization period, the second change we would need to talk about is the new requirement for the annual funding of valuations.

● (0925)

[*Translation*]

Employees and pensioners seek confidence that their fund is well capitalized. The annual assessment will bring greater certainty. It mitigates significant fluctuations in capital requirements and guarantees immediate intervention in the case of solvency deficits. I wish to point out that the Canada Labour Congress, as well as other pensioners' associations, support these annual assessments.

Our firms have analyzed the figures and I can say with confidence that an amortization period of 10 years, coupled with annual assessments, would have very little impact on contributions over the long term, as well as over long-term assets, relative to current rules. Nonetheless, having significantly less unstable contributions would have been an enormous advantage for our companies.

[*English*]

In conclusion, the implementation of FETCO's recommendations will result in significant benefits, as follows: first, the volatility of solvency funding will be smoothed out; second, without that volatility, companies will be able to plan their capital investments more effectively and have more to invest during periods when investment is needed most; and third, pension plans will continue to be properly funded and members fully protected.

The Chair: Thank you very much.

Finally, we'll go to Mr. Kolivakis.

Mr. Leo Kolivakis (Independant analyst, As an Individual): Thank you for inviting me. I'm grateful for the opportunity to be here today.

I would first like to emphasize that I am here as an independent analyst who is very concerned about the current pension crisis. The views and opinions expressed today are solely mine and do not represent those of my current employer or any other organization.

Let me begin with a brief introduction of my background. I was a senior investment analyst to two of the largest public pension funds in Canada, the Caisse de dépôt et placement du Québec and the Public Sector Pension Investment Board, PSP Investments. My experience allowed me to gain valuable knowledge across traditional and alternative investments, such as stocks, bonds, hedge funds, private equity, and commodities.

In 2007, I completed a detailed report for the Treasury Board Secretariat of Canada on the governance of the public service pension plan. This report was an independent review of the plan's governance structure to address some concerns raised by the Office of the Auditor General of Canada.

Let me now get to the matter at hand. Last year was a particularly difficult one for global pension funds, as very few funds escaped the stock market rout. The OECD weighted average ratio of private pension assets to the area's GDP reached 110% in 2007. By October 2008, the total OECD private pension assets were down to about $23 trillion U.S., or about 90% of the OECD's GDP.

The impact of the crisis on investment returns has been greatest among pension funds in countries where equities represent over one-third of total assets invested, with Ireland the worst hit, as it was the most exposed to equities, at 66% of total assets on average, followed by the United States, the United Kingdom, and Australia.

For their part, Canadian pension funds suffered the steepest decline on record, with an average loss of 15.9%, according to RBC Dexia Universe. The Office of the Superintendent of Financial Institutions released the results of its latest solvency testing of federally regulated private pension plans. The results show that the average estimated solvency ratio of federally regulated defined private pension plans at December 31, 2008, was 0.85, a decrease from 0.98, as reported in June 2008.

The financial crisis exposed some serious governance gaps among Canadian private and public pension funds. I will now outline some of the more important governance gaps and make some recommendations on how we can address them.

By “governance”, I am referring to the system of structures and processes implemented to ensure both the compliance with laws and the effective and efficient administration of the pension plan and fund. The six key governance areas in a pension plan are oversight, compliance with legislation, plan funding, asset management, benefit administration, and communication. Given the time constraints, I will focus on three of these key areas: oversight, asset management, and communication.

Pension oversight has always been important, but perhaps never more so than today. Several public and private pension plans are in financial trouble, the regulatory environment is rapidly changing, and market volatility is constant. At the large Canadian public pension plans, pension oversight is the responsibility of the plan sponsor, who nominates an independent board of directors to oversee all activities of the pension fund. The integrity of the nomination process varies, but the intent is to keep political interference out of the key investment decisions by public pension funds.

The cornerstone of pension oversight is risk management, defined in the broadest sense to take into account investment, operational, legal, and fraud risks. The board of directors oversees the investment activities of internal and external investment managers, and it must make sure controls are in place to mitigate all these risks. In order to do this, the board of directors needs to have the requisite knowledge on all these risks, as such risks can expose a fund to serious material losses. Importantly, the board of directors has a fiduciary responsibility to ensure activities are being conducted in the best interests of the key stakeholders.

The failure of diversification strategy in 2008 highlighted the consequences of incomplete or poor oversight. The significant losses suffered at the large Canadian defined benefit plans are the consequences of poor risk controls and compensation packages that reward speculation or performance based on bogus benchmarks. By shifting assets out of safe government bonds, first into equities and then into alternative investments like hedge funds, private equity, real estate, commodities, and other risky investments, pension funds have contributed to systemic risk of the global financial system. This process is what I have dubbed as the global pension Ponzi scheme, because pension funds were investing billions into alternative investments, ignoring the securitization bubble, and without due consideration of how their collective actions are affecting the soundness of the global financial system.

Pension funds claim that the shift into alternative investments was done for diversification purposes, to smooth overall returns, and to deliver absolute returns. However, there was another reason behind this shift to alternative investments: it allowed senior executives at pension funds to game their policy benchmarks so they could collect huge bonuses, claiming they are adding added value to overall returns. This is of critical importance, because such executives have clear fiduciary responsibilities, and that is to their plan sponsors and beneficiaries. The reality is that senior executives are able to reap huge bonuses because they're beating bogus benchmarks that do not reflect the risks of the underlying investments. Bonuses are based on, and awarded annually on, achievement versus benchmark. However, these bonuses are never clawed back when in subsequent years these investments fall well short of expectations.

● (0930)

Most of the abuses in benchmarks are concentrated in private markets like private equity and real estate, but similar abuses are also present in other alternative investments, like hedge funds. Illiquid asset classes are typically valued infrequently by external and in some cases internal auditors. With few exceptions, the benchmarks used to evaluate the performance of these asset classes do not reflect the risk of the underlying investments. For example, leverage is commonly used to boost the returns of illiquid assets like private equity, real estate, and infrastructure, yet the benchmarks used to compensate senior executives of public pension funds do not reflect these risks.

Benchmark abuse has also occurred in public markets. The case of non-bank asset-backed commercial paper, ABCP, was an example of how some pension funds invested in assets that allowed them to handily beat performance benchmarks in their cash reserves, ignoring important liquidity risks that arise between the ABCP conduit's assets and liabilities. Hedge fund benchmarks that do not take into account liquidity risk or leverage of the underlying strategies are another example of abuses occurring at public pension funds.

● (0935)

The Chair: Mr. Kolivakis, you have one minute.

Mr. Leo Kolivakis: Worse still, some pension funds used government balance sheets to sell credit default swaps, which are basically insurance policies on credit default obligations. Unlike AIG, they did not sell CDS on subprime mortgages, but once the credit crisis spread to all credit tranches, including tranches with triple-A credit ratings, it exposed these funds to material losses.

In a recent speech, the Governor of the Bank of Canada, Mark Carney, stated, “As liquidity in many funding markets has dried up, so has embedded leverage in many pension funds”. I submit to you that the opaqueness of many of the large public pension funds and their increasing exposure to complex derivatives and internal and external investment strategies are hiding the true embedded leverage of these funds.

In conclusion, I want to end with a series of recommendations.

First and foremost, we need to legislate greater transparency in both public and private pension funds. In particular, there should be full disclosure of benchmarks used to evaluate all internal and external investment activities; performance results in public markets need to be reported every quarter and results for private markets on a semi-annual basis; finally, the minutes of the board of directors should be publicly available for public pension funds.

Second, financial audits conducted by auditors need to be augmented by comprehensive performance, operational, and fraud audits by independent industry experts. These audits should be conducted on an annual basis, and the results should be publicly available.

Third, pension plans need to implement sound risk management policies. Plan sponsors have a responsibility to communicate their risk tolerance for the overall fund, focusing on minimizing the downside risk in the policy portfolio. Importantly, pension fund managers should get compensated for active risk based on clear benchmarks that reflect the risks of the underlying investments, i.e. risk-adjusted returns.

Fourth, whistle-blower policies need to be strengthened so whistle-blowers are encouraged to come forth and disclose any wrongdoings at public pension funds.

