House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 006 • 3rd SESSION • 40th PARLIAMENT

EVIDENCE

Tuesday, March 30, 2010

Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order meeting number 6 of the Standing Committee on Finance, where we are continuing our study of the retirement income security of Canadians.

We have with us this afternoon five organizations, including the Canadian Association of Retired Persons.

[*Translation*]

We have the Fédération des travailleurs et travailleuses du Québec.

[*English*]

We also have the Bell Pensioners' Group, the Association of Canadian Pension Management, and the Nortel Retirees' and Former Employees' Protection Committee.

Thank you all for coming to the meeting today.

Mr. Sproule, you have the last slot for up to five minutes, and we have up to 10 minutes for each of the other presenters.

We'll start with Ms. Eng, I believe.

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

We had some documents that were not translated in time, which I understand will be provided to you at a subsequent meeting.

CARP is Canada's largest national organization for older Canadians. We are a national, non-partisan, non-profit organization committed to advocating for a better quality of life for all of us as we age. We have 300,000 members across the country and 34 chapters.

We're focusing today on the need for pension reform. The current economic crisis has exposed flaws in the current pension regulatory regime. It has focused attention on the need for Canadians to better save for their own retirement and has highlighted their sudden realization that there isn't a vehicle allowing them to do so adequately.

We believe that the existing regulatory regime needs some amendment to rebalance the interests of employers and employees, including a governance role for members and retirees, to prevent the underfunding and insecurity of existing pension funds and of course to facilitate the outside chance that it we change these rules, we will encourage more employers to establish workplace pension plans.

In the absence of this kind of effort, we are recommending that there be a supplementary retirement savings vehicle. Many options have been proposed. The one that CARP proposes is a universal pension plan that is mandatory and affordable and capable of providing adequate income replacement while being sustainable, able to withstand the kind of demographic and economic shocks that we have witnessed, and independent of both government and the various employers.

Obviously, there are options that are available through the private sector and elsewhere, which you will hear about elsewhere.

I wanted to bring to you today the message from our membership. As you may or may not know, we have a newsletter that goes to 85,000 opt-in subscribers, all of whom are members, and we include in that newsletter a survey of advocacy priorities on which we can regularly expect 2,000 to 6,000 responses, often overnight.

By way of example, on Friday we issued another survey. We were referencing the Ontario budget mostly, but we did add a question knowing that we would be here today. We asked our members what they thought was necessary to solve Canada's pension problems. We gave them various options, including increasing CPP contributions, the creation of a voluntary or mandatory supplementary plan, and increasing RSP contributions or TFSA room, etc. I can just tell you right now that only 4% of our membership thought that nothing needed to be done. They made various selections and indicated various priorities, the greatest being that we should increase the CPP. Nonetheless, the point is that they believe there needs to be reform.

Who are they? These people are mostly already retired, mostly over 55, with the vast majority over the age of 65. In our sample, they indicated they were not badly taken care of in their retirement. Nonetheless, they want us to have the benefit of their own advice and experience to make things better for the next working generation.

By and large, they are fully supportive of the need for a supplementary pension plan. They reject the position of bankers' and investors' associations that Canada does not need another one-size-fits-all plan—as if that's what we are recommending—but they certainly reject the idea of doing nothing. They certainly put a priority on helping people who have pensions but whose companies have gone bankrupt and are now unable to look after them. So they have supported the idea of enforced improved protection in the event of bankruptcy.

The government's actions to date have been very disappointing. There have been two years of what I might call serial stalling. Yes, there have been consultations, and we're entering yet another round of consultations, but as to specific proposals for change, there have been very few. So we have very little to report to our members on what has happened in the last two years to address the economic downturn we have faced.

What is worse than doing nothing? It's telling us that nothing needs to be done. That's the situation we are in right now, and I want to spend the last couple of minutes of my time to address the issue of whether or not we can allow the status quo to stay.

Many people have been quoted as saying that reform is unnecessary because Canadians are saving enough, yet there are people who are much more experienced than me on these issues who have talked about the need for reform. They include the C.D. Howe Institute, the TD Economics group, and the former governor of the Bank of Canada, etc., all of whom have indicated, among a number of different things, that we are not saving enough for our retirement.

● (1535)

The hard fact is that the public pensions we have in existence were never meant to provide sufficient retirement income in and of themselves. Room was left for the private sector to fill, and that has not happened.

We have to pay attention to the official measure of poverty among seniors, because the whole point of having a pension system in the country is to do two things: prevent poverty in old age, and allow people to maintain their standard of living in retirement. Have we done that? The answer is no. The official measure of poverty among seniors in Canada that we praise ourselves for is 4.4%. It's one of the lowest rates in the OECD countries, but it's still over 200,000 people.

A better measure of poverty is the number of people whom the government is already providing some support to in the form of the GIS. Some 1.6 million Canadians are taking advantage of this income support program. This is the kind of measure indicating the people affected by lack of retirement income security.

Are they able to maintain their standard of living into old age? The fact remains that they don't. In his recent report, the Parliamentary Budget Officer indicated that the OAS rate, what he calls “elderly benefits”, is 14% of the average annual wage. If the OAS program is not enriched, the average benefit will fall by 60% to about 5.7% of the average annual wage by 2084. Now if that's too far into the future for us, then look at 2031, at which point the average benefit will have fallen to about 10%.

So people who are using or receiving public pensions, the way these are structured now without any enhancements—and the increase last year was exactly 0%—will fall behind and not participate in the increased living standard of everybody else.

While public pensions are proving to be insufficient to replace our pre-retirement incomes, you often hear people talk about how they have 70% income replacement at the lower rates. Think about it for a minute and you'll realize that when you combine the OAS and GIS, you will get about $14,000 in total. When somebody has a pre-retirement income of $15,000, certainly you are replacing 93% of their pre-retirement income. However, $14,000 is still well below the poverty line that we've set ourselves. So there's clearly a need to rely on third pillar savings, and that's the challenge we have to focus on.

Other economists have identified what we need to have saved by the time we want to retire, and they've made some frank calculations. To get an annual pension of $20,000, you have to have saved $283,000. If you want an $80,000 pension when you retire, you have to have $1.1 million, which is a lot more than some of us here have—and these numbers are not even indexed for inflation.

To figure out what this means for the average person, the C.D. Howe Institute has indicated that to get a pension that replaces 70% of your pre-retirement income at age 65, you will need to save between 10% and 20% of your pre-retirement earnings every year for 35 years. If we're not doing that, we will not have enough to live on. That's part of the problem.

It's for this reason that we believe it's absolutely important that we must understand, first of all, that we need to find consensus that something has to be done. Once we have found that consensus, then we can get down to the brass tacks of articulating what needs to be done. When we sit around the table at the pension summit that we are calling for, we have to ensure that retirees have knowledgeable representatives there.

Thank you very much.

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

Monsieur Bellemare, s'il vous plaît.

[*Translation*]

Mr. Réjean Bellemare (Union Advisor, Fédération des travailleurs et travailleuses du Québec): Good afternoon. I would like to thank the committee for inviting the Fédération des travailleurs et travailleuses du Québec.

The FTQ represents over 1 million workers in the private and public sectors of the economy, including several federal sectors. Our members rightly believe that their pension plan is one of the most important benefits earned during their working lives.

However, historically, the FTQ has always believed that private pension plans are the union's solution to a public pension system which falls short. When the CPP/QPP were created at the end of the 1960s, it was a great step forward, but the fact remains that it was just the first step.

The CPP/QPP coverage rate was set at a maximum of 25% of eligible earnings. For decades, we have been calling for the creation of a public and universal pension plan with a higher rate of salary replacement—50% to 70%—applicable to the maximum threshold of eligible earnings, which would be higher than the current threshold.

The CPP/QPP is a pension plan which is almost ideal. It can be fully transferred from one employer to another, it is indexed to the cost of living, it takes into account a worker's very low income periods, and even periods when a worker has no income, such as when a spouse stays home to raise very young children. Lastly, a public system would cost less to administer than an assortment of private plans. A public plan would be more resistant to short-term market variations. The FTQ is convinced that a public and universal system offering better coverage is preferable to the current situation. We therefore join our voice with that of the Canadian Labour Congress, which has called for the creation of such a system.

Where others might see a three-tier pension system, we see a system of social security—old age security—a public system, but which does not provide sufficient retirement income—the CPP and the QPP—and the more-or-less successful efforts of the private sector to compensate for the lack of coverage provided by the public system. Further, we believe, as does the Canadian Labour Congress, that the social security part, that is, old age security, is insufficient. It keeps Canadians in poverty and should be substantially increased.

At a time when many people are thinking about creating a second tier of coverage within the CPP/QPP, private plans are falling short. Too few workers are covered by these certified plans. Further, in the last few years, many private sector employers have been trying to put an end to these plans or, at the very least, deny them to young workers entering the labour market, thus reducing coverage and the quality of pension plans for future cohorts.

There is no doubt that we need to review the public pension system, and not add a new tier of defined benefits, but to clearly improve the current level of benefits. Until that happens within the CPP/QPP, the FTQ will continue to negotiate certified pension plans for its members.

It comes as no surprise that the FTQ wishes to restate its support for defined benefit plans which, compared to defined contribution plans, are better tools for retirement planning. A defined benefit plan lets workers know what their retirement income will be. Market-related risks are assumed by the plan's sponsor, or collectively by the members.

As it is often linked to a member's salary, it is easy to understand the promise of a pension. Lastly, while the costs associated with the actuarial evaluation and the administration of defined benefit plans can be high, they are mostly compensated by the professional management of assets over a long period of time, which should generate a higher return on investment, in addition to lower management fees.

In comparison, defined contribution plans, be they public or private, are less effective tools for retirement planning. Each of our members bears the risks of market fluctuations, and members will only know what their retirement income will be when they actually retire. Their pension income will depend on their level of contribution throughout their working careers, the returns earned during good years, and the level of interest rates when they retire, if they choose to purchase a life annuity, of course. Let's not forget that it costs more to administer these individual accounts.

Since they wish to take advantage of high stock returns, promoters of defined contribution plans have, over the years, adopted increasingly aggressive investment policies. In doing so, they hoped to reduce the amounts they would have to contribute, through any surpluses generated by their investments.

