House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 002 • 3rd SESSION • 40th PARLIAMENT

EVIDENCE

Tuesday, March 16, 2010

Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the second meeting of this session of the Standing Committee on Finance. The committee is beginning its study, pursuant to Standing Order 108(2), of the retirement income security of Canadians.

We have with us today four organizations and one individual. We have, first of all, the Certified General Accountants Association of Canada; secondly, we have Teamsters Canada; thirdly, we have the Canadian Labour Congress; fourthly, we have the Canadian Institute of Actuaries; and as an individual, we have Monsieur Michel Benoit, legal counsel.

Thank you all for coming to be with us today to discuss this issue.

Colleagues, we have a vote at 5:30, so the meeting will end at 5:15 p.m.

Each organization or individual will have 10 minutes for an opening statement. We'll start with the Certified General Accountants Association of Canada.

Mr. Rock Lefebvre (Vice-President, Research and Standards, Certified General Accountants Association of Canada): Good afternoon.

Before I get started, I will just make sure that you have received some papers we had deposited, three tables in particular, to be circulated. I will be referring to them.

Thank you.

Good afternoon, and thank you for granting the Certified General Accountants Association of Canada the opportunity to discuss with the committee the current state of defined benefit pension plans in Canada. The Canadian retirement system is an ongoing area of interest of CGA Canada, as is the financial condition and prospect of Canadian households. Today we'd like to underscore with you the magnitude of the pensions challenge by identifying how the deficits of private pension plans have deepened.

Our work on the topic of defined benefit plans was initiated in 2004, revealing that with indexation of accrued benefits, an estimated $160 billion would be required to fully fund deficit pension plans at the end of 2003. Revisiting that number in 2005 for the 2004 year end, we learned that it had increased to an estimated $190 billion. While we're continuing to study 2008 year-end results, preliminary analysis signals a funding shortfall significantly exceeding $300 billion.

Relying on the supporting expertise of Mercer Human Resources Consulting and the information contained in its 2008 pension database, the funding position of Canadian pension plans at December 31, 2008, has been estimated under a “risk-free basis” approach. That risk-free basis, reflected in table 1 before you, removes any discretion in the selection of “going concern” assumptions of each plan, and it removes the influence of the investment policies in the selection of such assumptions.

In short, we wanted to make it simple for our calculations. We pegged the interest rate at 3.5%, based on long-term Government of Canada bond yields, and indexation has been set at 2%, based on blended pre- and post-retirement indicators.

Our analysis is based on approximately 760 plans covering a total of approximately 1.5 million members as of December 2008. In 2004 we studied 784 plans consisting of 1.8 million members. These plans represent approximately one-third of the total defined benefit plan market.

Including those of trusts and insurance companies, there are an estimated 7,000 defined benefit plans and an estimated 8,000 defined contribution plans, having an estimated 4.5 million and 0.8 million members respectively. Defined benefit assets exceed $550 billion, while defined contribution assets represent an estimated $50 billion.

It's apparent that the overall funding position has significantly deteriorated since December 31, 2004, with and without indexation of benefits. That is, the average funding ratio has decreased from 112% to 77% on a “without indexation” basis, and from 71% to 57% assuming indexation is calculated.

And whereas 59% of the plans were found to be in deficit at the end of 2004, that number stood at 92% by the end of 2008. It's not necessarily a surprise, given the performance of the capital markets, but I thought it was nevertheless notable.

The main results that I have just explained are contained in the two tables before you, tables 2 and 3. They compare the 2004 and the 2008 year ends, the first without indexation and the second with indexation.

The global events that eroded pension asset values, interest rates, and investment returns had a devastating effect on Canadian pension plans. In the six months from September 2008 to February 2009, the typical pension plan lost about 20% of its asset value, measured on a "fair market value" basis. According to estimates, 71% of the Canadian defined benefit plans were in a solvency deficit position at the end of 2007. As previously indicated, that escalated to 92% by the end of 2008. We also saw at the end of 2008 that almost 40% of those plans had solvency ratios of less than 70%, and over 70% had solvency ratios of less than 80%.

Going forward, CGA Canada encourages the federal government to effect the previously announced measure of increasing the pension surplus threshold for employer contributions from 10% to 25%.

We also continue to see enhanced protection for plan members that recognizes more fully the character of pension benefits as deferred compensation that requires greater recognition as secured debt of the company and enhanced consideration in the creditor hierarchy. Consistent with earlier submissions to the Department of Finance, we contend that deliberate clarification is required regarding the following: the ownership and distribution of surpluses on plan termination, letters of credit, the time span for the funding of deficits, and the prescribed solvency ratio levels.

Should more radical departures be envisioned, one potential opportunity resides in the alternative of designing a time-weighted methodology that reflects and accounts for the respective contributions and actions of plan sponsors and members. In time, we expect that the establishment of pooled defined contribution arrangements and multi-employer pension plans will gain greater acceptance.

It's worth mentioning also that in stark contrast to sharp increases in funding requirements caused by the recent crisis, the cost of pension plans, reported in most sponsors' financial statements, experienced significant decreases in 2009. This is because most plan sponsors set the discount rates used to calculate the cost of their plans, for financial reporting purposes, by reference to high-quality corporate bond yields. Those bond yields irregularly soared to as high as 8%. Such target yields increased dramatically the results in the last quarter of 2008 and the first quarter of 2009. What that means is that for plan sponsors whose fiscal year fell within that timeframe, the increased rates typically caused the reported pension expense to be much lower the following year. This disparity between lower reported costs on financial statements and greatly increased cash needs in the same year may prove difficult for sponsors to explain to stakeholders.

The crisis has had a significant effect on many pension plan members, some more directly than others. For some members of defined benefit plans, there have been significant and direct effects. At worst, in cases of sponsor insolvency or winding down, and where the plan was also significantly underfunded, the plan members will experience permanent reductions in benefits already accrued. The high-profile nature of some of these cases has highlighted for members that even in defined benefit plans there is no 100% guarantee. Moreover, it underscores that pensioners continue to be dependent on the long-term financial viability of their former employer.

CGA-Canada believes that the crisis can best be soothed by adopting a holistic approach rather than piecemeal measures, unless those ad hoc measures deliberately respond to the desired end state. Many of the issues that impair the optimal funding and condition of defined pension plans have existed, in some instances, for decades. We applaud the current public initiatives to study and reform the rules and expectations surrounding pension plans. We also support fully the implementation of necessary strategic and structural changes that would contribute to a fair, responsible, sustainable, and efficient retirement system that secures the future of all Canadians. These are changes that more copiously recognize that earned pension benefits represent deferred compensation, not a conditional game of chance.

We must also be mindful that the majority of Canadians are not afforded employer-sponsored pension plans and that as much as 35% of the adult Canadian population does not commit to any type of regular savings. Taken in tandem with CGA-Canada findings on escalating household indebtedness and a reduced proclivity to save, we understand full well the apprehension of Canadians in relation to retirement security. And while economic growth may once again be in our grasp, the full benefit for society will only be felt over time as the government again achieves a balanced budget, as real incomes grow, and as the capital markets recover.

In closing, while we appreciate that the opportunity may be ripe to pursue pension reform, we encourage that adequate time be afforded to study and understand this relatively complex matter. We are encouraged here today to observe this committee hosting these consultations. We are likewise encouraged by the growing appetite for coordinated pan-Canadian action that harmonizes the efforts of federal and provincial stakeholders. In so doing, we are more likely to enhance information symmetry and to introduce comprehensive, systematic, and lasting improvements.

Ladies and gentlemen, thank you for your time.

● (1535)

The Chair: Thank you for your presentation.

We'll now hear from Teamsters Canada, please.

Mr. Phil Benson (Lobbyist, Teamsters Canada): Good afternoon. I'm Phil Benson, a lobbyist from Teamsters Canada. I want to thank the committee for inviting us back. It just seems a short time ago that we were talking about pensions. As you are aware, we were also in front of the committee on the other side, in other areas.

First, we view this as part of a process. We're looking forward to Minister Flaherty's study—whether with Minister Flaherty, the department, or this committee—later on pension reform. We're looking forward to participating in it, and we welcome the committee taking its time today to once again review pensions.

Though we're looking at a pension crisis, really it is decades in the making. It is decades of inaction. It's decades of letting the entire problem slip. Federal pensions and the pension regime are just one part of the puzzle.

I want to look first at CPP and OAS.

CPP is well funded now. It's in a special purpose account. I hope it will remain there and not end up as the employment insurance account did in a special purpose account and be plundered. The lessons there were that decades of inaction led to the need to increase premiums, in effect, during the last recovery. With the EI account, the plundering of the account—and I do applaud the government for setting up a separate account, but the $2 billion was not enough to cover a recession that we're in now, and that's going to lead to an EI premium increase during a time of recovery. Again, it was decades of decisions not made or incorrectly made.

Old age security, something that we all hope to get one day, really depends upon the economy and the ability to pay. It's quite easy in difficult times for governments to perhaps increase clawbacks or to vary or change it.

In short, our private pensions may in fact be one of the most important and critical means for Canadians to retire. In the past four or five years, there have been two series of changes to the system for dealing with pensions and funding. There's a good thing about that—mostly, importantly, that governments, both this and previous, didn't give the companies everything they wanted. The other good thing is that they also listened to labour. They listened to the Teamsters and they accepted some of our recommendations in that action.