Fifth, regulatory authorities need to augment their resources to deal with the challenges at private and public pension funds, as well as other institutions of the shadow banking system; for example, insurance companies and unregulated hedge funds. It is time for the Canadian government to invest more in bolstering regulatory bodies so they can attract more qualified people who understand the increasingly complex investments that these institutions are investing in.

Finally, I have not discussed my thoughts on dealing with the crisis at private pension plans, but my thoughts are that we need to seriously consider scrapping private defined benefit and defined contribution plans, replacing them with a series of large public defined benefit plans that are subjected to the highest governance standards.

I thank you for your time and welcome your questions and comments.

The Chair: Thank you.

We'll start with Mr. McCallum for seven minutes, please.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

Thank you to all of you for coming to speak to us today on this crucial issue.

I'd like to begin, I think, with a question for Mr. Lamoureux and Mr. Vanaselja, probably, on this issue of volatility in regulations. It strikes me that this is not just random volatility but a particularly bad kind of volatility. When times are bad and the stock market is down, you pay out far more money. When times are good and you have so much cash on hand, you have contribution holidays. I think this is counterproductive. I don't have much time, but I'd like to ask you in general whether you agree, and if you have a proposal to deal with it.

On the second and related issue, I think a lot of people are on the same wavelength in terms of stronger regulation. So would it be your view in particular, Mr. Lamoureux, that pension plans should be required by law not to have more than a certain percent in equity, or rules of that kind?

Mr. Claude Lamoureux: Volatility is a fact of life when you invest. It doesn't matter where you invest, whether it's real estate, stocks, or bonds; they're all volatile, more or less. Clearly, stocks are more volatile than other instruments, like fixed income, but fixed income in recent years has been very volatile as well.

That's a curse, but it's also an advantage. That's how you're able to make money most of the time—you are paid for volatility. Generally when you invest, you want to be paid for the risk that you take. You have to be careful about this. To limit the percentage of stock that pension funds can invest in may appear to be the right thing to do today, but over the long haul, stocks have outperformed fixed income significantly. To my mind, you can use other tools, like the tool that was mentioned by Siim, in smoothing the value of the asset. I'm surprised that he hasn't recommended that the surplus of a pension fund should not be limited to 10%, but should be much higher. If we had done that in the nineties, I don't think most pension funds would be in the same trouble they're in today.

In the U.S., where's there no limit on the size of the surplus, a pension fund like GM's is still in good shape. At the peak, the assets were 175% of the liabilities. With a limit of 10%, it's impossible to manage a pension plan. You need a much wider band. I would not limit the investment that pension funds can make in stocks or any other type of investment, and I would leave it to each board to decide what is the best for them.

Hon. John McCallum: Mr. Vanaselja.

Mr. Siim Vanaselja: I believe there is far too much volatility within the pension funding rules today. The objective of the pension funding rules is to secure the liabilities that need to be paid out in the future to pension fund members, to retirees. More specifically, the mechanism that's used to do that is the discount rate. Recognizing the very long-term payout of pension obligations over the future, the discount rate today creates a lot of volatility. It creates volatility because it is based on a measurement of Government of Canada benchmark rates at a specific time. Today, that measurement results in a negative bias. If you look at where interest rates have traditionally been, interest rates in today's environment are historically low.

We're overvaluing pension liabilities. At other times in the cycle, we would be understating pension liabilities. One of the recommendations we have is to smooth the discount rate over time, the way assets are smoothed.

● (0940)

Hon. John McCallum: In respect of the procyclical nature of the problem, the way discount rates are managed today is part of the problem.

Mr. Siim Vanaselja: Yes, it is.

Hon. John McCallum: There has been quite a lot of interest from you collectively and from others across the country in some form of augmentation in the Canada Pension Plan or in other means of increasing basic pensions from, say, something on the order of $10,000 to something on the order of $20,000. That idea has a lot of appeal.

Mr. Lamoureux and Ms. Eng, could you give us an idea of how much extra premium would be required? My understanding is that the increase in this benefit would have to be phased in very gradually over 20 years or more. Could you give us some idea of the order of magnitude of these calculations?

Mr. Claude Lamoureux: I'm very familiar with the Ontario Teachers Pension Plan, which is certainly one of the best in Canada. What's the cost of the Ontario Teachers' Pension Plan today? The employee puts in 12% and the employer puts in 12%. When people think of a pension plan that they're going to have for 5% of their payroll, they're dreaming. That's just not there.

You can think of an increase on a defined contribution basis of 5% or 10%, but to have an indexed pension plan that represents roughly 60% of the final pay of a teacher costs 25% today. People today think interest rates are low, but if you look over a long time, real rates today are not low. We're all thinking of the nineties, when we compare rates with where they are today. Historically, Canada has had a rate 2 to 2.5%. I think a rate between 1.5% and 2.5% is realistic.

The Chair: Ms. Eng, have you a comment?

Ms. Susan Eng: Yes, thank you.

A universal pension plan that is an increase in the CPP, as one example, and is fully paid out, in the current state of affairs, to get people 70% of their pre-retirement income if we cover a higher percentage of the income, would cost somewhere in the neighbourhood of 19% for both—that is, 9% and 10% for employer and employee.

That is actually a better number than that calculated for the teachers. The reason is that a large, widespread fund would have, of course, many more contributors, particularly if were a mandatory scheme. The ultimate goal would be to provide 70% of pre-retirement income coverage—up to about $160,000—of one's salary. You have to factor in a number of those elements before you can actually arrive at what your contribution rate would be, but that would be the amount approximately.

We are assisted on our team by a volunteer named Bernard Dussault. He's the former chief actuary of the CPP, so I have absolute reliance on his numbers. He tells me that had we done this the right way originally, it would have cost 15%, shared between employer and employee.

The Chair: Thank you.

We'll go to Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chair.

Good morning everyone. My first question is for Mr. Kolivakis.

You stated that you were a senior investment analyst with, among others, the Caisse de dépôt et placement du Québec. When did you serve in that position?

Mr. Leo Kolivakis: I worked at the Caisse from 2001 to 2003.

Mr. Jean-Yves Laforest: Further on in your prepared remarks, you state that significant losses were incurred by major defined benefit pension plans, and that those losses were the result of inadequate controls, and compensation schemes that reward speculation.

Is this what you observed at the Caisse de dépôt et placement?

● (0945)

Mr. Leo Kolivakis: It's what I observed almost everywhere. The problem does not affect only the Caisse de dépôt et placement du Québec; it also affects the Ontario Teachers' Pension Plan and PSP Investments. However, at the Caisse de dépôt et placement du Québec, reference indicators best reflected the risk built into the assets, in my opinion. In other words, the reference indicators of each class of assets held by the Caisse de dépôt et placement du Québec better reflected the risk of investments depicted by the indicators of other major pension funds. Real estate values are one example. In my opinion, the reference indicators for the real estate class of assets account for market leveraging and beta.

Mr. Jean-Yves Laforest: That could be observed for various types of investments, but in the case of commercial paper, can it be said that people were monumentally mistaken?

Mr. Leo Kolivakis: Monumentally mistaken, indeed, but they weren't the only ones.

Mr. Jean-Yves Laforest: The losses incurred by the Caisse are equivalent to approximately 25% of its assets. The Caisse's losses are much higher than those of other funds. What you are telling us is that in the case of certain types of investments, some people did a good job, but as for other types of investments, people performed dismally. How can you explain this?

Mr. Leo Kolivakis: Some reference indicators properly reflected the risk involved, but this wasn't the case for other indicators. A perfect example of this situation is commercial paper. In the case of Treasury bonds, the associated risks were much higher than what the reference index let on.

Mr. Jean-Yves Laforest: In 2003, people had begun purchasing commercial paper. Did you carry out any analysis on commercial paper?

Mr. Leo Kolivakis: Are you asking me if I analyzed commercial paper?

Mr. Jean-Yves Laforest: As an investment analyst, were you aware of any other analyses on investing in commercial paper?

Mr. Leo Kolivakis: Honestly, no. I worked in the private sector, in hedge funds and commodities, but I had never had to write a document for a board of directors on the subject of commercial paper. If I did have to write something, of course it would not be that —

Mr. Jean-Yves Laforest: When you were working at the Caisse, were you privy to this kind of analysis?

