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Mr. James Rajotte

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● (0900)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Good morning, everyone.

Welcome to the 22nd 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. Within that study, this is our third meeting dealing specifically with the issue of pensions.

We have with us here this morning five organizations: first, the Rotman International Centre for Pension Management; second, the Office of the Superintendent of Financial Institutions Canada; third, the Canada Pension Plan Investment Board; fourth, the Canadian Chamber of Commerce; and fifth, the Communications, Energy and Paperworkers Union of Canada.

I'll ask each organization to make a presentation of five minutes, and then we'll go to questions from members.

We'll start with the Rotman International Centre.

Mr. Keith Ambachtsheer (Director, Rotman International Centre for Pension Management): Thank you. It's good to be here this morning.

Fifteen years ago in Canada we reformed pillars one and two of our retirement income system, OAS/GIS and CPP/QPP. Fifteen years later it's time to do something else. It's now time to move on to pillar three, which is the supplementary part of the system. It basically breaks down into two components: registered pension plans on the one hand and individual RRSPs on the other.

It's good to just get a grip on the numbers. We have about 15 million workers in the workforce, which breaks down nicely into three five million parts. There's a low-income earner part, which is largely taken care of by the reforms in OAS and CPP. The other 10 million break down into two five million worker pieces: five million workers who have registered pension plans and five million who don't. And they face quite different challenges today.

The bottom line is that most of the workers who are members of registered pension plans will in fact get their pensions. There is a small proportion who will likely only get 60¢ on the dollar, because they work for private sector organizations that are now in financial difficulties.

It's interesting to contrast with the other five million who don't have pension plans. Many of them will in fact have trouble replacing an adequate amount of income once they stop working, with their current arrangements. The markets have not been kind to them in terms of reducing the value of their RRSPs, and there are other issues related to the consistency with which contributions are made and to how well the plans are carried out.

So those are the overall challenges today with the system.

The good news is that we know how to fix the problems. There has been a lot of research done in the last few years. I wrote a book a couple of years ago, *Pension Revolution: A Solution to the Pensions Crisis*, and since that time the C.D. Howe Institute has come out with a number of papers. Most importantly, there are now the three expert provincial commissions that have looked at the issues and have made recommendations. And there is in fact a fair amount of consistency in where the solutions lie. They lie in the direction of fixing the problem with the benefit formula. DB plans are too rigid and DC plans aren't structured enough. We need to go to a target-benefit approach that lies between those two extremes. The other thing we've learned is that we have to deliver pensions through large pension delivery organizations that have scale, are at arm's-length, and have expertise to do that kind of work.

The third and maybe most important thing that we need to fix is the coverage issue, the fact that out of those 10 million workers who should have supplementary pensions, only half have a formula approach; the other half are basically left to fend for themselves. That is not an appropriate way to go.

I have made a specific proposal through a C.D. Howe paper called "The Canada Supplementary Pension Plan (CSPP): Towards an Adequate, Affordable Pension for All Canadians". There are a number of similar proposals now floating around, and I believe we need to take them very seriously.

The final point I want to make is how we get from here to there. That will be no mean challenge. A lot of these things actually are already happening. DB plans are being closed or they're being converted to more flexible arrangements. DC plans, group RRSPs, are increasingly moving toward auto-enrolment and various types of default options that get people to where they want to go. There was a discussion just last week about super-funds in the papers. Michael Nobrega floated that idea. And we do need to move to larger, more expert entities to manage these funds.

On the coverage front, as you know, it's already an election platform in British Columbia that there should be a province-wide plan for all those workers not covered. I think that idea will move east. It will go to Alberta and to Saskatchewan. Ontario will pick this up as well, as will Nova Scotia. This leads us to the question that I will leave you with, which is, what's Ottawa's role going to be in all this?

● (0905)

You have a choice, all the way from being a passive bystander and watching all this happen, to taking a more proactive role in deciding what Ottawa can do to facilitate moving to the retirement income system, the third pillar, that all Canadians deserve.

Thank you very much.

The Chair: Thank you very much for your presentation.

We'll now go to OSFI, please.

[*Translation*]

Mr. Jean Claude Ménard (Chief Actuary, Office of the Superintendent of Financial Institutions Canada): Mr. Chair, distinguished members of the committee, good morning. Thank you for the opportunity to appear before you today to discuss Canada's social security system and how it is faring in the face of today's economic turmoil.

The primary role of the OCA is to provide actuarial services to the federal and provincial governments who are Canada Pension Plan (CPP) stakeholders. While I report to the superintendent of financial institutions I am ultimately responsible for the content and actuarial opinions reflected in the reports prepared by my office.

The mandate of the OCA is to conduct statutory actuarial valuations of the CPP, the Old Age Security Program and other pension plans covering the federal public service every three years. Although OSFI is the regulatory body for approximately 7% of all private pension plans in Canada, accounting for approximately 12% of pension assets, OSFI has no role in regulating the Canada Pension Plan. As the chief actuary, my responsibility is not regulation of the CPP; rather it is limited to providing regular actuarial valuations of the long-term sustainability of the CPP.

The financial turmoil has touched countries in all continents. Pension plan funding has been affected, and the financial status of social security schemes has deteriorated. The average pension fund return for OECD countries was negative 19% for the first 10 months of 2008. The CPP fund dropped by $13.8 billion during the last nine months of 2008. Still, the CPP assets of $111 billion represent four times the annual benefits paid. In comparison, 10 years ago, the assets represented less than twice the annual benefits paid.

Despite the current volatility in financial markets and the fact that the value of CPP assets will fluctuate over the short term, it is the ongoing contributions made by working Canadians in addition to long-term investment performance that will determine the plan's ability to meet its commitments to plan members.

[*English*]

I will now move to English.

The Canadian retirement income system is composed of three pillars, old age security, the Canada and Quebec pension plans, and the third pillar, the RRSPs and the registered pension plans or employer-sponsored pension plans.

According to a Statistics Canada study as of year-end 2007, Canadian pension assets equalled 138% of gross domestic product. A comparable OECD/World Bank study identified Canada as one of only seven countries in the world where pension assets exceed 100% of gross domestic product.

For the old age security program, aging will cause an increase in the expenditure of the OAS program. However, compared to other G-7 countries, Canada has shown remarkable budgetary improvement since the mid-1990s. Balancing the budget and taking steps to put debt as a proportion of GDP on a downward track are effective ways to ensure the sustainable financing of the old age security program. Despite Canada's return to a budget deficit this year and projections of further economic contraction, it is anticipated that these will be temporary and will not affect the government's ability to pay future OAS benefits.

For the Canada Pension Plan, from 2000 to 2019, the net cashflows of the plan, that is, contributions less expenditures, have been and will continue to be positive, resulting in a rapid increase in the plan's assets expenditure ratio and funding status.

To conclude, in these uncertain times it is necessary to continue to monitor the financial health of social security systems. In Canada the next CPP, Canada Pension Plan, and OAS actuarial reports will be performed as of December 31, 2009, and will take into account the current economic environment as well as the long-term demographic outlook. The combination of old age security, the guaranteed income supplement, and the compulsory contributory pension plans, the Canada and Quebec pension plans, has contributed significantly to reducing poverty among seniors over the past three decades. The OECD and the Luxembourg Income Study Research Institute consider Canada to be the country that has the least difficulty answering the economic well-being of retirees. To quote the research institute:

> The choice of policy is crucial, as shown for instance by the low cost but highly target-effective Canadian efforts in fighting elder poverty.

With the Netherlands, Finland, and Sweden, Canada is in a select group of countries where the incidence rate of low-income seniors is less than 5%.

I wish to thank you for the opportunity to appear before this committee and will be pleased to answer any questions you may have.

Thank you.

● (0910)

The Chair: Thank you very much.

We will now go to the CPP Investment Board.

Ms. Benita Warmbold (Chief Operations Officer and Senior Vice-President, Canada Pension Plan Investment Board): Good morning, Mr. Chairman and members of the committee. My name is Benita Warmbold and I am senior vice-president and chief operations officer of the CPP Investment Board.

With me today is Don Raymond, senior vice-president and head of public market investments.

When the federal and provincial ministers of finance successfully reformed the Canada Pension Plan in the mid-1990s, they endowed the CPP and the CPP Investment Board with a number of advantages. Three of those advantages have proven invaluable in the recent economic environment.

First is the clarity of our investment mandate enshrined in legislation to maximize returns without undue risk of loss.

The second is a governance model that balances independence with accountability. The CPPIB operates at arm's length from government and is overseen by an independent board of directors, which approves investment policies and makes critical operational decisions. To balance that independence, the CPPIB is accountable to the federal and provincial finance ministers, who act as stewards of the CPP. We have a high degree of transparency, so Canadians can see how their pension fund is managed.

The third is stability, through legislation that protects the CPP assets and governs the CPP Investment Board, which requires the cooperation of the federal and provincial finance ministers to change.

All of these advantages reinforce our ability to earn investment returns to help sustain future benefits for the 17,000,000 Canadians who participate in the CPP. To fulfill this objective, the investment strategy of the CPP fund is designed to generate returns over decades and generations. As a result, we have a long-term investment horizon. That long-term focus is central to my remarks today. The combination of our long-term focus and the funding structure of the CPP in which contributions are expected to exceed benefits through 2019 has proven extremely valuable in helping CPP withstand a prolonged market downturn.

The assets of the CPP fund have grown steadily as the portfolio has been diversified over the past 10 years. As of December 31, 2008, the CPP fund had assets of $108.9 billion. That's an increase of $71 billion as a result of both investment returns and contributions from employees and employers. The fund today is a broadly diversified portfolio of public equities, private equities, real estate, inflation-linked bonds, infrastructure, and fixed income instruments. Just under half of the fund, about 49%, was invested in Canada and the balance was invested globally as of December 31.

As recent results have shown, the CPP fund is not isolated from the storms buffeting financial markets and the global economies. Sharp declines in global equity markets have negatively impacted our recent results. For the first three-quarters of the fiscal year, the fund declined $13.8 billion, reflecting a return of minus 13.7%.

While we recognize that Canadians may be concerned about these short-term results, our long-term investment horizon creates advantages and opportunities. First, the portfolio we manage today is not being used to pay benefits today. In fact, it will be another 11 years before money from the fund will be required to help pay pensions. Second, as a result of new cashflows for the next 11 years, we have the opportunity to invest in quality assets at attractive prices when many other investors cannot. Third, our portfolio reflects our long-term mission and is designed to generate returns over four-year periods rather than focusing on a single year.