Companies basically want to delay funding. They want to use the dollars to build their businesses. I've seen that in the documents they presented to you. Also, the last time we spoke, one of the company representatives made that statement.

The negative about those changes is that it didn't go far enough to address the problem. Yes, it has made some significant changes. Canadian Pacific Railway, one of the employers that a lot of Teamsters are very proud to work for, did kick in $500 million, but their fund is still in a deficit. It was a start, part of a process, not a complete endgame.

Pensions, as the first point, to reiterate what the CGA said, are forgone wages. They're deferred compensation. They're not a gift. They're not a benefit. Let's not be paternalistic; if you're not paying the pension, you're going to have to pay more wages.

In the multi-employer plan world that a lot of our members live in, it's not much of an issue because the wages go into a separate fund. The employer can't get its hands on it. It's generally jointly managed between a union and an employer. There are no contribution holidays. The moneys are generally invested very conservatively, as is a requirement under union leadership.

That brings us to the second point. Investments should be more insurance-like, more invested in bonds and less in stocks, especially as we see the demographics—and what a surprise, dealing with this for 25 years—the aging baby boomers. We cannot have baby boomers in retirement in 10, 15, or 20 years at the beck and call of the market, of a financial crisis, of a war, or of anything else. If that happens, the mistakes we make today will hamstring future governments, just like the mistake to not properly fund the Canada Pension Plan hamstrung the previous Liberal government, and, as we would say, the misuse of the employment insurance account has hamstrung this government. Most people will not be here, but if we are retired, we will pay the price for those mistakes. I urge you not to repeat them.

● (1540)

The third basic point we have is that because these are deferred contributions, workers, pensioners, and their pension funds must be a priority under the BIA. They must be protected. Simply put, people should know when they retire that they're going to get *x* amount of dollars and that it is going to be there.

If not, let us go forward 10 to 15 years. Let's hypothesize. Most of the baby boomers are retired and we have an economic crisis. Future members of Parliament around this table—hopefully I'll be retired by then and hopefully we get it right—will be sitting here dealing with a simple problem. How much more can we pay out in GIS in a crisis? Do we have to claw back old age security? Can we meet the Canada Pension Plan?

Changing this isn't for today. It's for 10, 15, or 20 years into the future. For the workers we represent at Flextronics and Nortel, they're paying the price today. You've heard about Nortel being at 70¢ on the dollar. Flextronics is at 25¢ or 30¢ on the dollar. I'm sure other unions can come forward with the same story.

We cannot have that happen in 15 to 20 years. That's why we're looking forward to this process. We're looking forward to the review by Minister Flaherty and the government. We have to get it right, because we can't hamstring future politicians. We can't hamstring their options.

With that burden, there are going to be a lot of options. Hopefully, one of them isn't reducing people's incomes in retirement. We have a crisis that has been 10 or 15 years in the making. Let's take our time. Let's resolve it. Let's get the answer right. If we do not, we will all pay a price in the future.

Thank you.

● (1545)

The Chair: Thank you very much, Mr. Benson.

We'll now go to Mr. Georgetti of the Canadian Labour Congress.

Mr. Ken Georgetti (President, Canadian Labour Congress): Thank you very much. I have with me Dr. Joel Harden, our expert on this issue.

We were of the view that this hearing was about federally regulated pension plans, but I sure appreciate the comments I've heard so far.

I want to talk first of all about federally regulated plans. The pension plans of a few large employers, federally regulated, account for most pension plan coverage in Canada, and the solvency funding for these employers is well above the average. It's greater than 85%, so in the overall scheme of things, they're doing not badly relative to most. The presentation from the actuaries was completely consistent with our concerns as well.

We're saying that the federal government did announce some positive measures recently to improve pensions in the federal sector, including a requirement for employers to fully fund pension liabilities when plans are wound up and for immediate vesting rights for workers upon joining a workplace pension plan. We continue, however, by saying that fixing federal sector pensions isn't enough. We say that Canadians are looking to Ottawa as well for more details on this pension consultation announced in the budget of 2010, and we'd like to know when and where these hearings are happening. We know there are hearings starting, I think, in April on financial literacy, and I'll talk about those in a moment.

In Budget 2010 there was also an announcement about promised bankruptcy law changes. What is the scope of these changes, and is the government prepared to consult on these changes before it puts them in place?

We'd also like to know your thoughts on pension reform heading into the finance ministers' meeting in late 2010. Minister Flaherty did announce consultations, as Mr. Benson said, but to date we've heard nothing in terms of when, where, and how. We are having our own pension consultations, and let me tell you that we can't find rooms big enough. They fill up awfully fast with people who have concerns about their security.

After saying all that, despite the short notice that you gave us for these hearings, I want to talk about a couple of things. I certainly agree with the actuaries when they talk about enhanced protection of employees' rights to a pension that they've invested in. We have a plan in place, and you can see it in our brochure. For a very small amount of money—in fact, for $2.50 per person per year—we could provide pension insurance, for a benefit of $2,500 per month for life. That's pretty cheap insurance when you think about all the insurance aspects of life. We have to insure our cars, our boats, our trailers, our houses. Even our savings accounts are somewhat insured, yet there's no form of insurance, except for Ontario, for pension plans to ensure that people get the benefits they're entitled to. We'd like to see some action on that.

I want to tell this committee as well that despite some of the hyperbole you heard out there, today 1.6 million Canadians are living on less than $15,000 a year. These are people who worked all their lives to try to get by and are living on less than $15,000 a year. I dare say that's not very much money if you're living in any Canadian city today, but that's what happens.

As well, there are significant shortfalls in our pension system right now. There's no doubt about that. I don't have the exact numbers; my friend with the actuaries does, but let me point out something about all those registered DB plans that he talked about. Did you know that 40% of those DB plans belong to less than one percent of the population, and that 47% of those plans are registered to groups of 10 or fewer people? I don't have to tell you who most of those people are, but most of them work on Bay Street or on other streets like that around Canada.

I'll mention Don Stewart, the CEO of Sun Life, who is heading up your financial literacy task force across this country. His company just closed its DB plan last year to new employees. They only get DC plans. However, Mr. Stewart is entitled to a DC plan of $1.4 million a year indexed for his life, and he's telling employees who are starting to work for him that they're not entitled to the same kind of plan that he gets. You get a DC plan, and if the market is up when you retire, you're okay; if the market is down when you retire, as it was in 2008, well, that's your tough luck as well.

● (1550)

Is that financial literacy? Is that what we're going out to teach Canadians about? I think it's coming to the point that there are two systems: there's one for the haves and another one for the have-nots.

I must say that the members I represent are lucky enough that we have, as Phil said, deferred some of our wages into pension plans that will, we hope, deliver a benefit that we want. But the vast majority of Canadians don't.

I challenge you as members of the committee and also as MPs to listen to some of your constituents' stories about how much dignity they lose when they find themselves not only without a job but without a pension and without a way to earn income. We hear them every day when we go on our hearings, from people who have to decide whether or not they're going to feed the cat and dog, or feed themselves.

I think this issue is not about numbers. This issue of pension security is about people. I encourage the committee to talk to real Canadians about the struggles they are seeing. Talk to some of those Nortel workers who thought they had something, which disappeared because the guarantee they thought they had wasn't there.

We could give you all sorts of information, but the best approach, which I want to leave you with, is to increase the best pension plan that exists in Canada today, and that's the Canada Pension Plan. It has the lowest administrative cost, it's portable, it's indexed, and it's guaranteed, for all intents and purposes. For an increase of 40 basis points—that's four-tenths of 1%—per year for seven years of increased premiums, people starting on that plan today would retire with a double CPP benefit of $1,635 a month, which would put them at about $22,000 a year in today's dollars.

For people who have pension plans that are integrated, it would actually save employers and governments, over a course of a person's lifetime, 5% of the cost of delivering a pension plan. It would give every employer in Canada who wants a defined contribution plan exactly what they want. All they have to do is make a contribution every month, and every employee in Canada would get a defined benefit plan.

It's the best-managed plan in Canada, which has delivered the only real security Canadians have today and the guarantee of a cheque when they retire.

Thank you.

The Chair: Thank you, Mr. Georgetti.

We'll go now to the Canadian Institute of Actuaries, please.

Mr. Charbonneau.

[*Translation*]

Mr. Serge Charbonneau (Member, Government Liaison Task Force on Pensions, Canadian Institute of Actuaries): Good afternoon, ladies and gentlemen. My name is Serge Charbonneau, and I am here representing the Canadian Institute of Actuaries. I am a member of the government liaison task force on pensions.

The Canadian Institute of Actuaries is the national organization for the actuarial profession in Canada. It has over 3,900 members. Many of them work in the pension field in Canada, in particular in signing valuations certifying the amount of premiums required to fund pension benefits.

[*English*]

Lately, the pension world has been the focus of attention, and for good reason. Over the past few years there have been a series of governmental reviews of pensions and their regulations; other consultations are just starting.