Mr. Leo Kolivakis: No.

Mr. Jean-Yves Laforest: Not at the time. Thank you.

Mr. Vanaselja, in your presentation, you make recommendations to strengthen the security of employee and pension benefits. You make a series of recommendations through Mr. Aitken. Ultimately, you are painting an ideal situation for us.

Why was all of this not done beforehand, so that both pensioners and employers could benefit? You are making the recommendations after the fact. We now know what should have been done. Why did firms and pension plans not carry out sufficient analyses to bring forward the solutions that are being suggested today?

[*English*]

Mr. Siim Vanaselja: If I understand your question, it is with respect to the best scenario for employees and employers regarding pension funds and, in hindsight, how it is that we weren't aware of significant negative consequences of the market turmoil that has taken place. I believe the solution for both employers and employees for meeting all of the objectives of defined benefit pension plans really begins with a strong sponsor. After all, those pension fund liabilities are spread out over many, many future years, and as long as the employer, corporation, or sponsor of the pension fund remains healthy, they'll be able to meet those obligations.

Regarding the current situation in the financial markets, we have always gone through periods of significant volatility. Market returns and interest rates go through cycles. Some cycles are longer, and some cycles are shorter. I can tell you that in the case of the Bell Canada pension plan, it has been well managed. Our asset returns have been, on average, in excess of 10% since the inception of that plan. I don't believe that a great many people in the financial markets ever contemplated the type of financial markets, the downturn, and the turmoil that we've seen over the last year, as well as the significant negative impacts that have resulted from that. I believe it is important not to panic and to recognize that returns will come back to the market, and companies will continue to adequately fund their pension plans.

● (0950)

[*Translation*]

Mr. Jean-Yves Laforest: Mr. Lamoureux, as an actuary, compared to an economist, your work also consists in making certain forecasts. Do you believe that you have a responsibility for the losses suffered by some pension funds?

Mr. Claude Lamoureux: I don't think one can say that actuaries are responsible for the losses incurred.

Mr. Jean-Yves Laforest: Are they not responsible for failing to predict what was ahead?

Mr. Claude Lamoureux: During the 1990s, when I was working at the Teachers' Pension Fund, we had advised the Government of Ontario, and the union, to build surpluses. We knew then, during the 1990s, that returns were higher than we were anticipating. Yet, it was very easy to say that profits would be increased by spending the surplus posted by the fund. And that is how we found ourselves with equal assets and liabilities, at the start of the most recent crisis.

It was something that we were able to predict, and that we published in our annual reports, year over year. Nobody wants to listen to that kind of message when times are good, because people think good times will last forever. Yet, that is not the case. One cannot schedule when a crisis will hit, but one can predict that it will indeed occur.

[*English*]

The Chair: *Merci*.

We'll go to Mr. Menzies, please.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair, and thank you to our esteemed guests here today. As you can tell by Mr. Lamoureux's passion for this, it has garnered a lot of interest across the country, and certainly it should. I've spoken to Mr. Lamoureux on different occasions and understand his knowledge of this.

Just to frame it, we do need to remind everyone at this table that the federally regulated private pension plans account for only 7% across this country. It's quite easy—and I've found it in my consultations—for people to get into a broader perspective, but we're trying to deal with the federally regulated, which actually have 12% of the assets.

A couple of presenters today talked about balance, and that's going to be our challenge, to try to bring a balance. As members of Parliament we represent ordinary Canadians, and our concern here is that there have been promises made to Canadians who have worked for 35 and 40 years that there would be a pension there for them when they retired. Those people who have been coming to the microphones and to our meetings are, frankly, very concerned. That's a concern we're hearing from our constituents, so that's why we've asked you to come here.

We need to also remember, in talking about the pension sponsors, that in 1992 we were actually looking at virtually the same solvency issue as we are looking at today. In the early 2000s we were actually looking at bouncing off the ceiling of that 110% surplus, and now we're back into a solvency issue, if you will.

Mr. Lamoureux, you referred to the potential of a side fund. Would it be better to look at that as a solution to allow the sponsors to be able to prepare for what is inevitable? We're facing solvency now, and I guarantee you we'll be facing a surplus again in a few years—I'm not going to project when that may be. Or are we better to look at our tax laws and allow a larger tax-deductible surplus so that they can actually provide for what we know is going to be a downturn?

● (0955)

Mr. Claude Lamoureux: Clearly, it would be ideal to increase the maximum surplus that can be accumulated in a pension plan, and even to have, like in the U.S., no limit. I know there are certain pension plans—and I was part of an effort to do that—that have been exempted from the 10% limit. I think it's more like 25% for those plans. But in 25%, the volatility is such—and we could predict that even 20 years ago—that you have good years and you have bad years.

You've stated it clearly: the federal government has limited jurisdiction. But in many jurisdictions, if an employer wants to remove surplus from a pension plan when such a surplus exists, or if they sell a portion of their company, they have to share in the deficit. So if you're an employer, the incentive is certainly not to put more money into a plan than you have to, because essentially when there's a deficit you'll have to put more, but if there's a surplus you won't be able to benefit from it. So the idea of a side fund would be to make it clear that this would be to back the pension fund, but this money could be withdrawn more or less.... Rules could be written that maybe when you have a surplus of 10% or 20%, you could withdraw a piece of it. Or if an employer is in difficulty, maybe they could ask to withdraw part of that money without having to share it with the employees and without having to ask their permission.

The current situation is that a lot of employers in the 1990s.... I'm very familiar with the pension plan. We essentially ran it with zero surplus, because we were doing a lot of transactions. The danger is that if every time you do a transaction and there's a surplus, you have to share it, the incentive for the employer is not to have a surplus. So you need to find ways to make that attractive to the employer.

Mr. Ted Menzies: The challenge has always been to determine who owns the surplus, and no one has given me the exact answer yet. That debate continues, but I share your concerns about that.

The solvency or the strength and security of these pensions is directly dependent on the solvency and strength of the plan sponsor.

I note, Mr. Vanaselja, you talk about member consent, letter of credit, annual evaluations, and requiring each plan to provide greater financial disclosure to all plan members. In the consultations we heard many plan members ask what happens if you can't get comments back from your plan members. Do we need that as a requirement? Part of it is communication so the plan members understand it, but how do we contact all of them? Is that too onerous for a sponsor to be required to do?

Mr. Siim Vanaselja: It would be very impractical in situations to ask for plan member consent over matters pertaining to the management of the pension fund. There should be transparency and full disclosure, a requirement for annual filing, and requirements to disclosure regularly the funding position of the plan, the investment policy, and the funding policy. Those are all appropriate measures that should be implemented to give employees much more visibility and transparency in how their pensions are being managed and how they're faring.

But once you introduce a requirement for employees or employee groups to have a right over the ability to fund on a ten-year basis as opposed to a five-year basis, for example, that's a valuable right. Our fear is that it will inevitably be used in a broader collective labour bargaining session between the company and its workforce.

I think it's really a management issue as to how to best govern government pension plans to ensure the security of pension benefits within the rules that are laid out by the government. If you bring employees into it—and you look at a company like Bell Canada with 40,000 employees—it would be very impractical on an issue like pensions, which is so complex. The education alone would be a very difficult challenge for us.

● (1000)

The Chair: Thank you, Mr. Menzies.

We'll go to Mr. Mulcair.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Thank you very much, Mr. Chair.

Firstly, I wish to tell Mr. Lamoureux how happy I am to hear him say that retirees need to be given priority in bankruptcy proceedings. This is a pet subject for many unions, among others the Steelworkers, who have come out with official positions on this matter. Some have claimed that this could skew subsequent analysis. I am very happy to hear the representative from the Canadian Institute of Actuaries make the same recommendation, and I'm very pleased to see that those statements are founded on solid analysis. I thank you for that.

[*English*]

Madam Eng, has there been any movement on your proposal for a pension summit. Have you had any reactions to it?

Ms. Susan Eng: No, but everybody is talking about it, so I suppose that's an advance.

On the importance of a pension summit—and I'm sure it will happen soon—the people at the table would be the ones who could make the changes. So it wouldn't be everybody else talking amongst themselves; the finance ministers who actually have the authority to make the changes in this area would be sitting at the table.