Appropriately, our policy on management compensation reflects our long-term investment strategy, our portfolio design, and our long-term outlook. The key principles are that compensation rewards performance over the long-term, as measured in four-year periods. The pay for performance is based on two factors: how the fund performs overall and whether we generate returns above a market-based benchmark. Overall, the program balances pay for performance with the ability to attract and retain the best investment professionals to manage the fund.

In summary, the CPPIB is very confident that we have the investment strategy to generate the long-term returns required to help sustain the CPP. Given recent conditions, we know Canadians are placing an even higher value on a strong public pension system. We take very seriously our responsibility to help sustain one of Canada's most important social programs for decades and generations to come.

● (0915)

Thank you.

The Chair: Thank you very much.

We'll now go to the Chamber of Commerce.

Ms. Shirley-Ann George (Senior Vice-President, Policy, Canadian Chamber of Commerce): Thank you, Mr. Chair and gentlemen.

My name is Shirley-Ann George. I'm the senior vice-president of policy at the Canadian Chamber of Commerce. With me today is Mr. Serge Pharand, vice-president and corporate comptroller at Canadian National.

It gives us great pleasure to be before the House of Commons Standing Committee on Finance to present the views of the Canadian Chamber of Commerce and our members on this important issue. As many of you know, the Canadian Chamber of Commerce is the largest business organization in Canada, with membership of 175,000 small to large businesses from all sectors of the economy and all regions of this country. We pride ourselves on being the voice of Canadian business, and we work hard to ensure Canada's business community is able to maximize its economic and social contribution to all our well-being.

We commend the finance committee for consulting with Canadians on the most appropriate means to strengthen Canada's pension plan. Today, I will focus my remarks on the voluntary pension system—the defined benefit, or DB, and defined contribution, or DC, pension plans.

The unprecedented decline in global equity markets and long-term interest rates has significantly reduced the funded status of DB pension plans. According to Watson Wyatt, the ratio of plan assets to plan liabilities—that is the solvency ratio—of the typical pension plan fell from approximately 95% in 2007 to 69% at the end of 2008.

Many companies with DB pension plans are required to make substantially higher pension contributions to offset the substantial pension losses. This requirement is taking effect during a recession when they can least afford it. As a result of these large special payments, companies are diverting available funds from productivity and growth-enhancing capital investments. Their competitiveness and that of our nation is undermined. Reduced capital spending puts the economy at risk of a longer and deeper recession.

For many companies, these increased costs may force layoffs and compel reductions in employee compensation and/or increases in employee contributions. In some cases, it may even force companies into bankruptcy. The real proof of the seriousness of the situation is the level of concern expressed by plan sponsors. According to a Watson Wyatt survey, 88% of senior Canadian executives believe defined benefit plans are in a widespread funding crisis.

In early April, the federal government released proposed regulations to provide temporary solvency funding relief for federally regulated DB plans. One option was to allow the sponsor to extend the solvency funding period by one year. Another option was to allow a plan sponsor to extend the solvency payment schedule from five to ten years, provided no more than one-third of both plan members and retirees object. If consent is not obtained, the difference between the five-year and ten-year payment schedule would need to be secured by a letter of credit.

Our members expect that obtaining the consent of employees and retirees at this time will be difficult. In particular, the requirement for retiree consent may preclude access to funding relief for the very employers and plan sponsors who most need the relief. In our view, the option to extend the amortization period should not be conditional on consent.

Our members agree that the five-year solvency deficit amortization period imposes onerous and volatile cash demands on companies. It should be extended to at least 10 years and applied consistently to all companies to allow businesses to spread their solvency payments over a longer period, freeing resources for today's operations.

Plan sponsors should be able to either use a letter of credit or place funds in a trust separate from pension funds in lieu of solvency contributions. If utilized, such instruments would provide the same security to plan sponsors as cash contributions to the pension fund and should be recognized as a pension asset in solvency valuations.

With credit markets remaining tight, it is difficult for many companies to obtain a letter of credit or secure one at a reasonable price. If used, letters of credit and funds in trust should be released if the pension returns to a fully funded position.

We strongly urge the government to move quickly to provide the funding relief many employers urgently need.

I also have some recommendations that would benefit the employees. Employers should provide affected plan members with notice of any changes, greater clarity and understanding of the issues, and full disclosure of the funding status. Employee concerns should be alleviated by making it clear to employers that they should not be able to terminate a plan and continue in business without funding benefits, and there should be no partial termination.

● (0920)

To add transparency to this whole process, we recommend that annual valuations be required. When compared to the existing rules, our 10-year amortization proposal, combined with the requirement to file annual valuations, can result in more security for the members of a plan and achieve the goal of reducing volatility for the sponsors. We urge the committee to take a long-term view when assessing our proposal.

I also have some comments on needed changes to the defined contribution RRSP and RRIF programs and recommendations that might be considered alongside the Rotman proposal, but given the shortage of time, I hope one of you will ask questions on that during questions and answers.

The Chair: Thank you for your presentation.

We'll now go to the Communications, Energy and Paperworkers Union of Canada.

[*Translation*]

Mr. Renaud Gagné (Vice-President, Quebec, Communications, Energy and Paperworkers Union of Canada): Good morning. Thank you for agreeing to meet with us to talk about the difficulties we are experiencing.

With me this morning is Germain Auclair, who will perhaps speak more to the problems specific to Smurfit-Stone, which was granted protection under the Companies' Creditors Arrangement Act, and the direct consequences of that protection on workers who are about to retire and those who have already retired.

I am the Vice-President of the Quebec section of the Communications, Energy and Paperworkers Union of Canada. We represent 50,000 workers in the forestry sector, 22,000 of whom work in Quebec. Since 2006, more than 5,000 people have permanently lost their jobs. The forestry sector is going through an unprecedented crisis. I will not dwell on the fact that, to date, the forestry sector has received little assistance, compared with the automobile sector.

What must be understood is that, once companies are protected under the Companies' Creditors Arrangement Act, be it AbitibiBowater or Smurfit-Stone, nearly 10,000 pensioners are threatened because there is no system that will protect their benefits. This is happening in all regions throughout Quebec, so there is an extremely significant impact on the regional economy.

There is another difficulty: for the last three years, we have been negotiating all sorts of cost cutbacks that would allow workers to retire. Today, under attrition programs, people are still waiting, and we are waiting for the money needed to allow them to leave, while keeping the youngest workers in their jobs. Unfortunately, it was announced yesterday that AbitibiBowater will not finance the solvency deficits. If there were to be a bankruptcy, the consequences would be dire. Some people would not be able to retire, young workers would be laid off, and there would be a labour shortage in the short term.

What is even more disappointing is that, just as Smurfit-Stone was granted protection under the Companies' Creditors Arrangement Act, it was able to secure $47 million to use as executive bonus retention incentives. Meanwhile, in Montreal, 200 employees at two paper factories had their pension plan cut by $8 million.

So, it is obvious that current measures applicable to private pension plans do not provide financial security to workers when they retire.

One of the first recommendations would be to create a pension insurance program that would prevent total insecurity for these people. We need a federal pension insurance system, and we believe that this system should be built in collaboration with the provincial governments.

I will hand the floor over to Germain so that he can talk to you about the direct consequences, in his capacity as a retired member and a member of the Retirement Committee.

● (0925)

Mr. Germain Auclair (Member of the Retirement Committee, Smurfit-Stone, Communications, Energy and Paperworkers Union of Canada): Good morning. My name is Germain Auclair, and I have been the Vice-President of the Smurfit-Stone Retirement Committee for the last 20 years. This committee represents factories in Burlington, Matane, La Tuque and Pointe-aux-Trembles.

Everyone knows that Smurfit-Stone is protected under the Companies' Creditors Arrangement Act here in Canada, and chapter 11 of the U.S. Bankruptcy Code. Our plan covers approximately 725 active members and 900 pensioners. The plan's assets went from $214,598,000 in 2007 to $175,908,000 at the end of December 2008, an amount that does not account for the fact that the company has stopped making its contributions for past service since January 2009. A payment of $706,366 for past service is not made to the plan each month. The plan's solvency ratio was 64% on December 31, 2008. Presumably, that ratio is even lower today, considering that the company has suspended its contributions for past service.

Smurfit-Stone can declare bankruptcy and shut down the plan; the Régie des rentes du Québec also has the power to shut it down. Unlike Ontario, we have no law whatsoever to protect our pension plans, so members and pensioners would absorb a considerable loss, which would have repercussions in municipalities that are already grappling with plant and sawmill shut downs, such as in La Tuque and Matane.

As a clear illustration, based on bridge benefits, a 58-year-old pensioner would lose $12,181 if the company were to go bankrupt, and by the time that same pensioner reaches 60 years of age, he would lose $10,237 per year. Losses would be in the range of $11,000 to $12,000 per year, per pensioner. This amount of money is very significant for a pensioner who draws approximately $35,000 or $36,000 per year. Real losses for future pensioners would be approximately 32% for maintenance workers and 35% to 40% for production workers. Average losses would be about 32%.

Losses for all pensioners taken together would be approximately $5,580,000 per year, an approximate average loss of $6,488 per pensioner. It must be noted that losses would be lighter for older pensioners and much heavier for others.

In conclusion, after having explained what would happen to the pension plans for the factories in Burlington, Matane, La Tuque and Pointe-aux-Trembles, and the financial impact on our pensioners and workers, we, the workers of Smurfit-Stone, hope that a law similar to that of [*Editor's Note: Inaudible*] will be implemented to protect all of our pension plans. It is important to remember that, to date, governments have helped only companies and have forgotten about the workers and pensioners who are also bearing the brunt of the recession and massive layoffs.

We hope that you will take into account our comments in your future decisions, since the confidence in the system we live in is at stake.

We also wish to take a few moments to thank the member for Champlain, Jean-Yves Laforest, for inviting us to this meeting. We also wish to thank all members who agreed to give us the opportunity to explain how our pension plan works.

Thank you.

The Chair: Thank you very much.

[*English*]

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

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

Thank you to all the witnesses for being here today.

My first question would be to Ms. Warmbold.

It's my understanding that the six top people at the CPP Investment Board had bonuses in the order of $10 million, not this past year but the year before. I know you can't give a precise number, but given the return in the first three-quarters of minus 13.7%, can you say what impact this is likely to have on bonuses?

