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Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call the meeting to order. This is meeting number four of the Standing Committee on Finance. We are continuing our study with respect to retirement income security of Canadians.

Colleagues, we have votes at 5:30, so we will have to leave here at 5:15.

We also have a motion by Mr. McCallum, which I propose we deal with at the end of the meeting, perhaps at 5 p.m.

So we do have a shortened time, and for that I apologize to our witnesses ahead of time.

We have with us today a number of organizations and one individual. We have the Ontario Municipal Employees Retirement System, the Air Canada Component of the Canadian Union of Public Employees, the Canada Pension Plan Investment Board, the Canadian Bankers Association, the Canadian Life and Health Insurance Association Inc., and as an individual we have Monsieur Jean-Pierre Laporte, lawyer. Welcome to all of you.

We will begin with the Ontario Municipal Employees Retirement System.

I ask that you keep presentations to between five and seven minutes to allow for the allotted time for questions from members.

You can start, Ms. Brown, please.

Ms. Jennifer Brown (Executive Vice-President and Chief Pension Officer, Ontario Municipal Employees Retirement System): Thank you.

It's a privilege to be here today. I'm Jennifer Brown, chief pension officer at OMERS Administration Corporation, which is responsible for OMERS' investment plan administration and member services. OMERS also has a sponsors corporation, which is responsible for plan design, benefits, and contribution rates.

With me today is Ian MacEachern, our director of government relations.

OMERS is perhaps Canada's leading example of a successful, multi-employer defined benefit plan, serving over 928 employers in municipalities, school boards, children's aid societies, police and fire departments, and other local agencies across Ontario. The multi-employer model pools costs and risks.

On the other side of the table are 290,000 active members. Fully one out of every 20 people working in Ontario is an OMERS plan member. We currently provide pensions to more than 110,000 retirees. There are more than 40 umbrella groups, representing OMERS' unions and employee associations, and over 600 locals.

Our model was built from the bottom up, step by step, over a long period of time. OMERS has been jointly funded by employers and plan members since 1962. It has been jointly governed since 1968. OMERS is also a jointly sponsored pension plan. Under our model, employers and members have an equal voice at the boardroom table. They share direct responsibility for all major decisions and the plan's success.

Broadly speaking, we conduct our pension and investment activities within the confines of both Ontario and federal pension and income tax legislation. Our job is to invest contributions and the investment income we generate to secure members' retirement benefits. OMERS' highly skilled investment professionals manage over $47 billion in net investment assets that generate the income necessary to pay pensions. About 70% of pension costs are paid by investment returns, while the other 30% is shared through contributions by employers and members.

One priority of our strategy is to organize long-term access to capital. This will enable us to acquire larger-value investments that we would not otherwise acquire due to risk management considerations.

The Ontario government expanded OMERS' powers last year to enable us to offer investment and administration and management services to a wide range of potential clients inside and outside of Canada, including public and private sector pension funds, governments and their agencies, corporations, colleges, universities and their endowments, and registered charities. The breadth of these legislative powers acknowledges our ability to deliver such services to others, but more importantly, it allows others the advantage we have in relation to plan administration capabilities and investments.

During the course of the last two years, the adequacy of pension coverage has also become a high-profile political issue. Federal, provincial, and territorial finance ministers and first ministers have met several times and made statements about pension coverage and retirement income issues. Ontario has made promises to consult on important changes to the pension system. Several provinces have already released consultation papers, and the federal government has announced spring consultations and a review of policy options at the May 2010 finance ministers meeting.

OMERS wishes to be an active contributor to the national debate on pension reform to the government-sponsored pillar of the pension system. Our interest in addressing these retirement and security issues is as one of Canada's largest defined benefit plans, whose sponsors and members expect leadership from us on these policy considerations pertaining to pensions.

It is our position that pension reform should combine competitive choice for those without coverage and that changes to the system do not harm or undermine the current pension or retirement savings arrangements. We will continue to examine the current proposals for possible variations of the Canada Pension Plan and identify risks and benefits posed by each option.

This is an extremely useful and important public debate, and we applaud your committee's interest in addressing it.

Thank you. We welcome your questions and comments within our remaining time, in particular to our view of competitive choice available to all Canadians.

● (1535)

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

We will now go to Ms. Thompson, please.

Ms. Katherine Thompson (President, Air Canada Component of the Canadian Union of Public Employees): Hello. My name is Katherine Thompson. I'm the president of the Air Canada Component of CUPE. I'm here with you today representing the 6,600 flight attendants who are employed by Air Canada.

Our members participate in a defined benefit pension plan sponsored by Air Canada. It is regarding the state of this plan that I'm speaking with you today.

Ours is not a profession that creates wealthy people. Our salaries are a reflection of our demographics. Given our limited ability to generate substantial savings during our careers, we rely on the security and stability of our pension plans to provide us with a dignified retirement.

Air Canada's pension plans cover over 30,000 employees and retirees. Had these pension plans been terminated and wound up as of January 1, 2009, employees and retirees would have received only 76% of their promised pensions.

While the plan's funding levels may have improved somewhat in the last year, the plans are still seriously underfunded, despite the sacrifices that Air Canada's employees have made to protect our pension plans. This places the plan participants—in our case, predominantly women and minorities—at an unacceptable risk and clearly demonstrates the inability of the current federal pension regulatory system to protect plan members.

Air Canada's pension experience should be a flashing warning sign for all of us. Air Canada's pension plans were threatened by the CCAA insolvency in 2003 and again during a second pension restructuring in 2009.

In the 2003 CCAA, the normal PBSA funding rules were set aside for Air Canada and replaced with a weaker set of funding requirements. In 2009 Air Canada was unable to meet even these diluted requirements and we faced another pension crisis and further pension restructuring.

As a result of that restructuring, Air Canada is only required to protect against further deterioration in the plan funding until 2014. There is no prospect that the Air Canada plans will make any progress towards full funding before then.

This is not acceptable for a private pension plan. The entire point of pension regulation is to ensure full pension protection regardless of the corporate sponsor's survival.

Current regulations have failed the employees of Air Canada, and the fulfillment of Air Canada's pension promise is now contingent on the survival of the company.

In retrospect, it's clear that Air Canada not only should have been allowed but required to fund a cushion, as is standard in some European jurisdictions, and that Air Canada should not have been permitted to take contribution holidays during the good times. PBSA reforms have started to move in this direction, but this is too little and, hopefully for Air Canada plan members, not too late.

The pension crisis that we've experienced at Air Canada presents learning opportunities for all of us. Our first lesson is that pension funding rules must be strictly applied and sufficiently rigorous as to protect pensions. They must be structured in a way that ensures pension plans are cushioned against inevitable financial fluctuations.

The only acceptable alternative to stricter funding regulations is, as the CLC suggests, a federally sponsored pension insurance program. Pension insurance, which already exists in the U.S., the U. K., and even closer to home in Ontario, would be funded through premiums paid by all plans and would ensure pension benefit protection in much the same way that other financial products, such as bank deposits and insurance annuities, are insured against corporate loss.

A second lesson is that the task of providing adequate pensions has become onerous, even for large corporations like Air Canada. The CPP component of retirement income must be improved and the private pension share reduced. The cost of CPP funding would be shared across the widest possible base, making for the most secure possible benefit, ensuring that a company's bankruptcy wouldn't completely decimate an employee's retirement planning.

In conclusion, we share the CLC's view that displacing a more significant share of our collective pension funding expense from workplace pension plans to the public sector will be good for Canadian corporate competitiveness and will result in more secure pensions for Canadians.

● (1540)

With these comments, I wish to close and thank the committee for its time and the invitation to address you.

The Chair: Thank you, Ms. Thompson.

We'll now go to Mr. Raymond.

Mr. Donald Raymond (Senior Vice-President, Public Market Investments, Canada Pension Plan Investment Board): Thank you, Mr. Chairman.

Good afternoon. My name is Don Raymond. I'm the senior vice-president of public market investments for the Canada Pension Plan Investment Board.

It's nice to see you all again.

With me today is my colleague, Mr. Dale, senior vice-president of communications and stakeholder relations.

Thank you for inviting us to speak to you this afternoon.

During the mid-1990s the conversation in the Canadian pension industry and among policy makers focused on what was working and what was not. At that time it was recognized that the Canada Pension Plan was not sustainable. With foresight, political courage, and ingenuity, Canada's provincial and federal governments worked together and took bold action to successfully reform the CPP. With input from contributors and beneficiaries, pension experts, employers, the labour movement and academics, they crafted an enduring solution that ensures the sustainability of the Canada Pension Plan.