● (1540)

That is indeed what happened. The Régie des rentes du Québec established that, between 1991 and 2000, over 6,000 contribution holidays were taken, for a total value of $5.5 billion. The value of the plan increased by $1.6 billion. It was the same for federal plans.

The adoption of an aggressive investment policy worked. Since 2001, however, financial markets did not perform so well. Two major economic crises forced federal and provincial lawmakers to adopt measures loosening the rules governing the funding of defined contribution pension plans. Were these measures necessary? We at the FTQ believe they were. But we thought that the sponsors of private plans could have done better in years past. Rather than focusing on surpluses and contribution holidays, they could have adopted a funding policy which would have minimized the fluctuations of contributions while protecting members' benefits.

We believe that imposing a funding policy for pension plans is extremely promising. In our view, it is precisely because there is no such policy that sponsors tried to maximize their return on investment at any cost and take as many contribution holidays as possible.

As for an investment policy, we should go further than simply choosing between stocks or managers. The way the companies we invest in are managed holds some guaranteed return on investment. For example, everyone who invested with Bernard Madoff were in for a rude awakening. This is why it is important to assess the character and qualifications of those we ask to invest our money.

The current crisis has also led the FTQ to ask itself whether it is necessary to bring in an insurance system. In Ontario and elsewhere, trying to create a deficit-insurance program for pension funds has proven difficult. The risks associated with each pension fund have to be estimated and tariffed if an insurance plan is to work. As well, there would have to be legislation to force pension plans' sponsors to adopt funding and investment policies based on the demographic profile of a plan's members, and on the plan's purpose, too. However, despite all of this, we support the creation of an insurance system which respects provincial jurisdictions in the pension sector. But some conditions need to be met before insurance plans can be put in place: we need stricter funding rules and stronger powers of intervention for monitoring authorities. We would also have to prioritize the accounts receivable of pension funds, including solvency deficits in case a pension plan's sponsor declares bankruptcy.

If there is one thing the FTQ has learned in light of the current crisis, it is precisely that we need to protect members' pensions at all costs in cases of bankruptcy. Otherwise, workers who lose their jobs are penalized twice: they lose their income today and they lose their income tomorrow. This situation is unacceptable: we need to act. We cannot support Canadian companies with workers' pension funds. If we want to better protect members' pensions, we also need to amend the legislation to force the sponsors of pension plans to fully fund their pension funds in case they cease their operations. The fact that this is not already enshrined in federal legislation demonstrates negligence rather than an enlightened choice.

Lastly, on a note which more properly reflects the FTQ's views, we believe that the legislation should make it easier to create new such plans. Under new regulations made under the Supplemental Pensions Act, which was passed in 2007, the FTQ created a defined benefit multi-employer plan, whereby employers are not responsible for fixing deficits.

Since then, the member-funded pension plan—RRFS—has helped 3,000 workers, employed mainly by small companies, to become members of a good pension plan. Recently, a large group of employees negotiated a MFPP, and this happened just before they fell under federal jurisdiction. We had approached the Régie des rentes, which was immediately open to allowing employees working in a federal jurisdiction to join a MFPP, something which is specifically forbidden in the regulations. Our discussions with federal authorities are more akin to trying to navigate an obstacle course. To this day, we cannot see how these obstacles can be overcome, which will prevent federal workers from accessing a defined benefits plan.

● (1545)

In conclusion, I would like to remind you that the FTQ is calling for Canada Pension Plan and Quebec Pension Plan benefits to be doubled. We would be pleased to discuss with you how this can be achieved. In the meantime, there is no doubt we will have to amend the legislation to better protect the retirement income of all workers.

Thank you. I would be pleased to answer your questions.

● (1550)

[*English*]

The Chair: Merci beaucoup.

We'll now go to the Bell Pensioners' Group, please.

Mr. Robert Farmer (Vice-President, Bell Pensioners' Group): Thank you, Mr. Chairman.

The Bell Pensioners' Group represents the interests of some 31,000 retirees from Bell Canada. We're also a founding member of the Canadian Federation of Pensioners, and, collectively, these two member organizations represent some 150,000 Canadians across the country.

I have handed out a relatively short text, and I would ask that you take the time at some point to give it a quick read. It shouldn't take terribly long. I won't be reading it here, but will be focusing on many of the comments in it.

The focus of both the BPG and the CFP, the Canadian Federation of Pensioners, is the protection of the pension benefits promised to our members. These people have already lived their lives of employment and of course can't relive them again, so if something happens to their pensions, they really have very little recourse to make up the difference. That's why it is so critically important that we mitigate as much of the risk facing pensioners as we can.

The biggest risk to our pensioners is that their plan will be underfunded at the same time the plan's sponsor finds itself in a situation where it can no longer contribute. Clearly, a bankruptcy proceeding is one of those situations.

I want to put the numbers in context here. We're not talking about pensioners with very large pensions that, if they were reduced somewhat, would still leave the pensioners with a substantial amount of income. For Bell Canada pensioners, the average pension income is $22,000 a year.

We think there are three objectives that pension rules should follow so they can mitigate risk for pensioners. What I will do today is to touch on each of them and talk about how the objectives can actually be put into practice.

The first objective is for fully funded pension plans. For these plans, the rules should help them to stay fully funded and keep them from falling into an underfunded state.

The second one is for pension plans that are not fully funded. Then the rules should bring them back to a fully funded status in a relatively short period of time.

The third one is for pension plans that are underfunded and the sponsor is facing bankruptcy. Then pensioners should have a better chance at realizing the pensions that were promised to them by getting better access to some of the assets of that sponsor.

Let me spend just a moment on the first objective, keeping healthy plans healthy. There has actually been a fair amount of work done by the government and others, of course, on this issue over the last year. Last October an announcement was made about the government's plans for pension rules. By pension rules, the government meant not only legislation but regulation as well.

Many of the elements of that announcement were very encouraging. We endorse many of them and we think they do a good job at contributing to the security of pensioners, so we want those to go ahead. I have listed a number of them in the brief document I passed out.

Where they fall short is in not requiring sponsors to contribute in good times in a way that would allow pension plans to better weather the tough times. Though there is a recognition that it is good to have a surplus in the plan and that a sponsor can't take a contribution holiday unless a 5% surplus remains in the plan, there is actually no requirement for the plan to build the 5% surplus. We are somewhat disappointed by that aspect of it. But the other rules really do quite a reasonable job of keeping healthy plans healthy.

I'll turn to the second objective, where we're talking about bringing an unhealthy plan back to health. By unhealthy plan, I am talking about one that is not fully funded.

This was a disappointment to us, I have to say, and I want to contrast the current rules with what is being contemplated for the new set of rules going forward. Today, if a plan is underfunded, a sponsor has five years to bring it to a fully funded status, by making equal contributions over that period of time to eliminate its deficit. Under the new rule that the government seems to be contemplating, rather than taking five years and doing it in five steps, the rule would be that in any year, if there were a deficit in a plan, then 20% of that deficit has to be eliminated through contributions by the sponsor.

● (1555)

I can compare the difference between these two approaches with the simple analogy of walking across a road. I could walk across a road in five steps and get to the other side. That's similar to the current rules. Or I could take an approach that says, every time you take a step, just cover one-fifth of the distance remaining to the other side. So my first step would be the same size, one-fifth of the distance; my second step would be smaller; and my third step smaller still. After five steps, I would still have one-third of the distance to cover to get to the other side. I take more steps and they get smaller and smaller. After ten steps, I still have 10% of the distance to cover, and so on, and I actually never quite get to the other side.

Now, why is that a risk? It's a risk to pensioners because if a pension plan sponsor should ever find itself in bankruptcy, the longer the deficit remains, the more likely this sad circumstance of the sponsor is going to occur at the same time the plan is in deficit. When the plan is in deficit, pensions are cut. That's the risk to pensioners.

Again, to go back to my analogy, if I'm crossing a road, at least I can look both ways and maybe see if traffic is coming. But in the world we're talking here today, a sponsor's world, where there is so much business uncertainty, you don't really know what's coming down the road. You don't know if a truck is coming around the corner, so the quicker I get across the road the better.

I first thought we had taken a backwards step on this particular issue of retiring a deficit, but it's actually not a backwards step, but a step into an area we have never been before. So I would strongly urge that the current five-year rule, amortizing a deficit over a five-year period, remain in place.

Now if the sponsor finds itself having difficulty meeting that financial obligation—and it is a financial obligation—there is the possibility under the proposed new rules that the sponsor and the plan members could negotiate a different contribution schedule than the five-year rule. That allows a pressure valve for some sponsors who find it's too much financial pressure to meet a five-year schedule.

The third objective is that of improving a pensioner's ability to garner assets from the pension plan should the sponsor find itself in bankruptcy at the same time the plan is underfunded. There has been more than one suggestion in this vein. One would be, don't wind up the pension plan in the case of a bankruptcy. That is a possibility, and it may be a very good option in some circumstances. In fact, I think we should hold it out as an option, that is, don't wind up the plan but let it continue to operate. It will continue to invest in the market, and it could be that the plan will come back to a healthy situation. However, it will only do so if there is luck in the market. It's not a solution to the fundamental problem that the sponsor can no longer contribute. It may be helpful, but it isn't a solution.

The second approach was to allow sponsors to access more assets in bankruptcy proceedings than they can today. Again, that's a good approach. There are a number of countries—I've listed them in my paper—that already allow this to happen. I think Canada should really be doing this now. I do want to stress, nonetheless, when talking about the third objective, where the plan is underfunded and the sponsor is in bankruptcy, that there is no really good solution. That's why the first two objectives, keeping plans healthy and bringing them back to health, are so terribly important.

That concludes my comments.

I'd like to thank you very much for allowing us to provide our views.

● (1600)

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

We'll now go to the Association of Canadian Pension Management.

Mr. Scott Perkin (President, Association of Canadian Pension Management): Thank you, Mr. Chair.

My name is Scott Perkin and I am president of the Association of Canadian Pension Management. With me today is Bryan Hocking, the CEO of ACPM.

The ACPM is the voice of pension plan sponsors, plan administrators, and their allied service providers. Our current membership represents some 300 registered pension plans providing coverage for over three million Canadians. For over 30 years the ACPM has been advocating for the growth and health of the Canadian retirement income system.

Pension headlines are everywhere of late, and Canadians could be forgiven for thinking that a crisis exists. Yes, there are significant challenges, and they do require thoughtful solutions, but the good news is that there are solutions.