For many years, the Canadian pension system has had to deal with tough challenges, including low interest rates, increased longevity, legal decisions, volatile market yields, rising pension costs, uncertainty over contribution holidays, and plan surplus ownership, as well as a patchwork of pension laws and regulations across the country.

The global economic crisis and recession has made the situation even bleaker. In 2008, large deficits emerged in most defined benefit pension plans. Even though 2009 market returns were more attractive, they did not help very much. Pensioners and workers from companies facing bankruptcy now run the risk of having their pension benefits reduced drastically.

Individuals have seen the values of their accumulated savings in RRSPs and workplace DC pension plans melt away in 2008, and they did not recover much in 2009. Recent changes in pension accounting standards have created volatility in pension plan sponsors' balance sheets, and an imminent transition to international standards could make things even worse. Employers are very reluctant to introduce new plans. Many have terminated existing plans or closed them to new employees. For plans that remain, employers have tended to minimize their contributions.

We believe the time has come for governments to implement fundamental changes to acts and regulations to strengthen pension plans. We believe a large proportion of Canadians need to save more for retirement and they need wider pension coverage. More than three-quarters of private sector workers have no employer pension plans.

Defined benefit plans need to be saved and even encouraged. They are very effective means of providing retirement income as they insulate members from many of the risks associated with increasing longevity, low interest rates, and market volatility. They provide employers with the tools to attract and retain employees.

Please let me focus on the health of federal pension plans by discussing funding rules under the PBSA, the Pension Benefits Standards Act. In November 2009, the CIA released its pension position entitled, “Retooling Canada's Ailing Pension System Now, For The Future.” Our document had been prepared prior to the federal reforms announced last fall. We are pleased that some of our recommendations were included in those changes, but unfortunately others were omitted that we consider crucial.

Our recommendations are aimed at improving funding rules for DB plans in a manner that could benefit plan members and plan sponsors. The following proposals are designed to work together in a coherent whole.

First, enact legislation allowing employers to set up and fund a new type of vehicle that we call pensions security trusts, also referred to as deemed trusts in some cases. It's a type of side fund, separate from but complementary to the current DB pension fund. We see this as a practical solution to the asymmetry in surplus ownership, and it would create an environment to encourage contributions beyond the minimum amount legally required.

Employers gain because they can contribute more than the minimum cost under the going concern valuation, knowing that if a surplus arises in the future, it can be covered. Pensioners and employees also gain because stronger funding will make their benefits more secure. Contributions into the trust will be tax deductible and withdrawals will be taxable.

For your information, the expert panel that studied pension reform in B.C. and Alberta did recommend such a new vehicle.

Second, in conjunction with that pension security trust, we suggest that new legislation be introduced to require each DB plan to have a target solvency margin related to the risks in the plan's assets and liabilities. The recent announcements last fall did stipulate that contribution holidays would only be permitted if pension plans are more than fully funded at 5% above 100% of liabilities.

It's a good starting point, but we believe there should be flexibility to reflect the risk. The CIA produced a study describing how those calculations could be done. For example, some plans could have a margin of only 2% to 3%, while others could be 8%, 9%, 10%. We think that plans that implement strategies to minimize risk should not be imposed as much of a margin as plans that don't manage risk.

Third, we were pleased that the announcement increased the Income Tax Act's threshold for surplus up to 25%. However, we note that the pension reform proposed did not include a pension security trust. In our opinion, without that security trust, the proposed increase to 25% will accomplish virtually nothing. Few plan sponsors have funded to the 10% limit in the past, and we expect virtually nobody to use the additional 15% in the future. However, if the pension security trust that we propose is implemented, we would expect many sponsors to use that extra room.

● (1555)

We encourage governments to act on that integrated package of initiatives. We think if those proposals had been in place before the recent crisis, the funds would have been in a much healthier situation and relief measures might not have been needed at all. Certainly the risk for members would have been drastically reduced.

With respect to other federal reforms announced last fall, we know that the proposed rules on solvency valuations represent a new approach. They are expected to produce contributions that are higher than the old solvency rule that required amortization of new deficits over five years. Actually, we expect contributions to be between the old five years and the temporary ten years that was introduced recently.

This might be considered a reasonable compromise between employers and unions that have opposite demands. But we reiterate that having the new pension security trusts would greatly encourage some employers to contribute more than those minimum amounts.

We also looked at the new rules allowing letters of credit on a permanent basis, instead of a temporary basis, as in the past. We think those are useful ways of increasing benefit security, and they help employers who are reluctant to build surplus in case of a market turnaround. While we are in favour of a letter of credit approach, we still prefer our proposed pension security trusts.

Another aspect of pension reform related to benefit security is for crown corporations. We know they cannot go bankrupt, and therefore when the rules were changed from five to ten years, they did not need to submit letters of credit as did other employers. In fact, we think the whole solvency approach might not even be relevant for the purpose of protecting the security of plans for members of crown corporations since their employer has no bankruptcy risk. This has already been recognized under several provincial laws that exempt public sector plans from solvency valuations. We suggest the federal government consider the possibility of exempting from solvency valuations certain types of employers who have no bankruptcy risk.

We also would like to highlight the fact that solvency valuations involve certain problems with respect to calculation of liabilities for retirees. Legislation requires actuaries like me to determine the cost of purchasing insured annuities, knowing very well that in many cases it would be impossible to purchase them if a very large plan were to terminate. This type of difficulty also arises in the case of pensions that are indexed to inflation, because there is only a very limited supply of real return bonds. The CIA would be very interested in examining alternative approaches for valuing retiree benefits for solvency or wind-up purposes. For example, this might involve the possibility of creating new schemes through which the funds attributed to retirees could remain invested for a number of years, allowing a gradual transition to the insured annuity market.

● (1600)

[*Translation*]

We note that other issues of great importance to the pension issue will be addressed in subsequent meetings over the next few weeks. We would point out that the institute has examined the possibility of having new types of pensions that would be facilitated by the state. In fact, we will be releasing a white paper on that topic later this week. We would be delighted to discuss our findings at upcoming meetings of your committee.

Ladies and gentlemen, that completes my presentation. I will be pleased to answer your questions.

The Chair: Thank you for your presentation, Mr. Charbonneau.

I will now turn the floor over to Mr. Benoit.

Mr. Michel Benoit (Legal Counsel, Bell Canada, Canada Post, Canadian National Railway Company, Canadian Pacific Railway Limited, MTS Alstream and Nav Canada, As an Individual): Good afternoon. My name is Michel Benoit. I am with the law firm Osler Hoskin & Harcourt.

[*English*]

I am appearing today before this committee on behalf of six federally regulated companies, namely Bell Canada, Canadian National Railway, Canadian Pacific Railway Limited, Canada Post, Nav Canada, and MTS Allstream. For the purposes of my presentation today, I'll be referring to these companies as the group of six.

First, I would like to extend to the committee the appreciation of the group of six for the opportunity of appearing before and contributing to the work of the committee on an issue that has solicited many comments and concerns, namely the health of employer-sponsored pension plans and, more specifically, those that are regulated by the federal government.

The group of six hopes it can provide this committee with a unique perspective on the issue it is considering today. They have been sponsors of defined benefit plans for decades. Their plans collectively cover over 130,000 employees and provide pensions to over 120,000 retirees and beneficiaries. And their pension funds collectively hold over $50 billion in assets, which represent approximately 50% of the assets of defined benefit plans regulated by the federal government.

Many of you have heard and read about the health of employer-sponsored pension plans. The comments and concerns have come from employees, retirees, organized labour, and employer organizations. Consultants and academics have also expressed their views. The proposals that are put forward by these stakeholders are often conflicting, and the issues, obviously, are extremely technical and complex.

That said, the health of the defined benefit plan is entirely dependent on the financial ability of the employer to sponsor and support it. This is particularly true in times of financial crisis, such as the one that employers have been struggling with since 2008. Although some may think the financial crisis is now behind us, given the rebound in the stock markets over the last year, interest rates are still extremely low, and their impact on plan funding is still very significant. Volatility has not disappeared and employers' contributions continue to be onerous.

As many of you know, the group of six has been actively soliciting the federal government to change the existing legislative and regulatory framework governing employer-sponsored defined benefit pension plans, particularly in the area of funding. Permanent changes are required because the 2009 temporary relief measures were not sufficient to address both the volatility and the onerous nature of the contribution obligations.

On October 27, 2009, the Minister of Finance announced a series of proposals designed to significantly change the existing legislative and regulatory framework for federally registered pension plans. These proposals are a balanced set, including several elements to strengthen the security of benefits. The proposals, however, will require amendments to either the Pension Benefits Standards Act of 1985 or the pension benefits standards regulations of 1985, or both. The implementation process for all these proposals will take some time, and although the group of six has noted the government's intention of having the new funding rules in place so that they can be applied to the December 31, 2009, actuarial evaluations, the group is very concerned that the legislative and regulatory approval process required to finalize all of the October 27, 2009, proposals will detract from the urgent need to implement the proposals on solvency funding and the other funding issues. It is therefore critical that the required amendments to the legislation and regulations be released in the very near future.