Fast forward to today. The CPP is sound and sustainable for the chief actuary's 75-year review period and beyond. It will be 10 years before the first dollar of investment income from the CPP fund will be needed to help pay benefits. CPP is viewed as a key part of the solution to increase retirement security and no longer as part of the problem.

It is reassuring that a recent Nanos poll indicates that a majority of Canadians are confident in the capacity of the CPP/QPP to deliver on their pension commitment going forward. What is a concern is that fewer than half of Canadians in the 30 to 39 age group were confident or somewhat confident on this point, whereas almost 70% of Canadians over 60 were much more confident. Asked whether CPP/QPP would have to reduce payments in the future, three-quarters of respondents in the 30 to 39 age bracket thought this was likely or somewhat likely, while only 42% of respondents 60 or over thought so.

Our take-away from this is that many Canadians are still unaware that the CPP was reformed almost 15 years ago and are not aware of the plan's soundness or sustainability for generations to come. Changing the perception of the CPP is a significant opportunity for policy makers.

Our role at the CPP Investment Board is to manage the CPP fund, but we believe that Canadians might make different financial choices if they better understood the sustainability of the CPP. One thing is clear: Canadians can rest assured that the CPP will be there for them in their retirement and will deliver an important portion of their retirement income as intended. As a result, the CPP can and should be viewed as the cornerstone of retirement security for the 17 million Canadians who currently participate in the plan.

Consider the attributes of the CPP. The CPP is a mandatory contribution-financed national defined benefit plan. These benefits are a stream of payments for life that are fully indexed and fully portable. Other advantages include the fact that risks are pooled among a large number of plan participants, the 17 million Canadians who are part of the CPP, and for the vast majority of Canadians, even if they have tax-assisted retirement savings, the CPP is the only access to an actual pension that they have.

The Canada Pension reform model of 1996-97 and the CPP Investment Board are admired by national pension plans and pension funds around the world as an effective way to address struggling national retirement systems. Credit for this accomplishment belongs to policy makers. It is truly remarkable that the CPP, rightly judged to be in crisis 15 years ago, is now seen as part of the solution, and enhancements to the plan are under consideration.

Here today we can share some of what we have learned from our experience of managing the CPP fund to help inform the debate currently under way across Canada and elsewhere in the world.

The CPP Investment Board manages the assets of the fund not needed to pay current benefits, assets which do not belong to the government and are segregated from general tax revenues. It operates at arm's length from government, free from political involvement, with a professional management organization accountable to a financially sophisticated board of directors. It has a singular commercial mandate to maximize investment returns without undue risk of loss, and it can invest with a high degree of certainty about the future cash inflows to the fund. Due to its partial funding structure, the fund has an effective amortization period of 75 years.

The CPP Investment Board is a longer-term investor than are almost all market participants. Our investment strategy is designed to perform over the long term to help sustain the CPP for 17 million Canadians over decades and generations. We manage the $124 billion fund with our investment horizon of five, ten, and twenty years, and it is designed to deliver returns over decades.

● (1545)

While we are encouraged by the stronger performance in 2009, it is performance over the long term that matters to the ongoing sustainability of the CPP. By staying the course with our long-term strategy, the CPP has benefited from the recent rebound in financial markets around the world.

In 2009 we were able to capitalize on our structural advantages and internal expertise to complete significant investments in Canada and globally. We expect that the investments we have been making during the past 12 months will be a strong source of investment income over the long term. We will maintain our strategic asset weighting of the portfolio and emphasize our strengths as a large long-term investor, to capitalize on investment opportunities we see in current market conditions.

In summary, we do not advocate any specific pension reform model, nor do we champion a specific proposal. Our role here in the pension system is to manage the funds that will help sustain the Canada Pension Plan as currently structured. Our sole focus is investing the assets of the CPP, and we have built an organization to handle the tremendous growth of the fund as it increases from $250 billion to $350 billion in the next decade.

If policy-makers decide to expand the CPP, we could, if asked, manage the additional assets. Alternatively, a separate organization that reflects the proven model of the CPPIB model could also handle this.

Thank you again for your invitation to participate today. We look forward to your questions.

The Chair: Thank you, Mr. Raymond.

We'll now go to the Canadian Bankers Association.

[*Translation*]

Mr. Terry Campbell (Vice-President, Policy, Canadian Bankers Association): Thank you and good afternoon. I would like to thank the chair and members of the committee for the opportunity to provide our perspectives on Canada’s retirement savings system.

With me today is my colleague Marion Wrobel, the CBA's director of market and regulatory developments. We also have for you an additional copy of a report we sent to you last November on this issue, which includes new research we have undertaken on the household savings of Canadians.

[*English*]

The CBA shares the concerns about the adequacy of Canadians' retirement savings. As providers of savings retirement vehicles, sponsors of defined benefit pension plans, and providers of advice to Canadians throughout their financial life cycles, our members have been actively exploring ways to strengthen Canada's retirement savings systems. We've put some of those ideas into the report that we've brought forward to you today.

I want to make four key points today.

First, as to how and why Canadian families save, there are many varied aspects, and these change over the course of a family's life cycle. When looking at this issue, there's sometimes a tendency to focus exclusively on pension or registered plan participation as the only measure of financial security, whereas there are in fact a range of ways that Canadians prepare for retirement. Our concern is that a one-size-fits-all approach may not be effective in addressing the actual savings needs of Canadians. In fact, it could have unintended consequences, for instance, by simply shifting existing savings from one pot to another without actually increasing savings, which has to be the goal.

Second, there are a number of concerns that we feel policy-makers would need to very carefully consider before embarking on any new public plan. For instance, some have suggested the creation of a new supplemental defined contribution plan. Some questions had occurred to us about that, which we think need to be addressed. For instance, how would Canadians get advice on the investment decisions they would have to make when contributing to a public supplemental plan? As we've just heard, Canadians have very clear expectations about the Canada Pension Plan. It's a defined benefit plan. It has known payouts at retirement. The issue is then who would address the expectations and potential confusion among Canadians regarding the unknown future payouts of a new government-created defined contribution plan? What would a new plan do to the incentives for private sector employers to establish or even retain their own pension plans for employees? It's questions like those that need to be very carefully considered as we all go through this process.

The third point I want to raise is that we believe the current retirement savings system in Canada is not broken. It's quite the opposite. It is a strong and functioning system, but it is in need of improvements. If our collective goal is to strengthen the financial security of Canadians, it may be more effective for governments in Canada to work together to improve the tax-assisted system that we already have, rather than creating a new public plan that would duplicate infrastructure already in place.

In our report, which we've provided to you, we make a number of recommendations that would make our already good retirement savings system even better. For example, in our view, the law should allow for pension plans that are de-linked from the employment relationship to allow for plans to be open to a wider range of membership. Such plans could offer small businesses effective alternatives to setting up their own plans and could also be available to self-employed individuals so that more people could participate in pension plans and save.

In addition, the rules regarding the tax-assisted private savings system should also be improved, for instance, by creating a lifetime ceiling on tax-free retirement savings instead of annual limits. By the way, in terms of the tax-assisted savings system, we need look no further than the tax-free savings account as an example of how a well-designed tax-assisted vehicle can be both popular and effective in helping Canadians save.

In terms of steps that we all still need to take, there's also the question of the need for enhanced financial literacy as it relates to savings and retirement planning. We certainly support the government's efforts through the financial literacy task force.

The fourth and final point I'd like to make is that the adequacy of retirement savings is a national issue and requires national public policy solutions. In financial policy matters generally and in retirement savings matters specifically, in our view, fragmentation across the country will ultimately hurt rather than help Canadians.

I look forward to your questions. Thank you very much.

● (1550)

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

We'll now go to Monsieur Laporte, *s'il vous plaît*.

Mr. Jean-Pierre Laporte (Lawyer, As an Individual): Good afternoon.

My name is Jean-Pierre Laporte. I'm a lawyer practising exclusively in the field of pensions and benefits in the city of Toronto. I have been actively involved in pension reform issues since 2003 and have published a number of articles in this area. Some of you may be familiar with one particular policy idea I first proposed in 2004 calling for the creation of a supplemental Canada pension plan. That solution was meant to deal with the issue of inadequate pension coverage in Canada in the private sector. I would be happy to discuss this concept during the question period.

The Standing Committee on the Status of Women has received my testimony as part of its study on women and pensions, and I would direct you to that comprehensive House of Commons study and its reports for additional background information.