We believe that every Canadian should have an adequate retirement income. Achieving this will require a pan-Canadian approach wherein both the federal and provincial governments develop common solutions that will work for all Canadians. Solutions must recognize that opportunities for Canadians to obtain adequate retirement income should not rely on where they live or whether their job is in the public or private sector. Governments working together can make this happen.

Canada has one of the best retirement income systems in the world, according to the 2009 Mercer Global Pension Index. Government programs, that is, the OAS and GIS as well as the CPP and QPP, and the first and second pillars of Canada's three-pillar system are doing their job of providing a basic level of retirement income for all Canadians. Recent studies commissioned by the federal and Ontario governments confirm that the system is sound and that the problem of retirement income adequacy is a targeted one, wherein some Canadians are not able to save enough and others would like the chance to save more or to participate in a pension plan.

The question is, how do we increase the number of Canadians who have an adequate retirement income?

As the voice of plan sponsors and others that provide retirement income plans for Canadians, we believe that the third pillar, workplace plans and personal savings, can provide a much greater range of options for an adequate retirement income, with the right policy and regulatory environment. This flexibility could also provide a more precise response to the savings needs of those Canadians who are not saving enough for retirement.

Workplace plans and personal savings have an important role to play, and yet we know that many employers are reluctant to begin or continue providing retirement income options for employees, especially defined benefit plans, because of increased costs, complexity, and significant policy barriers. We need more employers to offer more retirement options, but current rules discourage new workplace plans and frustrate existing arrangements. Fragmentation and different rules across the country further limit the retirement income system's effectiveness. In addition, a couple of myths threaten to shut down discussion of these third-pillar options in favour of simply extending or supplementing the CPP as some sort of overall solution.

One myth is that expanding the current CPP is the better way to go because it is universal in its application, but the recent studies I cited make it clear that there is not a universal problem. Therefore, a one-size-fits-all solution, with its higher payroll tax and inflexible mandatory contributions, is not what Canadians need, especially when there are better ways to prepare for retirement for many Canadians.

Others hold the view that a supplemental CPP is the better option because it is cheaper, but all retirement income programs have costs of running them, whether in the public or private sector. The question is, what level of services are these programs expected to provide, and what is the value of those services to plan participants?

Third pillar retirement income providers offer expertise in a complex area and more options in terms of savings vehicles that can provide more flexibility at different phases of life. For example, an individual raising young children and paying down a mortgage may need different savings options than later in life when their mortgage is paid off and their children are grown. In addition, third pillar retirement income providers do offer economies of scale and competition, which drive efficiency, choice, and options for consumers.

● (1605)

The bottom line is that every Canadian should have an adequate retirement income. Our CPP and QPP and other government plans provide the foundation, but they cannot provide the only option. We believe that several large plans operating multi-jurisdictionally can provide the flexibility and choice of savings options that Canadians need, while encouraging diversification of capital and retirement savings, economies of scale, and the benefits of competition, such as lower costs.

Changes to the Income Tax Act and provincial pension standards could support this. They could also expand coverage opportunities for the self-employed; remove barriers to expanded enrollment in workplace plans, particularly for small business; and enhance individual options. These changes would support increased competition and diversification of retirement savings, while providing more flexibility and choice for Canadians. A thriving retirement income industry would also support economic growth in terms of jobs and investment for Canadians.

There is no question that we face considerable challenges, but there is also no question that a range of options is what is needed to meet the retirement income needs of Canadians. There is no single solution here.

The time is ripe to shape needed reforms to enhance the third pillar of Canada's retirement income system and to develop a range of options that will work for all Canadians and achieve our collective goal: more coverage for more Canadians.

Demographics are not on our side. There's no time to lose.

Thank you.

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

Mr. Sproule, please.

Mr. Donald Sproule (Chair, National Committee, Nortel Retirees' and Former Employees' Protection Committee): Thank you very much, Mr. Chairman.

I didn't think I'd be back so soon in front of this committee. I'll be brief, to respect the other witnesses.

The Nortel pensioners have met, and I wanted to give you some idea of some decisions they've had to make over the last five days.

When I was in front of you last Thursday, I stated that we had an opportunity to continue our health benefit plans until the end of the year. We'd also reached an agreement that our pension plan would not be wound up until September 30 of this year, at which time we would take a cutback of about 31% of our pension plan. This wasn't referenced in my handout, but I did state that this was all subject to court approval.

I honestly thought that when we went in front of the judge on March 3, the judge would approve the agreement. In the agreement, we actually gave up the right to higher priority ranking in the winding up of Nortel under CCAA. What we did ask for, and we fought hard for this, was the right, should the BIA law change prior to Nortel's moving into bankruptcy—assuming that the government, under those new bankruptcy law changes, would grant us higher priority status—to argue for that higher priority ranking in the bankruptcy courts.

One day later, at four o'clock last Friday, the judge ruled that he would not approve the settlement agreement with this clause, which I call H2, because it did not remove the uncertainty and doubt of the final agreement for other Canadian creditors, such as the bond holders and the Unsecured Creditors Committee.

Now when I began this process of bankruptcy and bankruptcy litigation with Nortel, I was told by my counsel that this is the Wild West—you never know what's going to happen. We, as pensioners, have suffered in this Wild West in terms of trying to get what we believe is justly ours.

With three business days left, we were left to make a decision. Do we assume that the federal government is going to act on our behalf and change the Bankruptcy and Insolvency Act? And do we stop our health benefits on Wednesday of this week? Do we assume that the federal government is going to work on our behalf and change the BIA, or do we face the possibility of having the pension plan wound up on Wednesday? There's a small group of the terminated who were going to get $3,000 from the termination agreement, and they were going to lose that as well.

So we had to make a bet. We did not believe that the federal government was going to act in time on our behalf. We could not take the risk. The people on long-term disability were facing similar decisions. So this morning, we instructed our counsel to go in front of the judge and remove this clause that gave us faint hope in terms of the bankruptcy laws being changed. We expect to have a full court hearing tomorrow. With that, we will preserve our health payments to the end of the year. And it will give us some time before the pension plan windup on September 30 so that we can negotiate with the Ontario government to implement what we call the “pension orphanage”.

When I talked to you on Thursday, I said that we were looking for fairness in bankruptcy laws. Hopefully you understood that the pensioners, the people on long-term disability, and the terminated are not fairly pitted against the bond holders and other creditors. We are all dependent on a single corporation for our pension plans.

At the same hearing, we heard from a Mr. Fréchette, a pensioner from Atlas Steel. He said that if the bankruptcy laws had changed in time for them, it would have made a difference. The gentleman from Atlas Steel said that they understood that any changes weren't going to affect them and help them out in time but that they came forward to help out the people from Nortel and to change unjust laws.

Every month, when Nortel pensioners open up their pension stubs, we will be reminded of the inequity of the system and of whether governments acted or not on our behalf. The Nortel Retirees' and Former Employees' Protection Committee will continue to lobby Parliament and the Government of Canada for changes to these bankruptcy laws. We figure that they are extremely unjust.

Finally, this is my faint hope clause, and it rests with the Government of Canada: the Government of Canada, being the supreme law of the land, still has the potential to make retroactive changes to the bankruptcy laws and to help some 20,000 Canadians who are affected by this insolvency. At the same time, it can save the downloading of some $355 million to Canadian taxpayers because of the costs of this insolvency.

● (1610)

Thank you.

The Chair: Thank you for your presentation.

We'll start the members' questions with Mr. McCallum, please.

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

Thank you to all the witnesses for being with us today.

I first have one question for Mr. Sproule. We had hoped that the bill in the Senate for the long-term disabled would have passed by now, and that we would also have supported the NDP bill as and when it came to the House. Are you saying it's too late now, that even if those bills were to pass today, it would be too late for Nortel?

Mr. Donald Sproule: It would be too late for us, unless there were retroactive clauses in those bills.

Hon. John McCallum: Okay, thank you.

Now I'd like to turn to Mr. Perkin. I don't really agree that you're offering a balanced approach. I think you're offering an unbalanced approach when you summarily dismiss any possibility of a supplementary Canada pension plan. We had this discussion with representatives of banks and insurance companies, and at the end of it, I thought they were not totally opposed to what I had to say, because I do think we can have a system in which many options are offered to Canadians so they have more choice. One of those options would be a supplementary Canada pension plan, and we're proposing a voluntary one.

I notice Ms. Eng's polling shows strong support among her members for a voluntary Canada pension plan. One of the advantages of that is it would offer far lower fees to the contributors than the private sector does, and by a large difference.

At the same time, I'm not opposed to what you propose in terms of opening things up and expanding coverage, including multi-employer plans, and all of those things the insurance companies have also talked about. I'm not opposed to doing that, but I don't think it's either/or. I don't think it's a matter of either expanding the Canada pension plan or expanding the scope of the private sector. I don't know why you can't do both. Then, depending on their circumstances, Canadians would choose one or the other or both.

So why do you insist on this? In the text of your prepared remarks, you called it “Myth Busting”. You wrote, “Don't mess with government programs such as CPP/QPP”, which “don't need to be expanded”. Well, that's a very bald statement. Why do you say they can't be expanded while at the same time saying that the private sector can be expanded and Canadians would have more choice?

● (1615)

Mr. Scott Perkin: That's a fair comment and question, Mr. McCallum. Let me address the existing CPP. We have three or four concerns about expanding the existing CPP. One is that it's a mandatory payroll—

Hon. John McCallum: No, I'm talking of it being voluntary.

Mr. Scott Perkin: Okay, let's deal with a voluntary one then. We're agnostic when it comes to publicly run versus privately run plans for Canadians. Our concern about the supplemental CPP, the way it's been put out there and advertised, is that it seems to be the only game in town. So we're opposed to one large megafund, if you will. We'd like, as I said in my comments, to see many large plans operating across Canada. Quite frankly, we don't believe that the governments need to get into the scheme any more than they are, because they are providing, through CPP, QPP, and OAS, a minimum level of retirement income for Canadians.

The concern we have right now, and Ms. Eng suggested that the private sector has failed us here, is that there are obstacles, both in the tax act—

Hon. John McCallum: I understand that.

My question is, if we agreed to remove those obstacles to allow the private sector to expand, why don't you reciprocate and drop your objections to a voluntary expansion of the Canada Pension Plan? I think both entities could be helpful for Canadians in different circumstances.