Also sitting at the table should be representatives who can speak on behalf of retirees and pension plan members. You've heard today the kinds of things that have historically brought us to this point; for example, employer representatives saying we have to change the rules without asking for the consent or involvement of the pension plan members because it would be too difficult and they'd have to learn too much. Let's start teaching them. At this point people are very much aware of the issues. It is not that difficult. Although the pension experts say this is a mystical area, it's really simple arithmetic. If you take out money when times are good, you're going to face problems when times are bad. It's that simple, and that's what has been happening.

These are the kinds of changes that will rebalance the rights and interests to keep our pension plans much more stable and robust for bad times.

Mr. Thomas Mulcair: Thank you. That is the central theme that was explored by Monsieur Lamoureux as well when he said that when you say something that goes against the current thought when times are going well, such as that you should be careful because you have to save for a rainy day, you get shot down, and that is the best segue to Mr. Kolivakis.

Leo, I've had the great pleasure of meeting with you a number of times over the past couple of years. I am going to say in all sincerity that the analysis you provided here today should be compulsory reading for anyone who wants to understand the subject of what has gone wrong with our pensions. I can also say that you're in a little bit the same position as the engineer who wrote a very critical piece before the second space shuttle crash in 2003, predicting exactly why the crash would happen if certain changes weren't made; and when the crash occurred, that person was roundly criticized for having written that note, even though everything he said in it was right. It's cold comfort to that engineer, and it's cold comfort to you to know that the predictions you've been making and the analysis that has been out there, both in your blog and in your writings, have all come true. All the things we have seen in the last eight months you predicted for exactly those reasons. A lot of people in Canada should note that at least someone in this country has been on this case. That hasn't made you very popular with the people you made those predictions to, and I find that regrettable.

I want to get back to one part of your presentation and ask you for your analysis on PSP Investments. As you correctly pointed out, the senior officers like to pay themselves bonuses. This year is no different. They'd still like to pay themselves bonuses despite the fact that they lost billions and billions of dollars. The way they are going to try to convince us that they should get a bonus this time around is to say that actually you should look at their results on a four-year revolving basis and not just on the last year.

Based on everything you know—and you're one of Canada's leading experts in the field—what do you think is the appropriate thing this year for the senior cadre executives at PSP Investments? Do you think they should be paying themselves bonuses with the money from those savings?

● (1005)

Mr. Leo Kolivakis: I don't think any pension fund of the large Canadian pension funds should be paying bonuses this year, period, especially if they've lost the amount of money they've lost, and in the way they lost the money. That's very important. It's not just losing money; it's where you lost money.

To answer your question, no. When you use this four-year rolling return argument, who does it serve? It serves the interests of the senior executives of the pension fund. It does not serve the beneficiaries or the stakeholders. It serves to line the pockets of the senior executives of the pension funds. That is a key thing we have to keep in mind.

When we have catastrophic losses like those in 2008, it's nice to say this is a once-in-a-lifetime event. Well, Leo Kolivakis wasn't the only one who predicted this. There were a lot of other people who are smarter than I who predicted what was going to happen. I saw it because I was working within the confines of the large pension funds. I went to all the conferences in London and in New York, and I saw it was like a financial orgy on hedge funds and private equity and real estate. Well, the music has stopped, and you know, as Warren Buffett said, when the tide goes out, you'll see who has been swimming naked. There were a lot of people who were swimming naked.

Mr. Thomas Mulcair: There are two main theories of regulatory analysis that can apply here. One is regulatory lag. In other words, regulators are always a step behind what happens and always reacting to it. The other is regulatory capture. There is a lot of discussion these days about how large private firms like Goldman Sachs have been placing their people in key situations of leadership.

One of the reasons we have public institutions in Canada like the CMHC is so we can avoid the Freddie Mac and Fannie Mae debacle in the United States. You maintain public institutions. Is regulatory capture a part of our problem here, such that we have people handling public pensions who consider themselves, when they wake up in the morning and start snapping their suspenders, to have sort of become magnates in the private world of investment, who don't have to respond with that same level of fiduciary responsibility?

Mr. Leo Kolivakis: You have touched on a point I have written about in my blog. The quality and the independence of the board of directors of these large plans is very important, and if you keep putting in the same people from the financial industry, basically it's like a big club. They all know each other. They all get compensated pretty much the same way. They all will talk the same talk. But if you have, for example—and I've been arguing about this—a more independent board of directors.... For example, I would put in academics from universities who maybe don't have any affiliation whatsoever with the financial industry. And if you also augment all your auditing by independent performance, operational, and fraud audits at least once a year by independent experts to see if the activities are in accordance with best standards, then you would be able to avoid all these things and also keep the public pension funds at arm's length from the government.

Norway provides a perfect example. They have been doing this, and to their credit, they have been doing it quite well. They've been able to keep the fund at arm's length from the government, but they also have independent consultants looking at whether or not the operations are being run in accordance with the best interests of the key stakeholders.

The Chair: You have 30 seconds.

Mr. Thomas Mulcair: On that last point, I'd like to go back to the case....

[*Translation*]

I will ask you my question in French, as a follow-up to the question asked by Mr. Laforest. Is one part of the problem, the scale of the losses suffered by the Caisse de dépôt et placement du Québec, caused by the fact that the government had suggested to the National Assembly of Quebec a legislative change that made returns with the one and only consideration? The government had for the sake of 0.17% interest—

The Chair: Please ask your question.

Mr. Thomas Mulcair: —sought out the best return, and when time came to draw down liquidity, there was none because it was all invested in asset-backed commercial paper.

● (1010)

Mr. Leo Kolivakis: Quite frankly, that is a political question. Honestly, it wasn't just about seeking a return, but also about taking into account the risk that was involved.

[*English*]

The Chair: *Merci*.

We'll go to Mr. Pacetti, please.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman.

Thank you to the witnesses. This is a very interesting committee hearing.

One of the things I've been hearing up until now—and it's not the first time we've heard it, it's every time somebody comes before us, it seems—is that it's only normal that losses were or have to be incurred, because, you know, it's expected. Nobody seems to be taking the blame in terms of what has happened or in terms of preventing it. I heard that again today: over the long run there will be declines and there will be upswings.

What do we need the experts for? I guess that would be the question, and I can address the question to two or three of the witnesses. Because if over the long term—Mr. Lamoureux, I think you said over 30 years—I invest in the stock market and I'll be at a higher rate, let's just do that. What do I need experts for when I'm going to run into problems, as Mr. Leo Kolivakis has just stated? I can't trust the experts.

Mr. Vanaselja, I think it's one of your organization's recommendations that each plant file an actuarial evaluation report each and every year. How do you run your business if you're not doing that? How do you run a pension plan if you don't provide financial disclosure to plan members? Do we have to legislate this kind of action? Exactly what do you get paid for? This is what I don't understand.

I think you guys got lucky that we get to blame it on the global downturn. There's no accountability here anywhere. Some of the suggestions are good, but where do we start? How do we fix this problem? I mean, it doesn't make any sense. I can't buy the story that people on the boards of directors are looking to put money in their pockets just for themselves. I can't buy that. We can't run on that premise. So how do we fix that?

Maybe if there's anything I could disagree with Mr. Kolivakis on, it is perhaps to not have experts on those boards of directors. Perhaps have Joe the plumber on those boards of directors, because you know what? Maybe he'll just invest in a GIC, because he won't have the expertise to buy ABCPs, derivatives, and whatever else you experts, you so-called experts—not you, but your organizations—are buying out there.

Can I have maybe Mr. Lamoureux comment and even Ms. Eng. Mr. Chairman, if you could control the time, I would appreciate it.

Mr. Claude Lamoureux: When it comes to investment, you have people who can right it after the fact, but when you invest, you have to look before the fact.

Mr. Massimo Pacetti: Exactly.

Mr. Claude Lamoureux: It's better to have experts than non-experts, and I'll talk about the Ontario Teachers' Pension Plan. Since its inception in 1990, we've beaten our benchmark by 2%. In this business, when you do that, it means you reduce the cost of the pension plan by 40%.