Ms. Benita Warmbold: Sure. I mentioned in the opening remarks that our performance program is definitely a pay for performance, and this links a significant portion of our performance to our value added over the reference portfolio, as well as our absolute returns. So given what's happened this year, it will definitely have a downward impact on our compensation for this year. Our results will be out at the end of May.

● (0930)

Hon. John McCallum: Thank you.

Mr. Ambachtsheer, I know you've studied pensions for years and decades. In terms of this new pension arrangement that's moving from west to east, I have two questions for you.

If you assume that we have a federal government that wishes to be active in this area—and I won't comment whether or not we do at the moment, but if we do—given all your knowledge and experience, what do you think would be an appropriate role for the federal government to play? This is my first question.

I'll give you my two questions together, and the two may be somewhat related.

My second question is that there's been a lot of debate about whether your scheme and other similar schemes will be compulsory or voluntary in terms of contributions. I believe at least one version of yours is voluntary but with a default position that if you don't say you're not in, you are in. It seems to me that's a crucial decision.

Those are my two questions.

Mr. Keith Ambachtsheer: The potential role the federal government can play in bringing all these things together is in fact to help flesh out the vision as to where we should be going, and as I say, it really revolves around putting three things together. One is to move to target-benefit plans. Another one is to move the delivery to cost-effective organizations, and the third is to increase coverage way beyond where it currently is.

Just the idea—if we can get buy-in across Canada—that this is what we're trying to achieve would be a huge step forward. It gets rid of a lot of the noise, and it gives clarity to where we're going. The second question is how we get there. There are some very big challenges in how we get there, but I think if we know where we're going, we can talk about a vision of how to get there. The other thing that clearly is in the Ottawa camp is the Income Tax Act. There are certain things in the Income Tax Act that prevent the efficient generation of pensions right now. So that's an important role that Ottawa can play in that dimension.

Hon. John McCallum: If I could interrupt for one second, would you see the possibility of a single national scheme, or possibly a Quebec-Canada, Canada pension plan-Quebec pension plan scheme as being the most desirable outcome?

Mr. Keith Ambachtsheer: The research shows that scale is very important. Bigger scale means lower unit costs. Delivering pensions at low cost is tremendously important, because if a lot of the returns are eaten up in costs, then there are no pensions. So in that sense, scale is important.

As to whether it needs to be one national plan, the way I wrote it up, as the Canada supplementary pension plan, or whether you have a CPP-QSPP as a variant of that, or whether we have a number of regional plans, I think they can all achieve scale.

So now you get to the question of portability. Portability across the country, if you want labour mobility, is obviously very important. So even if you have somewhat different sponsorship, you want the formulas to be the same. You want them all to be target benefit plans. You want them all to have individual pension accounts, and you want all of the older workers and retirees to be part of an annuity balance sheet that is secure and will in fact pay pensions.

So it's an interesting question whether we end up with one national scheme or whether we end up with three or four regional schemes. I think that needs to be seen. I think we're going for regional schemes right now. I think what starts to happen, when people start to talk to each other about what they should do separately and where they should collaborate, is that you're going to find there are a lot of things that make sense to do together, and you may in fact end up with a national scheme that's not top-down but is in fact bottom-up.

The other question relates to compulsory versus voluntary. It turns out that the research showed the answer is neither, and that in fact an approach that automatically enrols workers in a scheme that then needs to be communicated is in fact cost-effective and works in their interest. The research shows that most workers will stay in a scheme like that. They will not opt out. However, if you have some libertarianism in you, then the idea of something that is compulsory, that you cannot opt out of, is somehow distasteful.

I think we can get to 95% of where we need to go by having an auto-enrolment scheme with an option to opt out.

● (0935)

Hon. John McCallum: Thank you very much.

I'm not sure which one to go with. I'll stick with Mr. Ambachtsheer for one last question.

One thing that people don't seem to always grasp—and I'd like you to explain this—is that it takes a generation to build up the pension benefits to the final levels. So if we do this scheme, presumably people who are 45 or older won't get a great deal of benefit. It's mainly for the much younger ones. Is that correct?

Mr. Keith Ambachtsheer: That is correct, unless you want to get into some kind of wealth transfer arrangement where you take money from one group and give it to some other group. If you want it to be one that is sort of transparent and fair and one in which you get what you pay for, then yes, it takes a generation to in fact have a fully sustained mature system.

The Chair: Thank you.

Monsieur Laforest, s'il vous plaît.

[*Translation*]

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

Good morning witnesses.

Mr. Gagné, from the Communications, Energy and Paperworkers Union of Canada, I do not believe that the workers you are talking about can afford to wait an entire generation before changes are made to both private and public pension plans.

You and Mr. Auclair have described an extremely critical situation for workers. Mr. Auclair gave us some very specific examples of workers who, after having given years of their lives, now run the risk of losing one-third of their retirement income. This is devastating.

Mr. Gagné, one of your recommendations is to create pension insurance. We, at the Finance Committee, hear all sorts of plans and proposals, but I believe that we should analyze all of these recommendations, put forward by different groups, to see how we need to improve pension plans in Quebec and Canada.

Do you have any other recommendations from the union or the FTQ, the Quebec workers union?

Mr. Renaud Gagné: The FTQ, to which we are affiliated, made a submission containing a series of recommendations. It includes several measures, such as contribution holidays. We suggest a pension insurance system that would oblige all pension plans to make contributions, so that in the event of bankruptcy, it would still have funds to honour its obligations, similar to how insurance companies operate. This type of pension insurance is based on the same principle.

In the other recommendations, it is clear that we want to ensure that trustees and companies are responsible, and that pension plans are fully funded. There must be a series of guarantees.

We should not allow a retiree who has made payments their entire life to lose a portion of their retirement income. These payments must be insured, and this applies equally to those no longer working. In our industry, the one thing that has to be remembered is that, had we received financial assistance such as guaranteed loans to refinance company operations, we would not be in this situation.

A large part of AbitibiBowater would have been able to refinance its debt were it not carrying a $4-billion debt; when the market drops, factories are closed, people are forced into retirement and others are relocated. There are not too many problems. It is only when it becomes impossible to refinance a major debt during a financial crisis that a company must resort to bankruptcy protection. Otherwise, we would be able to honour our obligations towards our retirees. There are 8,900 retirees from AbitibiBowater in Quebec and another 1,000 from Smurfit-Stone. This is huge; it represents one-third of our workforce.

Mr. Jean-Yves Laforest: We do not have the document that you referred to earlier, but I would like you to submit it to this committee or send us a copy. I am referring to your presentation, as well as the complete submission of the FTQ that contains all of the recommendations. This is important.

Mr. Renaud Gagné: We did submit it, but it is not translated.

Mr. Jean-Yves Laforest: That is perfect; we will receive copies later on.

Mr. Renaud Gagné: You will have all of the recommendations.

Mr. Jean-Yves Laforest: It is very important to have all of the recommendations.

Mr. Auclair, given your testimony, you are basically acting as the spokesperson for thousands of forestry and paper workers in Quebec. You talked about the 22,000 workers in Quebec, and the 50,000 workers throughout Canada. The examples that you gave us are striking. You are telling us that you run the risk of losing one-third of your pensions. After one has worked for 30 or 40 years in a factory, one expects to enjoy a pension to see them into their golden years and take part in community living, in general.

Could you elaborate on the consequences of all this?

● (0940)

Mr. Germain Auclair: On average, a pensioner receives approximately $30,000 per year. If we chop off one-third of this income, a pensioner has only $20,000. The most likely effect is that the pensioner will be forced to cut his or her expenses. Some might even have to declare personal bankruptcy. In addition, the many pensioners who do not currently have access to the Guaranteed Income Supplement will have to resort to it. Yet, this money could have been spent elsewhere and used more effectively.

Mr. Jean-Yves Laforest: What you are saying then, is that, had the federal government provided guaranteed loans—and this ties into what Renaud Gagné was saying—and saved the factories from shutting down, it would have perhaps saved money later on in terms of old age security payments and the Guaranteed Income Supplement.

Mr. Germain Auclair: Take, for example, La Tuque, which is a single-industry town, and Matane, which is practically a single-industry town. There are many such towns throughout Quebec, which subsist on that main industry alone. When an industry goes bankrupt, entire communities and villages are dismantled; ultimately, it is the government that has to pick up the pieces because people must turn to social assistance, the Guaranteed Supplement Income and so on.

Mr. Jean-Yves Laforest: I will tie your answer into my question for Mr. Ménard.

You are the chief actuary of the Office of the Superintendent of Financial Institutions. I understand that we are currently experiencing an economic crisis that many did not see coming. We have our doubts because it depends on when the various forecasts were assessed and made.

When you undertake this type of forecast, do you assess whether it will be less costly for the federal government to save factories as a way of pre-empting social payments down the road?

Mr. Jean Claude Ménard: Thank you for your question.

The situation described by Mr. Gagné and Mr. Auclair is very unfortunate. It is true that when there is a drop in private pension income, the government provides compensation. For every drop of one dollar, 50¢ is paid by the Guaranteed Income Supplement.

In the actuarial report, we take into account the number of applications for the Guaranteed Income Supplement, and the number of low-income retirees claiming it at 65 is much lower than it is a at age 75 or even 85. We also show this trend line over time.

One of the reasons for this is that many pension plans are not indexed to inflation. So, as the beneficiary ages, they are no longer eligible for the Guaranteed Income Supplement. When international organizations see what is happening in Canada and compare it to the situation in other countries—despite the fact that it is never an objective to receive a full pension and the Guaranteed Income Supplement—they note that, in the low-income group of people aged 75, 80 and 85, Canada's performance is even better than that of other countries. So, the Guaranteed Income Supplement is very useful in that regard.

We studied the trends over the last 15 years to come up with these projections. We noted a reduction in the Guaranteed Income Supplement in the long term.

[*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 witnesses. It's good to see many of you again. I met most of you during the pension consultations. It's good for everyone to hear this, and it's good to repeat some of these messages publicly.

I was quite pleased to hear Ms. Warmbold remind us that:

> ...the portfolio we manage today is not being used to pay benefits today. In fact, it will be another 11 years before the money from the fund will be required to help pay pensions.

There's an urban myth out there that when our kids get to Canada Pension age there won't be anything left, and I think we need to get your message out to Canadians even more. So hopefully this appearance and this process will do that.