Mr. Scott Perkin: Our only concern or objection, if you want to call it that, to a supplemental CPP is that it could become the only game in town, and we're opposed to—

Hon. John McCallum: No, I'm saying it's not the only game in town. I'm saying, do both.

So you don't object to that?

Mr. Scott Perkin: We don't object to that, no.

Hon. John McCallum: Okay, thank you.

Mr. Farmer, could you clarify your view that pension funds should be required to pay back deficits within five years? As I understand the temporary rule, they could do it over 10 years, subject either to agreement of the pensioners or having a letter of credit.

Is that right?

Mr. Robert Farmer: That's correct.

Hon. John McCallum: However, the proposal on the table is that they no longer need the agreement of the members or the letter of credit, and they can pay it back more gradually. Is that correct?

Mr. Robert Farmer: It would be the 20% a year rule. That's correct, and there would be no conditions.

Hon. John McCallum: I guess this is more a question for the government than for you. Why did they propose such a dramatic change?

Mr. Robert Farmer: I can only speculate about that. Undoubtedly, there have been discussions on both sides, pensioners versus sponsors. Of course, sponsors are looking for some flexibility in their obligations from a financial point of view. I suspect that might have something to do with it, but I have to say, it has gone much too far. The payback period has grown from five years, typically, to 10 years on a temporary basis with conditions, and now to more than 10 years without conditions.

Hon. John McCallum: Thank you.

Ms. Eng, I was pleased to see that you gave us all of your data, even if the data don't necessarily agree with your own personal position. I thank you for that, because if I look at survey questions 5 and 8, there seems to be pretty strong support among your members for a voluntary CPP expansion as opposed to a mandatory one. I wonder how you would respond to that, but you could maybe also address the intermediate position in doing so.

We in the Liberal Party have spoken of a voluntary plan, but there is more than one way of doing a voluntary plan. As Keith Ambachtsheer has proposed, one could have a voluntary program, but with the initial position that you're in and that you would have to opt out. He argues that this would lead to substantially higher enrollment.

What would be your view?

The Chair: You have about 30 seconds, Ms. Eng.

Ms. Susan Eng: Our bottom line is that there should be as universal, broad-based coverage as possible. How do you get to that point? In current economic circumstances, many more people have woken up to the fact that they must do something. So a well-structured voluntary vehicle might just get enough of their attention to make this viable. Without that, however, as we have found in many other things, including the current state of RRSPs, voluntary is not enough by itself. So we're not latching ourselves to the idea that it must be mandatory, but recognize that people must have options.

Nonetheless, research has indicated that if you have mandatory enrollment, even with an opt-out option, many more people would stay with it than if you made it purely voluntary. To some extent, I'm personally agnostic about it. Our membership is certainly evenly divided. They do feel there is a need for a supplementary plan. They do understand it needs to be fairly universal, that it has to reach a critical mass, and it has to be affordable. All of those things can only be achieved through that critical size, and if you can get to a critical size with a voluntary system, that would be acceptable—certainly to our membership.

● (1620)

The Chair: Thank you, Mr. McCallum.

Monsieur Paillé, s'il vous plaît.

[*Translation*]

Mr. Daniel Paillé (Hochelaga, BQ): Mr. Chairman, I will follow up on Mr. McCallum's question, because I would have thought that he would have directly addressed question No. 26. Perhaps he doesn't like it so much. A few years ago, I studied the way polls are conducted, and I am afraid that your poll is fairly biased. For example, on page 14, it says that 64% of people are already retired. So our pension system basically works fairly well, and this stands in relation to question No. 25. Statistics are for an economist what a streetlight is for someone who has had too much to drink. It is something to hold him up rather than to show him the way. However, I think that statistics can nevertheless be useful, but they have to be interpreted cautiously.

I have a couple of questions for the representatives of the FTQ. If our public pension systems were stronger and more complete—for example, if they had a replacement rate far over 25%, 30% or 40%—are you not afraid that you would be shooting yourselves in the foot because, through the Fonds de solidarité, you have an additional pension system? Further, is there not a danger that people will say their retirement income from the public system is plenty, and that, consequently, they might choose not to contribute, or to decrease their contributions, to the Fonds de solidarité?

To take that idea one step further, say Canada improved its retirement benefits, would you adopt specific investment policies, either by investing in a region or in a province, or pan-Canadian investment policies, rather than a more scattered approach?

Mr. Réjean Bellemare: We are really not afraid of shooting ourselves in the foot.

The main objective of the FTQ is not to operate the Fonds de solidarité, but rather to protect our members and Quebeckers and Canadians. We have always maintained that a public and universal system was the best solution to protect all Quebeckers and Canadians. We have not changed our position.

The same logic led us to create the retirement system based on payroll contributions for our members. This is a retirement plan, whereas the Fonds de solidarité is truly an economic development tool. However, it is not the best tool for retirement planning because it is a defined contribution plan. Again, we have not changed our position on the Fonds de solidarité.

Mr. Daniel Paillé: What about the investment policy?

Mr. Réjean Bellemare: We still have not established an investment policy.

We regularly meet with the Caisse de dépôt which manages the Quebec Pension Plan, and we have always maintained that the Caisse is a good tool with which to manage domestic capital. This is good for the economy. The money stays here. It is invested in our country and creates wealth. We could also choose to invest abroad, but I think this money should be used as a development tool for our country.

Mr. Daniel Paillé: I would now like to go to Mr. Farmer.

I'm interested in your formula. Basically, under the federal government's formula, you never get across the road, so to speak. One can see it in your graph. There is an asymptotic line and you never get across the road.

You say that if there is a 5% surplus, a company can stop making contributions, but that there is no obligation to have a 5% surplus. You say that there should be measures in place to ensure a surplus and to go with that. It's on page 2. You state: "We find the 5% situation regrettable".

This is my question. If a company has a deficit in its pension plan, but then the plan's funding is brought up by one-fifth per year, instead of stopping contributions when the plan is fully funded again —having erased its deficit—could the company not top its plan up to 105%, after its experience of falling into deficit? There would be a built-in mandatory incentive—I know that's redundant—for companies which let their plan fall into a deficit—or who were on the brink of falling into a deficit—so these companies would have to top up their plans to 105%.

● (1625)

[*English*]

Mr. Robert Farmer: Well, there's nothing I like more than encouraging a sponsor to go to 105%. One has to recognize the incentives for sponsors. It may be the case that on a voluntary basis they'd be prepared to do it, and perhaps some would. I was delighted to see, for instance, that the rule in the Income Tax Act that required no more than a 10% surplus was actually increased to 25%. That certainly gives some room, if in fact they had an incentive to do it. I'd love to see that.

Nevertheless, as I mentioned earlier, if the plan is 98% funded, say, and the sponsor brings it to 100% funding, there's no obligation on the sponsor to go to 105%. If there is a market downturn and the plan falls into trouble and drops to 93% over a very short period of time, then we would have a long way to go, but if you had at least gotten up to 105%, the fall would not have been quite so precipitous.

[*Translation*]

Mr. Daniel Paillé: I understand that when a company is on the verge of bankruptcy, you believe that there are many ramifications. Generally speaking, this means that sometimes contributions are not made to the pension plan. The solution might lie in following the model of Quebec's Pension Plan, which steps in during certain periods—so that the pension plan does not have to be cashed out immediately—and this type of interim measure could be applied throughout Canada.

I was wondering whether, in your view, the government could apply this type of measure immediately.

[*English*]

The Chair: You have about 30 seconds, Mr. Farmer.

Mr. Robert Farmer: I can be very brief. The answer would be yes. I think it's a good option. I would only quibble with the word “solution”. It's something that would be very helpful, I think, because the QPP would be able to invest the money and the plan might grow along with the rest of the funds they're investing. That would be good, but it wouldn't necessarily bring the plan back to full funding, of course.

The Chair: Merci.

Mr. Wallace, please.

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

I want to thank our guests for coming today.

Because I only have seven minutes, I will probably spend most of my time talking to our friends from CARP, just to clarify a few things.

First of all, how was your survey done?

Ms. Susan Eng: We have 85,000 opt-in subscribers to a newsletter, and of that group, some 3,000 to 5,000 people regularly respond to the survey. So it is self-selected, but with the kind of numbers we have and the geographic—

Mr. Mike Wallace: Okay. Didn't you start off by saying that you have 300,000 members?

Ms. Susan Eng: Yes, and only 85,000—

Mr. Mike Wallace: Only 85,000 out of that 300,000 get the e-mail.

Ms. Susan Eng: Yes. We encourage more to sign on, but a lot of people do not have e-mail.

Mr. Mike Wallace: Okay.

I need to be frank with you. First, based on the number you told me, the 300,000, the response rate to the survey is less than 1%.

Secondly, didn't you say your organization is non-partisan? Isn't it kind of unwise to ask partisan questions such as, how are you going to vote in the next election?

Ms. Susan Eng: No, I think when you ask how they're going to vote, you're asking for their answer, not giving it to them.

Mr. Mike Wallace: Well, your definition of “non-partisan” and mine might be different.

Regarding question 14, Mr. McCallum indicated there was strong support for the voluntary program. If I'm reading this right, 63% said there was no need; 20% said yes—that's 500 votes—and 9% said no.

Hon. John McCallum: That's rubbish.

Mr. Mike Wallace: I'm just reading what they have here.

Ms. Susan Eng: I'm sorry, which question are you referring to?

Mr. Mike Wallace: It's question 14:

> If a Supplementary pension system existed in Canada, would you voluntarily contribute to it?

My question to that is, based on what you've said today, that CARP is supporting a mandatory system, is it because the response rate that you got here wasn't high enough that you think you need to make it mandatory?

Ms. Susan Eng: No, we do not try to manipulate our polls. We just report them as they come back.

The point here, in question 14 that you're referring to, indicates that they personally do not need to contribute to a supplementary plan because they're already retired. That reinforces our point that our members, while retired, are not benefiting, are not seeing benefit for themselves out of any kind of reform, but are nonetheless offering the benefit of their experience for other people, and they recognize the needs and challenges they face in retirement.

However, in terms of the reliability of our surveys, this is not meant to be a professionally made survey. It is a sampling of the views of our membership, which is very highly educated, engaged, and understands the very specific questions that we ask in the surveys.