So you do need experts. A lot of these experts can be trusted, but last year there was not a market in which you could hide. The Canadian market gave you a return of -33%. This is something that happens. We know that over a long period of time.... And you cannot hide. Last year there was not a place where you could hide. Every market was negative.

Mr. Massimo Pacetti: No, but if I'm an expert and I'm running a pension plan, I know that the market is going to tank. Then you know what? I'm going to put my money in real estate. That's your job, not to keep the money in stocks. I understand that you're going to pick winners and losers, but—

Mr. Claude Lamoureux: Well, real estate went down.

Mr. Massimo Pacetti: As Mr. McCallum was saying, do we have to legislate and say, okay, you're only allowed to have 30% in stocks and 20% in bonds and 30% in real estate? I mean, that's the thing.

Ms. Eng, can you answer? I'm sorry, but my time is limited.

● (1015)

Mr. Claude Lamoureux: I don't think you have to legislate. I'm giving you an example of a plan that has beaten its benchmark by 2%.

Mr. Massimo Pacetti: Mr. Lamoureux, I understand you're one of the few, the Ontario Teachers' Pension Plan, that did a good job, and hats off to you, but let's talk about the other 98% or 99% of the people who didn't do a good job.

The Chair: You wanted Ms. Eng on that one.

Ms. Susan Eng: As the only non-pension expert at the table, I would say yes, we do need experts to manage the plans overall, but at some point the rules have to change as well. The CPP, for example, measured up extremely well compared with all the other plans, even in a bad market. Why was that? It was largely because it was extremely large, it was conservatively managed, it was independent of political interference, and it was independent of any particular employer. Those were the crucial differences. It was not because they were facing a different market.

Those changes and those choices that are made at a professional level and at a regulatory level are extremely important. That is why we recommend a similar fund to cover the rest of the pre-retirement income. The important changes to the regulations are those that prevent employers from dipping into the overall savings, so that you prevent the contribution holidays and so on.

Mr. Massimo Pacetti: Could I have Mr. Vanaselja comment on that?

The Chair: It must be very brief. You have about 20 seconds.

Mr. Siim Vanaselja: I certainly believe that experts are important. The management of pension assets needs to be closely aligned with the management of pension liabilities. Investing assets is not necessarily like investing in a mutual fund. We need experts who understand the long-term nature of pension liabilities and how the particular asset portfolios can be constructed in a manner that best meets those long-term liabilities while minimizing risks. I think experts are the best to do that.

The Chair: Thank you.

We'll go to Monsieur Carrier.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): I would like to welcome our witnesses.

We are dealing with an issue that is critical for the general public. We are talking about pensions. Employees who have worked all their lives and who are expecting to receive pension benefits could see them disappear overnight. We see what is happening right now with the automakers, where the market was previously quite solid. People are wondering whether they will receive their company pension. This is a big problem and a major worry for the public.

My first question is for Ms. Eng, who represents retirees across the country.

You talk about protecting beneficiaries and you make suggestions that seem to me to be very random and unlikely to be effective. In your second recommendation, you propose universal access to benefits for approximately one-third of Canadians. These would be people who did not manage to put aside enough money for their retirement. I find that a rather strange idea.

How would we determine who would benefit from universal access? Would it not be better to recommend that all employees receive a higher universal government pension, instead of asking the government to step in to clean up the mess caused by companies that do not meet their obligations?

[*English*]

Ms. Susan Eng: You're absolutely right.

The importance of the CPP is that it's mandatory, first of all, and that makes it extremely broad-based. It means people don't have the choice of spending all their money. They have enforced savings.

The other important aspect is it allows employers and employees to fully fund their own retirement, rather than waiting for taxpayers to come after the fact, as is being impressed upon us now in some jurisdictions. In some jurisdictions the government has to now take taxpayers' money from people who don't have any pension benefits in order to supplement and protect and retrieve the people who have found that their pensions are at risk. That's really one of the problems we're facing today that would be prevented, we hope, by having a universal mandatory plan going into the future. People could provide for their own retirement, and the mandatory nature means fewer people are going to be left without, contrary to their own best interests. That's why the CPP, over the years, has actually reduced the level of poverty in older Canadians, and that is really the proposal going into the future.

● (1020)

[*Translation*]

Mr. Robert Carrier: It would be an added plan that people could join to make up for employer plans that do not exist.

[*English*]

Ms. Susan Eng: Right, absolutely. As I say, some 29% of Canadian families don't have anything at all. It would address that group, it would address the people in the private sector, only 25% of whom have any access to defined benefit pension plans, and it would allow people to contribute to a universal plan instead of using their own best judgment and their own retirement savings expertise.

So the best model to look at is the CPP in an expanded form. The current CPP only covers 25% of pre-retirement income and only to a maximum of $46,000 of that pre-retirement income. If you expand both those numbers up to 70% of your pre-retirement income, which the experts tell us you need to have a comfortable retirement, and you expand the level of coverage of their salary to about $116,000, then you would match for everybody the comfort level of people who now have defined benefit plans.

[*Translation*]

Mr. Robert Carrier: Thank you.

The Chair: You still have 30 seconds.

Mr. Robert Carrier: On another point, some companies, like those represented by Mr. Vanaselja, come under federal jurisdiction. So you are subject to federal rules governing pension plans. Other companies have to follow provincial rules. What is the difference between the two? Are the federal rules better and more restrictive, or is there an equivalent regime in each province?

I would also like to hear from Mr. Lamoureux, who is an expert in this area.

[*English*]

The Chair: *Merci.*

Very briefly, please.

Mr. Siim Vanaselja: Yes, there are distinctions between the pension regimes of the various provinces in Canada versus the federal regime. There are differences between those Canadian systems and systems of other countries. And in the submissions we've made, we've drawn out some of the differences in those various systems.

For example, we believe today that the discount rate set federally has a significant negative bias. It is based off Government of Canada rates, as I said, at a point in time, and we believe that a truer measure of the discount rate is to look at investment grade bond yields over a smooth period of time. So today the federal government's approach would result in a discount rate that is approximately 4.5%. If we were to use that investment grade bond approach, it would result in a higher rate by 200 or 300 basis points, similar to U.S. and U.K. regimes.

The Chair: Thank you.

We'll go to Mr. Kramp, please.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Mr. Chairman.

Welcome to our guests.

I have a thought process here and I'd just like to throw something open to all our guests. We've had discussion in the House and in Parliament generally with regard to the attributes and/or the desirability of having a national securities regulator. One of the reasons this was brought forward was to stop the patchwork of rules and regulations. Assuming that we were to swing this thought process around to pensions, right now, with the patchwork that is out there, the fact that the federal government only has or controls roughly 10% to 12%, as mentioned by Mr. Menzies today—I'm not sure of the exact amount—and the provinces handle the rest with the private, there's a lot of confusion among pensioners, sponsors, and regulators.

What are your thoughts on either the need for or the possibility of a national pension regulator? I'd ask for a response from everybody.

● (1025)

Ms. Susan Eng: The greatest impact in the securities regulation area is the impact on people who are handling their own investments. When their investments go down the tubes, they look to see what happened—whether the market was adequately regulated and whether they have recourse in the event that they have been subject to poor advice or sharp practice.

The national securities regulator purports to help with that, but in fact it is making it easier for companies to get their filings through. The sidebar recommendation for a national securities enforcement agency, which would actually enforce the regulations that currently exist and new ones that would protect the smaller investor, has not actually come to the table. Our recommendation is that the focus must be on the enforcement of the existing regulations, so that whatever good regulations you come up with, the investor is actually protected and has active recourse.

We have some concern that in this political climate there will be more cooperation but that, because it requires federal-provincial cooperation to create a national securities regulator, we may spend too much time waiting for that and not enough time on the enforcement piece.

Mr. Daryl Kramp: That's fine, but swing it around now to the pensions. Mr. Lokivakis, do you see any potential gain in harmonizing this movement, or do you see pitfalls?

Mr. Leo Kolivakis: There is an absolute need for a national pension regulator that deals with both public and private pension plans. It's about time we get on to that. You can look at what is going on in the U.K. We have to start looking around the world to see what other countries are doing, whether it's the U.K. or the Netherlands, to address pension funds and the underfunded status of pension funds. Canada is one of the best countries in the world in terms of pension funds, but we have a lot more work to do. I think this needs to be addressed very quickly.