My goal today, however, is to present this committee with some information on pension adequacy from an international perspective. While I realize that some of the speakers you have invited will present on this topic at later sessions, in my view the committee would benefit from beginning its study by looking at the international arena before becoming too bogged down in Canadian or provincial details. International comparisons provide a useful benchmark to gauge the performance of our own system, and they highlight design features that differentiate us from our peer nations.

I think it's fair to say that the fundamental question that most decision-makers should ask themselves is simple: do Canadians have enough to live on in old age? But who are we talking about? The self-employed individual, federal civil servants, farmers, homemakers, the recently arrived immigrant? Depending on the category one looks at, our fundamental question generates different answers, and yet there is still some merit in asking the global question: do Canadians as a whole have enough to retire on?

This brings me to very high-level international statistics that have been collected by the OECD and that I have distributed to the members of this committee. As you all know, the Organization for Economic Cooperation and Development tries to provide standardized statistical information to enable useful international comparisons. I'm no statistician and I cannot verify the accuracy of the data provided by this organization, but like most Canadians, I surmise that someone more qualified than me has taken the time to ensure that these statistics are of some utility and may be relied upon to some extent.

So what does the OECD tell us about Canada's ability to provide financial support for its senior citizens once they leave the workforce? The key statistic that I think is important and that I want to bring to your attention today is the net income replacement ratio provided by pension plans for someone earning the average industrial wage in their home country. That information is available on the OECD website, and I can provide that information to the clerk of the committee, but I think it's in the materials that I've provided.

By way of disclaimer, while the OECD data set in question has information about all the OECD members, I've only extracted data for the top 14 countries, with the highest net replacement ratios. This is 2006 data, the most recent data that I found available on the website.

When we look at the ranking, the Netherlands rank number one at 103% of pre-retirement income and Canada is ranked number 12 at 57.86%. There are a number of countries in between that have fairly high ratios: Denmark, 91%; Austria, 90%; Italy, 74%; and so forth.

This bird's eye view that looks at how much pre-retirement income is replaced by pension sources is interesting in many respects. First of all, it puts into perspective the claims some have made that our pension system is a world leader and there's no real need to reform anything. When all the rhetoric is said and done, the numbers don't lie.

● (1555)

Secondly, on an aggregate level it demonstrates that we have quite a bit of work to accomplish if we want as a nation to provide the kind of income replacement ratios that some smaller economies have already been able to achieve.

What the statistic doesn't tell us is whether Canadians are replacing enough income to live well into old age. Nor does it tell us who is covered and who isn't. Nor does it provide any detail as to whether the national pension system in the country is sustainable or affordable. What it does do, though, is provide a rough idea of how successful we have been as a nation in providing post-retirement income to those citizens of ours who earn the average industrial wage.

My own assessment is that while some of us have excellent pension plans and can look to the future with a lot of confidence, the millions of Canadians with no pension savings or inadequate financial resources are dragging our national average down, and that there is much work to be done.

Thank you for your invitation to Ottawa.

● (1600)

The Chair: Thank you very much for your presentation.

Our last presenter will be the Canadian Life and Health Insurance Association Incorporated.

Mr. Dean Connor (Chief Operating Officer, Sun Life Financial, Canadian Life and Health Insurance Association Inc.): Thank you, Mr. Chair.

My name is Dean Connor. I'm the chief operating officer of Sun Life Financial. It's my pleasure to be here today on behalf of the Canadian Life and Health Insurance Association, along with Frank Swedlove, the president of the association.

The Canadian life and health insurance industry commends the standing committee for its focus on retirement income security. We very much share your interest. This is an area that is highly meaningful to our customers, about 26 million Canadians who rely on us for financial security, whether it be through life and health insurance or lifetime income solutions that we offer through pensions, annuities, RRSPs, and RRIFs. Over two-thirds of Canada's pension plans are administered by the industry.

[*Translation*]

As an industry, we have been giving this a lot of thought, both in terms of serving our customers and staying abreast of their changing needs, but also in terms of the role that we play and the contribution that we make to the broader fabric of Canadian society.

Today, we would like to focus on the adequacy of retirement savings.

[*English*]

According to the 2009 Melbourne Mercer Global Pension Index, Canada's retirement savings system has only three peers: Australia's, the Netherlands', and Sweden's. This success has been predicated on the complementary relationship between government and private plans.

In this regard, we often talk about the three pillars of retirement savings. The government, of course, makes up the first two pillars, with old age security-GIS and the Canada and Quebec Pension Plans. It's our view that the role of the government in Canada's retirement savings system should be to ensure that all Canadians receive a level of income that meets their basic needs in retirement. We believe these first two pillars, the public part of our retirement savings system, are working well.

The third pillar is a combination of workplace pensions and other retirement plans, individual RRSPs, and individual savings. This third pillar is meant to provide a level of income adequacy that goes beyond the basics.

Structurally, we have a healthy third pillar: there is a wide range of products available, through a wide range of providers; it's a very competitive marketplace; there are strong tax incentives. But many Canadians are not sufficiently engaged, and some are not engaged at all. Sometimes this is by choice and sometimes it's through a lack of access.

When it comes to workplace retirement plans, there's a fair bit of inconsistency, which breaks down between the public and private sectors and between large and small employers. About eight million workers out of a total workforce of fourteen million have access to some kind of workplace pension plan. Five million are covered by defined benefit or DB plans. About 1.3 million Canadians are covered by workplace defined contribution plans, and two million are covered by workplace group RRSPs, which are less administratively complex than DC plans.

In the public sector, 90% of workers are covered by workplace retirement plans, and these are usually DB. When it comes to the private sector, however, only 50% of workers have access to some kind of workplace retirement plan.

In the private sector, there is a shift under way—and it's been going on for many years—from DB plans to DC plans or group RRSPs. This is in fact a global shift. It's driven by funding costs and by the risks and complexities of DB plans, which make them increasingly challenging for employers to sponsor.

The insurance industry believes there are reasonable steps that can go a long way to improving our retirement savings system. We join others first in believing that there should be a good look at the rules around RRSPs. We believe that expanding the definition of earned income to capture such things as royalties and active business income would be more inclusive of self-employed Canadians. In addition, extending the age at which Canadians must start withdrawing from their RRSPs and other pension vehicles from 71 to 73 years would allow those who are still working to continue to build up their retirement savings. Some countries have gone further. For example, in the U.K. pensions don't need to be started until age 75.

A second area that we believe could make a huge difference to Canadians is improving access to workplace pensions. The main impediments for employers right now are costs and administrative complexities. This is especially so for small employers.

We recommend that governments allow multi-employer pension plans that are set up as DC plans, or DC-MEPPs, whereby a regulated financial institution acts as the sponsor and administrator and any employer may join. It spares the employer almost all of the administrative costs and compliance burdens, except for payroll deductions. And because multiple employers could participate in the same plan, there would be significant economies of scale.

Employees would be automatically enrolled but would be permitted to opt out. As well, legislation should permit auto-escalation, whereby a plan could start members out at a base contribution rate, with an automatic increase in subsequent years until the desired target level of contribution was reached. Employers could match employee contributions or choose not to contribute.

● (1605)

For those employers who offer group RRSPs, the current impediment to maximizing retirement savings is that contributions to these plans are not locked in for retirement but can be withdrawn. We recommend employer contributions to group RRSPs be locked in to ensure they are meeting the objective of providing retirement income.

All these changes to private pensions: auto-enrolment, auto-escalation, multi-employer plans, and locking in employer contributions to group RRSPs are relatively simple and positive steps forward that would build up our third pillar of retirement savings in a way that few would oppose.

I'll wrap up with a few last comments. While the life and health insurance industry supports the public system for providing a basic level of pension, it does not support massive new government-run programs. Whether these programs are a DC top-up to the CPP/QPP or a whole new government-sponsored plan, in our view such plans would only replicate what is already done in the private sector.

In summary, in the view of the life and health insurance industry, we have a structure of saving for retirement that is sound and internationally recognized as such. What we need to do is find mechanisms to allow more Canadians to take advantage of what's already available. Our proposal is to free up the RRSP market and make workplace retirement plans more accessible to workers. We think this is the best way to achieve those objectives.

Thank you, Mr. Chairman.

The Chair: Thank you very much for your presentation.

Mr. McCallum, for seven minutes.

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

First of all, we all like to think Canada is leading in everything, but we also should be realistic. I thought Mr. Laporte's analysis was interesting, that in terms of coverage ratios we're 12th in the OECD and in the middle of the G-7. That is nothing to be terribly boastful about—and I'm directing this to Ted Menzies. It does show there is more work to be done, which underlines the importance of these hearings.