● (1630)

Mr. Mike Wallace: I'm not disagreeing. Based on their income levels, and so on, they are probably pretty sophisticated folks. I understand that.

So you're not basing CARP's decision-making on a plan on this type of survey, but rather on other—

Ms. Susan Eng: We present to our membership what we hope to be a well-reasoned advocacy position based on the research we have and the circumstances, and we get feedback from our membership, which is unlike many stakeholder groups who make the decision for the members. We try to give them feedback as to what their numbers are telling us as well.

Mr. Mike Wallace: Okay.

We've heard from the Canadian Labour Congress, which I thought had a similar approach to what you've said in terms of a secondary CPP plan, or whatever you want to call it, a pension plan—

Ms. Susan Eng: There is a distinction.

Mr. Mike Wallace: Right.

They admitted to us after a while, after some discussion, that it would take a fairly long time for it to get paid up, in a sense, so that people would actually benefit from it. Does your plan have the same issue?

Ms. Susan Eng: That is the nature of pensions. You do not start benefiting from the first dollar you contribute. It does take a working lifetime, a career, to actually get a full pension.

That's true of MP pensions as well. Even though people are criticizing it for being gold-plated, in fact you had to serve for 25 years to get a full pension. That's the same for any other workplace pension. You do have to work through the working career.

Mr. Mike Wallace: We're hearing lots of issues about pensions today, about people today. Your plan would not necessarily help anybody today. Is that correct?

Ms. Susan Eng: No, but the future comes along pretty quickly. In this circumstance, people have to start saving now in order to have their money in place for their own retirement. If we don't start today, then it's going to be another 35 years.

Mr. Mike Wallace: I don't disagree with you there, Ms. Eng, but to be fair, so that we all have the right information, in your definition of the future, is it 20 years before we start seeing results?

Ms. Susan Eng: That's right. For the supplementary pension, it's going to take that time. If your government is interested in helping people today, then you can increase the OAS and GIS right away.

Mr. Mike Wallace: You also mention in your presentation a pension summit. What would its purpose be? Is it for you to present your views, or have you made up your mind as a group, as an organization? What would the summit result be?

Ms. Susan Eng: The importance of a pension summit is so that all the people who have the authority to make changes—that is, all the finance ministers at all levels of government—have to be around the table and have to concentrate on finding solutions. But at such a summit, there should be representation of knowledgeable representatives of retirees in particular, because those are the people whose futures will be most affected by the changes.

Mr. Mike Wallace: Another interesting piece that we heard so far through these sessions was about multi-employer pension plans. I think you indicated that they were poor performers. I think you said that, but I'm not sure.

Can you tell me why you think they're poor performers? Is there a way to make them better performers, or what's your interpretation?

Ms. Susan Eng: No, there is an opportunity to use multi-employer pension plans. They have had some poor performance, mostly because there is a diffusion of accountability. Once you have multiple groups in there, the difficulty is that none of them are in charge.

It is one option. It's not one that we rule out. We do accept the fact that there should be many different options. The model we present is meant just to frame the issue that there has to be some kind of filling of the gap of people who are not saving enough for their retirement.

Many options can be put on the table, but the current status quo is not enough.

The Chair: A very quick question.

Mr. Mike Wallace: I have one really quick question. I saw in the survey, I think, 6% as a contribution rate. That was for the voluntary program.

If you had a mandatory system, what would the contribution rate be for individuals and for—

Ms. Susan Eng: The 6% was simply to test our members' acceptance of the idea of doubling or increasing the CPP contributions at this time.

Mr. Mike Wallace: What would your rate be under the mandatory system?

Ms. Susan Eng: Actually, in terms of making sure that we have a 70% replacement rate, if you have full coverage to $122,000 of income, the total, including CPP, would be close to about 19%.

● (1635)

Mr. Mike Wallace: Thank you very much.

The Chair: Mr. Marston, please.

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

I want to say to Mr. Farmer that I'm a former Bell Canada employee who is not collecting a pension—just to put that on the record.

It struck me as interesting, because when I look across the table—and perhaps I'll leave Mr. Sproule out of this—this is a group of people who are representing people in general who are somewhat more affluent.

Yesterday the National Pensioners and Senior Citizens Federation met with some of the NDP caucus members, and we talked about the fact that 63% of working Canadians have no pension and have no savings at this point in time.

So I understand, Mr. Perkin, when you talk about the flexibilities and all those things, but most of these people are in a position where perhaps some discipline might be in order to help them.

Talking about the public side of the stool, you've heard from the Liberal Party when they talk about their supplementary plan. The NDP's proposition is very similar to some others: we propose a doubling of CPP. Again, as Mr. Wallace has pointed out, that will take a long time. We're suggesting that 2.5% of the employer side and 2.5% from the employee side would make that happen.

The major thing is the fact that, if it's not mandatory, we're not going to reach the end goal of protecting those lower-income Canadians who have nothing at this point.

The other thing we see as value to what we're talking about is that you have in the CPP plan an administration that has been, to all intents and purposes, fairly successful over the years and has built up the assets. If we incorporated those premiums directly into the core assets of CPP and managed by them in that form, you would not have the added administration that the Liberals are proposing here.

Being mandatory, I think, is to the benefit of the workers. They're going to have at least that founding stool. If they do find themselves later in life with the extra assets to carry forward to invest elsewhere, God bless them; more power to them.

I would like Mr. Perkin and Ms. Eng to respond to the thoughts on the mandatory versus the voluntary.

Mr. Scott Perkin: Let's talk about expanding the existing CPP as we know it. We have no concerns about the fact that the CPP, over 12 years ago, was put on a solid foundation, actuarially. We're now paying close to 10%, between Canadians and their employers, into that plan. The chief actuary has indicated that on an actuarial basis, it's pretty sound for the next 70 to 75 years.

We have many concerns about expanding it. One is that it represents a further payroll tax at a time when we don't believe Canadians and their employers need more tax. We're coming out of a difficult economic situation here in Canada, as well as around the world. It also represents inflexible benefits and contributions: if it's the same for one individual, it's the same for all individuals. Canadians, we believe, save in different ways towards retirement and at different times in their lifetimes.

We're also concerned about the cost, because we think that any meaningful increase in the CPP would have huge costs attached to it. Finally, we're concerned about the lack of diversification of retirement savings. We've always learned not to put all our eggs in one basket.

Those are some of our concerns about the existing CPP.

In terms of a voluntary arrangement, there was some talk earlier about auto-enrollment. We've seen elsewhere in the world that, actually, automatic enrollment of employees in a voluntary arrangement, with the right to opt out, can actually increase the coverage level. Most people, given the choice, might not necessarily elect to participate. However, if you put people in and give them the right to get out if they really want out, most won't get out. That's what we've seen elsewhere in the world.

Even the feature of auto-escalation of contributions—once you get them, let's automatically increase their contributions on a regular basis, unless they choose not to do that—is another way of perhaps getting Canadians to save.

Mr. Wayne Marston: I just have a comment. The percentage that CPP's costs would increase for these deferred wages would be about the same amount of money they would pay for administration fees in private sector funds later on. So what we're actually saying is that we take those fees, we put them into the core base assets, and we build those for folks there.

Go ahead, Ms. Eng.

● (1640)

Ms. Susan Eng: Thank you.

We've been asked about the issue of mandatory and voluntary quite a bit, and I'm not sure why it is that people are so frightened of the idea of it being mandatory. In fact, mandatory works.

Obviously, our model focuses on a big-picture framework that says that if you want to get to your target quickly, and you can guarantee that everybody participates, mandatory works.

I understand that people are pedalling backwards furiously from that, because they feel that somehow this would be one more imposition from government that people just don't like to hear about. I understand that. But the reality is that every defined benefit plan we currently have is in fact mandatory. Your own pensions are mandatory. We now have mandatory seat belt laws. We now have mandatory no smoking laws and bike helmet laws, and I can go on and on.

The reality is that people will always reject any kind of state nannyism. But if it's for their own good, I suppose you have to gather the political gumption and say, well, this is for the public good over the longer term.

If you want to do it without making it mandatory, there are ways. You can make it mandatory with one opt-out and hope for inertia. In fact, that proves my point. People have the inertia of not doing things for themselves voluntarily. So if you reverse it, and make it a negative option, that works better in the long run, and later they thank you for it. Fine. If that's the way you want to make the political choices, that's all right. But our recommendation is focused on getting universal access, affordable access, and the kinds of economies of scale and investment fees and so on that come with a larger plan. To be clear, we're not necessarily basing this on simply an expansion of the CPP; we are using the CPP as a good model to frame our thinking.

The Chair: Thank you very much.

We'll go to Mr. Pacetti, please.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman. Thank you to the witnesses for coming forward.

Mr. Sproule, just quickly, you mentioned that you're waiting for a decision from the Ontario court, but you're still hoping that there will be a change at the federal level.

Mr. Donald Sproule: Yes, that's correct. Basically, we took out clause H2, which was our ability to argue that if there are bankruptcy law changes.... That will be in front of the court tomorrow, and we hope to have an agreement.

Mr. Massimo Pacetti: That's in front of the Ontario court.

Mr. Donald Sproule: It is in front of the Ontario court tomorrow. So that's said and done.

Looking to the future and what faint hope we have, it would be for federal bankruptcy law changes that would be retroactive.

Mr. Massimo Pacetti: Would that help Nortel, because would that not be under Ontario legislation?

Mr. Donald Sproule: No. The bankruptcy laws are under federal jurisdiction, and that would help the Nortel pensioners.

Mr. Massimo Pacetti: You're saying that once Nortel claims bankruptcy in the month of September....

Mr. Donald Sproule: Yes.

Mr. Massimo Pacetti: Okay, great.

I have maybe a quick question for Mr. Farmer. In terms of the pension shortfalls, why do we not seem to have a problem on the public side? I guess the CPP is the only example. I think Mr. Perkin just mentioned that it has a 75-year track record. Meanwhile, we have private pension plans that seem to be in chronic deficit positions. Are they not making weekly contributions to them? Why do they fall behind? It can't be just actuarial evaluations.