Mr. Daryl Kramp: Mr. Lamoureux, we've had some suggestions that increasing the Canada Pension Plan might present some solutions to this pension problem. We'll be taking a look at roughly 20% from employer and employee contributions. That's a lot of money out of the everyday citizen's pocket, particularly in times like these. Could you give me some of your thoughts on this proposal?

Mr. Claude Lamoureux: I think this is a good proposal. On the other hand, I don't think people should feel there will be no volatility in that pension plan. The danger is to think that CPP is going to be stable and everything else is going to be volatile. That's not the case. Once you invest in the market—and CPP is in the market, but their history is rather short—you have to be careful. Over time, once you're in the market, you're going to see volatility. People should not believe they are exempt from volatility. Clearly, there is a need to have wider coverage for Canadians' pension plans, because many people do not save.

For the teachers' pension plan, we produce an annual report of 100 pages. How many young people read that? Very few. How many old people? People get interested in pensions when they are above age 50, and that's the danger that I see in a lot of pension plans. The young people are not represented, and as a result the tendency is to improve the benefits, but nobody talks for the young people taking the risk.

Mr. Daryl Kramp: Mr. Kolivakis, when did we start this shift out of safe government bonds and then slip into equities and these alternate investment vehicles? It's all about risk. We as a society need to decide at some point where we need to go and where greed takes over. Where did we go wrong, and how long ago did this happen?

● (1030)

Mr. Leo Kolivakis: The big shift into alternative investments happened after the tech crash. There were pension funds like the Ontario teachers that got in early with hedge funds, real estate, and private equity, but the major shift happened after the tech crash of 2001.

I'd like to touch upon a point that Mr. Lamoureux just made. We can say we should augment CPP. My personal belief is that we should cap pension funds at a certain size. Yesterday, the chief of OMERS asked for more pension consolidation. Right now there is a jockeying for position with respect to who is going to get more assets. Will it be Ontario teachers or OMERS? I think it's time we start capping these large pension funds, including the Caisse de dépôt et placement du Québec, at a certain size. After a certain size, it becomes harder to deliver the returns that you're supposed to deliver.

I think we should start looking a little more at what's going on in Sweden. I want to emphasize that there is no perfect system around the world. We should cap pension funds and create new defined benefit plans based on the highest standards of governance.

The Chair: Thank you.

Ms. Bennett.

Hon. Carolyn Bennett (St. Paul's, Lib.): Thank you.

I have a question. Risk is one thing, but I think flexibility is what a lot of the people we've been talking to want. In particular, I'd like to start with the federally regulated sector. A lot of those people still would like to be able to work. Is it true that it's still the only area with mandatory retirement? If people want to keep working and then want to delay their pension.... My interventions have been from women who stayed home to look after their families and who now have a pretty modest pension. They would like to be able to keep working and delay that modest pension and have it accrue to be something worthwhile when they finally can't work anymore.

It just seems unfair that people working in your sector are still being subjected to mandatory retirement. But also, I think, people in lots of sectors would like to have the ability to delay their pension, since it's not added to their income, and then take their pension when they really need it; and hopefully it will have done well in the meantime.

Mr. Claude Lamoureux: Let me tackle that.

I think most provinces have removed their retirement age. What should be done, if you want—

Hon. Carolyn Bennett: But the federally regulated sectors haven't. When I was the seniors critic, I could not walk through an airport without having an Air Canada attendant follow me, going, “Can't you do something, Carolyn, about this? I want to keep working.”

Ms. Susan Eng: Actually, CARP has a full position on that. It is true that in federally regulated industries, mandatory retirement still persists. The companies can't do anything about it, but they can petition the federal government to change the law with one fell stroke, which is what all the provinces have already done. They allow people to keep working when they need to or want to, and they provide a structured retirement so that they can defer their pensions until they need it.

Hon. Carolyn Bennett: And around the flexibility piece?

Mr. Siim Vanaselja: I'm not sure of all the rules governing this, but I believe it may be a company-specific issue. I know that in the case of Bell Canada, we have the ability for people to continue working beyond age 65.

Mr. Brian Aitken: And in my company, Nav Canada, there is no fixed retirement date. So I believe it is very company-specific, to a certain extent.

Mr. John Farrell (Executive Director, Federally Regulated Employers - Transportation and Communications (FETCO)): Perhaps I can comment. I have worked for a number of federally regulated companies and for employers in provincial jurisdictions.

Where the provinces have moved to a non-mandatory retirement scheme for age 65, employers were initially concerned that it would create certain problems. But the fact is that it hasn't created any undue hardship for employers, and employees who want to work longer have benefited from a non-mandatory age 65 regime.

Mr. Leo Kolivakis: I think it's important that we start giving more flexibility to people. For example, I leave the caisse or PSP Investments and I want to take my pension moneys, in my own pension fund, and put it with my current employer. I can't do that. There is no pension portability.

These things have to be legislated. You have to give people the right to move their assets from, let's say, one federal employer to another, because that's what they want to do. I mean, this is something that should have been done a long time ago. I don't understand why it hasn't been done yet.

● (1035)

Ms. Susan Eng: And with the universal plan, you don't need to worry about portability.

Hon. Carolyn Bennett: In terms of flexibility, let's say you leave your pension there but decide, when you have to draw it down, to keep working, even part time. You want to keep an income that's the same as what you were used to. Is there a way that we should change it such that people can move to part-time work and a partial pension, leaving the rest in place?

Mr. Siim Vanaselja: I think that's a very good idea. Again, within the Bell Canada system, we do have a lot of that flexibility today. Sometimes we have to negotiate that with each individual employee, but in terms of the example you've put forward, we have individuals specifically under those types of systems.

Ms. Susan Eng: But it is a patchwork. It depends on each separate private pension contract. Some people have it, some people don't. Some people have employers that provide that flexibility, some people don't. You need to look for some kind of minimum standard that provides flexibility for everybody, that provides portability. You need to make sure that the ethics of allowing people to work, of keeping the dignity of work, of keeping their access to their funds for their own retirement, are constants throughout all of the pension plans in existence, including any new larger plan.

The Chair: Thank you.

We'll go to Mr. Dechert, please.

Mr. Bob Dechert (Mississauga—Erindale, CPC): Thank you, Mr. Chair.

Thank you, guests, for your very interesting analysis.

Mr. Vanaselja, you mentioned in your statement that your proposals are balanced and won't expose pensioners to more risk. That's obviously of great concern to the pensioners and to all the members of this committee who represent those pensioners in their constituencies. Can you elaborate further as to why you say pensioners wouldn't be faced with more risk.

Mr. Siim Vanaselja: Yes, I'd be happy to.

I think one of the most significant risks that pensioners face today is on the termination or wind-up of a pension plan. Today there's no debt contract created between the retirees, the employees, and the sponsoring company. Our proposal is that when a company terminates its plan there would be a debt obligation created whereby the sponsor of the company would have to fund those pension obligations, either up front or over a period of five years. We would like to balance that proposal, which strengthens the benefit security for employees, with the ability to extend the funding of solvency discount rates from five years to ten years, again recognizing the long-term nature of those liabilities and recognizing that the reality is that most companies are going concerns. Nav Canada, Bell Canada, many of the members we represent have been in existence, like Bell Canada, for over 100 years, and will hopefully be in existence for another 100 years. If we can protect employees at the time when a plan is terminated or wound up, we believe it's appropriate to extend the time horizon for funding.

And also, recognizing that the going concern valuation already allows 15 years of funding, it seems to us quite punitive to have a short five-year period on solvency funding.

Mr. Bob Dechert: In regard to your proposal on increasing the amortization period to 10 years, are you aware if any other countries have a similar rule?

Mr. Siim Vanaselja: Yes, the U.K. has a longer rule for funding, and the U.S. has longer as well. There are other countries.

Mr. Bob Dechert: Thank you.

Mr. Lamoureux, in your presentation you mentioned that tax changes are required to allow larger cushions to be accumulated before attracting tax. Could you elaborate on that a little? I wasn't quite clear on that.