Mr. Ambachtsheer, you're a renowned international expert on pensions, and now you're referring to expanding the Canada Pension Plan. As of today, do we have adequate governance in place if the economic downturn continues? We understand that these folks have good investment practices—probably better than some of the other performers. Do we have adequate governance in place for the Canada Pension Plan to make sure it is secure, in your view?

● (0945)

Mr. Keith Ambachtsheer: If you look at the pension system from a governance perspective, it's actually quite fragmented. We have some very fine large-scale institutions that are very well managed, and I would put the CPP Investment Board into that category.

My recommendation, by the way, is not to expand the Canada Pension Plan as it currently exists. My recommendation is to do a supplementary add-on, which I think should be set up as a separate arm's-length organization. I know we can do this. We can create an organization that will be scaled, well managed, and at arm's length.

We have a number of other great pension institutions in Canada that people from all over the world come to study for their effectiveness. However, we also have a significant part of the system that's still being managed through much smaller entities: much less well governed and much more expensive. There is no uniform “Yes, everything is wonderful”. We have a fragmented system. That's why one of my planks is to figure out what to do and how we can get these less-managed pieces of the system into a more well-managed component.

There are two regulatory processes in the world that are consciously moving their systems in that direction. One is in the Netherlands and the other one is in Australia. In both cases the regulatory processes are starting to set higher standards for governance. If the pension plan can't meet those standards, then they're forced to merge with a larger, better-managed organization. I think we should look at that idea.

Mr. Ted Menzies: At what point do we get too large? At what point does a fund...? Frankly, I'm going to be very honest here: I'm concerned that the provinces are looking to us to take over their liabilities.

At this point, as a federal government, we only regulate 7%. It was referred to the other day, and again today, that the provinces are looking to us to take on those liabilities. Frankly, we don't want to take on those liabilities. We didn't acquire them. We didn't regulate them in the first place. Why would we take on the liability?

When does this pension fund get too large so that it actually becomes a market mover? Then we bump into investment rules, and we've got investment rules in place already.

Mr. Keith Ambachtsheer: It seems there are two issues there.

One relates to the scale: can you get too large? In principle, the answer has to be yes. The practical question is where that limit is. If you look at our large institutions managing $100 billion, on a global scale it's actually not very big. ABP, in the Netherlands, manages $350 billion in its public service pension plan. TIAA-CREF, in the U.S., manages $350 billion. We're not at a stage yet, on the asset side, where we need to get worried, because we are international investors. That's one thing.

The other point you make around the federal government taking over liabilities really plays into this insurance question as to whether pension benefits should be insured. Of course, that's sort of an *ex ante* question. In principle, there's also an *ex post* question of what we do about where we are now. That's where you get into potential wealth transfer issues. The point is that whatever we do for members of registered pension plans, we must do the same for those who are not members of pension plans—holders of individual RSPs. You cannot look after five million workers and not look after the other five million.

Mr. Ted Menzies: I have one minute.

To follow up on Mr. McCallum's question, how do you get there? You said it: how do we get there from here? Who pays? If you put a dollar in today, it's not going to impact those we're trying to deal with in the immediate term. How do we prepare for that?

Mr. Keith Ambachtsheer: I think you have to use standard reorganization principles. That is, if something doesn't work financially, how do you reorganize so it does work?

There are certain rules that are followed in a corporate context—CCAA—in terms of reorganizing corporations, and we need to apply the same principles to pensions. Basically, if this is where we want to go, how do we reorganize to get there? In many cases, as I mentioned with the members of registered pension plans, most of those plans can transition into something that is more sustainable over time. I would use CN, for example, because they are financially strong and they have the capability of doing that.

Unfortunately, there are other situations where pensions are only part of the problem. In those situations, I don't see anything other than a general reorganization that includes the pensions. It has to be worked out as equitably as possible, given that there's not enough money to make everybody whole.

● (0950)

The Chair: Thank you.

I'm sorry, Mr. Ambachtsheer, but Mr. Menzies is out of time, so we'll have to follow that up in a further round.

Monsieur Mulcair.

[*Translation*]

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

I, too, would like to welcome our witnesses today. I would like to start by addressing the representatives of the Communications, Energy and Paperworkers Union of Canada, because it represents our employees. The NDP is proud to be the only political party on the Hill whose employees are unionized, and you do an excellent job representing them. I also wanted to say that, for our part, we will do everything we can to assist you. You have put your finger on the real problem with the current crisis. There are people who have saved their whole lives, who have set aside part of their wages for their retirement, and who are now having this money stolen from them. That is unacceptable in our society. I would like to thank you for the tone and content of your presentation.

My first question is to Ms. Warmbold and Mr. Raymond.

Ms. Warmbold, I would like to ask you some questions, but your name is not in last year's annual report. So I will instead address my question to your colleague, Mr. Raymond.

Mr. Raymond your base salary is $325,000 a year. At least, that is what appears in the 2007-2008 annual report. Is that correct?

A nod of the head will not appear in the record.

[*English*]

Mr. Donald Raymond (Senior Vice-President, Public Market Investments, Canada Pension Plan Investment Board): Yes, that's correct.

Mr. Thomas Mulcair: Do you realize that your base salary is greater than the base salary of the Prime Minister and the Chief Justice of the Supreme Court?

Mr. Donald Raymond: I was not aware of that.

Mr. Thomas Mulcair: You are now.

Mr. Donald Raymond: Okay.

Mr. Thomas Mulcair: In 2007-08, you were also paid a several-million-dollar bonus. Is that correct?

Mr. Donald Raymond: That's correct.

Mr. Thomas Mulcair: This year, we've just learned through your colleague, Madam Warmbold, that in the first three-quarters of fiscal year 2008-09, you've lost $13 billion. We don't know what the final result is, and we won't know that for another couple of weeks. Is that correct?

Mr. Donald Raymond: That's correct.

Mr. Thomas Mulcair: Are you aware of the fact that a lot of Canadians would find it inadmissible for you to again be paying yourself large bonuses this year? Even though Mrs. Warmbold said there will be downward pressure, her words were chosen carefully.

This is a public institution. Your base salary is greater than the salary of the Prime Minister and the salary of the Chief Justice of the Supreme Court. Are you aware of the impact on the CPP investment plan if you give yourselves bonuses in a context where you've lost billions of dollars of the money that's been put aside by people for their pensions?

Ms. Benita Warmbold: If you look at our overall performance system that we have in place, as determined by our board, it has several key principles, which I think are important to focus on. First, it rewards performance over the long term. Short-term periods definitely have an impact, but the system is meant to match and align our interests with the long-term interests of the fund. We measure that over four-year periods. It's also measured on a pay-for-performance basis, which I outlined earlier in my response to Mr. McCallum.

Mr. Thomas Mulcair: You made that point in your presentation. We all have it in writing. Now I'm asking you a question of trust, based on your role as fiduciaries of public money. You head a public institution; you're not in the private sector. You lost $13 billion in the first three-quarters of last year. The money lost overall will no doubt be greater than that, once we get the overall figures.

Is it not ethically important for you to understand that Canadian taxpayers and the contributors to that plan will not put up with you paying yourselves bonuses under that circumstance?

Mr. Donald Raymond: Mr. Chairman, I'd like to clarify a few points. First of all, our board of directors is the organization that determines incentive payments to executive officers and approves compensation for the entire organization. As my colleague pointed out, it's the four-year performance, both at the value-added level and that of total fund returns, that primarily drives the long-term incentive programs. Over the last four years, the fund has generated over $10 billion of investment income, and as a management organization we've added over $5 billion in value added.

It's important to look at these long time horizons, because they are aligned not only with the mission but also with what regulators, central bankers, and finance ministers have said, including our own central bank governor, Mark Carney, and Prime Minister Flaherty—

Mr. Thomas Mulcair: Mr. Flaherty is going to be thrilled at the promotion you just gave him.

Mr. Donald Raymond: Sorry—Finance Minister Flaherty.

It's the focus on short-term results—in fact, one-year results—that many would point to as one of the primary causes of the global financial crisis.

● (0955)

Mr. Thomas Mulcair: That's well said, Mr. Raymond, but I think it might also be pointed out that greed and excessive compensation is also one of the reasons we're in such difficulty worldwide. A lot of people would agree with that too.

You paid yourself several million dollars in addition to a base salary that exceeds that of the Prime Minister and the Chief Justice of the Supreme Court.

My question to you has to do with ethics. Right now you have someone in your organization responsible for developing a culture of integrity and ethical conduct. If I'm not mistaken, it's a former justice of the Supreme Court right now.

Mr. Donald Raymond: That's right.

Mr. Thomas Mulcair: Before that, up until recently, it was Purdy Crawford, wasn't it?

Mr. Donald Raymond: Correct.

Mr. Thomas Mulcair: Up until when was it Mr. Crawford?

Mr. Donald Raymond: I'm sorry, I don't know the exact date.

Mr. Thomas Mulcair: You don't know?

Mr. Donald Raymond: It was a couple of years ago.

Ms. Benita Warmbold: It was before my time, so it was a couple of years ago.

Mr. Thomas Mulcair: Let's get back to the question of compensation. In your presentation you talked about benchmarks. During the 2007-08 year, the one for which you were all paid several million dollars in bonuses, do you disclose the benchmarks for private markets—in other words, real estate, private equity and infrastructure—in your policy portfolio? If not, without disclosing those benchmarks, how will we ever know if the value added was really value added or simply due to the leverage used in those investments?

Ms. Benita Warmbold: Let me start by talking about the reference portfolio, which is our baseline that is set by the board of directors. That's a passive portfolio designed to deliver the returns and help sustain the CPP.

Mr. Thomas Mulcair: The bonuses are based on benchmarks. My question had to do specifically with the benchmarks in the private markets.

Ms. Benita Warmbold: Sure.

Don, do you want to describe the benchmarks?

The Chair: Very briefly, you have only about 45 seconds left.

Mr. Thomas Mulcair: We'll have time to come back to it in the second round.

Mr. Donald Raymond: Sure.

There are two different components of value added. One of them is due to broader diversification of the portfolio and one of them is value added relative to specific benchmarks. In fact, we measure total performance relative to the referenced portfolio. Private equity, for example, does include an additional premium due to the higher leverage in private companies relative to their public market counterparts. In fact, there is a premium over which they have to earn returns to compensate for the leverage in private markets.

Mr. Thomas Mulcair: You aren't too transparent in the benchmarks governing these private market investments. You're not, in your annual report.