Mr. Robert Farmer: It isn't just that, although that does play a role. There's more than one reason. Currently, and it will change under these new proposed rules, pension plan sponsors are required to evaluate their plans only every three years if they're already fully funded. They don't have to do another evaluation and change the contributions they make to their plans for three years. Over a three-year period, lots can happen. That will now change. It will go to an annual evaluation, so that helps. But in the past, if in that three-year period the market took a downturn and the investments just didn't turn out, you could go from a surplus position to a deficit position quite easily.

Mr. Massimo Pacetti: Would the contributions be made, at least?

Mr. Robert Farmer: The contributions would be made according to the previous evaluation, which could be two or three years old. So they would say, well, it looks like you only have to contribute whatever, say $10 million, but because the market is under-performing at the time, maybe they really should have been paying $20 million or $30 million. They were playing by the rules. You couldn't accuse them of skirting anything. But the rules allowed that to happen.

The other thing is that the sponsor's requirement has been and will continue to be that they have to fund it just enough to cover 100% of the liabilities and no more. Again, that goes on for quite some period of time. The market takes a downturn. Last year, most plans dropped by 15%, 19%, or 20%. That's what happens.

● (1645)

Mr. Massimo Pacetti: Thank you.

Just to follow up on Mr. Marston's question, Ms. Eng, it's difficult to say voluntary, because I think we already have a voluntary system. Anybody who has some money can put it into an RRSP, and the people who are not putting money into their RRSPs are the people who are having problems. Some of them may be having financial problems, but some of them just don't want to save for retirement because they say the government will take good care of them. There could be different reasons. So how does it become mandatory?

You're also saying to use the opt-in option. But the company or the employer has to absorb some of the cost involved. Whether it's 1% or 2.5%, as we've been talking about today, not all employers want to absorb that. You can't just have an opt-in by one party. There also has to be opt-in by the employers.

Ms. Susan Eng: This is why we recommend a universal fund that is not tied to the decisions of one employer or even to any group of employers. It needs to be something that is widely available, with no advantage or disadvantage for one employer over another if they opt in or out of the plan. When it's universal, the set-up costs may require government involvement. But once it is set up, this entire fund would be funded by employer and employee contributions.

In terms of the details of how that happens, that's something that belongs to the pension summit, where we can iron out how that could come into play.

Mr. Massimo Pacetti: I just want to ask Mr. Bellemare....

[*Translation*]

Mr. Bellemare, you represent a union. Do you agree with a universal pension plan?

Mr. Réjean Bellemare: That is clearly what we have been asking for, as well. We would like to see contributions to the Quebec Pension Plan and the Canada Pension Plan at least doubled.

Mr. Massimo Pacetti: But what about employers, who would have to absorb part of the cost?

Mr. Réjean Bellemare: We believe that, in the long term, it would cost less than contributing to private plans. Employers are often forced, by way of negotiation, to set up private plans which cost them more, which do not cover their employees very well, and which do not cover all citizens. I think this is an issue which concerns society as a whole. This is something which society should pay for.

Mr. Massimo Pacetti: Perfect, thank you, Mr. Chairman.

The Chair: Thank you.

Mr. Carrier, you have five minutes.

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

I have a question for Ms. Eng regarding the various results of the poll she has showed us.

At question No. 2, it says that most people would prefer a voluntary supplementary CPP system, rather than doubling mandatory premiums. In your presentation, I understood that you would rather double and substantially increase mandatory premiums, rather than have a supplementary program.

The result indicated at question 2 reflect precisely the problem we want to solve. Not enough people are covered by a retirement plan. This is why most people prefer a voluntary system which they will not have to contribute to.

Therefore, would you rather recommend that we substantially increase our pension plan in the interest of solving the problem, despite the fact that most people want something else?

[*English*]

Ms. Susan Eng: Thank you for that.

You have to understand that in that question we were asking members to distinguish among the different options there. You're quite right to point out that if we simply went on the basis of this, we would only be recommending a supplementary CPP. However, the point we're making here is simply that if you look at the whole thing, only 3% say do nothing at all. That's the most important message.

As to the different ways of getting to the kind of coverage we want to see, there are many ways of going about it. We are just saying, in terms of covering everybody, that the most obvious way of doing that is to make it mandatory.

A simple way might be to use the CPP, although we are not only recommending doubling the CPP. There are all of these other options on the table, but the essential point is that there must be coverage of the entire gap left after the current public systems are accounted for.

● (1650)

[*Translation*]

Mr. Robert Carrier: So you prefer a voluntary plan. You said "mandatory". I am not listening to the interpretation, but I think that means "voluntary".

Mr. Réjean Bellemare: It means mandatory.

Mr. Robert Carrier: Oh, mandatory. So it's the opposite.

I agree with you on that point. You are looking for a solution which involves a mandatory contribution. You seem to share the position of Mr. Bellemare from the FTQ.

However, regarding that solution, don't you think it works against low-income earners and small businesses, neither of which have very high revenues?

This question is for you, Mr. Bellemare.

Mr. Réjean Bellemare: It is based on a percentage of one's salary. A low-income earner will contribute a smaller amount, but will still receive enough to replace his salary. If a worker is already below the poverty threshold, that will not change. There is also a social aspect to this issue, which can be covered by a government contribution, if it wishes to subsidize very low-income earners.

But I am referring to a plan which both employers and employees would contribute to, and which would replace plans which, in my view, are more expensive.

Mr. Robert Carrier: There is a problem as far as low-income earners are concerned. Throughout their working lives, they earn so little that they can barely meet their own needs. It is hard for them to put a bit of money aside. That is why many of them don't save. If we doubled the Quebec Pension Plan—this would apply to Quebeckers, of course—these low-income earners would be forced to save for retirement. They would only receive old age security or their pension when their working lives are over. But don't you think that these people really need money during their working lives?

Mr. Réjean Bellemare: The point of having a mandatory plan is to force people to contribute. As someone said earlier, when it's voluntary, you get what we see today: very few people are covered by private plans.

I understand what you are saying about low-income earners. Does this call for special measures? We can look at that and talk about it. I have ideas about how to provide coverage. For example, you cannot contribute to the Quebec Pension Plan or the Canada Pension Plan unless you earn more than $3,000. That's one way to ensure coverage. However, employers and employees subsidize the system, and I'm wondering whether it is their place to subsidize low-income earners. Perhaps that should be the government's role. These are all issues we can discuss.

[*English*]

The Vice-Chair (Mr. Massimo Pacetti): Merci, Monsieur Carrier.

Mr. Menzies, for five minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair.

First of all, thank you to all the witnesses, and thank you, Mr. Sproule, for coming once again. On a personal note, could you please keep my office apprised of how this goes? You surprised me a little bit with some of your comments today. I didn't realize the changes that had happened, so I'd appreciate it if you could keep us up to speed.

Mr. Donald Sproule: I think that's a promise I can keep.

Mr. Ted Menzies: Thank you.

Ms. Eng, speaking on behalf of Wayne Marston, I would ask why you didn't ask questions about Wayne Marston's private member's bill and get comments and feedback from your membership on that.

Ms. Susan Eng: Well, I will.

Voices: Oh, oh!

Mr. Ted Menzies: You owe me one, Wayne.

I was just wondering about that, if we were going to analyze all of those things.

Ms. Susan Eng: To make a point about Mr. Wallace's question, you'll find that this sub-sample of our membership is a strong supporter of the Conservative Party, and this makes its recommendations even more forceful.

Mr. Ted Menzies: And more credible of course.

Voices: Oh, oh!

Mr. Ted Menzies: Just a little jest there, Chair.

Mr. Perkins, I'm not sure if I got this number right, but you said you represented somewhere around three million pension participants or members throughout your associations?

Mr. Scott Perkin: That's correct. It's through our membership, who are primarily individuals who work for plan sponsors or plan administrators. So we're looking at the size of their pension plans.

Mr. Ted Menzies: I'm just trying to compare that number with Ms. Eng's 300,000. Not to diminish it, but you're bringing different messages. We're here to understand what Canadians want, and I will argue that's why we're still out there consulting, because, frankly, we're getting different messages from different groups. However, I do appreciate these.

Ms. Eng, I'm sure I heard you mention the 19% before, and in your survey question 15 you talked about 6%. If 19% is going to be the cost, what are those people not going to purchase: food, mortgage payments? That's a big chunk out of their pay cheques.

● (1655)

Ms. Susan Eng: It is a large amount of money but one that we didn't pull out of a hat. We did consult with Bernard Dussault, who helped us come up with that number. Of course, as you know, David Dodge has also repeated that number in the C.D. Howe Institute's recent paper, indicating that regardless of how you do it, you have to set aside from 10% to 21% of your ongoing income, whether it's as you go along or all at once, in order to have amounts sufficient to take you through retirement. Now, as to how—

Mr. Ted Menzies: If I could interrupt, you're saying that we must save 19% to provide that income. A study by Baker and Milligan states that:

> ...retirement income need not be nearly as large as working income since accumulated wealth would finance retirement consumption.

Who says it has to be 70%? Who says it has to be 80%? Going back to Mr. Perkin, I believe, he said one size does not fit all.

Ms. Susan Eng: That's accurate, and the numbers range, but there is some agreement in the literature on it being anywhere from 60% to 70%. Even the research papers sent out by the provincial finance ministers based on Mr. Baldwin's report indicated that it was anywhere from 50% to 60%.

These are not numbers on which we can actually make a judgment. That is for the pension summit. However, the point remains that whatever the number is, we're not meeting those targets at the present time, and something needs to be done to ensure that we have those kinds of savings.

Mr. Ted Menzies: Okay, thank you.

Very quickly, Mr. Farmer, you suggested that we didn't hit all the marks. I would argue we hit quite a few of them. If we had hit all of the marks, everybody would be angry, because we heard from the sponsors and we heard from the plan members. Frankly, what I think, and I've said this before, is that the security of a pension plan is directly contingent on the security of the sponsor.

Would you not agree?

Mr. Robert Farmer: I do agree with that, but I think I have also mentioned to you in the past that the security of the pension plan should not and must not be dependent on the security of the sponsor. In other words, if the sponsor were to become unsecured and go into bankruptcy and cease to operate in one way or another, the pension plan better be big enough to cover all of its obligations.

Mr. Ted Menzies: And that's why we put those changes in place that are in the Budget Implementation Act. They were tabled in the House yesterday.

Mr. Robert Farmer: That's right, and if you would like to hit all the bullets, as far as I'm concerned I would love to test to see how many people would be happy and how many people would be angry —but I'd be very happy.