The group of six has been providing its views on the funding proposals released last October to both the Department of Finance and the Office of the Superintendent of Financial Institutions. Submissions in this regard were made in November and December 2009 and as recently as last week. They addressed issues such as the proposed limits on employer contribution holidays, benefit improvements that would need to be fully funded, the use of an average solvency ratio to determine the minimum solvency requirements, the use of letters of credit to meet solvency obligations, and the all-important—I stress all-important—transitional provisions that will be required for their implementation.

● (1605)

All of these issues are very, very technical and complex, but in our view the required technical rules can, and should be, finalized and released as quickly as possible.

It is currently difficult for many employers to commit to capital expenditures pending the release of draft legislation and regulation, since corporate cashflow allocated to solvency funding payments is not otherwise available for capital expenditures. Many plan sponsors have already established their 2010 budgets and made statements to their boards of directors, investors, or analysts about their cash commitments. Almost five months have elapsed since the proposals were released, so the group urges the government to act now.

Another issue that has on a number of occasions made the headlines is the need expressed by a number of stakeholders to provide greater protection to pensions in the event of the insolvency or bankruptcy of the employer. While I recognize that this issue is not, per se, being considered today by this committee, the group feels it is important to state its position in that regard. The current rules on this issue were debated at length when the government reviewed the insolvency legislation in 2005. The result was increased protection for unremitted employee contributions and employer current service contributions. Extending the protection to solvency deficit payments or providing preferred creditor status to pensions in pay would materially affect existing credit arrangements and significantly undermine the employers’ ability to raise capital at a reasonable cost.

The group of six has always been of the view that the best guarantee that employees and retirees will receive the promised pensions is a financially sound employer. Increasing the cost of borrowed capital by changing the insolvency rules would not be a step in the right direction. It would be quite the contrary, especially in the current financial environment.

● (1610)

[*Translation*]

Thank you for your attention, and I am prepared to answer your questions.

The Chair: Thank you very much for your presentation.

[*English*]

We will have questions from members.

We'll start with Mr. McCallum. You have a seven-minute round, please.

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

And thank you to all our witnesses.

I think it was particularly good to start with the CGA and the rather dire, if not crisis, conditions you outlined facing Canadian pensions, which is in contrast to what I would characterize as the government attitude of “don't worry, be happy, everything's just fine”. In particular, I think this never-ending consultation, when proposals for things like a supplementary Canada Pension Plan have been on the table for many, many months, if not years....

Also, I'd like to refer to the Bankruptcy and Insolvency Act. A number of you mentioned that. The government had a proposal to make amendments to it in the throne speech, but nothing was in the budget. It seemed to say we don't want to act in that area. Mr. Menzies will have a chance to correct me if I'm wrong, but certainly there was nothing in the budget.

We, in the Liberal Party, do believe that the BIA, the Bankruptcy and Insolvency Act, should be amended to provide some additional protection in the hierarchy for pensioners. As a number of you said, this is a question of deferred compensation. Three of you have already been on the record as favouring that, and one as opposing.

To Mr. Charbonneau, with respect to the act, do you have a view as to whether, and if so how, the BIA might be amended to provide some additional security for pensioners?

Mr. Serge Charbonneau: I didn't touch that subject today because we understood it's going to be a subject for another committee meeting. However, it was part of our retooling document that was published last November, and we talked about it back in 2007.

We're suggesting that some things should be done to look into it, but we recognize that changing the creditor status for unfunded plans would greatly disturb financing of employers. We recognize the two points of view and we think some things should be done to figure out the best way to put that into place.

Hon. John McCallum: Could it, for example, be done in some way prospectively for the future?

Mr. Serge Charbonneau: That would be one way of reducing the impact, but it would still have a huge impact down the road when it's all in place. When employers need some financing and they tell the bankers, “We have a big deficit. This year it's $2 billion and maybe next year it's going to be $4 billion. This is going to be paid before we pay back our loans”—I can understand that this would disrupt the financing of the corporations. But on the other hand, actuaries are very sympathetic to the plight of pensioners we see today—Nortel, etc.

It's a difficult question. Actuaries don't have the solution, but we say let's look into it and look very carefully as to what the impact would be.

Hon. John McCallum: Mr. Benoit, I noticed you opposed the idea. Is this opposition unconditional, or do you think there are certain ways in which it could be done that would not be so damaging?

Mr. Michel Benoit: It's very difficult to answer that question in a simple way. I'll explain myself.

Changing the insolvency rules will definitely impact the credit arrangements existing today if these changes are made applicable immediately upon their adoption. So if we're talking about implementing changes prospectively, that raises a number of questions as to how much of an impact these changes will have. In other words, will they be applied to current deficits or only future deficits? Will they be applied to current pensions and pay or only future pensions and pay? And so on.

I grant you that doing it prospectively has the appearance of making things simpler, but I am of the same view as Mr. Charbonneau. It is something that will require a lot of study. Get the views of experts in the field who contributed to this exercise when the government looked at these changes five years ago.

● (1615)

Hon. John McCallum: Thank you very much.

I have one other question for Mr. Charbonneau, because he touched on something that we in the Liberal Party had also proposed.

In the case of so-called “stranded assets”, rather than having to liquidate them at whatever rate of annuity you can get today, there should be a mechanism for ongoing investment. I think that would improve the likely pension value for the members. I think you just said that yourself. I'm asking for confirmation. Do you think this would have a fairly significant impact on what pensioners would ultimately receive?

Mr. Serge Charbonneau: I believe there is some benefit in looking at that type of new mechanism. It doesn't exist today. There is something similar to that in Quebec. A new law was passed in 2009, but it only applies to bankrupt employers. It allows the retirees of those bankrupt employers to transfer their assets to the Régie des rentes. They would invest assets for up to five years and gradually purchase annuities into the market.

We know there have also been exchanges by certain unions in specific situations across the country to change rules to accommodate this type of arrangement for certain employers, but nothing specific has been put into place as far as I know.

Hon. John McCallum: Thank you.

My last question is to Mr. Georgetti.

You're proposing a doubling of the CPP. We're proposing a voluntary Canada Pension Plan that could be implemented in a number of ways, depending on the default position, and so on.

I'd like to clarify one point with you. If you're not going to have intergenerational subsidies, I believe it will take approximately 40 years for the doubling to be fully implemented. But on your page 12 it seems that the doubling occurs in seven years, so what's the true situation?

Mr. Ken Georgetti: The seven years would be the phase-in of the contributions, not the benefit. The benefit would be accrued, as any benefit of Canada Pension, on the amount of contributions you make for the amount of time you make them only.

Hon. John McCallum: So it would be something like 40 years.

Mr. Ken Georgetti: Yes.

The Chair: Be very brief, Mr. Harden.

Mr. Joel Harden (National Representative, Social Economic Policy, Canadian Labour Congress): The only thing to add is that the multiplier effect, even for a small amount of contributions at the higher rate, is significant. Seven years of contributions can get a lifetime net amount of pension of almost $29,000 at our rate because of how competitive the Canada Pension Plan is versus the mutual fund industry or other retirement savings vehicles. Even a small amount of time within that 40-year span is very significant—far more than small business or Canadians can get anywhere else.

Hon. John McCallum: Thank you very much.

The Chair: Thank you, Mr. McCallum.

Monsieur Paillé, pour sept minutes.

[*Translation*]

Mr. Daniel Paillé (Hochelaga, BQ): Thank you very much for your presentations. I appreciate the fact that some of you sent them in advance in French.

Mr. Charbonneau, with respect to the Canadian Institute of Actuaries and your idea of pension security trusts to manage the risks, I was wondering about the mechanism that would be involved in such trusts in Quebec and Canada.

Do you have any doubts about having a single pension security trust, or would it be better, given that the situation in Quebec is different because we are somewhat ahead of other jurisdictions in this area, to have a completely different structure in Quebec?

Mr. Serge Charbonneau: No, it would not be necessary to have different rules. That said, the legislation in each jurisdiction would have to be adapted. So the Quebec legislation, the ORCR, should allow for this change. This concept can be applied across Canada for employers under federal, Ontario or Quebec jurisdiction.

You also mentioned risk management, and you asked how it would be structured. It is simply a side account that is virtually identical to the first one, which is a true trust. The only difference is that the employer would voluntarily put more funds into the new vehicle. Moreover, the employer could withdraw the funds later, but only if there is a surplus in both funds combined and a surplus that exceeds the recommended safety margin.

That is why it is attractive from the participants' point of view. The only time an employer could get its hands on the money would be when there was already a surplus and a cushion.

● (1620)

Mr. Daniel Paillé: We saw with the 110% idea that everyone was expressing fears, even while premium holidays were much too long and the quality of benefits was being improved.

I was wondering why there was an absolute amount of, for example, 25%. We know that the initial idea was to close a corporate tax loophole.

Basically, employers can reach agreements with their unions or employees to give various kinds of wage increases, and everyone knows that pensions are a type of deferred wages. Why do we have this 125% standard? Could you ask to have that eliminated?

Mr. Serge Charbonneau: The CIA does not object to changing the 125% standard. However, from a fiscal point of view, our thinking is that it has been at 110% forever, and that if you decide to increase it to 125%, that is a huge jump, considering that it has always been at 110%.

In our original document, we said that the rate of 25% should be twice the calculated security margin. So in a more risk-based pension plan with a 15% margin, the threshold should be 2 times 15. Which means that it would go up to 130%.