My first question is to either Ian Dale or Donald Raymond. You say:

> The Canada Pension reform model of 1996-97 and the CPP Investment Board are admired by national pension plans and pension funds around the world... Credit for this accomplishment belongs to policymakers.

Can you just remind us which policy-makers at the federal level you have in mind?

Some hon. members: Oh, oh!

Mr. Ian Dale (Senior Vice-President, Communications and Stakeholder Relations, Canada Pension Plan Investment Board): People might remember that a federal-provincial reform model took place in 1995, 1996, and 1997. It was a combination of 11 federal and provincial governments across the country of all political stripes.

Hon. John McCallum: All right. I guess we can read between the lines on our own.

Turning to a more serious issue, we in the Liberal Party have come out in favour of a supplementary Canada pension plan, and I notice that both the insurance companies and the banking association oppose that. We were driven to that partly because the management fees charged for the management of funds by the private sector are two or three percentage points per year, depending on the asset class, and are said to be among the highest in the OECD, whereas under a public pension system, like the Canada Pension Plan, the cost is a small fraction of that.

One of the drivers toward the supplementary Canada pension plan is the very high cost charged by the private sector. So when the private sector says don't worry, don't duplicate us, the point is that the vehicle we are proposing would be at a very much lower cost to Canadians than what the private sector is currently charging.

I'd like to ask both the bankers' association and the life insurers why we can't do both. We are proposing a supplementary Canada pension plan. You don't like that because it competes with yours. You are proposing, and both of you said something similar here, to "allow pension plans that are de-linked from the employment relationship, and allow for multi-sponsor or third party plans open to a wider range of membership".

The bankers and the life insurers proposed that. I have nothing against that. Life insurers are already allowed to manage such pension plans under Ontario pension plan law. If there are impediments to those I think we should remove them.

My point is, why not let 1,000 flowers bloom? Why not allow consumers more choice? Have a supplementary Canada pension plan with which the private sector would have to compete and have multi-employer pension plans with which the public sector would have to compete. Why do you insist on cutting off additions to the public sector pension plan and having them exclusively private? Why can't we have a mix of both and give Canadians a broader range of choice?

● (1610)

The Chair: Mr. Campbell, do you want to start?

Mr. Terry Campbell: Sure. Let me just sort of clarify.

Our position on the idea of a supplementary plan I would characterize more as "Look before you leap". Let's make sure, before anybody makes decisions to go down that road, that all the questions are answered. Now—

Hon. John McCallum: I have your questions, but I don't have much time, and I want to give Mr. Connor a chance, too.

Mr. Terry Campbell: No, no, I understand—

Hon. John McCallum: Why can't we have both options for Canadians?

Mr. Terry Campbell: One of the issues—and I'll turn to my friends in the life insurance industry—is this: we haven't seen the details of an actual worked-out plan. Our concern would be that if you put in place in effect what would be a new government plan that has automatic enrolment, what are the unintended consequences that would have for the incentives of private sector companies to say, "Well, why should we have to put in place anything for our employees, we'll just opt into that"? You then get towards a monopoly situation.

Now maybe there are ways that can be corrected. Our point is that you have in place now a well-functioning third pillar. That should be the first place you should look at it.

It's going to take probably a generation, Mr. McCallum, before we could see what the outcomes of a new government plan would be, good or bad, but we can make some fixes now.

Hon. John McCallum: Okay.

Based partly on Mr. Laporte's analysis, and other analyses I have read suggesting that the pension system is in need of repair on a fairly urgent basis, I don't think we really have a generation to wait.

But perhaps I can turn the same question over to Mr. Connor as to why, specifically, can we not have more choice for Canadian consumers by allowing both your preferred option, a multi-employer pension plan, and an expansion of the Canada Pension Plan, and the two can compete with each other and provide more choice to Canadians?

The Chair: You have about a minute, Mr. Connor.

Mr. Dean Connor: First, let me clarify your point around the fees.

I would observe that in the large end of the Canadian life and health insurance pension market, the fees are indeed very competitive. We're talking fees in the 60 to 70 basis points for record-keeping and investments, and these benchmark favourably against the most competitive nation in the world just to the south of us, which has a 401(k) industry that's 20 times larger.

This proposal to allow smaller employers to build up into a larger plan—and it's encouraging to hear the idea of knocking down the impediments—will indeed provide Canadians with access to very cost-effective pensions that the largest of Canadian employers enjoy today through DC plans.

Specific to the question of could you have a Canada pension plan alongside that, clearly the answer is yes. Our concern with that is when you look around the world and the activity to set that up, and if you look at the U.K. as a good example, it's costing the nation $50 million a year. It started in 2003, and I think it'll be implemented in a phased-in basis starting in 2013 or 2014.

So I would just simply say time and money.

● (1615)

The Chair: Thank you.

Mr. McCallum, your—

Hon. John McCallum: I would just observe that the Canada Pension Plan Investment Board—

The Chair: Mr. McCallum, I'm sorry, you're well over your time here.

Thank you. We will have another round for the Liberal Party.

[*Translation*]

Mr. Paillé, you have seven minutes.

Mr. Daniel Paillé (Hochelaga, BQ): I want to thank everyone for being here, especially those who make the effort to speak in French, even if it is not their mother tongue.

First, I want to say to the people from Air Canada that you are probably and unfortunately an example of downloading by an employer, one that twice used the law to avoid paying its contributions, took a premium holiday and left you without a parachute—if I can say that.

Clearly, you are hoping to find a landing strip with the federal government, it being a former shareholder, or the state. Would it be possible to apply the solution in place in Quebec, which is to allow the pension board to take over the distressed pension plans of employers?

While you think about that, I have something to say to the officials from the Canada Pension Plan Investment Board. I am happy to hear you say that in 2010, your results are encouraging, because at -18.6 in 2009, we were part of the downward surge.

Obviously funding over a period of 75 years is quite prolonged. Moreover, you say in the annual report that it is a funded pension plan that is different from a fully funded plan.

Would you be able to manage funds such as Air Canada's, which are in the position of being downloaded, in the position of an air pocket—if you will permit me to use the same analogy? Would you be able to take over, the same as the RRQ and the Caisse de dépôt et placement du Québec?

Ms. Thompson?

[*English*]

Ms. Katherine Thompson: Okay. I'll take a shot at capturing what you were asking me. If I get it wrong, please correct me.

During my speech I referenced the fact that the entire point of pension regulation is to ensure that members who participate in a pension plan are not then reliant on the survivability of their corporation in order to have that pension promise kept.

In the case of Air Canada, the pension holidays they took were allowed by pension legislation. Many of our members believe that somehow Air Canada didn't abide by the rules and wasn't contributing to the pension. They contributed exactly what legislation provided for them to contribute. Unfortunately, it's legislation that has failed the employees of Air Canada, and hopefully the sessions that are taking place today will rectify that situation.

Mr. Donald Raymond: With respect to the second part of that question about the CPP Investment Board managing the assets of distressed pension funds, clearly, that's not part of our mandate today. There is a process to change our mandate. That would require building some additional capabilities, which, if asked to do, we would be prepared to do.

We think it would be important, if that were the choice, to point out that for the purposes of cost accountability, it would make sense to try to keep the costs in managing the CPP assets separate from the costs in managing those other assets.

● (1620)

[*Translation*]

Mr. Daniel Paillé: Using the same logic, do the people at OMERS... At OMERS, you said you received expanded powers to allow you to offer services to clients outside Ontario and Canada. I am thinking about what the Caisse de dépôt et placement du Québec did in the 1990s. They went everywhere. The experiment was not a huge success, to say the least.

On your end, rather than going all over the place, could you offer services to companies or pension funds whose administrator is bankrupt or in the process of bankruptcy? Do you think that OMERS could specialize in that area and provide services to that type of clientele?

[*English*]

Ms. Jennifer Brown: OMERS, as I have mentioned in my report, has the ability to do third-party fund management and third-party administration for all types of pension plans in Canada. We are currently building that infrastructure in order to be able to deliver on that.

[*Translation*]

Mr. Daniel Paillé: I have one last thing to say, Mr. Chair.

This is for the Canadian Bankers Association. In the beginning, you said that you were concerned that it would simply result in a shift of savings from one pot to another, as opposed to helping Canadians or others increase their savings. You referred to the TFSA, the tax-free savings account. Would it not be another solution to just remove the $5,000 cap to create more savings?