Mr. Ted Menzies: Thank you.

The Chair: We will go to Mr. McKay, please.

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

I was just thinking of the huge irony of the assembled witnesses here. At one point, the stock valuation of Nortel was higher than Bell; Bell the parent, Nortel the child. In fact, I think you were higher than Royal Bank as well at one point. Nortel is obviously dead and gone. Bell has had its own struggles, but it seems to have survived quite well.

I wonder whether in fact we're just playing around the edges here. We're playing about super priorities, we're playing about bankruptcies, we're playing about surpluses and deficits and things of that nature, and yet a whole whack of these private pension plans are in real trouble. My vague recollection is something in the order of about 60% of the private pension plans kind of flip in and out of trouble.

I just wonder whether you need to be starting to look at a very serious solution of picking up the no-hopers and the faint-hopers and gathering them all together and trying to bring some rationality into the administration and investment decisions of these plans, and whether it's time to think in terms of something like a tarp, where the government just steps in—because one way or another the poor old taxpayer gets stiffed with the failure of these plans. So why not do a pre-emptive strike on some of these ones that are just pretty well never going to recover?

Since the philosophical divide here is between essentially Mr. Perkin and Ms. Eng, I'd be interested in giving Ms. Eng a first shot at that and let Mr. Perkin think about it, and we'll see whether there's some point at which the government should actually be giving some real thought to how to deal with these losers.

● (1700)

Ms. Susan Eng: Part of our recommendation is that the current regulatory regime needs to be fixed so that we don't get our companies' funds into the position that the Nortel pensioners find themselves in, to deal with contribution holidays, to deal with surplus, to deal with deficiency funding. That is something that's necessary.

If there is a universal pension plan, then companies that are in trouble might choose to find some safe harbour within the larger plan. That will be a help. If the pension benefits are detached from the whims and the choices of employers and what happens with their industry, for example, then you have a more stable fund, as the CPP did weather the economic storm better than, say, the auto industry.

Those are the opportunities that come out of a universal fund like this, and that's why it's important to have that kind of pre-emptive strike, if you want to call it, but pre-emptive opportunity for us to avoid the kinds of situations that we have. So it's two-pronged: on one hand, change the regulatory regime to ensure better funding, more stable funding of the ones that exist to the extent that they will continue to exist, but provide the option that there will be a safe harbour in a larger fund so that they never need to see themselves in this situation again.

Hon. John McKay: Mr. Perkin, how many of your 300-odd funds have had troubles?

Mr. Scott Perkin: Probably many of them. It's low interest rates. We all love low interest rates, but low interest rates, at the historical lows that they're at, are actually used for valuing the solvency basis of all these pension plans. That's why the federal government and many of the provincial governments had to make changes to grant temporary solvency relief to many plan sponsors over the last few years, because at the same time that the markets were tanking and the assets were going down in value, these historically low interest rates were being used to value the liabilities of the pension plan. When interest rates go down, the liabilities shoot up, so you get this increasing deficit.

What are some of the solutions? Obviously we'd all like to see the economy turn around and perhaps interest rates edge up somewhat. That'll actually provide some needed relief. But when you get into a situation where an employer becomes bankrupt, that's very problematic. We'd all like to see better funded pension plans, so that even if the company goes under, there's enough money in there to pay the promised pensions.

There has been talk of changes to the bankruptcy act. If you give pension plans a better creditor status in a bankruptcy, I'm not sure what that might do to the cost of borrowing and the cost of capital. There have been some innovative suggestions made by some of the provincial reports, in particular the Ontario Expert Commission report, chaired by Harry Arthurs, suggesting that maybe an Ontario pension agency could take over the assets of an insolvent employer and manage them through to hopefully paying out more than what they might if the plan is immediately terminated.

Hon. John McKay: You're more of a play around the edges kind of guy.

Mr. Scott Perkin: No, I think there are some real structural changes here that need to be made, but part of it is the economic—

The Chair: I'm sorry, Mr. McKay, your time is up.

Hon. John McKay: We're having an interesting conversation.

The Chair: There is another Liberal spot, though.

Mr. Généreux, s'il vous plaît.

[*Translation*]

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chairman. I will share my time with Mr. Hiebert.

Thank you to all the witnesses for being here, especially Mr. Sproule, given everything you are going through and the decisions you have to make. My first question is for Mr. Perkin.

Given the current financial situation of governments, both in Canada and in Quebec, my home province, how would a universal plan affect their financial situations? My question is also for Ms. Eng. A financial impact would be inevitable, since governments would be the ones to implement this type of public plan. So, in your view, what would the repercussions of such a decision be?

● (1705)

[*English*]

Mr. Scott Perkin: As I mentioned earlier, we already have a public pension program in Canada and it's known as the CPP and the QPP. That's doing what it was intended to do, which is to provide a basic level of retirement income to Canadians. On top of that, we have the other government support programs like OAS and GIS, topped up in some cases by some of the provinces.

If you're talking about the cost of setting up a supplemental CPP, I honestly don't know. What I can tell you is that there are other third pillar retirement income providers out there today that are providing pension plans on a group basis for less than 1%. It's somewhere between half a percent and three-quarters of a percent. So a lot of the concern we hear in media stories and otherwise about Canadians having to pay 2%, 2.5% is in the retail sector for people with RRSPs who invest through mutual funds. Those aren't people who have pension plans through their employer on a group basis. So what we are encouraging the government to do—both at the federal and the provincial levels—is to take steps so that we can have more group arrangements for people who currently cannot contribute, such as the self-employed.

The self-employed cannot participate in any group pension plan today because they don't have an employer-employee relationship. They are forced to save through RRSPs. So if they have a really good year they are capped on how much they can save; if they have a really bad year, that will limit how much they can save. They can carry forward anything they don't put into it, but it doesn't recognize that, over the lifetime of that self-employed individual, there are ups and downs in terms of the income level.

One of the things we talked about publicly is perhaps a lifetime contribution limit for RRSPs so that there is a little more parity between the person who is forced to save through an RRSP and the person who enjoys the benefits of a pension plan at work. But we'd actually like to see more Canadians in pension plans. For the self-employed, those in small business—even where their employer chooses not to set up a plan because of the cost and complexity—we'd like to see those people in a pension plan. For that to happen we need changes to the tax act. We need changes to the provincial pension standards as well.

[*Translation*]

Mr. Bernard Généreux: Ms. Eng?

[*English*]

Ms. Susan Eng: Thank you for the question.

The fiscal impact of a major uptake in people saving for their own retirement—if they were to do it in a massive amount—would be a loss in tax revenues. If we propose that you double or triple the CPP or everybody takes up all the available RRSP room, or they join a UPP and in each case get the current state of tax deduction for making that contribution, then obviously there will be a major impact on tax revenues.

What should the government do when it is faced with a huge uptake in contributions in the short term with the attendant tax revenue laws? They need to think further along to realize that without this kind of investment today they will be paying it out—if they have a mind to do so—through increases in GIS costs down the road. They are going to be making up those differences for people who find themselves on hard times, similar to the impact on health costs because of people's financial insecurity. Those things are all net costs in the longer term. So there is going to be a fiscal impact if Canadians take up the opportunity to save for their own retirement using tax-deferred vehicles. Any one of the above will have the same impact.

The Chair: Thank you.

You've got 10 seconds, so I'll add that to the next round.

Mr. McKay again, please.

Hon. John McKay: So I get five minutes and 10 seconds now?

I just wanted to go back to this conversation a bit and press some of it.

Ms. Eng, if you divide it into winners and losers, your essential argument is, on the winners going forward.... If you keep the winners in place and tighten up the rules, tighten up the surplus and deficits, tighten up the bankruptcy stuff, tighten up the holiday contributions, and probably some rules about self-investment and things of that nature, the theory is that in capitalism, there are winners and losers. In this particular sector, there doesn't seem to be any consequence for losers, other than the poor schlep at the end of the thing who ends up with nothing. But there's no consequence for the plan itself or the administrators of the plan.

Mr. Perkin threw out a kind of idea with respect to the Ontario government picking up some of these loser plans. What's your reaction to that?

● (1710)

Ms. Susan Eng: I guess I want to jump ahead and hope there aren't any losers, so—

Hon. John McKay: There are already a bunch. He's already representing a whole bunch of losers.

Voices: Oh, oh!

Ms. Susan Eng: I represent winners. These are people who have done, I hope, a decent job in their lives and they want to make sure they give the benefit of their advice to future generations, with the hope that we are all winners when we come out of this.

The hope is that if you reinforce the rules that govern existing plans now to ensure against the instability that the current rules permit, then we will all look to a better future. That is the hope. For the people already facing difficulty, obviously they're hoping the market will recover. If they never do, there's an opportunity for safe-haven options that allow them to weather the storm so they won't get worse than they are right now. That's the best you can do for them right now, and take a lesson from the experience to change the rules.

For people who don't even have pensions to worry about, we're offering them the opportunity to save for their own retirement in circumstances where we hope they won't face those challenges because of the way it's constructed.

Hon. John McKay: Let me turn it over to Mr. Perkin. We talk about a safe haven here, but I don't know what a safe haven is when, even with market recovery, you're still down 15% or 20% on your portfolio. Even with interest rates taking off—which I don't really anticipate, but they will go higher—you're still going to be representing a significant percentage of folks who are just never going to get what they're entitled to under their pension plan. So what's the safe haven?

Mr. Scott Perkin: I'd like to think that people will get their promised benefits, and we need to probably find ways to fix the system so we incent better funding. Mr. Pacetti asked earlier why public plans aren't having trouble like the private plans are. Part of the reason is that public plans are typically indexed. In Ontario, for example, when it comes to valuing the plan on a solvency basis, you don't have to include the indexing. You're already funding for it, but you don't have to include it in your valuation.

Private plans, on the other hand, don't have that indexing buffer, if you will. So many of them are in the difficulty they are in because of low interest rates, the asset values having—

Hon. John McKay: Isn't that just stupid management?

Mr. Scott Perkin: No, I don't think it's stupid management at all. I think there are some problems with the system of funding defined benefit plans.