To address the first part of your question, it is true that this type of margin would not be the perfect solution. Even at 110%, if things turn bad and you lose 20%, and end up in a deficit position, at least you have a good cushion and you are protected.

Mr. Daniel Paillé: We can see this in the current situation.

I presume that the Certified General Accountants Association does not take issue with the standard of 125%. If I may put it this way, accountants will make calculations based on the rules, so if they have to apply a margin of 150%, they will do so.

Mr. Rock Lefebvre: Of course, there is always a risk of going too far. However, if we decide on 125%, that would be a good, solid increase.

If we apply a rate of 125%, it is because we want to protect existing members. There is always nervousness when a new trust comes along to protect groups of employees, rather than the employer's entire group of employees.

That is why I prefer higher percentages for existing members.

Mr. Daniel Paillé: Aside from the fact that I don't know whether we should start tomorrow morning, by either including new employees or imposing new amounts, and if we leave aside the past, are we not wasting a lot of time discussing where to draw the line? We have to draw it somewhere.

Mr. Rock Lefebvre: It is hard to go back in time. We prefer to look ahead.

I think that the greatest risk today is that a growing number of employers will back away from defined benefit plans. If we do not do anything, one day there will no such plans left.

Mr. Daniel Paillé: Mr. Benoit, I would like to come back to something you said.

You said that employers today do not know the rules because the government has not sent them out yet. I think that it was good that you stated loud and clear—in fact, you highlighted this in your French brief—that it is extremely important that the amendments be known as soon as possible. I also thought they would be included in the budget.

However, I have managed the finances of many companies, and I find that a lot of time has passed since the 2010 budget was tabled and adopted, and since projects received their funding, and I feel that we are not five months behind, but rather one year behind, and that the issue will only be addressed next year.

Have we not just lost a year because of the current government's foot-dragging?

Mr. Michel Benoit: Listen, it is clear that...

Mr. Daniel Paillé: You can say it.

Mr. Michel Benoit: The 2010 budgets have been completed. They are as we say cast in stone. Obviously, companies—at least those I represent—did not wait for the rules, which were announced last October, to come into force before they completed their budgets.

Actually, in that sense, I don't think we've lost a year, because the proposals which will be of interest to the companies I mentioned are those that will apply to the actuarial evaluation due by December 31, 2010, which, in fact, should be ready by the end of June of this year. So that aspect is clear. The evaluation will help companies set their premiums, not only for this year, but for the coming years as well.

Therefore, we have to act quickly. The five-month delay is beginning to take its toll.

● (1625)

Mr. Daniel Paillé: Are the 5 or 10 years—

The Chair: Mr. Paillé—

Mr. Daniel Paillé: Yes, I only have a small question.

Regarding a company's ability to close the solvency deficit over 5 or 10 years, can't we simply make it 10 years?

Mr. Michel Benoit: The group I represent wants 10 years to amortize their solvency deficit.

The government proposed moving away from the five-year rule and using other means to evaluate solvency, such as basing funding requirements on a three-year average. That's a step in the right direction. It's not a silver bullet, but if this is what the government is putting forward now, that's what we will work with.

[*English*]

The Chair: Merci, Monsieur Paillé.

Mr. Menzies, please.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair, and thank you to our witnesses.

We have some of the best experts here today. I met with all of you, actually, in our first process of consultation. So thank you once again for coming. I'm sure you will all admit that it is a very complex issue. I'm happy that the finance department is taking a non-partisan view to discussing this, and in light of that, Mr. McCallum suggesting that we should just fix it right now....

In fact, Mr. Benoit said there's lots of study needed. Mr. Charbonneau, you said, to quote you, “Let's look into it.”

I think you all would recognize and affirm that there's no quick fix for this, or it would have been fixed a long time ago. So we do appreciate those comments.

To that, Mr. Lefebvre, I just want to read something from the Mintz report, which I'm sure most of you have read:

> ...a more thorough analysis of subgroups that appear not to be saving enough, differentiated by family type and income level, and based on a comprehensive analysis of all forms of savings, including the role of assets outside the retirement income system, (e.g., housing equity) in financing retirement consumption;

Your members advise on estate planning, retirement planning. Can you reflect on that, on what your members are telling you about different ways...?

Mr. Rock Lefebvre: We have in fact conducted three surveys over the last three years with Canadians from across the country and in fact have learned identical findings to those of Mr. Mintz. In fact, we've identified those earning under $35,000 as being literally incapable of taking advantage of certain investment devices such as RRSPs and tax-free savings accounts. I think it was iterated in one of your earlier presentations about how that group of people needs to be dealt with, and possibly more expediently than other groups, in fact.

One of the concerns that we often have when we discuss the whole issue of retirement and pensions is we tend to muddle up employer-sponsored plans. We don't differentiate between public sector and private sector plans. We lump CPP and old age security in there. Basically everything is thrown in there. One of the reasons why we prescribe taking the time to understand it is that all these subjects essentially have to be studied at the same time so that they can be compartmentalized. Otherwise, this is where we run the risk of doing things without considering the knee-jerk reaction in the other areas.

I'm long-winded, but I would echo the findings of the report you cite.

Mr. Ted Menzies: Thank you, and I think that needs to be emphasized. I appreciate the fact that you did that, because we have one of the best systems in the world. The OECD report reminds us of that. We need to make sure we don't damage the best system in the world. That's not to say it can't be made better, and that's what we've been talking about. One thing we do need to remind all our witnesses here is that all options are on the table as far as the finance minister's process going forward goes. We're looking at all options. That's why we wanted you folks here today.

Mr. Georgetti, I noticed even Mr. McCallum was questioning the math on the CLC's proposal. Mr. McCallum, of course, being an economist, would question this. We've spoken to some experts who have left us less than satisfied as to when this is actually going to take effect. With this plan, is it sustainable, and would it be 40 years before seniors would see the results?

● (1630)

Mr. Ken Georgetti: Within the mandate of the Canada Pension Plan now is the idea that you basically take out what you've put in. What we're saying is to keep that going but to raise the amount from 25% of the YMPE to 50%. You can double the benefit by raising the contribution by 40%. So for a 40% increase in your contribution, you can get a double outcome from your pension plan over a lifetime of work.

I think the phraseology in our document is a little bit misleading. We're saying that a 40 basis point increase per year for seven years would achieve, over a lifetime of work after that, a doubling of your Canada Pension Plan benefit, consequential from that.

Mr. Ted Menzies: Okay, fair enough. Thank you.

As I say, I guess all options are on the table, but we have some more immediate issues that we need to deal with too, concerning how we deal with people.

Mr. Ken Georgetti: The one thing I wanted to say, sir, is that the minister said in his report that there's no poverty among seniors in this country.

Mr. Ted Menzies: No, he didn't.

Mr. Ken Georgetti: Yes, he did, and I'd like to ask him where that 1.6 million seniors come in.

Mr. Ted Menzies: Send me a note about what page you found that on.

Mr. Ken Georgetti: I will, certainly.

Mr. Ted Menzies: Because I read it and it's not there. It's about 4%, if the truth be known.

Mr. Charbonneau, going back to the fact that we need more information, you referred to a report that talked about shared jurisdictions, I understand, and some other ideas for us. I'm hoping you can provide that to the committee, if you would.

Mr. Serge Charbonneau: The CIA is publishing a white paper today. It's been in the works for a couple of months. It's looking at the different proposals on expanding public coverage. The ABC plan out west was proposed, as well as the Canada supplementary pension plan. There was also the proposal to increase the CPP. We've looked at the different approaches. They're just proposals right now. Nothing specific is on the table.

When we tried looking at ABC, and we wondered what they really wanted, it wasn't clear. So we came out with a road map and showed where the pitfalls we want the government to avoid were: if you want to go this way, here are the pros and here are the cons, and this is how we suggest approaching the matter.

We will certainly send a copy to all the members of the committee here. I think this topic is going to be one for one of your future meetings, and we'd be happy to come and talk about it further.

The Chair: Very briefly.

Mr. Ted Menzies: If you could send that to the clerk, that would be good.

The Chair: Thank you, Mr. Menzies.

Monsieur Mulcair, s'il vous plait.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chairman.

I would like to begin by thanking all of our witnesses here today. Several of you said that the government will have to take a stand. In fact, legislators will have to make a decision and act accordingly. You are leading us in the right direction, which we greatly appreciate.

We also appreciate the CGAA being here, since you are on the front lines of this issue. You work with your clients on a daily basis. So your practical experience will be very useful to us.

When we travel for these consultations, we don't have much time to look at all of the issues. I wanted to congratulate you again, Mr. Georgetti. I haven't forgotten what you have done for me as far as the labour congress is concerned. Your suggestions are most promising and positive. Please forgive me for not spending much time on them, since I am familiar with this issue and we have already discussed it in the past.

There is one thing in particular I would like to raise with Mr. Charbonneau, since he took the time to knock on doors. He went to the trouble of making appointments and meeting with us.

Mr. Benoît, Mr. Charbonneau and you said something very specific. I am like Mr. Menzies, in that I like to check my facts before I say something. In your brief, Mr. Benoît, you say that extending the protection to solvency deficit payments or providing preferred creditor status to pensions and pay would materially affect —those are your words—existing credit arrangements and significantly undermine—again, a clear statement on your part—the employers' ability to raise capital at a reasonable cost.