I have a sub-question. Your fourth point was that you did not want fragmentation across the country. What do you mean by that? Quebec and Canada, for example, already have pension plans that are quite developed and very well managed, but they use two different management approaches.

Mr. Terry Campbell: I apologize, but I will have to answer in English.

[*English*]

First of all, I would say that the worry about solutions, and that's very carefully defined here, could result in just shifting the savings from one pot to another. When we looked at the issue—and I'll come to the TFSA in just a moment—we did some examination of Statistics Canada data on the financial security of households. We looked at it over the whole life cycle.

As you know, the financial needs of families change dramatically over time. If a solution that's put in place has mandatory or virtually mandatory contribution requirements, for instance, that are imposed upon people at a certain point in their lives, there's a concern. For younger people, let's say, who need their lower levels of income to apply to household needs and to building up this asset and that asset, the concern, unless it's very carefully thought through, is that you could actually be working against their interests. That's just one of the issues.

The Chair: Okay. Very quickly, Mr. Campbell.

Mr. Terry Campbell: On the national solutions, we like the TFSA. It's a new program and it's going to take some time to see how it works out, but our sense is that it's very popular. Also, it's very flexible, which is good.

In terms of the national approaches, we would be distressed if we saw in individual provinces a blossoming of different kinds of plans, because it would give rise to mobility issues, comparability issues, and that sort of thing. We're not calling for a particular national solution in terms of a model, but for a national approach for all parties. We think that is a much better approach.

The Chair: *Merci*.

We'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman. I want to thank the panellists for coming today.

Mr. Chairman, I do want to make a point that this is a large panel and a very important topic. From my perspective, we may want to call some of these witnesses back. In the future I'd prefer smaller panels so that we have more time to ask questions.

I have provided the CPPIB with the questions I have here. I have a large number of questions and I would like to see them responded to all of the committee in writing by April 12, if possible. That might require you to come back to defend those answers you put forward.

I am going to read them into the record so that my colleagues on the other side know what I'm interested in. Some of you have broached that subject already.

One question is with respect to the idea of the voluntary supplementary CPP, which we've heard about. Is the CPPIB currently equipped to run and expand a voluntary or mandatory system as outlined in some of the recent proposals? How long would it take for CPPIB to build the infrastructure to run such a system, and how many more employees would the CPPIB require, in your estimation?

What advantages to clients would a voluntary CPP-run system offer compared to the private financial system, financial institutions? What risk would taxpayers not contributing to the voluntary CPP system be exposed to?

Does the current CPP outperform market offerings? We heard a little bit about that. Could a voluntary CPP supplement confidently be expected to achieve the same over-performance or performance levels? Would a voluntary CPP preserve the administrative cost advantage, which we've heard about, now enjoyed by the current mandatory CPP?

In addition to that, following up on Monsieur Paillé's questioning, is the CPPIB currently equipped to take on distressed private sector pension plans? I think you commented briefly on that. How long would it take for the CPPIB to build the infrastructure to take on such plans and how many more employees would the CPPIB require? Finally, what risk would be borne by taxpayers if the CPPIB were mandated to take the guardianship of distressed pension plans?

Those are a lot of questions. But I think in general what we're hearing from others, and not just from the opposition benches but from other people who have come forward last week and previously when we had some brief discussion on pensions earlier in the fall, is that a voluntary program run by the CPPIB is an option, but I think there are a lot of questions. This isn't a four-hour or five-hour discussion; we only have a few minutes, actually.

So I would prefer that we all get those answers. They'll have to be in both English and French. That way we'll have a proper discussion. And my—

● (1625)

The Chair: I'll open the floor so they can comment. They have four minutes to respond now.

Mr. Mike Wallace: Yes, I'm going to let them comment. But that way we'll have a proper discussion based on the information. If you'd like, pick one, because before I'm done I have one other question for our life insurance friends. If you'd like to pick one you'd like to comment on, I'd appreciate it.

Mr. Ian Dale: Thank you. I'd be pleased to answer that question.

There is a range of questions there, as you say. I think the way to look at it is that there is a range of complexity there. Currently we are an investment management organization asked to look after one single pool of capital. As you add complexity onto that, we are generally not set up to do that at the moment. If the 10 stewards of the CPP—the federal and provincial governments—decided to give us additional powers, we could certainly do that.

I think as you get into each of these things, as the complexity grows the degree of difficulty grows.

One of the things that we have right now is a very simple and powerful mandate, which is to maximize returns without undue risk of loss for 17 million Canadians and fund those future pensions.

Mr. Mike Wallace: I'm sure you have as an organization, but these questions are designed to get you thinking as policy-makers about whether we're going to head that way and what the actual ramifications are. This gives you an opportunity to put that in writing for us. I'd appreciate that.

My final question is for our life insurance friends, and it is just because I don't know it. The multi-employer pension plan that you're recommending as an option, does it exist already in this jurisdiction, other jurisdictions? Do you have any sense of limits in terms of how many employees or employers can be involved in that kind of issue? Do they have to be solvent and all those kinds of things? Just tell me a little bit about the plan, because I don't know anything about it.

Mr. Dean Connor: The multi-employer pension plan model actually exists today in Canada, but to join it you have to be affiliated with the other employers. For example, in the construction industry, you'll have a number of stand-alone companies that are able to join an MEPP, because they all happen to be part of that particular industry. But if a company that makes auto parts wants to join in with a company that is a wholesaler of food, today they cannot join. There are limitations in the law, which won't allow them to join together in a common plan.

The DC-MEPP is a plan in which individuals have their own account balance, so the plan is always fully funded. It's whatever they happen to have in their account balance that they, and possibly their employer, have put in. If they leave that company, it's portable in the sense that they can just leave their money there and move from company to company. It's simple. It's meant to drive down costs by taking advantage of the economies of scale inherent in the business. And there's really no risk to the employers who participate in that multi-employer plan.

● (1630)

Mr. Mike Wallace: Thank you, Mr. Chair.

The Chair: Thank you, Mr. Wallace.

Mr. Marston, you have seven minutes.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you very much, Mr. Chair.

I've been outside of this hallowed place for 26 meetings, listening to very ordinary Canadians, people who don't necessarily have any real expertise with pensions.

You talked about the three pillars. Those in defined contribution plans or with RRSPs are in serious trouble right now, but I won't go deeper into that.

Mr. Campbell, I agree with you about the fragmentation of how we address this. One of the propositions the NDP has put forward calls for the doubling of CPP. Of course, that's going to be amortized over a long period of time before we accomplish it. It will increase the benefits—I think the maximum today is $907 a month—to $1,814 to form a base and strengthen that one pillar of the two pillars of the public plan.

We understand that sixty-some percent of working Canadians in total, both public and private, have no savings and no pensions at all. I'd like your comment on that.

Then if I could, Ms. Thompson, I'd like to talk to you for a moment about the fact that the NDP has a bill, Bill C-476. Air Canada went through CCAA. We're seeking to have preferred status given to pensions in both CCAA and BIA. I'd like your comments on that, please.

Mr. Donald Raymond: Sir, could you just repeat what you'd like me to comment on?

Mr. Wayne Marston: It is the facility we're talking about in the sense of doubling CPP. We're not talking about a supplemental plan. We're talking about doubling it. Our estimate is an approximate 2.5% increase in premiums for employers and the same amount for employees. It would be a mandatory plan. That would form the basis of a floor we could build on to raise people up.

Mr. Donald Raymond: Okay. Clearly, as I said in my opening remarks, these are all decisions for policy-makers to make. As my colleague said, there's a range of options on the table. The one that is the simplest for us to manage, in fact, would be something along those lines, which is essentially a single pool of assets. There might be some differentiation between the two components, because one would be fully funded and the other would be related to the existing CPP. But on the spectrum, that would be the easiest for us to manage.

As I said in my opening remarks, we're building the capability to manage $250 billion to $350 billion over the next 10 years. That would accelerate that somewhat. But in general terms, we are heading in that direction already.

Mr. Wayne Marston: Obviously we'd only be able to roll out the increases over an extended period of time, but we wouldn't have, as Mr. Wallace's questions implied, a growing bureaucracy or a cost to the Canadian people.

Thank you.

Mr. Donald Raymond: That's right.

Ms. Katherine Thompson: Mr. Marston, I can tell you that the Air Canada component of CUPE and the flight attendants would certainly support this initiative put forth by the NDP.

We sought this during this summer's pension reform. When we had to agree to major concessions, virtually, in our pension regulations, we asked for preferred status. Given the financial situation Air Canada was facing, we were unable to negotiate that due to the fact that part of Air Canada's survival was the raising of capital. Unfortunately, when you put a pension plan ahead of creditors, it becomes challenging to raise capital. But we certainly support your initiative on this.