The Chair: A quick response to that.

Ms. Benita Warmbold: Our annual report, I think, gives 14 pages of disclosure on our compensation plan, and our annual report this year will be as thorough as it was in the past in its disclosure.

Mr. Thomas Mulcair: Isn't it possible that it's because you can't gain the public market's benchmarks as easily as you can gain the private benchmarks?

The Chair: Mr. Mulcair, you can have a second round.

Mr. Thomas Mulcair: We'll get to it on the second round. Thanks.

The Chair: Thank you.

Mr. McKay, please, for five minutes.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you.

This is following that up. Here we are a public board and the compensation is pretty impressive, by anybody's standards, yet simultaneously we have private corporations, such as the banks, in which many of the CEOs and senior management of the banks have eschewed their bonuses and backed off their opportunities and, if you will, legal entitlements to receive compensation far in excess of their base salaries. It seems to me that the board could learn a great deal from the private industry, particularly the financial institutions, in their handling of their entitlements.

I'll leave it at that, because it's ultimately a moral decision on the part of the board.

I want to talk to Mr. Ambachtsheer here. You put forward a fascinating idea. The understanding I have of it is that it appears to be kind of a parallel plan to CPP. I want to go into the flexibility issue here. I'm looking at it for a person who has an RRSP. The attractive thing for a person with an RRSP is that you would get an employer contribution to the money that would be put in by you as an employee, whereas with an RRSP you wouldn't necessarily get an employer contribution. On a kind of a negative option billing, which is kind of your idea here, I'm almost forced into this plan by virtue of the fact that my employer is not going to make any contribution if I opt out. Is that correct?

● (1000)

Mr. Keith Ambachtsheer: My proposal is described in 16 pages. You're asking a question that would be on page 17.

Clearly, there are a lot of specifics that would need to be put in place in order to press the go button on this. In my proposal, what I suggest is that the contributions start above $30,000. In other words, low-income workers are largely, from an income replacement point of view, covered by OAS, GIS, CPP. So this is a middle-income issue that would start at $30,000 and take it up to the maximum wage where you get full deduction, which I think is currently about $150,000. Over that range, a 10% deduction would lead to a target income replacement, including pillars one and two, of about 60% of final earnings.

That's what the target benefit is designed to be in my proposal. If you do the math on what kind of contribution rate you need in order to hit that target, it works out to about 10% of pay, from $30,000 up to the maximum.

Another question is, where does that 10% come from? In my proposal it would be split 5%-5% between the employer and the employee. Again, you get to the question of mandatory versus optional. In my proposal, both parties have an option to opt out.

Hon. John McKay: If it looks like CPP, walks like CPP, and talks like CPP, why isn't it CPP? Why not just simply make it CPP?

Mr. Keith Ambachtsheer: Here's my answer, and Monsieur Ménard may want to add to this. I have a serious problem with those people who say, why don't we just double the CPP and forget all this other stuff? So we move the contribution rate from basically 10% to 20% and drive on. That's a hugely complex issue, because if you move all workers, 25-year-olds and 64-year-olds, all with a 10% increment, then that next year's benefit that the 64-year-old is going to earn starts one year later because he hit 65. The 25-year-old pays the same 10% of pay and his incremental benefit doesn't start for 40 years.

Hon. John McKay: That also raises the interesting question, this is a payroll tax, isn't it? The third rail of politics around here is any phrase that includes “taxation”. Isn't this a payroll tax? It has to be?

Mr. Keith Ambachtsheer: If you go to a mandatory approach and if you have a target of doubling the CPP, then it has to get paid for. So if you want to call it a payroll tax, that's fine.

Hon. John McKay: That's what it will get called.

Mr. Keith Ambachtsheer: But my problem is the wealth transfer aspect. If you increase—double—the system, it doesn't stabilize for a long time, and on the way through the young are subsidizing the old, and I don't think that's fair.

The Chair: Thank you.

Monsieur Carrier, s'il vous plaît.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you, Mr. Chair. Good morning, ladies and gentlemen. I would like to extend a special greeting to Mr. Gagné, from the Communications, Energy and Paperworkers Union of Canada, and to Mr. Auclair. I think it is really important that you are appearing before us this morning. You are here in response to our invitation. I think the situation you described is more down-to-earth than what we usually hear. All those who administer pension funds describe the situation using a lot of figures, but I think they are quite far removed from the real situation people face.

Mr. Auclair, I think that you spoke a little earlier about a pension protection plan that Ontario already has. Is that correct?

Mr. Germain Auclair: Yes.

Mr. Robert Carrier: I would like to hear a little more about that.

Mr. Germain Auclair: Yes, that is correct. I am not that familiar with the legislation myself, but I think Renaud knows more about it than I do. I believe that an act on pension plans was recently passed. It is designed to protect workers from losses. I do not know whether it is in force yet or whether it will be soon, but I am sure Renaud will have a better idea than I do.

● (1005)

Mr. Renaud Gagné: Yes, there is a $100-million reserve for pension plans. There is also a system whereby employees who lose their jobs at age 50 do not have to wait until they are 65 to transfer money into a lock-in retirement account or LIRA. These people can therefore find a job or get employment insurance for a while, and still get their pension at age 55. This system was used when the Domtar plant closed. The half of plant employees who lived in Ontario were able to use this system, but not those who lived in Quebec. The impact is quite significant when someone who is 54 can get their pension at 55 and not have to wait until they are 65.

This illustrates how difficult it is to restructure the markets. We know that some plants have to close, as I was saying earlier. We have been working on consolidation for three years now. In order to allow employees with the most seniority to leave, we even took some of the vacation pay of wage earners to finance those taking early retirement, as a way to avoid or lessen the expected actuarial reduction; we did this because the employer simply had no money. We did virtually everything we could to help older workers leave. The biggest problem is that, once companies come under the protection of the Companies' Creditors Arrangement Act, they stop paying into the pension plan. This worsens the solvency deficiency, and if the companies later go bankrupt, there is a 30% reduction in the pay cheque for 10,000 retirees in Quebec, as Mr. Auclair said.

Mr. Robert Carrier: Given how urgent the situation is, I think we have to come up with some solutions quickly. Mr. Auclair, you also talked about a federal program that would ensure companies had managers, despite their financial difficulties.

Mr. Germain Auclair: In the United States, the senior management of Smurfit-Stone gave themselves a $47-million bonus. Meanwhile, in Canada, they are turning to the CCAA, the Companies' Creditors Arrangement Act, and threatening to close down some plants, and, if they go bankrupt, to cut workers' pensions.

Mr. Robert Carrier: Are you talking about an American program?

Mr. Germain Auclair: Yes, I am, at the moment.

Mr. Robert Carrier: I will now turn to Ms. Warmbold and Mr. Raymond to talk about the bonuses that are paid despite companies' financial difficulties and poor performance.

I would like to join those who say that this is absolutely scandalous. People are not getting their pensions, and the companies are performing poorly. I have my own investments on a small scale, and they, too, have gone down, just as most investments have at the moment. Although we are told that we have to look at the long-term performance of these investments, this is still unacceptable. And it is scandalous to hear that, in a year of poor performance, the people who invest our money are getting bonuses despite the poor performance they achieved.

We know that some very substantial compensation....

The Chair: Please get to your question.

Mr. Robert Carrier: ...has been paid out during difficult years. So you have to wonder what the bonuses would have been if performance had been better.

I would like to hear from Mr. Ménard, who represents the financial institutions, on the system we have at the moment.

The Chair: Your time is up, Mr. Carrier.

Mr. Robert Carrier: My time is up?

The Chair: Yes.

Mr. Robert Carrier: Fine. Then it is too late.

The Chair: You may ask a brief question.

Mr. Robert Carrier: I wanted to hear what Mr. Ménard thought about the excessive compensation being provided despite poor performance.

[*English*]

The Chair: Monsieur Ménard, you're next. Please be very brief.

[*Translation*]

Mr. Jean Claude Ménard: I have no opinion about the compensation paid to the executives of the Canada Pension Plan Investment Board. That decision is made by the board of directors.

Clearly, as for performance, in order to support the Canada Pension Plan in the long term... In the most recent actuarial report, I said that we needed a real performance of 4.2%, over the inflation rate. If we include inflation, the figure would be about 6.2%.

In the report, we also said that, as of December 31, 2006, as actuaries, we found that the markets were high. Consequently, we reduced the return assumptions for the next nine years. Of course, we did not know when the crisis would hit, but we did use lower return assumptions. For example, for the period from 2009 to 2011, our assumption for the return was 5.5%, and, for the six-year period, the Canada Pension Plan was at 5.7%.

The issue of compensation is not my area.

● (1010)

[*English*]

The Chair: *Merci*.

Now we go to Mr. Dechert, please.

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

I have a question for Ms. George and the Canadian Chamber of Commerce. Ms. George, you mentioned that plan sponsors are finding that the five-year amortization period is perhaps an unreasonably short period of time to measure the adequacy of funding.

There's also, under the Income Tax Act, a rule that penalizes sponsors for putting in more than 110% of surplus in good years. A few years ago, a number of plans were in that position. Was that a good idea? Is that something the government should consider revising?

Mr. Serge Pharand (Vice-President and Corporate Comptroller, Canadian National, Canadian Chamber of Commerce): Thank you for the question. This is a good question.

In fact, in our recommendations, which we've submitted to Mr. Menzies' committee, we have recommended that this threshold be increased so that contributions would be....

In fact, we talked about many options this morning as to how we could improve the whole pension system. There are things that can be done to encourage companies to have defined benefit plans. There's a series of recommendations we have submitted that would encourage companies to have good governance of these defined benefit plans.

Mr. Bob Dechert: Thank you.

I have another question for the Canadian Chamber of Commerce. You mentioned the possibility of allowing funding to be done in the short term by way of letter of credit. I've negotiated and drafted a few of those over the years. I know they're as good as the terms written in the letter.

Who would you suggest should set the terms of such a letter of credit? Should it be a standard form letter of credit, perhaps, that is regulated by the federal government?

Mr. Serge Pharand: First of all, letters of credit are not easy to obtain these days, so that's something we would not like to have as a constraint for the 10-year amortization we are recommending.

Letters of credit, nonetheless, can be used to make the payments that would otherwise be made in the plan, or to cover the payments that would otherwise be made in the plan, and whenever the situation turned around, these payments could be made. This is one of the options that can be made available to companies in better times, because these days I think it would be difficult to use.