Apart from your experience and personal opinion, how do you justify this?

● (1635)

Mr. Michel Benoit: First, that statement is based on what CFOs and the companies I mentioned—

Mr. Thomas Mulcair: Would you like to—

Mr. Michel Benoit: On the one hand, I don't have any specific figures for you, but it is clear to me, based on my 40 years of experience practising law, that when credit arrangements are made, interest rates are negotiated based on current rules governing insolvency. If you give priority to a group of creditors to the detriment of another group of creditors, you are changing the creditor hierarchy. If those arrangements were made when creditor hierarchy was different, it is obvious that the group which used to be at the front of the line, and which has been bumped back, will simply ask for higher financing rates.

Mr. Thomas Mulcair: I also practised corporate and commercial law for many years, and I always felt that it was easier to tell my clients they were right. That's a good starting point and I understand where you are coming from. But if you look further into the matter, and this is something I have brought to the attention of many of our fellow lawyers who have made the same argument, there are many countries where our clients do business and where the creditor hierarchy is different in case of bankruptcy. Yet that hasn't stopped those companies from getting financing in those countries.

That statement is perceived as a truism, but I am asking you to elaborate on it. As sure as my name is Thomas, you still haven't managed to convince me.

Mr. Michel Benoit: If you are referring to insolvency rules in other countries which govern companies that go bankrupt, then I am obviously not in a position to answer your question. However, what I can say is that if you look at the rules governing creditor hierarchy in other countries, you also have to take into account the kinds of pension arrangements which are in place and which are often very different from ours.

Mr. Thomas Mulcair: The patient is on the operating table, so we will not just treat the ingrown nail, but rather the whole patient. It's all there. We can begin anew. And you are completely right. In those countries, the system has been organized so that creditors are less likely to lose out. Perhaps that is what we need to do in Canada.

I now have a question for Mr. Charbonneau. Mr. Charbonneau, you said in English "it will greatly disturb". Some adjectives are scary, and you said "it won't disturb, it will greatly disturb the financing".

Why did you say this?

Mr. Serge Charbonneau: I said that the modalities are very important, and depending on the type of modality which will be adopted, there could be a completely different impact. "Greatly disturb" would apply when all deficits come before everyone else. I am actuary, not a banker. Bankers who would be subject to this rule would come to me and say: "Mr. Charbonneau, we have a report indicating that it was $1 billion last year. Is that the only thing that would come before me? I would reply that, on the contrary, the margin of safety and the 5% or 10% do not provide total protection. I will look at the risks which underlie the $1 billion, and it could suddenly go from $1 billion to $4 billion and then $14 billion. In that case, would a banker say that "it greatly affects my financing"? I believe so. However, if you adopt a more moderate framework by saying that these are solvency payments based on the most recent actuarial evaluation, it would change the situation. In that case, if the report says $2 million a month, that would come first. If he goes bankrupt eight months later, $16 million would come first. So it would depend on how you create the rules, but there is the potential that this might have a major impact.

The Chair: You still have 30 seconds.

Mr. Thomas Mulcair: You are absolutely right in saying that this is not simply an issue which is governed by the Bankruptcy and Insolvency Act. It also affects the way things unfold upstream. That much is clear.

● (1640)

Mr. Serge Charbonneau: Yes.

Mr. Thomas Mulcair: However, I refuse to subscribe to this way of thinking. It's like the bogeyman who scares everyone.

It can be part of a series of solutions if you look at the problem from a global perspective, as the CTAs asked us to do at the start of the meeting by using the term "holistic".

Mr. Serge Charbonneau: I agree. We are proposing several standards which would improve the situation in terms of relative risk to pension plans. If they were implemented, the impact would be less severe for bankers.

Mr. Thomas Mulcair: Thank you.

[*English*]

The Chair: Merci.

Thank you, Mr. Mulcair.

We'll go to Mr. McKay, please.

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

Thank you, witnesses.

A few years ago, Paul Martin took the bull by the horns and upped contribution rates in the CPP, over a huge amount of protest. I was in caucus at the time, and I know that pretty well all the other parties opposed it, but it was done. The consequence is that we now have a viable Canada Pension Plan through—the last time I looked—to 2075.

So the question I have is whether this is a time for another radical step. I'm going to direct my question to Mr. Lefebvre.

The age of entitlement was set many, many years ago when people expected to die in their seventies. Now they expect to die in their eighties, yet the age of entitlement is still 65. Is it time to visit that age of entitlement and look at some means by which that can be changed, and in an equitable manner, obviously? Those who are closest to 65 are going to be most affected, but certainly further out, the younger you are, there's an adjustment period.

Your numbers here are pretty shocking. If you ran a year change, say, through those numbers, how would these deficits look?

Mr. Rock Lefebvre: I may have lost the thread, but in terms of what these numbers will look like going forward a year and what we've talked about here today, there's no reason to believe they're going to improve a lot. In fact, they have to worsen.

If we're talking about CPP, I think that opportunity merits consideration. Now, this is a personal opinion, but supplemental CPP programs with opting-out provisions is a very interesting—

Hon. John McKay: Why would you make a distinction between public pensions and private pensions?

Mr. Rock Lefebvre: Because I see them as very different instruments funded by very different contingencies. Private plans are struck between employers and bargaining units, and they're part of a collective agreement, very typically. They're brokered by very specific people, whereas the CPP program—

Hon. John McKay: I understand that, but you're looking at some pretty awful numbers, and employees have to come to some pretty serious considerations as well in their bargaining. Surely what's good for the goose is good for the gander. Why not across the board?

Mr. Rock Lefebvre: I would suggest that I don't have the expertise to give you a revealing answer on that. All I can share with you is that in our discussions with people, with employers, and with sponsors, there is a concern that we're not going to help those who most need the help. In other words, whether they're private programs or public programs, the executives and the higher-income earners will be able to opt in more easily or with greater privilege than those earners under $35,000, as I cited earlier in response to Mr. Menzies' question.

Hon. John McKay: Let me just direct that question to Mr. Charbonneau.

What's your reaction, from an actuary's standpoint?

Mr. Serge Charbonneau: It's a very complicated question. How many minutes do I have to answer that?

Hon. John McKay: An hour and a half—

Voices: Oh, oh!

Mr. Serge Charbonneau: There is a difference between the public plans and the private plans. His numbers were for private employer plans.

Hon. John McKay: Yes, I know.

Mr. Serge Charbonneau: The legislation across Canada protects accrued rights. When he's looking at liabilities for somebody who is actively employed and they look at 30 years, they say they'll pay your pension at age 60 if you have 30 years of service. Of course, if they change that promise and say they'll pay you your pension at 65 instead of 60, it would cost a lot less, probably half the amount. But you can't touch it. It's an accrued right.

If you change the rule for the future and say that from now on their extra credit is going to be paid at 65 instead of 60, the costs will go way down, but like he said, it's part of the bargaining process. If they say they'll cut the pension next year, it can be viewed by the unions as a cut in their salary or compensation, so they're going to bargain for something else.

So yes, the retirement age is the number one...well, one of the very, very key considerations in the cost of a plan.

● (1645)

Hon. John McKay: But you almost seem to think it's a sacred cow, almost beyond touching.

Mr. Serge Charbonneau: I'm not saying that. That's what the legislators have said across Canada: for what you've accrued so far, if you have a promise at 60, don't change it in the course of employment.

Hon. John McKay: We are the legislators.

Mr. Serge Charbonneau: There are ways of changing it within certain limited situations. For example, certain laws say that if employees sign an agreement to cut back on accrued pensions, it can be done. In some cases, they could say if you haven't earned the complete right to that pension and you're not yet 60 years of age, we can cut it. But the employer would then have to impose cutbacks, and you'd have to find a way to make it palatable to the employees.

It's not a sacred cow. If legislators can change it, that's great. It would be a way to improve the funding stress of the employer's schemes, but it would be at the expense of benefits that go to employees.

Hon. John McKay: Thank you.

The Chair: Thank you, Mr. McKay.

Monsieur Carrier pour cinq minutes.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you, Mr. Chairman.

Thank you for your presentation. I was expecting to hear more French when I saw the number of francophone names on our list. However, you have the right to give your presentations in French, so don't be shy about that. It would certainly help the native French speakers.

What I remembered from Mr. Georgetti's statement was his recommendation that we double the Canada Pension Plan. As members of Parliament, we have obviously heard from voters who have been affected by their pension losses. So that is basically what we are looking for: how to help them better protect their retirement investments. After hearing the presentations, it has become clear that there is no easy solution. Mr. Benson said that it was ultimately the highest wage earners who were the most protected with the best plans. So what we, as parliamentary legislators, are seeking is a minimum threshold of protection for all Canadians.

So one solution could be to double the Canada Pension Plan. In Quebec, that would be the Quebec Pension Plan. This is a mandatory pension plan administered by the government which automatically forces us to save. We receive a certain amount at retirement. It is independent of private sector plans. I would like to know what each of you thinks about this approach, which may be part of the solution. What do you think of improving mandatory public plans in a similar way? I will ask Mr. Charbonneau to go first.