Mr. Wayne Marston: Thank you.

The Chair: You've got three minutes.

Mr. Wayne Marston: Ms. Brown, I understand that OMERS has decided to change its asset mix, with a little bit more risk than in the past. I'm surprised to hear that.

I was wondering, what has motivated that?

● (1635)

Ms. Jennifer Brown: Certainly, that's not my understanding in terms of taking on more risk. I think our asset mix changes move us more into the private markets, infrastructure, and real estate. We're shifting that so that we have long-term stable returns.

Mr. Wayne Marston: Thank you.

Mr. Chair, that's fine. I'm pretty well finished.

I'd just like to thank this committee, being an outsider and a guest here today.

I had made the suggestion to Mr. Mulcair that he ask the committee to take a look at pensions, and I'm really very pleased.

I want to thank the folks who have shown up here. You have provided good information. I'm looking forward to the answers Mr. Wallace is seeking as well.

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

We'll go to Mr. McKay, please, for five minutes.

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

Thank you, witnesses.

I think what drives this conversation currently has to do with situations, such as Air Canada, such as Nortel, such as looking at a lot of the ratios and the private plans, particularly the employer-sponsored plans, that are in difficulty. Even after the recovery of the market they're still in difficulty. So one of the suggestions, particularly put forward by our party, has been, if you will, a supplemental CPP plan.

Mr. Campbell raises some interesting questions.

By the way, Mr. Raymond and Mr. Dale, it's nice to talk to you about something other than our usual favourite subject.

Let me just go through Mr. Campbell's questions and see what your response might be.

He asked how Canadians would get advice on the investment decisions they'll have to make about contributing to a supplemental plan. My question would be, why would Canadians get advice if in fact it's simply a contribution plan where you make your contribution off your pay cheque or whatever on a monthly or weekly basis? Why would it involve advice at all?

Mr. Terry Campbell: Is the question for me?

Hon. John McKay: Sorry. I direct it to Mr. Raymond first and then Mr. Campbell could respond.

Mr. Donald Raymond: Sorry, I don't follow the question.

Hon. John McKay: His question is, how would Canadians get advice on investment decisions they'll have to make about contributing to a supplemental plan?

Mr. Donald Raymond: Well, he's referring to a defined contribution plan.

Hon. John McKay: Yes, that's right. So this would be the additional plan we're talking about.

Mr. Donald Raymond: I think that's a valid question.

Hon. John McKay: It is a valid question, but it's a valid question for both of you.

Mr. Campbell has raised it, but CPP would be the one that would have to in effect answer it. He's asking how Canadians would get advice on investment decisions they would make on a defined contribution plan. Or would they?

Mr. Ian Dale: You know, the way we are currently set up, we're not equipped to do that. It would be a significant departure for us should policy-makers ask us to do that kind of thing. We're currently not set up to do that.

Hon. John McKay: I tend to agree with you that it's an unnecessary question, but let me just turn it back to Mr. Campbell for a second, just so we can generate some debate here.

A witness: I'm going to ask my colleague Marion Wrobel to answer.

Mr. Marion Wrobel (Director, Market and Regulatory Developments, Canadian Bankers Association): The whole point is that many of these supplemental plans are defined contribution plans, not defined benefit. With a defined benefit plan like the CPP, there's really no need for advice because there's no decision-making on the part of the individual investor. When an individual investor is contributing to a defined contribution plan, that investor is taking on all the investment risk as well as a bunch of other risks. The investor needs advice—

Hon. John McKay: But aren't we in effect proposing a hybrid, that it is a defined contribution plan, but in fact the investor doesn't make any decisions with respect to the investment?

Mr. Marion Wrobel: Well, you're putting an investor in the position where he or she is, again, subject to all kinds of risk and then you're saying they don't make any decisions.

So what happens if they're put in a portfolio and it turns out to be far riskier than they wanted it to be or they thought it was going to be? Or they think they've got a supplemental Canada pension plan, which is a defined benefit plan, and they find they're not going to get nearly as much as they thought, and they had no access to advice.

Hon. John McKay: But if the rules are clear going in that this is a defined contribution plan, it's managed as a pooled plan much like the Canada Pension Plan is managed now, that there are no requests for advice, or they're not set up to give advice... I'm hard pressed to see where the problem is.

Mr. Marion Wrobel: Well, the problem is that many of the proponents of these supplemental plans also are advocating for automatic enrollment. So individuals are going to find themselves... they're not making the decision to invest and to belong to these pension plans. Someone is making that decision for them. They are bearing all the risk. They may not understand what it is, and that's why they need advice.

● (1640)

Mr. Terry Campbell: If I could just add to what Mr. Wrobel has said, in a defined Canada plan, as you know, whether or not your returns are adequate for the payout at the time, there is that defined payout that you know you're going to get.

Hon. John McKay: I understand that.

What currently exists is a defined benefit plan, no ifs, ands, or buts about it. Your contribution to that defined benefit plan is the contribution. Why couldn't a defined contribution plan have similarly...this is a defined contribution plan, you contribute your money, and however it turns out is however it turns out?

Mr. Terry Campbell: Well, that's it, however it turns out.

One of the problems is that it comes down to the expectation of Canadians. If governments put in place a defined contribution plan, my sense is a lot of Canadians are going to say, “Thank goodness, the government is taking care of it, it's all done, and I'll have a set payout.” Then at the time when they come to collect on the retirement they say, “This isn't anywhere near what I thought it was. Why didn't somebody tell me?” This is the Canada Pension Plan.

That's the issue here, I think.

The Chair: Thank you, Mr. McKay.

Monsieur Carrier.

[*Translation*]

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

My question is for Ms. Thompson, given that much of the reason for the issue we are discussing is the uncertainty that people have regarding the value of their pension plans. The people from the Air Canada Component of the Canadian Union of Public Employees are dealing with that uncertainty. In their presentation, I see they recommended pension insurance.

You say that such a program already exists in the U.S., the U.K. and Ontario. The other speakers did not raise the possibility of creating a pension insurance program.

I would be interested, indirectly, in hearing Mr. Connor's response to that, as someone who represents insurance companies, as well as his opinion on the possibility of creating a program to insure the value of pension plans.

[*English*]

Mr. Dean Connor: The insurance safety nets that are referred to in Ontario, in the United States, and in other places have been put in with the very best intentions. In practice, it's been a very big challenge to make them work successfully. For example, every time a large employer is on the brink of bankruptcy and it threatens to wipe out the pension guarantee fund, you've seen that governments—the Province of Ontario, the Government of the United States—have to step in and take other measures, because the collapse of a large plan would completely wipe out the relatively small safety net fund that has been established.

I would say the actual experience with these safety net funds has been challenging. For them to work properly would require very high tolls paid by the other pension sponsors, higher than what anybody has been willing to charge today. That's the nub of the issue.

[*Translation*]

Mr. Robert Carrier: I find that a bit unfortunate because it reflects a belief that the private sector is more effective and efficient than the government in terms of administration and business. We are coming to the conclusion that private plans are ultimately no more secure.

Ms. Thompson, earlier, in response to my colleague's question, you said that your feeling of uncertainty and the drop in the plan's value are not unique to Air Canada—because people could think that any financial problems are due to the Air Canada Public Participation Act. You answered that it was not due solely to that legislation, and that it is happening in other companies as well, such as Nortel, which is another case.

Finally, that is why you think that the value of public pension plans needs to be increased in order to give workers more guarantees. Is that correct? Because the insurance program you are recommending is not necessarily a sure thing. And you say that we should increase the size of public plans. So that is a policy you would like to see?

● (1645)

[*English*]

Ms. Katherine Thompson: Absolutely. And again I apologize that I can't respond to you in French.

We believe that sharing the pension responsibility over as large a base as possible offers the most security for our members. So that's why we support that initiative. Our members can't be entirely reliant on corporate goodwill or sense of responsibility any more.

Unfortunately, the markets have been very harsh on pension plans. Even with a company the size of Air Canada, because of the dips in the pension fund, there's no way it can be funded by the corporation itself. So that's where we believe pension insurance would be a viable option, and we're happy to provide the committee with further information on that.

[*Translation*]

Mr. Robert Carrier: Thank you. That is fine.

[*English*]

The Chair: Merci, Monsieur Carrier.

Madam Block, please.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much, Mr. Chair.

Thank you for being here with us today.