Mr. Bob Dechert: Thank you.

I have a question for Mr. Ménard.

Mr. Ménard, you mentioned that Canada compares favourably to a number of other countries in the world in terms of the solidity of the Canada Pension Plan. Could you elaborate a little bit? What are those other countries, and exactly where does Canada fit within that top 10 ranking?

Mr. Jean Claude Ménard: I mentioned earlier that when I look at the overall pension assets in Canada, at the end of year 2007 they were equal to 140% of the GDP. The other six countries in this group are the Netherlands, Switzerland, Denmark, the U.S., the U.K., and Australia.

There is no doubt that when you have significant pension assets, either with the Canada Pension Plan or with other pension plans, and you have, let's say, an important liquidity exposure, you may be hit hard. For the calendar year 2008, the Canada Pension Plan investment Board returned a negative 14%, but at the same time the markets all around the world were in the range of minus 25% to minus 40%, so it gives me some comfort that in 2008 we were able, to some extent, to mitigate the losses.

Mr. Bob Dechert: Ms. Warmbold, given what Mr. Ménard has just said, why has the CPPIB been able to outperform some of those funds in other countries? What kinds of investments do we do differently?

Ms. Benita Warmbold: Perhaps Mr. Raymond would like to talk about investments.

Mr. Donald Raymond: From an overall investment strategy point of view, we have a very broadly diversified portfolio, as my colleague said in her introductory remarks. It includes global equities, private equity, fixed income, inflation-linked bonds, real estate, and infrastructure.

The most important things we did right last year were some of the things we didn't do. We have a very strong culture of risk management, and some of the things we were not involved in were things like the non-bank-sponsored asset-backed commercial paper. We were also not involved in any of the injections of capital into U. S. financial institutions, and I can assure you that we were approached on every single one of those “opportunities”. We just won't invest in something that's opaque or that we can't understand, so I think it was really more a matter of what we avoided than what we invested in.

● (1015)

Mr. Bob Dechert: Was that a decision that—

The Chair: This is a last quick question.

Mr. Bob Dechert: —your pension fund advisers made, as opposed to something that you were restrained from doing by law?

Mr. Donald Raymond: That's correct, absolutely.

The Chair: Thank you.

We'll go to Mr. Pacetti, please.

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

[*Translation*]

I would like to thank our witnesses.

What is your role as chief actuary, Mr. Ménard? Do you valuate private pension plans?

Mr. Jean Claude Ménard: No.

Mr. Massimo Pacetti: You do not just do valuations, intensity forecasts.

Mr. Jean Claude Ménard: We are responsible for doing an actuarial valuation of the Canada Pension Plan every three years....

[*English*]

Mr. Massimo Pacetti: That's it?

[*Translation*]

Mr. Jean Claude Ménard: ...and of the Old Age Security Program. These two actuarial reports cover a 75-year period. We also do the actuarial reports for the public service of Canada, the Royal Canadian Mounted Police, the Canadian armed forces, judges appointed by the Federal Court and members of Parliament.

Mr. Massimo Pacetti: Do you make any recommendations when you valuate private pension plans?

Mr. Jean Claude Ménard: Absolutely not.

[*English*]

Mr. Massimo Pacetti: *D'accord. Parfait.*

Ms. Warmbold, I have a quick question. Maybe it's a quick question. It may be along the same lines as Mr. Dechert's question.

Why is there the big difference in the CPP rate of return? It's minus 14%, and I'm supposed to be happy about it, but the fact is that I'm a Quebecker. How does a 25% decline on rate of return and a $40 billion loss happen? How is it okay that somebody can realize a 14% negative return? You're one of the best, and meanwhile other pension plans are coming in at minus 25%, or up to minus 40%, as Mr. Ménard previously said. What is the difference? When do we put on our hat and say that maybe we're better off living in another part of Canada, or maybe we're better off living in other parts of the world? The experts are not doing their jobs, according to me.

Ms. Benita Warmbold: I don't think it's appropriate for us to comment on the results of the Caisse or the other plans. What I can point out, though, is that we enjoy a very strong governance model, which was set up originally in 1999, when the CPPIB was first enacted. We have a very clear mandate. We have a very long-term investment horizon.

Mr. Massimo Pacetti: Is it because of governance, or is it because of decisions that were made by the so-called experts, the people raking in the big bonuses?

Ms. Benita Warmbold: I think you have to start with an appropriate governance model. We get many, many pension funds from around the world coming and asking us how we follow our investment—

Mr. Massimo Pacetti: So what would be the big difference between your governance model and the QPP governance model?

Ms. Benita Warmbold: On a specific basis, I'm not familiar with theirs. We have an independent board that is appointed by—

Mr. Massimo Pacetti: So the QPP model is more politicized?

Ms. Benita Warmbold: No comment.

Mr. Massimo Pacetti: Well, you can acknowledge it. My understanding is that as pension plans, especially the big ones, you communicate with each other in terms of whether you are going to take positions in real estate or even in public companies or private companies. You will sometimes share in responsibilities, so....

Ms. Benita Warmbold: Sure, we partner with other pension funds globally.

Mr. Massimo Pacetti: So it's not a big secret what the other pension plans are doing because in fact you are sometimes competitors and sometimes partners. If you're getting in and out of positions, those will affect the market and they will affect your returns.

Ms. Benita Warmbold: I think what you have to look at is our long-term horizon. As Mr. Ménard pointed out earlier, we won't have to pay benefits for another 11 years, and there are other factors that he would be in a better position to—

● (1020)

Mr. Massimo Pacetti: I don't think it's any different for the QPP. And I don't mean to interrupt you, it's just because my time is limited.

Mr. Ambachtsheer, you were nodding your head, so if you could just comment on that, I'd appreciate it.

Mr. Keith Ambachtsheer: We've done some research on this question of governance and the impact of governance on results, and there is in fact a statistically significant relationship. What you find is that when you put together a board, it needs to have a public service attitude and dimension, but it also needs to have the composite skill and experience that's relevant to the mission of the organization.

In a lot of funds, not just at the Caisse de dépôt but, for example, in most of the U.S. public sector plans, there is in fact a heavy political overlay in how appointments to boards are made. In the U. S., if you look at CalPERS, you have a number of elected politicians sitting on the board of trustees. I think that creates potential conflicts. These people are not necessarily in the best position to oversee the affairs of a long-horizon investment organization. So, yes, I think how you put together a board is tremendously important.

The Chair: Thank you.

We'll go to Mr. Kramp.

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

Welcome to all.

I'm going to direct a question to Ms. George, and it's following a statement made by Mr. Ambachtsheer, as well as a previous witness we had before the committee on behalf of CARP, Susan Eng. She suggested at that time—and following up on Mr. Ambachtsheer's comments—that we have a number of people who do not have the availability, whether it's a one-third/one-third mix, etc., including seniors, particularly on low income. Ms. Eng, at that particular time, contrary to Mr. Ambachtsheer's suggestion, suggested that, very simply, we just need to double up. We need to be able to have an increase of approximately 20% across the board, and that would really solve the issue, from her perspective.

Obviously I respect Mr. Ambachtsheer's comments, but, Ms. George, dealing directly with the people you represent, if you had a 20% increase across the board, of course, to the employer, per se—whether it's industry, small business, SMEs, whatever—that would mean an increase to them in excess of 10%. In the highly competitive world right now, and particularly due to the economic climate, could you give me an indication of how that would affect the people you represent?

Ms. Shirley-Ann George: Thank you for the question.

Perhaps our numbers might be a little bit different, but we also see that there are some Canadians who do not have the pension coverage they would like to have. At this point in time, our recommendation would be that in addition to the excellent work that has been done by the Rotman School of Business, you should actually talk to some of the insurance companies. They are able to provide a scaled, well-managed, and arm's-length additional pension, if some changes are made to the system. We need a safe harbour for balanced risk.

We need to harmonize the 13 different pension rules systems that we have in this country, and if there were changes to the Income Tax Act, as was recommended, that allowed group RRSPs or multi-employer RRSPs, along with some smart regulation and good governance guidelines, much of what is being asked for here could in fact be delivered through private insurance companies. These insurance companies are willing to step up to this today if some of the changes could be made. So before we look at only one model, we might want to look at others as well. I would add to this that they do have the infrastructure in place today, so you wouldn't need a new organization. Competition is good to drive innovation and customer customization, and to ensure lower costs, and we can get quality, variety, and transferability through this type of initiative, whereas if we go down the government route, we tend to end up with one size fits all and a static system that is not necessarily less costly.

Mr. Daryl Kramp: Perhaps, Mr. Ambachtsheer, you could offer some comment on this as well.

Mr. Keith Ambachtsheer: "Transparency" is an overused word, but the cost-effectiveness of delivery is tremendously important. Our research shows that between it being done well and being done poorly could be as much as 2% per year in terms of differential. Over a 40-year period, that basically means it costs twice as much to deliver $1 worth of pension. So I would encourage the insurance industry to be far more transparent than they've been to date about what in fact the costs are of being a customer of delivering pensions through their system.

The pension sector is in fact quite transparent. They have the numbers both on the benefit administration and the investment side as to what the costs are. There are no comparable numbers for the insurance industry, and I think that's a real problem.

● (1025)

Mr. Daryl Kramp: Fine. Thank you.

I have a quick question for Mr. Raymond.

On your one comment, when we were talking about asset-backed commercial paper, you mentioned, of course, a little involvement. Could you just be very explicit? Is it little or no involvement?

Mr. Donald Raymond: We had no asset-backed commercial paper up until September 2007, which was when the non-bank-sponsored part of the market froze. As I said in my earlier remarks, it was largely due to the lack of transparency and actually some of the hidden risks inside these instruments; they were effectively leveraged financial products.

When the non-bank-sponsored part of the market froze, the bank-sponsored part of the market spreads widened significantly, and that's when we decided to enter the bank-sponsored part of the market, because there was good liquidity, good transparency, in the underlying assets. These are traditional assets that are not leveraged, things like loans and leases and credit cards, over-collateralized and basically a very good risk-return sort of balance. So that's when we entered the market, after the non-banks—

Mr. Daryl Kramp: The proportionate size of that with respect to the overall portfolio would be...?

Mr. Donald Raymond: It was around $6 billion, but it's less than that now.

The Chair: Thank you.

We'll go to Mr. McCallum again, please.