Mr. Claude Lamoureux: What happens now in a pension plan is that you can only accumulate a surplus equivalent to 10% of the liabilities. So you can see that with the volatility...the stock market, for instance, has a volatility of 18%. So you have to run the pension plan, and I can give you examples of plans that went into excess surpluses. At that point the employer has to stop contributions, and most of the time that means the employees stop also, so in a span of two years you can go from having too much money to not having enough. You have to run your plan between, essentially, equal to your liabilities and a maximum of 10% above those liabilities. It's a fairly narrow corridor, and what I'm advocating is that this corridor should be extended, because clearly you want to have the assets equal to the liabilities. I think there's room, in fact, to make it.... If it were 90%—I don't think people should necessarily die on the hill—then you could extend the amortization period, but that's really the idea. The tax law makes it so that you get only the maximum surplus, which is 10%.

● (1040)

Mr. Bob Dechert: Have you made a specific recommendation on changes to the Income Tax Act to the Department of Finance?

Mr. Claude Lamoureux: A number of pension plans were exempted about seven or eight years ago, the pension plans where the employees take the risk, and these were mainly large Ontario pension plans. As I said, on those, the maximum is something like 25%. But this has never been extended to any other pension plan.

Mr. Bob Dechert: Ms. Eng, did you have a comment?

Ms. Susan Eng: Yes, I'd like to point out that the tax rules don't prevent you from contributing to the surpluses. You don't get tax deductions if you put it into your plan. If you wanted to set up a surplus fund or a contingency fund outside of getting a tax deduction for it, nothing stops you from doing it; it's just that nobody will. That's one thing.

The extension of the five-year to ten-year deficiency funding rules troubles me considerably, because it means that pensioners are at risk for a longer period of time, with no condition, no protection. I think it is something that needs to be fixed in the rules, so that there actually is some kind of protection for the pensioner when there is a need for extending the deficiency funding.

The Chair: I think Mr. Kolivakis was....

Mr. Bob Dechert: [*Inaudible—Editor*]

The Chair: Either you can have him comment or you can have a question, but you have 30 seconds.

Mr. Bob Dechert: Okay.

Ms. Eng, I wonder if you could comment on how the extension of pension income splitting has benefited your members in the past.

Ms. Susan Eng: It was a huge benefit, because the tradition up to now is that there's usually one pension-earning spouse and one non-pension-earning spouse, and obviously when you split that pension income between two taxpayers, you have a net tax savings to the family. It's been huge for many families. It comes to hundreds and thousands of dollars in tax savings, so it has been a great boon and real support for people in their retirement.

The Chair: I'm sorry, but Mr. Dechert's time is up.

Mr. Leo Kolivakis: Mr. Chair, I'd like to—

The Chair: I'm sorry—

Mr. Leo Kolivakis: It's a very important issue and I'd like to have my point—

The Chair: No. I'm sorry, Mr. Kolivakis. It's up to the members how they wish to use their time, and I asked him if he wanted to ask you, and he wanted to ask another question.

Mr. McCallum, please.

Hon. John McCallum: Thank you very much.

I have a question, and I think it's principally for Susan Eng.

It's about something that I think you're not recommending, and I just want to confirm that because I know you have access to thousands of people's views. Unless I'm missing something, you're not recommending any change in the amount that people are allowed to put into RRSPs to tax deduct...I think it's $18,000. I guess I wouldn't be surprised if that were the case, because I note that only about 30% of people choose to use it at all, and only about 10% or so of the total tax room is taken up.

I know that in some quarters people are making that argument, partly on grounds of equity between public sector pension plans and private sector. So my question to you is, did you consider that? Did you recommend that?

Ms. Susan Eng: Absolutely. I think there is a need—and I think it was mentioned here before—for some financial literacy among our whole population as to what it costs to prepare for your own retirement. As also has been mentioned, nobody starts to think about this until it's too late, really, to save up enough for your retirement. However, the calculations are there and we do sample our members. We sent out an e-mail to some 80,000 members, and some 3,700 people responded. They all indicated a need to have retirement income of 70% of their pre-retirement income. They understand that, but they were only prepared to put up 10% of that income in order to save for it, and the math doesn't work. You do have to come up with close to 18%, which is currently the set rate for RRSPs as well.

It is a tipping point. People are not prepared to put more aside for their retirement, and it is a level at which we need to be able to construct a pension system that will provide them that retirement.

● (1045)

Hon. John McCallum: Okay. Just for clarity, you are not proposing that the $18,000 amount that can be tax-deducted for RSPs be increased. You're not proposing that. Is that right?

Ms. Susan Eng: In its current state, no, because it doesn't solve the problem.

Hon. John McCallum: Okay. Thank you.

I have one final question, and I think this one would be for Mr. Lamoureux. I asked a few questions at the same time and I didn't get an answer to this one, so I'd just like clarity.

If we're going to enhance the Canada Pension Plan, let's say to double the amount the person would get from approximately $10,000 to $20,000, I would assume that this increase would only occur after at least 20 or 25 years and build up. So it would affect younger people, but people of, say, 50 would not get very much of that increase because they would not have had enough time to contribute. Can you tell us approximately the timing of the coming into effect of any increase in CPP?

Mr. Claude Lamoureux: I think it should be prospective, unless the government has a lot of money that it wants to give away. Don't forget that when the CPP started, people who were older got quite a benefit at that point. People should remember that. My father contributed about two years to the CPP and he collected a pension for something like 35 or 40 years. So if you do it prospectively, it doesn't cost the government a lot of money; otherwise your pension liability will go up tremendously. Again, the people who are never at the table are the young people. They're the ones who will have to pay for this. I think that's what we always have to keep in mind, that nothing is free in this world. Essentially I think that if we do it and say we'll do it for everybody above a certain age, that's very costly. Who is going to pay for it?

I will even tell you something that we have not discussed here. I think that the CPP should increase their retirement age. The expectation of life at age 65 is increasing a month a year. When we look at most countries, they've increased their retirement age. Canada has not done so, and I think that is something we should consider. I think it would be helpful for everybody in the long run.

Hon. John McCallum: Right. Well, I'm an economist; I think I understand that things in general are not free.

I think you're telling us that basically it's a political decision as to how much subsidy you want for the people who are now older, and that the subsidy will be effectively borne by those who are now younger. If the government decides to have such a wealth transfer or subsidy, then it can introduce the benefits quickly; otherwise, it will take many years to materialize in any significant way. Is that a fair summary?

Mr. Claude Lamoureux: Yes, but there is an other interesting thing. Holland is a country where they've made a lot of changes in their plan. They had a lot of young people to participate in the plan. One of the things they've done there is that for older people, once they've retired, inflation protection is not guaranteed. It's really contingent on having a surplus, if you want, in the plan, and at least it's a way for the retirees to share in the risk. When you do that over a long period of time, you reduce the overall cost of a pension plan, and the more you can share the risk with a larger population, the better it is.

The Chair: Thank you.

We'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair. I didn't know it was going to be my time. I appreciate it.

Thank you for coming.

Just a few minutes ago, Ms. Eng answered a question about surplus. There seemed to be some confusion on this point, and I wanted to give you an opportunity to comment on it.

Mr. Brian Aitken: Thank you.

The question was whether or not a company, as plan sponsor, is permitted to contribute more than 10% surplus threshold. I believe the answer is no. It's not only a question of a company not being able to avail itself of a tax deduction; I believe there is a proscription against a company contributing more than 10%.

Mr. Mike Wallace: Thank you. That was just so that we are clear.

I'll be frank with you: pension issues are relatively new to me. At 45, I'm right on the bubble of a zoomer, I suppose, but I haven't paid a whole lot of attention, as you were telling me most Canadians have done.

My questions are for Ms. Eng, because she has some recommendations here.

I have a copy of the survey you did after the budget. The numbers here in your report show about 80% supporting what we've done, and so on and so forth. You have another survey here for today's topic. I was hoping it would be attached, but it's not. Is it public?

● (1050)

Ms. Susan Eng: Yes, it is.

Mr. Mike Wallace: It's public. Did I hear you say you've mailed out 80,000? Is it a mail-in program for households—

Ms. Susan Eng: It's actually e-mail. As you know, we have 330,000 members; however, only 80,000 of them have subscribed to the online newsletter. At the push of a button, we reach 80,000 members—

Mr. Mike Wallace: You got 3,700 back.