My questions are for the Canadian Bankers Association. I know that you're way down at the end of my side of the table, so I may not be able to make eye contact with you the whole time.

I appreciated reading your report, “Modernizing Canada's Retirement Savings System” and the complexities you identified through this study on pension reform. I also appreciated that you submitted it to the committee so we can continue to study it.

Reading from that report, you note that there are no simple one-size-fits-all solutions, and I appreciated that you reiterated that comment today.

On page 7 of your report you also stressed the need for coordinated action by governments across Canada. You also said:

> The adequacy of retirement savings is a national issue, and requires national public policy solutions that will enhance the ability of individual Canadians to save.

Is it still your view that any changes should be coordinated with cooperation among all levels of government? Can you expand on what some of those changes might be?

Mr. Terry Campbell: We're very supportive of the discussions that have been going on at the federal and provincial levels, because the great danger, as I was saying earlier this afternoon, is that you will have a fragmented approach. Because we are one country and the retirement savings needs don't vary materially from coast to coast, we would worry about plans that might be developed that would have mobility concerns. We're a very mobile population, and people move from province to province. They expect to have portability of their pensions.

On one of the biggest issues I want to flag, in answer to your question, a lot of commentary is being made that defined benefit plans, while being a sort of very good gold standard, are in decline. There's a tendency to say that's kind of irreversible and that's too bad. We think this is a very good kind of pension plan, and it is hampered by the fact that there is a lack of harmony among the provinces and jurisdictions across this country.

As we say in our report on page 7, as you note, one of the things that would reduce costs, particularly for employers that have operations across provincial borders, is having pension rules in jurisdictions across the country more harmonized and in line. It would take a lot of the administrative costs away. So If I had one solution on that particular side, that's what I would offer.

Mrs. Kelly Block: Thank you.

I'd also like to talk about the TFSA.

Again reading from your report you state:

> The take-up rate for the TFSA has to date been quite strong when compared to the more well-established RRSP. It has the potential to represent a significant addition to the basket of tax-assisted savings vehicles.

You go on to say:

> Before pursuing other reforms, it would be worthwhile to determine: (1) if the TFSA represents an addition to the RRSP or a substitute, (2) whether it increases net savings or merely replaces one form with another, and (3) whether it proves to be particularly attractive to certain family types for whom inadequate savings is a concern.

Would you be able to share with us some of the potential that you see for the TFSA as an increasingly important part of the retirement adequacy system for Canadians?

● (1650)

The Chair: There's about one minute there, Mr. Campbell.

Mr. Terry Campbell: I'm going to turn to my colleague Marion Wrobel who has looked at this issue.

Mr. Marion Wrobel: We do think that was a good reform. It's a reform because it provides tax-assisted savings vehicles for a variety of reasons. We have an RRSP that was originally a retirement savings plan and we've made a number of modifications to it to enable people to save for a down payment for a house and all of these things.

The TFSA, by its nature, is very flexible. It's very good for lower-income families that don't have the high marginal tax rate and may find if they save in an RRSP that it's going to be taxable income when they draw it down and it's going to be clawed back.

We also like the TFSA in regard to the fact that if you take money out for a particular reason, you regain that tax room. It's a very flexible, very profound, and large reform to the tax-assisted savings vehicles. Let's see how it works out. Maybe future reforms should be directed at the TFSA.

The Chair: Thank you.

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

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

I just want to clarify one thing with the CPPIB. I think Mr. Wallace was asking if you were currently set up to do something new. I assume that the answer is no, but in your statement you say, “If policy makers decide to expand the CPP, we could if asked, manage the additional assets”.

To me, that's the operative point. Would you agree with that?

Mr. Donald Raymond: As I explained in my earlier answer, if it's expanding the CPP roughly in its current form so the YMPE or the replacement rate... That's more or less similar to what we're doing. We're set up to do that and we would accelerate our plans to handle larger asset pools. The question, I think, was in relation to a defined contribution plan, which we are not set up to do currently.

Hon. John McCallum: But you could set yourself up to do that if asked?

Mr. Donald Raymond: Yes, exactly. That's the essence of the questions that we will respond to the committee with.

Hon. John McCallum: Thank you. That's what I wanted to know.

On the question of the advice people need in order to do a defined contribution, I don't really understand that, because there are already in existence defined contribution plans that don't require specific advice. There are so-called life cycle funds that are handled by banks. Is that not the case? Individuals don't have to seek advice if they purchase a life cycle fund.

Mr. Terry Campbell: There are funds like that, but I would say that the characteristic of a defined contribution, particularly over the long term, is that an individual's risk profile and needs are going to change and they are going to want to be able to... This is a characteristic of most funds, or, I should say, of most of the defined contribution plans. They will want to be able to satisfy themselves that if they're at the age of 30, they're in the right spot, but if they're at the age of 58—

Hon. John McCallum: Well, that's exactly what a life cycle fund is. The investment mix is a function of your age, correct?

Mr. Terry Campbell: If the individual is comfortable with that particular fund and they have the choice to go into it, that is great. Our concern—and again, we haven't seen the details—is that if a new plan is put in place where it's automatic enrolment and because of inertia people don't go out of it, they may not have the choice—

Hon. John McCallum: Well, I think your point is a bit of a red herring, because there already exist bank-run funds that are life cycle funds, with the investment mix being a function of the age. I would suggest, even though it hasn't been fully worked out, that a supplementary defined contribution, supplementary CPP, could be modelled on exactly the same lines. And there you have it: the problem is solved.

But I'd like to now return to the question of the cost and the 60 basis points. I had my other source of information saying that's closer to 100, but in any event, if it's 60, so much the better. You'd be even better placed to compete with a new public sector plan, because 60 is pretty low.

So I guess I will repeat my question. Given that we have a life cycle type of plan, which the CPPIB is saying they could do if asked, and it's similar to something provided by the private sector, then to go back to my earlier question, why can't we have that and your expanded multi-employer plan that you're asking for? Why can't the two coexist, compete with each other, and offer more choice to Canadians?

● (1655)

Mr. Dean Connor: I think I'll repeat what I said earlier, in the sense that the two, indeed, could coexist. Our view is that there's absolutely nothing stopping the country from enabling multi-employer plans and auto-enrolment and all those other things, and getting that going, because we really think that would help, and we should go ahead and just do that as a country.

As for the question of whether there's a supplementary CPP set-up, I think it could exist alongside, and I think you're back to the question—and I guess that's what you were all debating—of whether that is a good thing for the country.

One thing I would just observe on that—and it ties in to the earlier discussion—is that it's one thing for members of our defined contribution plans to not like the investment performance, but in a year where, for example, the CPP earns a minus-18%, which does happen, and you have a lot of Canadians in that one investment with one sponsor, I think that would pose quite a challenge.

The Chair: Thank you.

Thank you, Mr. McCallum.

We'll go to Mr. Hiebert, please.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you, Mr. Chair.

My questions are mostly for Mr. Swedlove and Mr. Campbell.

You both suggested increasing the age limit at which Canadians could withdraw from their RRSPs, or would have to withdraw from their RRSPs, and you also both suggested that allowing a lifetime pension contribution limit would be better than an annual limit. One of you pointed to the U.K. as an example.

I'm just wondering if you could unpack what some of the implications to Canadians and to the government would be if those changes were adopted.

Mr. Terry Campbell: Do you want me first or Mr. Swedlove?

Mr. Russ Hiebert: Sure.

Mr. Terry Campbell: Let's take the lifetime one first, and then we can come back to the increased age, because I know life insurers suggested a specific age, and they might want to comment on that.

I think the idea of a lifetime limit—and, you know, I don't have a fully worked-out plan. There are a number of commentators who have proposed this, and it seemed to make sense. Again, there is its flexibility over the life cycle. There is an element of that already in the RRSPs in the sense that you can make up contribution room, but because it's tied to employment income, when you're younger, the amounts are lower.

If you had a set amount—and different analysts will say whether it's $1 million or more—what it would allow you to do, I think, particularly when you're in a position to make more contributions as you get older, is to top those up, whereas if you had that employment-income-based catch-up, as you do in the RRSP, and you didn't do it in your earlier years, you would have perhaps a smaller amount. We just think it's a more flexible way.

There are a lot of people who go through their working career and they have disruptions. They're out of a job for a while, or they have a period of low income, or they're out of work, or whatever. If there's an ability for those people to do some catch-up when they're in a position to do so, that might help.

I'll turn to my friends from the CLHIA.