Hon. John McCallum: I have a question for either Mr. Raymond or Ms. Warmbold—not about bonuses.

With regard to Mr. Ambachtsheer's plan or other similar plans, I'd heard it reported somewhere that the CPP Investment Board had expressed a preference not to manage such funds if a new scheme were developed, on the grounds that it might dilute your current mandate or something to that effect. I wonder if you can comment on that.

Mr. Donald Raymond: I think what we've said is that one of the key strengths of the model, the Canada Pension Plan and the CPP Investment Board, is the single-purpose mandate that we manage the funds under.

We are here at the will of the ministers of finance—the federal and provincial ministers—and if it was determined that that was the appropriate way to go, of course we would do as asked. But I think there are a number of other underlying issues that would have to be resolved. We see it, frankly, as a complement to the original work done by politicians 10 years ago in laying the foundation for such a solid governance platform.

Hon. John McCallum: Is this a problem, Mr. Ambachtsheer?

Mr. Keith Ambachtsheer: I agree with Mr. Raymond, actually. It's not that the CPP Investment Board isn't customer friendly, but they only have one customer. Once you start dealing with millions of individual Canadians, you need a very different communication model, for example. You need to do a number of things differently. You need to organize individual accounts. You need to think through how the transition from individual accounts to a new organization works. There's quite a number of different things and skills that would have to be put together, and I would hate to see a perfectly good model get muddled up because of these additional demands.

Hon. John McCallum: Yes, and I guess if you're talking about something involving the whole country or at least several large provinces, you'd have the scale required. So that would not be an issue.

Mr. Keith Ambachtsheer: Yes, you would have the scale anyway.

Hon. John McCallum: Okay. Maybe I can to go Ms. George with regard to this application for 10 years to pay back the pension.

I had a little exchange last week with someone who could be described as the union side and someone who could be described as the company side, trying to see if there might be a compromise. The union side seemed to be saying that maybe they'd go for the 10 years if there were stronger regulation of pensions, like rules about how much should be in equities, for example. The person on the company side didn't seem to want to compromise at all. I guess I'm asking you whether you think there's scope for a compromise here, or are the positions very solid and immovable?

Mr. Serge Pharand: Thank you for the question. This is an interesting one. We've been having a lot of discussions on that.

We did an interesting exercise at CN, and we have to communicate a little bit more with the unions and the pensioners. As you know, the solvency test started in 1989, and CN has always been in the position where we've been in the solvency surplus throughout all those years. We've never been in a solvency deficit. So we stress-tested our own particular situation by taking the solvency ratio down by 5%. In certain situations, then, with that stress test, we had solvency deficits. We compared the 10-year amortization with our recommendation to have more governance around pensions, to have annual evaluations. So if we compare that recommendation to the current rules, we would have been in a situation where we would have contributed more to the pension plan over those twenty years. I think it's a question of communicating for us. When I communicated that to other companies, they did a similar exercise, and in their situation they more or less came to the break-even point.

All this to say that when we talk about five years versus ten years, it's in people's minds right way. They divide the solvency deficit by ten and by five, and they say there would be more contributions if we simply divided by five. But this is a proposal that needs to be looked at over the long term. And I think there's a need to have good communication on that.

● (1030)

Hon. John McCallum: Thank you very much.

The Chair: Thank you, Mr. McCallum.

We'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair. I want to thank our guests for being here today.

I have just a couple of questions. First, let me start with our folks from the chamber. Along the same lines, in a sense, you've talked about the cap on over-contributing, and you made a recommendation to raise that threshold. My question at the last meeting was, why do we have a threshold at all?

In your recommendation, which you're upholding on Mr. Dechert's question, did your organization consider getting rid of the threshold completely and having a different system? I know a company can use it as a tax deduction, in a sense. There is some concern about an ability to use it as a bit of a haven to place money in. In the long run, employees would benefit because the money belongs to employees. Was there any consideration of changing it completely from a fixed number or a fixed percentage to something with no percentage but with a reduction in the amount of tax deduction the company could get over time, based on the amount they have in the system?

Mr. Serge Pharand: Yes. As you know, CN is part of a group of seven companies that had a lot of discussions over the last few years, and this is one topic that we discussed at length.

Pensions in any area are a balancing act. We did discuss removing the threshold or making the recommendation to remove that threshold altogether, but in general the consensus was that this might not be acceptable at this time because it would be asking for too much. There are the income tax implications in regard to the fact that, as you said, a company might be in a situation where they would be allowed a lot more deductions and therefore the government would lose out.

Mr. Mike Wallace: Okay. I appreciate that. It's something I've been considering based on the testimony we've had.

Mr. Raymond, how long have you been with the organization?

Mr. Donald Raymond: I've been with the CPP Investment Board for about seven and a half years.

Mr. Mike Wallace: They probably attracted you from somewhere else. Where did you work before that?

Mr. Donald Raymond: I was with Goldman Sachs in New York.

Mr. Mike Wallace: Thank you for that.

There's a question I have for you, though, as I have another organization coming to see me this afternoon, which will go unnamed, and we're going to be talking about CPP. Since you're here, I thought I'd ask you a question. In their submission to me they talked about the funds at the end of the fiscal year of 2008—I'm not sure which—but they are saying that, in addition, the CPP fund in late 2008 had $117 billion in assets above and beyond its annual liabilities. Was that an accurate statement?

Mr. Donald Raymond: Not precisely; it's $117 billion in assets in the CPP fund.

Mr. Mike Wallace: Right, but they're saying that it's above and beyond annual costs you have to put out. That's not an accurate statement, is it?

Mr. Donald Raymond: I don't think it's a clear statement, in any event.

Voices: Oh, oh!

Mr. Donald Raymond: It's true that we're getting net contributions coming in for the next 11 years, but there are obviously some significant liabilities attached to all of those cash—

● (1035)

Mr. Mike Wallace: To all of this cash coming in. Okay.

In terms of being secure in your funding aspects, which you've talked about, why would you choose the 11-year horizon? Is there a reason it's 11 years and not 12 or 10? It seems odd to me that we have an 11-year vision; on money coming in today, it pays out in 11 years. How does that work? I have no idea.

Mr. Donald Raymond: This is just strictly a function of the demographics and the contribution and payout rates, so in 11 years, the total contributions coming in on an annual basis equal the total benefits being paid out on an annual basis. It's not something we've chosen. That's a function of how—

Mr. Mike Wallace: It's a function of how old the population is and how many people there are, based on future estimates by actuaries.

Mr. Donald Raymond: Right.

Mr. Mike Wallace: It's a function of how many people will still be living at 65 and and how many will live until 95 or whatever. I would—

The Chair: You have 30 seconds, Mr. Wallace.

Mr. Mike Wallace: I'll leave it at that.

I appreciate the information.

You're happy to share your résumé with everybody at the committee?

Voices: Oh, oh!

The Chair: We'll go to Mr. Mulcair.

[*Translation*]

Mr. Thomas Mulcair: I want to come back to Mr. Raymond, because his nod does not appear in the record. He nodded yes with his head when I told him that if they had lost 13.7% in the first three quarters, it was easy to forecast that the losses would be higher for the year.

The fiscal year has already been over for a month. What is the best estimate of losses for the full year?

[*English*]

Ms. Benita Warmbold: In February, we reported our December 31 results, which were for the first three quarters of the year. Correctly, there was a decline of $13.8 billion, which translates into a negative 13.7%. If you want to compare the 2008 calendar year, just because some people think in calendar years, there was a decline of $18.3 billion, with a decline of 14.4%. Our year-end, as you pointed out, is March 31. Our annual report is expected to be out at the end of May and that—

Mr. Thomas Mulcair: I understand this, and we went through this with the PSP Investments last week, but they were able to give us an estimation. You know what your number is, even though you might have your annual report coming out in a couple of weeks. You're before Parliament now.

By the way, I must say that I appreciate the fact that you're here today. I'm a little disappointed that David Denison declined, as he decides who gets to present here. It's a pleasure for us to meet with you, Ms. Warmbold, and with you, Mr. Raymond, but I think that at a time like this the chairman should have had the guts to come before Parliament. It would have shown at least a bit of courage, conviction, and respect.

That being said, you know what the number is, and I'm asking you to give it to us now. What's the number for fiscal 2008-09?

Ms. Benita Warmbold: I think to respect our stewards—

Mr. Thomas Mulcair: I'd like you to respect Parliament and the Canadians who elected us here.

What is the closest estimation of your number? You're not the auditor, that's fine, but what's the number?

Ms. Benita Warmbold: We have a very transparent disclosure process. We actually give out quarterly results.

Mr. Thomas Mulcair: Yes, you've been through all that. I'm asking you for the number.

Ms. Benita Warmbold: I'm afraid, until it's been signed off—one, by our auditors, and two, by our board of directors—and then tabled before our stewards, it would be completely inappropriate to—

Mr. Thomas Mulcair: I find that a singular lack of respect, bordering on contempt, for this process.

The Chair: Mr. Mulcair....

Mr. Thomas Mulcair: Mr. Chairman, I'd like to move on to the question of the benchmarks that we were discussing before.

We have before us Mr. Raymond, who is in charge of public markets. There's also a Mark Wiseman, who is the senior vice-president of private markets. Mr. Wiseman is not here.

The private market benchmarks don't reflect liquidity risk, leverage, and the beta—in other words, the market returns A—of the underlying investments, allowing you to easily beat them so that you can justify your bonuses. I've looked through the annual report, and despite what Ms. Warmbold said before, there is no indication in there of what those benchmarks were.

Indeed, in your presentation you say, word for word, that your performance bonuses—which you obviously have every intention of paying yourselves again this year—are based on two factors: how the fund performs overall and whether you generate returns above a market-based benchmark. But you don't give them for the private markets. We just don't have them.

So I'd like to make the following suggestion. Now that you've heard what's happening in the real world, where people who have worked in sawmills all their lives are losing their pensions, and now that you know that your base salary is already the highest of anybody anyway, with the millions of dollars you paid yourselves last time, I'm going to make a strong suggestion to you that you refrain from paying yourselves....

And I understand the subtlety here, that it's not you, it's the board, but let's not kid ourselves. Let's be honest and say that at this time of grave economic crisis, the last thing you should allow yourselves to do is to be paid bonuses.

If you really need to be convinced of that, at least make a proposal that any bonuses that are based on this four-year examination be put in abeyance. Find a technique, find a mechanism, to put them in abeyance, at least until we can measure those four years.