Ms. Susan Eng: About 3,700 replied within the last two to three days. There was a high level of interest and support for a universal pension plan.

Mr. Mike Wallace: Okay, I'm going to get to that.

I've been working on issues with the OAS and GIS. Do you know approximately how many of your members collect OAS or GIS?

Ms. Susan Eng: Well, all people over 65 are entitled to OAS—

Mr. Mike Wallace: Right, but I want to know how many are actually collecting it.

Ms. Susan Eng: —but we don't have the exact numbers for how many of them get the full amount.

For the GIS, I think it was something like 37%, but I don't have those numbers in my head. Quite a sizeable number of people are reliant on GIS, which is the supplement, and there are estimates of about 246,000 Canadians living in poverty over the age of 65.

Mr. Mike Wallace: I'm short on time and I don't meant to be rude, that's for sure, but I think you're suggesting that a universal pension plan should cover 70% of what somebody earns, up to $116,000. Am I right?

Ms. Susan Eng: That's right. Correct.

Mr. Mike Wallace: I just want to be clear. Are you advocating that we get rid of all company pension plans and have one pension plan funded by the taxpayer to this level? Tell me where I'm confused.

Ms. Susan Eng: First of all, it's not funded by the taxpayer; it's funded by the employers and employees, as is the current state of affairs with the CPP. In the—

Mr. Mike Wallace: You don't consider the CPP contribution to be a tax, then?

Ms. Susan Eng: No. It is a contribution towards your own retirement. There are small employers who call it a payroll tax, but in fact it is a contribution by employer and employee towards the retirement of that individual. That is the kind of model we're recommending for a universal plan to cover the rest of it.

Mr. Mike Wallace: Have you costed out your plan, in terms of what's being collected now in the private sector between employees and employers and what we would have to collect as the Government of Canada?

Ms. Susan Eng: Remember that the private plans have their own defined benefits, and so it's going to cost what it costs for them and their employee group as to what it will cost actuarially to pay for their benefits. The CPP, which is the example we use, costs employer and employee together 9% for the coverage that it is giving now.

Mr. Mike Wallace: Companies that aren't providing a defined benefit plan now....

Ms. Susan Eng: They would have to come up with it.

Mr. Mike Wallace: That would be a new tax, or a new payroll deduction for them that they're not paying now?

Ms. Susan Eng: That they are not currently paying. That's correct.

Mr. Mike Wallace: Do you know approximately how much that would be?

Ms. Susan Eng: The estimates are that it would be up to about 15% when you add in the CPP and the excess amount, but because the amounts roll up to where they are now, and with the demographics, it's about 19% combined for the employer and employee.

Mr. Mike Wallace: In this marketplace, that might be a significant hit to some companies. Are you planning on a rollout that's a long-term change?

Ms. Susan Eng: This is for the very long term. The estimates are that it will take some 40 years for this to roll out and be complete. That's if there's no immediate contribution of tax dollars. This is only by the employer and employee.

Mr. Mike Wallace: Leo, you're anxious. I'll give you 30 seconds.

Mr. Leo Kolivakis: I'm sorry. I think when we're doing cost-benefit analysis it's also important to keep in mind that a lot of private plans are in deep trouble, and they're going to cost the taxpayers anyway because the governments, whether they are provincial or federal, are going to backstop them. We have to think about the universal plan and how it will enhance productivity in Canada. Over the long run, I believe this will enhance productivity in Canada, so I'm firmly behind Ms. Eng's proposal.

The Chair: Thank you, Mr. Wallace.

Monsieur Mulcair.

[*Translation*]

Mr. Thomas Mulcair: Thank you, Mr. Chairman.

[*English*]

Mr. Kolivakis, before you were looking for some time to complete an answer. Have you had occasion to do that?

Mr. Leo Kolivakis: No, that was on the issue of extending solvency amortization from five years to ten years. I think it's important for us to keep in mind that we can be buying time. We can change the discount rates so that when you have a AA corporate bond yield that is higher than the Government of Canada's yield, the liabilities end up being a lot less, but that is tinkering, and really what you're trying to do is buy time. And I don't think that is really a long-term solution.

Air Canada, I believe about four or five years ago, did the same thing, and when they extended the amortization period it didn't really help them. So I'm saying that we have to start thinking about long-term solutions and not tinkering at the edges.

● (1055)

[*Translation*]

Mr. Thomas Mulcair: Mr. Chairman, when we talk about sustainable development, we immediately think of the environment. In reality, sustainable development means thinking about the effect that every government decision will have on future generations.

Over the past two years, we have seen the collapse of two major sectors of our economy, the forestry sector and the manufacturing sector. This is a matter of political debate. Our view is that the Conservatives are responsible because of the bad choices they made in reducing taxes across the board. By definition, a company not making any profit in the manufacturing or forestry sector received nothing from those initiatives. So the benefit went to the most profitable companies such as the banks and big oil companies.

One of the effects of that is that, before the current crisis, 350,000 jobs had already been lost in the manufacturing and forestry sectors. Those were high-paying jobs that often came with pension plans as well. For months the government kept telling people not to worry because those jobs were being replaced by new ones. But if you want to know what this really looks like, look at the former site of the GM plant in Boisbriand, which is now one of those huge shopping malls. Everyone, of course, has the right to work in a store, but if you earn $12 an hour selling clothing, you have no pension plan and it is pretty hard to pay for your family's needs.

Ms. Eng or Mr. Lamoureux, have you had a chance to look at the long-term impact of this structural change in our society? We are losing hundreds of thousands of high-paying jobs in sectors where there were pension plans and replacing them with lower-paying jobs, without pension plans, especially in the service sector, such as shopping malls.

[*English*]

Ms. Susan Eng: I'm not sure if I fully understood the question through the translation, but I think you're asking how we deal with the kind of job situation that we have now, where people are losing jobs that have pension benefits attached to them and are gaining jobs that do not. In fact, the dynamic is to push people towards manufacturers—the car manufacturers that don't offer pension plans, for example. That creates a great instability in our economy and in our society. This is what we're facing now. Individuals who had hoped to have peaceful retirements are now being confronted with some great upheavals in their lives. This is one of the issues that a stable pension system across the country would help to prevent. That's probably one of the most important things we're doing here today, looking at how we prepare for our own future.

It was pointed out earlier that we worry about whether young people are going to be supportive of this. I can tell you right now that people get old very quickly in this kind of market, and when they're losing their jobs, they're looking at what kind of cushion they have. One of the areas we can help them with is to provide for their future.

Mr. Chair, if I may, I've been corrected in relation to a comment I made earlier, and I would like to clarify it. In relation to my answer to a question about how much more it would cost to have a universal pension plan, I was properly corrected by the former chief actuary of the CPP that we already pay 10% according to our CPP contributions, so the additional amounts would cause a further 10%, for a total of 19% to 20%. I didn't want to leave the impression that we would be adding another 20%.

The Chair: Okay.

[*Translation*]

Mr. Claude Lamoureux: This is obviously a political question, since free trade means that jobs may move from one country to another. But in the automobile industry, for example, Roger Lowenstein wrote a very interesting book in which he clearly shows that the unions and management provided benefits that they knew were not sustainable in the longer term. Things like the so-called thirty-and-out are very expensive, and it is clear that no one set money aside for that.

So we need to be careful when we talk about pensions. We need to calculate the long-term costs and think beyond the present. The only way to have a stable pension system is to invest in Canada Savings Bonds. No one wants to assume the cost involved.

● (1100)

[*English*]

The Chair: *Merci , monsieur Lamoureux.*

Thank you all for your presentations today. I'm afraid we are out of time. It was a very interesting discussion. I want to thank you all for your presentations and your answers to our questions.

I do have one follow-up question. Mr. Lamoureux, you asked about disincentives for plan sponsors to fund more prudently. We don't have time to answer it today, but if there's anything further you have on that, you could supply it to the committee through the clerk. I would appreciate that very much.

Thank you all. It was a very good discussion.

Colleagues, we will see you on Thursday.

The meeting is adjourned.

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