Mr. Serge Charbonneau: Thank you, Mr. Carrier. I apologize for not having spoken more in French. I just wanted to make sure that everyone would understand. We did not have much time to prepare, but all of our documents are published in both languages. Our statement and the white paper, which we have brought with us, are also in French.

In fact, the white paper looks at alternatives, namely increasing the QPP and the CPP. There are pros and cons. I don't know whether you would like me to go into detail, since that will be the subject of another meeting, at which we hope to share with you our solutions. One of the drawbacks to such an approach, and this is something everyone agrees on, is that low wage earners do not have to save more. They are already sufficiently protected under current plans. If QPP rates were to suddenly double, if contribution rate schedules, which now vary between $3,500 and $46,000, do not change, these people will be forced to save when most observers say they do not need to do so now. However, there are other approaches to the CPP and the QPP, such as increasing the QPP, but not for low wage earners. We could simply ask for premiums to kick in from $35,000 to $40,000. There are several solutions and several ways to achieve this. As I have been saying from the start, theory depends on practice. A solution is not intrinsically good or bad, it all depends. As we say in English, the devil is in the details. There may be an upside to an approach, but there may be downsides, as well. We have laid all of those approaches out in our white paper.

Mr. Robert Carrier: Mr. Benoit, do you have any thoughts on this issue?

Mr. Michel Benoit: If you are considering a significant increase in public pensions, you have to set things in their proper context and look at the issue from different angles. First, regarding employers who integrate their own pension plan with a public one, it is clear that if you increase public pensions, you will decrease the cost of the private plan, so you won't get any push back from the employers. The difficulty with increasing public pensions, either by increasing the public pension rate or by increasing the share of the salary which will be covered, is that, today in Canada, these plans are voluntary. Private pension plans are voluntary. So, it is clear that when you increase premiums—and there's been talk of a 40% increase in premiums—small- and medium-sized enterprises will perceive this as yet another payroll tax. Whether you agree with this or not, that is how it will be perceived. So there will be a problem of competitiveness, a problem of costs, which will be harder to bear than one might think.

● (1650)

On the employer's side, at least, there will be a major problem, especially for companies which, for now, for all kinds of reasons, have chosen not to provide a pension plan. This becomes a serious issue.

The Chair: Thank you, Mr. Carrier.

[*English*]

We'll go now to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

I want to thank the panellists for coming today. We're just starting this study, and it has been a very good start.

Because I have only five minutes, I would like to focus on one of the suggestions from the Canadian Labour Congress. I'm not familiar with it, but it's the insurance aspect. You talked about the insurance piece. I have a few questions that maybe you can answer for me.

First of all, the insurance program you're suggesting would be managed by government. Is that correct?

Mr. Ken Georgetti: Yes.

Mr. Mike Wallace: It would be a government-run insurance program, and you talked about a floor base of $2,500.

If I'm reading this correctly—because I've only had a chance to read it since I've been sitting here—the program has to do with insurance against a pension plan going under. Is that basically what it's for? But everybody would pay, every employee and employer. Is that correct, or who would pay?

Mr. Joel Harden: Pension plans would pay.

Mr. Mike Wallace: That's fine. So defined pension plans would pay.

Mr. Joel Harden: That's correct.

Mr. Ken Georgetti: No, not just defined plans, all pension plans.

Mr. Mike Wallace: So all pension plans would pay.

A voice: Registered pension plans.

Mr. Mike Wallace: Is that both employers and employees?

Say I'm an employee with a company that has a defined pension plan. We'd submit our money and then the government would charge that pension plan a certain fee per person.

Mr. Joel Harden: The idea comes directly out of the Ontario Expert Commission on Pensions, which recommended for the province of Ontario an enhancement of their pension benefits guarantee fund to this exact size. It is plan sponsors that contribute into mandatory insurance, just like banks contributed to the Canada Deposit Insurance Corporation for the same purpose.

Mr. Mike Wallace: Right.

Mr. Joel Harden: We believe Canada is way below the average in pension insurance protection, and the Nortel case is a stark example. This would be an insurance mechanism so we wouldn't have the level of worry that we see at Nortel and others.

Mr. Mike Wallace: Based on my reading here, the risk of the pension plan going under would determine the rate of the insurance premium. Is that correct?

Mr. Joel Harden: There is that flexibility in the Ontario system. There are lots of firewalls built in against what's called moral hazard, employers using the insurance scheme to offload pension liabilities.

Mr. Mike Wallace: Right. That would be my concern.

Mr. Joel Harden: And it's a valid one, but the Ontario system is built to not emulate the American model, where that risk is far worse. That's certainly not what we're proposing, going forward. We've worked with Harry Arthurs and others to ensure that this is something that gives retirees some security.

Mr. Mike Wallace: In addition to this, you have a reserve fund that is funded out of the trading stocks, basically, by the look of things. It's 0.1% of every trade. Is that what you're saying?

Mr. Ken Georgetti: Yes.

Mr. Mike Wallace: In the Ontario plan, do they have a reserve fund? So this is something new that you're adding to this, and that reserve fund would be used—

Mr. Joel Harden: If you don't mind me interjecting—

Mr. Mike Wallace: Go ahead.

Mr. Joel Harden: —the key thing is that it's one thing if a lion falls in the jungle; it's another thing if 10 elephants fall in the jungle. So when GM and the automakers faced their crisis in the summer of 2009, Ontario had to deal with the fact that there wasn't enough money in the pension benefits guarantee fund to cover those promises. That's because the insurance premium that plan sponsors pay is far too low, and pension experts have been complaining about that for a long time.

What we're proposing is that the steady state rate of $2.50 per plan member to a maximum of $12 million a year per pension plan is enough to cover most insolvencies. Only 4% of employers are declaring bankruptcy every year. That would cover most. But when and if a GM catastrophe should happen—a Massey Ferguson in the past, or Algoma Steel in Sault Ste. Marie—we have to have contingencies to bear it. I think that's why you're seeing a consensus on this.

● (1655)

Mr. Mike Wallace: But why are you penalizing the capital markets for this? I don't get why you chose the capital markets to build that.

Mr. Ken Georgetti: How did we get here right now in this crisis? It was abuse and improper use of the capital markets in the crisis with which we've been hit. The system failed, and you're finding yourselves in deficit problems right now because the governments of the world are bailing out that system.

We were taught, as you've been taught, that when you spill milk you clean it up. What's happening right now is that the financial system is not being made to pay for any of the damage it's doing; the taxpayers are. We think that's grossly unfair.

The Chair: You have 15 seconds.

Mr. Mike Wallace: Thank you very much.

Thank you for that clarification.

The Chair: Thank you, Mr. Wallace.

We'll go to Ms. Hall Findlay, please.

[*Translation*]

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chairman. I would like to thank the witnesses for being here, for their time and their presentations. My question is about a response given to a question asked by my colleague.

[*English*]

This time I actually want to direct my question to Mr. Georgetti and Mr. Benson, and if we have time, someone else can weigh in on it. It has to do with the time of entitlement. It is not so much the age but the ratio of the number of years that somebody is entitled to pension benefits as it relates to the number of years worked.

Over the last number of months and the last couple of years, there has been much commentary around the world on the entire demographic challenge of people living longer, and not only living longer but living more healthily. It raises questions on overall economic productivity and personal responsibility.

This is perhaps a more philosophical question. What are your thoughts about the appropriateness of the current ratio that we have and the fact that the ratio is increasingly becoming skewed as people are living longer? From a labour perspective, could you provide your thoughts on whether it's really tenable and whether it's sustainable on a larger macro basis?

Mr. Phil Benson: First of all, these are issues that go to collective bargaining as a whole. It's not a gift from a company. When collective bargaining takes place, it's a quid pro quo. It's a balancing act between having money now versus having money later. It might surprise you to learn that one of the hardest challenges a union has is to convince younger members of the need to fund pension plans. I'm talking to the effect that if you have a younger group, they want the money now and they'll look after themselves.

Ms. Martha Hall Findlay: I was actually asking a different question.

Mr. Phil Benson: I'm getting to the question. You're talking about collective bargaining. When you are changing the entitlement, you are talking about collective bargaining.

I would remind you that it's wonderful if someone today can actually work in a job for 30 years and is out at 30/85, or whatever the number is. The truth of the matter is that people change careers three or four times in their lives. They change employers more often in their lives. I'm going to suggest to you that 30/85 might be great for the civil service, where people tend to be there for a long time. But in the private sector, it's akin to Bismarck making age 65 as the age of retirement for universal pensions, because he damned well knew nobody was ever going to receive it. When you get to the private sector, I'd suggest that the 30/85 rule is fairly rare.

We have dealt with companies that have gone bankrupt over the years. They've gone out of business. They've merged. Pension plans have changed. Employees are not staying in jobs for 30 years anymore. They're moving on. They're patching things together. If they are in a multi-employer plan with the Teamsters, that's fine. It's one pension plan. No matter who they work for, it's going to accumulate. But for a single-plan employer, that is not necessarily the case. For some of the big six that we deal with, such as CP and CN, of course, that's not true. They have a lot of people of long standing, but a lot of the younger people are shuffled in and out, and it takes a long time.