Coming as it does, at the end of a year when you've lost at least $15 billion to $20 billion in the CPP fund, I think very few Canadians would put up with seeing people who are already paid a base salary as much as you are paid also paying themselves a bonus.

● (1040)

The Chair: Thirty seconds.

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

[*Translation*]

I would like to say it in French for those who did not understand.

In the current context, during this serious economic crisis, we find it unjustifiable, even scandalous, for people who are already making hundreds of thousands of dollars a year to continue giving themselves several million dollars in bonuses a year, as has been the case until now. At the very least, put the money aside so that we can determine whether your performance is as good as you say, and, for goodness' sake, start being more transparent about performance measures.

The Chair: Thank you, Mr. Mulcair.

Mr. Thomas Mulcair: Thank you.

[*English*]

The Chair: I wanted to get some clarification myself, Ms. Warmbold, with respect to the release of your final report.

Can you indicate to me, as chair, what process you go through in terms of releasing that information, just so I'm clear on that?

Ms. Benita Warmbold: Sure.

We follow public disclosure timelines. Our report will be available to all Canadians at the end of May.

What we do, first thing, is give it to our auditors to sign off on the results. Secondly, our board of directors signs off on the results. Then we provide the results, being our entire annual report, to our stewards. Once they have it in receipt, then we disclose it to any Canadian. It's completely public.

Mr. Donald Raymond: It's tabled in Parliament as well.

Ms. Benita Warmbold: Yes, it's tabled in Parliament.

The Chair: Approximately what date will it be tabled in Parliament?

Ms. Benita Warmbold: May 28.

The Chair: Thank you for that clarification.

We'll go to Mr. McKay, please.

Hon. John McKay: Listening to the last exchange, I was reminded of a certain former minister who famously said, while being grilled by a previous Parliament, “I'm entitled to my entitlements.” That didn't go down too well with the Canadian public.

I want to pick up on an exchange between Mr. Menzies and Mr. Ambachtsheer with respect to the provincial plans, many of which are close to being under water now, if not under water. Mr. Menzies' position was to question why the federal government should be bailing out provinces or provincially run plans; that's their jurisdiction, so let them sink or swim on their own.

What wasn't clear to me was the relationship between Mr. Menzies' comment and your proposal. If you could just amplify that, I'd appreciate it.

Mr. Keith Ambachtsheer: The proposal, with respect to the Canada supplementary pension plan, has a long horizon. It's a vision. Once we press the start button, it will take many years for it to mature over time. So we need to distinguish between that proposal and where we are today. And where we are today is that many of these defined benefit plans, when you measure their assets and their liabilities, typically have 60¢ or 70¢ on the dollar on a fair-value basis.

The question is how that resolves itself over time, and ideally, how these DB plans move to something that's more sustainable.

For the good credits.... And remember, there's a public sector dimension to this and a private sector dimension. We can have an interesting discussion about all the public sector plans in terms of whether in fact those pensions are going to be paid. There's a very broad assumption that, yes, they are going to be paid, even though there might not be, on a fair-value basis, the exact amount of money required. It will be made up over time.

We're really talking about private sector DB plans. They range all the way from being very good credits, which means that even though the pension plan may have 60¢ on the dollar of liabilities, there will be a work-out. On the other hand, we have Nortel as a classic example. It's already in reorganization. The pensioners of Nortel are already standing in line with other creditors, saying, “Hello?” They will get their 60¢ on the dollar that's in the pension plan, but they're trying to see what else they may be able to pick up out of the reorganization. I don't know how that will play out. That's the distinction.

● (1045)

Hon. John McKay: Help me here. If I'm a Nortel employee, and your plan is already up and running, do I option into your plan and restore myself to Nortel standards, or do I option into your plan and restore myself for the shortfall to Nortel standards? How does that work?

Mr. Keith Ambachtsheer: There are no magic bullets here. My plan is for young people and the future. It does nothing for the pensioners of Nortel.

Hon. John McKay: Thank you.

The Chair: Thank you, Mr. McKay.

We'll go now to Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you, Mr. Chair.

I would like to express my support for what Mr. Mulcair said about the performance bonuses paid to executives. I am in full agreement with what he said, and I want to say so. It is absolutely scandalous, regardless of whether the performance is evaluated over one, two, three or four years. That must be stated very clearly.

I have a question for Mr. Ménard about the Office of the Superintendent of Financial Institutions of Canada. Does this office provide information or investment advice to financial institutions in Quebec and Canada? We asked Mr. Duguay, the Deputy Governor of the Bank of Canada, whether the bank had made any recommendations regarding the extreme volatility of commercial paper, and he said it had. Does your office also provide advice? I am not referring to the work done by rating firms, but rather an analysis of various investments.

Mr. Jean Claude Ménard: Unfortunately, I am not qualified to answer that question. Some advice is definitely provided. In my actuarial reports, I speak very clearly about the future performance assumptions for the assets of the Canada Pension Plan, for example, and the way in which we come up with those assumptions. At the moment, the Canada Pension Plan has a benchmark portfolio made up of 65% in shares and 35% in bonds. Of course, we stated very clearly in the actuarial report that investing in shares involved volatility. There is a whole section devoted to the volatility of the financial markets.

Why do we have a 65-35 split? We also said that if all of the money were invested in long-term federal bonds, a 9.9% contribution rate would not do; it would have to be increased to 10.6%.

Mr. Jean-Yves Laforest: As we all know, the Caisse de dépôt et placement du Québec invested significantly more in commercial paper than other pension plans in Quebec and Canada, and this resulted in a loss of $40 billion. Why did the other plans not do this? If I knew that, perhaps I would understand why the Caisse did this. In any case, we will try to find out in another way.

Mr. Jean Claude Ménard: All I can say is that I do not go into this type of detail regarding specific investment decisions. The people at the Canada Pension Plan are in a better position than I am to talk about this and to comment on their own investment decisions. Their objective is to follow the assumption set by the chief actuary, that being me.

Mr. Jean-Yves Laforest: Ms. Warmbold, I would like to know whether the Canada Pension Plan investment Board invested in commercial paper in 2005, 2006 and 2007. Did you suffer any losses, and if so, how big were they?

[*English*]

Mr. Donald Raymond: As I said earlier, we did invest in asset-backed commercial paper, but the bank-sponsored variety, and it was only after the non-bank-sponsored market froze. So we incurred no losses, and in fact we enjoyed relatively healthy returns as a result of that.

I would say this is a function of having, quite frankly, a management compensation policy that allows us to attract some of the best investment professionals and to be able to make those risk-return trade-offs.

If you look through the non-bank-sponsored asset-backed commercial paper, what was actually inside the products were levered, opaque financial instruments. So there was a lot more risk than you would ever see just by looking at a history of the prices, because it wasn't until the actual liquidity crunch that the real risk materialized.

● (1050)

[*Translation*]

The Chair: You have 30 seconds left.

Mr. Jean-Yves Laforest: Mr. Gagné, do you know whether the pension plans of AbitibiBowater or Smurfit-Stone, for example, made this type of investment, and whether this resulted in significant losses?

Mr. Renaud Gagné: I am not on the retirement committee as such. Germain might be able to answer that question.

Mr. Germain Auclair: Smurfit-Stone suffered a $7,000 loss because of ABCPs, which is insignificant given the size of the plan.

Mr. Jean-Yves Laforest: Thank you, Mr. Chair.

The Chair: Thank you.

Mr. Bernier.

Hon. Maxime Bernier (Beauce, CPC): Thank you, Mr. Chair.

I would like to take this opportunity to thank our witnesses for appearing before us today. Your contribution will be very helpful to our work. You have provided us with some very interesting information. So thanks to all of you.

I would like to give Ms. George the floor.

At the beginning of your remarks, you said that you might have something else to say if you had more time. So I will give you two or three minutes.

[*English*]

Ms. Shirley-Ann George: Thank you very much. I appreciate the opportunity.

I did speak briefly about the opportunity that exists for private insurance companies. As we all know, Canada is very fortunate to have some of the best in the world to provide the pension gap that was mentioned earlier.

I would also like to add that in this current economic downturn, we also have Canadians who have defined contribution pensions and registered retirement savings plans, or who draw income from retirement income funds who have also seen their savings decline sharply in lockstep with the equity market and long-term interest rates. If a DB plan falls short of its obligations, the plan sponsor must fill the gap. But if a DC plan or RRSP suffers major losses, individuals do not have the flexibility to make up those losses. They are, for example, limited as to how much they can contribute annually.

To address this discrepancy and provide all Canadians with the same opportunity to save for retirement, the federal government could increase the tax-deferred contribution limits and allow DC and RRSP holders to save longer by delaying the age at which they must stop making contributions and start drawing down funds. This, as we know, is currently age 71. The government could also expand the types of investments one can hold in these plans and reduce the amount an individual is required by law to withdraw—the minimum percentage—from their RRIF plan each year.

We think that even though not all Canadians are financially able to reach their maximum annual limit, for those who are, these changes would be important in helping ensure their financial stability upon retirement.

Thank you for this opportunity.

Hon. Maxime Bernier: Thank you. I really appreciate it.

I have another question. As you know, the federal government only regulates about 7% of privately funded plans in Canada.

[*Translation*]

The rest comes under provincial jurisdiction.

Do you think there should be better coordination or cooperation on the part of regulatory authorities with respect to private pension plans in Canada? Do you think the federal government should play a more active or less active role with the provinces in this regard?

[*English*]

Ms. Shirley-Ann George: This is just one more example of how the fact of our 13 jurisdictions in Canada stands in the road of progress. We would strongly recommend that the federal and provincial governments work more closely together. The regulatory regimes have to be closely related, and it would be constructive for the federal government to work to try to find a way to coordinate this between the provinces and the territories.

Just as an example, one of the major obstacles that was cited by the private insurance companies, when I asked them why they weren't filling the gap that has been brought forward today, was that with 13 different plans, administratively, it's very costly. So anything this government can do to try to coordinate that and reduce those costs would be greatly helpful.

Thank you.

● (1055)

Hon. Maxime Bernier: Thank you. I appreciate it.

Thank you very much, *et merci, monsieur le président.*

The Chair: *Merci.*

I want to thank all the witnesses for your presentations here today and your responses to our questions. If you have anything further to submit, please do so through the clerk. Thank you all for being here.

Colleagues, we'll see you this afternoon, please.

The committee stands adjourned.

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