But let me throw out another idea. There was a lot of talk in both the Ontario and the Alberta-B.C. provincial expert reports on the notion of something called a target benefit plan. That may be the way of the future. A target benefit plan is simply a benefit that you're targeting for in retirement. As a Canadian who's contributing to that plan, you have to constantly assess where you're at and either adjust your expectations of what you're going to have in retirement or adjust your contributions accordingly so that you're constantly being forced to test where your benefits are. So it's kind of like a hybrid between a defined benefit—

Hon. John McKay: How would we do that in the context of a pooled plan, though? Five years from now I want to have $70,000 in my retirement on an annual basis. I don't understand how it would adjust from $70,000 to $80,000 or back to $50,000 on an individual basis if I'm in a pool and the pool is not being well-managed.

Mr. Scott Perkin: It would operate very much like a defined-contribution plan operates today, whereby you have your own account. So you're pooling the assets for investment purposes, but not for other purposes, such as pooling risks of longevity and that sort of thing.

It may be a way to engage Canadians better in terms of saving towards retirement and keeping an eye on what they have, how much they need, and what they're expecting to retire with.

Hon. John McKay: You're changing the onus, though.

Mr. Scott Perkin: You're changing the onus to the Canadian who's investing in their retirement. They should be creating some wealth towards their retirement, and you're forcing them to keep their eye on the ball, if you will, rather than simply putting money into a pension plan, perhaps not looking at their annual statements, perhaps not really knowing where their account is at.

The Chair: Thank you, Mr. McKay.

We'll go to Mr. Hiebert, please.

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

Just to follow up on that line of questioning, Mr. Perkin, would that target benefit plan that's proposed in this Alberta-B.C. report require an employer contribution? Is there an employer obligation in there? Or is that not part of it?

Mr. Scott Perkin: It could, but it doesn't have to. Most defined contribution plans that employers provide today would have an employer component, but part of the thinking behind expanding coverage is that for small business owners, for example, who simply can't afford to provide a pension plan or don't want the costs and complexity of providing a pension plan, why not let their employees contribute to a pension plan in any event?

It doesn't have to be sponsored by that employer. It could be a multi-employer plan, which we've heard some talk of today. Current tax rules don't permit that, though.

● (1715)

Mr. Russ Hiebert: Before I get too far down the path of questions, in your presentation that was distributed to members you had a list of key specific changes. I was just wondering, instead of taking the limited time we have right now, if you could provide an explanation to the members by submitting it to the chair, just unpacking what your specific changes would accomplish and why. I could take a lot of time doing that right now, but I think it's time better spent using it for questions.

In addition, on page 9 of your report, under the category of "Myth Busting", you make the statement that current pension rules discourage workplace plans and frustrate existing employer-employee pension plans. How so? What current rules are the cause of the frustration?

Mr. Scott Perkin: One of the big issues is funding of defined benefit plans where the employer has all the downside risk and doesn't necessarily share in any of the upside gain.

So there are recommendations out there to try to incent better funding of pension plans. Today employers put in what they're required to by law, but our sense is that that's all they do. They don't put in the extra money that I think one of the members of this committee suggested they might put in simply because, in their view, in the world of pensions as we know it for the last 20 years in Canada, if there's extra money in there, it may be gone.

There may be better ways to incent better funding. Certainly we've proposed things like letters of credit to help where there's a deficiency, and if ultimately that deficiency disappears because interest rates go back up or the market value of assets improves, then that letter of credit effectively disappears. The employer hasn't had to devote extra money to the pension plan at a time when it may need to devote those extra funds towards its business.

Mr. Russ Hiebert: I have one last question, if I have a little bit of time.

The Chair: You have two minutes.

Mr. Russ Hiebert: A little bit earlier in your testimony you made the statement that everyone would be better off if they were in a pension plan like the one that is administered or supported by your organization.

I thought I heard you suggest that it would be a better option because of the lower management expense ratio, or something like that, a lower cost of administering such a pension. Could you elaborate on that?

Mr. Scott Perkin: First of all, we don't provide pension plans. There may be some bodies out there, like the Canadian Federation of Independent Business, for example, who might like to provide a pension plan for their members. But again, under current tax and provincial pension rules, they cannot.

Again, we think there's a need to change some of those rules to open up coverage opportunities to more people. We think, as the Baldwin report that was provided to the federal, provincial, and territorial ministers back in Whitehorse suggests, there's a significant minority of Canadians who aren't saving enough towards retirement. Our sense is that those are the self-employed and people employed in small business, primarily. That's not to say there aren't others, but we think that's where the focus should be. Again, we think that by changing some of the tax and provincial pension rules we could actually open up coverage opportunities that do not exist today.

To Ms. Eng's earlier comment that the private sector has failed us, the private sector hasn't had an opportunity to provide coverage to those people. The private sector and other retirement income providers are providing group pension plans today to people at a cost of half to three quarters of a percent.

The Chair: Be very brief.

Mr. Russ Hiebert: The last question is for Ms. Eng. You support a proposed mandatory program for all Canadians, but how do you respond to Canadians who say they have their own method of saving for retirement, which may not include contributions of the type you're suggesting? They might be investing their excess income in a business or housing, or other avenues.

Ms. Susan Eng: There is that opportunity. In fact, one of the research reports that was looked at in the meeting at Whitehorse suggested that a major investment in a home should be sufficient, with the idea, I guess, that you can downsize and sell your house. It's an opportunity, but not everybody is able to do that, as they often need to live in that home and can't really sell it off.

The research has indicated that people have to be able to turn their assets into money they can actually use. If they can make huge investments and not have to worry about this, they are usually at the higher income levels. The recommendations we make are for middle- and upper-income people, or those with salaries up to about $122,000 at this point.

For the people who are very well off, maybe they will never need this kind of thing, so we are focusing on the middle class.

• (1720)

The Chair: Thank you very much.

We'll go to Mr. Marston, please.

Mr. Wayne Marston: Thank you, Mr. Chair. I want to point out to Mr. Menzies that over his shoulder is Stanley Knowles, the man who suggested CPP in the first place.

Mr. Ted Menzies: You scared me.

Voices: Oh, oh!

Mr. Wayne Marston: I think it's appropriate that we're in the NDP caucus room for this study.

The other thing you raised was my bill in the House, Bill C-476, which has just been changed. We had the member for Thunder Bay—Rainy River table Bill C-501, or essentially the same bill, to address the Nortel situation. It should come up this session, because of the order of precedence, and we'll be quite happy with that.

My Liberal colleague talked about safe havens and portfolios, but I still want to come back for a moment to those people who are living on OAS and GIS only. There are people in this country living on $1,162 a month. There are about 260,000, according to Stats Canada, who live below the poverty line. So as this committee moves forward and talks about disposable income and other things, let's always keep in mind that something has to be done on that front as well.

The doubling of CPP we talked about was based on 50% of income, not the total. There's still plenty of room for what you're talking about. We'd be thrilled to death if there was an incentive of some sort to help people start their own pension plans on top of that solid foundation.

How much time do I have, Mr. Chair? A couple of minutes?

The Chair: You have about four minutes.

Mr. Wayne Marston: This will work perfectly because I'd like to change the topic for just a moment.

Hollinger Canadian Newspapers purchased CanWest in 2000. At the time of the sale, the pension funds were carved off as assets of the newspaper and remained with Hollinger, and to be managed.... Well, my office is receiving letters from people now. Apparently, Ernst & Young is sending out letters to them saying that for the time being their pension benefits will continue to be paid; they are neither insured nor pre-funded but are paid from the available assets of the company.

That's a pretty ominous letter for anybody to receive. I would suggest to you it's even more ominous than what the Nortel folks went through. So I would just like to submit the following to anybody who'd like to respond to this. This suggestion really talks to the fact that we need a national pension insurance program to backstop these programs. One of our proposals in the NDP was for such a plan to be funded by the plan holders. The Netherlands backstops it, and Japan and Britain both have plans at this point in time. I'd like a response to that, if you could.

Mr. Perkin, I think you spoke about trying to go forward with plans rather than wrapping them up, and this is exactly the thinking that's behind part of this proposition, that if we had this plan, perhaps CPPIB could manage it. The national summit that everybody's talking about is one of those opportunities to discuss that. So I'd just like your commentary on that.

Mr. Scott Perkin: I understand the guarantee fund notion, but if you look at the track record of Ontario's Pension Benefits Guarantee Fund, which pales in comparison with what the Pension Benefit Guaranty Corporation has seen in the United States, I understand that the guarantee fund in Ontario currently takes in about $48 million a year in assessments from those very pension plans covered by that fund. I'd be quick to point out that not every pension plan is covered by the guarantee fund. The public sector plans are not, for example.

The concern we have is what you're starting to see now, that the Government of Ontario has just pumped in, I think, about $250 million and has just promised another $500 million in last week's budget. Those are taxpayers' dollars they're committing to the guarantee fund to help backstop the pension plans that are having difficulties.

You can empathize with the pensioners who find themselves in that situation. Quite frankly, we don't believe that the guarantee fund in Ontario is a properly self-insured arrangement. We don't believe that it works the way it was perhaps originally intended to, and that's why we're publicly on record as opposing any further expansion of the guarantee fund in Ontario or elsewhere in Canada.

We would prefer to see efforts made to improve and enhance the funding of pension plans that would be affected by the guarantee fund's defined benefit plans. There are a number of funding and other issues relating to that, which we could get into at another time, but we would actually like to see better funded pension plans, and then you don't have the need for the guarantee fund.

Obviously, there are other issues that we can talk about in terms of the Bankruptcy and Insolvency Act, or perhaps this other arrangement that the Expert Commission on Pensions in Ontario suggested, about managing the funds of an insolvent company, but again, those are other issues for another discussion perhaps.

• (1725)

Mr. Wayne Marston: I appreciate your comments because they again speak to—

The Chair: Be very quick, please.

Mr. Wayne Marston: It's not going to be a question, just a comment.

They speak to the need for a national summit, though, because there has to be a well-rounded approach to pensions, to assets management, and all of those things.

Mr. Scott Perkin: Absolutely.

Mr. Wayne Marston: Thank you, Mr. Chair.

The Chair: Thank you very much.

Thank you for your questions.

Thank you very much for your presentations and for your responses to our questions here today.

I believe there was a request by Mr. Hiebert to Mr. Perkin for some additional information. If any of you have anything further to share with the committee, please do send it to the clerk and we will ensure that all members get it.

Thank you for your time today, colleagues.

The meeting is adjourned.

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