The answer is that the entitlement issue may be something for the public sector, but it's not for the private sector.

● (1700)

The Chair: You have about one minute left, and Mr. Georgetti wants to respond.

Mr. Ken Georgetti: We have argued, and we still argue, that the whole issue has to be discussed.The age of entry into the workforce is changing. The nature of work is changing. When we bargained for our first pension in the plant I worked in, you probably couldn't work there past age 58, because the work was too difficult. The nature of that is changing. The assumptions on which we based our original pension plans are changing.

We need to have a discussion about it, as we said, in a holistic way. We would argue the most important thing that we could do is to sit down with all of the experts and talk about the whole system. It has significantly changed since we designed what we would commonly refer to as pensions, the age of retirement, and the duration of work.

My son is entering the workforce with a law degree this year. He's 33 years old. He won't have enough pension credits unless he makes a significant contribution by age 65.

We have to talk about it. At this point in time, we think there are more urgent needs, but we agree there has to be debate and dialogue.

Ms. Martha Hall Findlay: Thank you.

The Chair: Thank you Ms. Hall Findlay.

I just want to ask a couple of questions.

I want to quote from Professor Mintz's report, a statement that frankly surprises me. I think Mr. Benson and Mr. Georgetti would certainly support it, and I want to get comments from two of the others. The statement is that:

> There remains, however, an important puzzle that is not explained by the research. Given that both pension plan and mutual fund active management performance seems no better than passive income performance on a persistent basis, it is unclear why managers engage in active management, given the costs involved. Uninformed individual investors and pension beneficiaries may not be able to determine whether active or passive strategies are better to pursue, but fund managers in competitive financial markets should advise pursuing more passive strategies. Perhaps, there is optimism that active management improves returns on savings, but the studies do not bear this out.

Now I have to say I was surprised by this statement, but I think we have to take it seriously, since Jack Mintz is a serious person. This is something I think both Mr. Georgetti and Mr. Benson have told this committee previously.

I want to get, from perhaps Mr. Charbonneau and Mr. Lefebvre, your reaction to this statement. Is this something, based on your experience, that is true what Mr. Mintz says here?

Mr. Serge Charbonneau: It is true to a certain degree that active managers have difficulty beating the index. All actuarial firms do analysis of fund returns and they compare different managers versus the index. It's very hard to beat year after year. Pension plans that choose their investment managers look at the data and they interview managers and try to figure out...“Okay, you were good last year, the last four years; what's your secret? Why are you so good?” Many of them are convinced that, yes, I'll trust this manager and I'm confident he'll beat the index in the future. Many of them do; many of them don't. That's what the index is. Half of them are better; half of them are worse.

The Chair: Should we just get rid of all these managers and purchase the index? It's a serious question.

Mr. Serge Charbonneau: No, no, you wouldn't have an index. You need players in a market.

One factor that's built into his statement, I believe, is the fee. The indexed funds have practically zero fees, and if you compare that to a manager who charges you 1%, then he has to be at least 1% above the market to make it worth his while. There are some managers who are good, a few of them. We're not talking about mutual funds here that banks sell to Joe Q. Public. We're talking I think about pension funds, and they do pay much less than 1% if we're talking about large defined benefit plans. Over the long term, you see the teachers plan and OMERS have very good results. They don't just invest in the index; they go into different asset classes where they get a lot more bang for their bucks.

The Chair: Mr. Lefebvre, do you want to comment?

Mr. Rock Lefebvre: We've conducted rudimentary analysis on it, and Professor Mintz's comments are in large part correct. There are nominal advantages on the market, but I would contend that they don't necessarily provide for the additional risk. So I would qualify Mr. Mintz's conclusion.

● (1705)

The Chair: Okay.

I want to ask, following on that, Mr. Benson and Mr. Georgetti, if plans were in fact more passive, does this then make defined contribution plans more attractive? One of the concerns you raise about defined contribution plans is that it's very relevant on the market, and if you're playing at the riskier end of the market, obviously there's a greater risk to the pensioner there. Does that make defined contribution plans more attractive, or is there still a heavy preference for defined benefit plans, especially considering what Mr. Benson said about the fact that people rarely work for the same company for 30 years any more?

Mr. Georgetti, and then Mr. Benson.

Mr. Ken Georgetti: It's not the investment risk, it's the benefit at the end that doesn't attract us to defined contribution plans. There's no certainty in a DC plan, and we prefer the certainty that DB plans deliver.

We agree that the consolidation of plans is attractive to us because it does drive down the MER. Still the return is important for sure, but the issue of the guarantee of the benefit is the most attractive thing that our members want outside of that.

The Chair: Okay.

Mr. Benson.

Mr. Phil Benson: The less risk taken in investment in the long run I think will benefit not just beneficiaries but also the companies and the policy goals of government. We had a lot of discussion today about the BIA Act, changing it to put it in a priority would be terrible and disturbing. I think that's the cart after the horse; the horse has left the barn.

I think if we have more confidence that we can create rules so that the solvency rate is at 100%, or above, or close to, that moving into more careful investments, more conservative investments, in the long run will benefit the good players in the industry. When they drive up costs—when people talk of costs, when they have to borrow money—if nine out of ten companies are in fact insolvent and one isn't, they should pay a price.

So I think the answer is yes, I think it would help in the long run, if it is part of a bundle of measures. It can't just stand alone; it has to be as a group of changes.

The Chair: Thank you.

We'll go to Mr. McCallum, final round.

Hon. John McCallum: Thank you, Mr. Chair.

I want to comment briefly on the chair's question as if I were a witness, just for a second.

Voices: Oh, oh!

Hon. John McCallum: I think Jack Mintz is absolutely right. I used to be on the Royal Bank pension plan committee, and I was part of a minority that always argued for passive investment. I think it's very difficult, if not impossible, to consistently beat the index plan in an amount equal to or greater than your charge.

Now, we were the minority. We lost. But I think that was partly the philosophy of the bank. The bank makes a lot of its money through active management, so it's a bit difficult for them to say that active management is no good.

Voices: Oh, oh!

Hon. John McCallum: I also think the case is even stronger for an individual. An individual pays 0.25% for index and 2% to 3% for mutual funds. It's really hard to make 2% to 3% consistently above the index.

That's just my witness comment.

As for my politician question, I guess to Mr. Benoit, I read that the government proposal is that your group of six—gang of six, group of six—can go for ten years, providing that “no more than one-third of active and non-active plan members and beneficiaries object”, right?

But how likely is this plan to work? I would have thought it was very likely, especially in a union setting, that more than one-third of them might object.

Mr. Michel Benoit: Those were the rules under the temporary solvency relief measures. Those are not, to my knowledge, permanent rules that are being proposed here.

You are right that in order to secure member buy-in for the ten-year amortization, a number of companies simply...especially those companies, such as CN or CP or Bell Canada, that have tens and tens of thousands of employees. It's simply not practical to go down that route. They chose rather to secure the benefit through a letter of credit, which was the other alternative that was available.

Hon. John McCallum: Okay, thanks.

Mr. Charbonneau, your idea of a pension security trust strikes me as a bit of a no-brainer in the sense that it's a very good idea. I can't really see any downside. What you're trying to do is to give an incentive for employers to invest more in the pension plan, but they would own it, unlike in the traditional method, where they don't own the surplus.

So if that's the rationale, I don't understand why this government didn't just do it. Is there a downside to it?

I mean, there are lots of things they should have done that they didn't do, but....

● (1710)

Mr. Serge Charbonneau: Yes, there is a downside.

Hon. John McCallum: What is the downside?

Mr. Serge Charbonneau: I'm glad you like the idea. I wish more people would, because we've been asking for it for many years.

There is a downside. The downside is that if the money, instead of going into that side fund that could be withdrawn, goes into the real fund, then it would sit as extra surplus. If markets turn around and you go from $105 to $135, and there's extra money to be distributed as maybe contribution holidays, which are very small, we have accessing surplus or benefit improvements.

So from the members' point of view, they probably like having extra cash there so they can bargain for that. What we're saying to them is that the employers have tended to put as little as possible into those funds for that very same reason. They don't want the extra money to sit there and have to be bargained for. This has led to extra risk being imposed on employees and retirees, because employers were not incented to fund more than a strict minimum.

Hon. John McCallum: Well, as I think you yourself said in your presentation, increasing the surplus threshold to 25% won't do anything at all, because none of them will do it. If they had your proposal, they might.

So the alternative is not a bigger conventional surplus; the alternative is nothing. Isn't that right?

Mr. Serge Charbonneau: The alternative with the pension security trust would benefit them. Remember, the way for the employer to access extra funds is only if there really are extra funds, and above that solvency margin, too.

Sure, employees would prefer to have it sit there and then let's have extra cash to play with, but it won't even be there because they won't be incented to put it in there in the first place, under the current rules.

Hon. John McCallum: Thank you.

The Chair: Thank you very much, Mr. McCallum.

I want to thank all of you for being with us here today. This was the first meeting. I suspect some of you may be coming back later in the pension hearings.

I believe, Mr. Charbonneau, you were going to submit a paper to the clerk?

Mr. Serge Charbonneau: Yes, definitely.

The Chair: Okay.

Thank you very much.

The meeting is adjourned.

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