Mr. Dean Connor: I would agree with that point that Mr. Campbell made on raising the age at which RRIFs or RRSPs and pensions need to be started. I would just observe that in 1978 the age 71 limit was additionally put in for RRIF withdrawals. Since 1978, Canadian life expectancy for men and women aged 65 has increased at an astonishing rate. People are living longer, so the additional flexibility given to Canadians who started a little bit later, we think, would be of great value to people, especially to those who want to continue to work.

Mr. Russ Hiebert: Do I have time for another question, Mr. Chair?

The Chair: You have two minutes.

Mr. Russ Hiebert: Mr. Swedlove, you also suggested expanding the definition of earned income to capture such things as royalties and active business income, to be more inclusive of self-employed Canadians. Could you elaborate on that suggestion?

Mr. Dean Connor: We're suggesting an expansion of the earned income definition for RRSP contributions just to make it a little easier for self-employed Canadians whose income shows up in different ways. It doesn't necessarily show up as a salary, as it does for employed Canadians. For self-employed Canadians, income shows up in the form of dividends and other forms coming back to the individual, and we're just suggesting that to make it easier for them to save for retirement we should expand that definition of earned income.

● (1700)

Mr. Russ Hiebert: I have one last question, again for you, Mr. Swedlove. You mentioned that multi-employer pension plans exist. If that's the case, what more needs to be done to help them be more effective?

Mr. Dean Connor: I'm sorry, the multi-employer plans...?

Mr. Russ Hiebert: They already exist. You made reference to them.

Mr. Dean Connor: I should clarify that the multi-employer plan exists today for employers who are already connected to each other, for example, in the construction industry. As for what's missing, we need to change the law, or we're recommending that the law be changed to allow unaffiliated employers to band together in a multi-employer plan, which they cannot do today.

Mr. Russ Hiebert: I see.

Thank you.

The Chair: Thank you, Mr. Hiebert.

I want to thank all of the witnesses for being with us here today, for your presentations, and for your responses to our questions. As you know, there were a lot of questions. We may in fact ask you to come back at a future date on the same study.

Colleagues, we have a motion by Mr. McCallum. I will suspend the meeting for a minute or two and then ask Mr. McCallum to bring his motion forward.

●

(Pause)

●

The Chair: Mr. McCallum, would you like to introduce your motion?

You should all have a copy of the notice of motion from Mr. McCallum.

● (1705)

Hon. John McCallum: Do you want me to speak now?

The Chair: It's not in camera; it's a public meeting.

Mr. Daniel Paillé: You are on TV.

Hon. John McCallum: Okay. I have a motion, which you have before you *dans les deux langues officielles*. The idea is that the Parliamentary Budget Officer and the Department of Finance would use exactly the same private sector forecasts for GDP, interest rates, and inflation. But the issue involves how to go from the economists' forecasts to budget revenue, expenditure, and deficit forecasts, which is where the finance department and the Parliamentary Budget Officer disagree. The only source of their difference is in going from the economists' forecasts to the budget. The Parliamentary Budget Officer makes his assumptions. He criticizes Finance for not being more transparent in terms of what they do inside that black box to move from economic forecasts to budget forecasts.

My proposal is to invite the two parties, the Parliamentary Budget Officer and Finance officials, to come before us. Each of them can explain how it is that they move from the economic forecasts to the budget forecasts. Given that we have such a high deficit, I think it's a worthwhile exercise for the finance committee to hear from both sides in terms of how this is done and to possibly conclude that there needs to be a little more transparency or clarity from Finance in terms of how they make the transition.

That is the essence of the motion. I don't have a precise date, but the topic is quite warm. I would hope that we might find perhaps an hour to hear from the Finance officials and the Parliamentary Budget Officer on this topic in the not too distant future.

The Chair: Thank you, Mr. McCallum.

I have Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: Obviously, we support the motion given that the Minister of Finance, in response to a question, said that the Parliamentary Budget Officer was wrong, as usual. I would like to check that.

Furthermore, we cannot not support it because, as the old saying goes, statistics are to an economist what a street light is to a wino: they are more to support something than to shed light on it. So we agree with the motion.

Hon. John McCallum: Thank you.

[*English*]

The Chair: There's an expression that economists have predicted 12 of the last 5 recessions.

Monsieur Généreux, s'il vous plaît.

[*Translation*]

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chair. We cannot not support this motion either. But we would like a slight amendment to the effect that economists be invited to appear as well. I move that the following text be added to the motion:

> That the committee also invite the private sector economists who the Minister of Finance spoke with and whose opinions form the basis for the fiscal projections of the department.

Basically, it is important to understand that there is a direct relationship between the economists' projections and those of the government.

[*English*]

The Chair: So you're recommending an amendment to also invite private sector economists?

[*Translation*]

Mr. Bernard Généreux: I request that economists from the private sector be invited.

[*English*]

The Chair: *Merci.*

Mr. Wallace, please.

Mr. Mike Wallace: From my perspective and that of my colleagues across the way, Mr. Chair, Mr. McCallum talked about the transition from the economists to the...he called it the black box, and changing that into budget predictions. He might be right. I appreciate his expertise in formerly being one of those people at the bank that our government at one time would likely have called on for advice. I would like to understand if there is a difference or if there is a transition from the private sector economists' predictions to the Finance... I think it's right on to invite the Finance people and then let the parliamentary budget... I think to invite two of the three pillars would give us less information.

I think to be fair, we should hear the modelling, the system that the third-party economists, the private sector economists, use to develop their predictions and their view and how that gets transferred. But I need to understand the first part and how it's used if I'm going to understand the difference between the budget officer... All it would mean, I think, Mr. Chair, is that it would be a full meeting instead of half a meeting, and we can invite some of the third-party economists to join us at the table to get their perspective.

● (1710)

The Chair: Okay, thank you, Mr. Wallace.

Mr. McCallum.

Hon. John McCallum: I'm an economist. I don't think they add anything because the two parties use exactly the same forecast. But if you want to hear the economists, I have nothing against that, except I would insist they be at separate meetings.

Mr. Mike Wallace: Okay.

Hon. John McCallum: You have the economists first, if you want the economists. They won't add anything on this narrow issue. They might add something on other issues, and then at a separate meeting you have these two parties. I don't think you need to amend the motion. You just accept the motion and add something saying that we'll invite economists.

Mr. Mike Wallace: That's what the amendment does, and I was supporting the amendment.

Hon. John McCallum: Does the amendment make it clear that these are two separate meetings? You don't want to commingle the economists with Finance and Parliamentary Budget Officer.

Mr. Mike Wallace: A point of order.

The Chair: Is this a point of order? Is this continuing a discussion?

Mr. Mike Wallace: Just a point of order to you, Mr. Chair.

The Chair: Okay, a point of order, Mr. Wallace.

Mr. Mike Wallace: In terms of process, I think a point of order is a process question. Could you define what two separate meetings are? Could it be one hour of one and then a second hour of another all included in one meeting?

The Chair: It's something Mr. McCallum can clarify with his motion, but my understanding is he wants at least an hour with both the Parliamentary Budget Officer and with officials from the Department of Finance at the same meeting, if I'm clear.

Hon. John McCallum: Yes.

The Chair: For at least an hour. He would be willing to accept a second meeting with the economists, perhaps of an hour.

Hon. John McCallum: Do it all in one meeting, as long as they are separate.

The Chair: As long as there are separate panels.

Mr. Mike Wallace: Fine, thank you.

The Chair: Is that a point of order? It might not have been a point of order, but it was a good point.

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: Logically, I think it would make more sense to hear from the economists at the beginning of the meeting, for them to share their projections, and to hear from the Parliamentary Budget Officer and the Department of Finance officials in the next hour. That is a logical suggestion.

[*English*]

The Chair: I think that makes absolute sense.

I have Mr. Généreux and then Mr. McCallum.

[*Translation*]

Mr. Bernard Généreux: I want to remind Mr. McCallum and Mr. Paillé that we are not all economists, thank goodness, and good for them.

Mr. Daniel Paillé: Good thing.

Mr. Bernard Généreux: Good thing, indeed.

[*English*]

The Chair: Mr. McCallum.

Hon. John McCallum: For clarity, we're talking about Finance officials on this, not the Minister of Finance, correct?

The Chair: That's correct.

Hon. John McCallum: Okay. I don't think the minister would want to go there.

The Chair: It was very clear, to “invite Department of Finance officials”.

I'm sensing that there's agreement to amend the motion to have a separate panel with the economists.

(Amendment agreed to)

(Motion as amended agreed to)

The Chair: Thank you, colleagues.

The meeting is adjourned.

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