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Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Good afternoon, ladies and gentlemen.

I call to order the eighth meeting of the Standing Committee on Finance. We are continuing our study of the retirement income security of Canadians.

I want to welcome all of our witnesses to the discussion here this afternoon. We have one individual and four organizations presenting.

We have Dr. Ian Lee from the Sprott School of Business, Carleton University. We have Tina Di Vito from BMO Financial Group. We have Catherine Swift and Doug Bruce from the Canadian Federation of Independent Business. We have three people from Federally Regulated Employers—Transportation and Communications; they are John Farrell, Ian Markham, and Marlene Puffer. Finally, from the Office of the Superintendent of Financial Institutions Canada, we have Judy Cameron.

Thank you so much for being here with us.

I think we'll proceed in the order of introduction. Try to limit your presentations to about seven minutes, and then we'll go to questions from members.

We'll start with Professor Lee, please.

Prof. Ian Lee (Director, Master of Business Administration (MBA) Program, Sprott School of Business, Carleton University, As an Individual): Thank you very much for the invitation today.

I have some slides. Some of them will be information or data that are familiar to some people, but I think it's worth reviewing them, and then I'll come to my conclusions. I'll try to be as brief as possible for the committee.

There are four things I want to talk about: first, whether there in fact is a pension crisis; secondly, the failure by many pension researchers in the academic community to include home equity as a savings towards pensions; third, the minimum pensionable age; and fourth, a failure to produce a level playing field between the private and public sectors.

I will disclose that I don't consult to any organization anywhere, directly or indirectly, not to unions, to governments, to corporations, and I have no investments, direct or indirect. I'm a tenured professor, so I can't be fired. I speak truth to power. I'm a rare, rare Canadian: I have a job for life—well, senators and tenured academics.

I'll start with the first slide up there. That's the OECD slide, from their massive comparative pension study, showing that Canadian elders, defined as people over the age of 65, are the third wealthiest on the planet earth in terms of their annual income.

The second slide shows the poverty rates among elders. We have the second-lowest poverty in the world among people over 65. The poverty rates for young people are much higher than for our elders.

A third comparative slide that is very useful to examine is the OECD pension spending across the OECD. We're one of the lowest, which I interpret as very good news. There are an awful lot of problems in the European Union, as we know; Greece is essentially insolvent. And underlying a lot of the problems in Europe are unsustainable and extraordinarily generous pension plans.

I'm jumping now to the home ownership data. Approximately 68% of Canadians own their own homes, which is one of the highest figures in the world. Many Canadian pension studies—and I'm referring to scholarly pension studies—simply ignore or deny the reality of home equity. Yet a much larger percentage of Canadians have homes than have RRSPs. Far fewer Canadians invest in RRSPs. I think we can interpret this data to suggest that Canadians understand they can live in their homes throughout their lives, sell them at the end, and retire or downsize to smaller homes, as many do.

This is a metric from Scotiabank's “A Nation of Homeowners”. We, as Canadians, state by our investment choices that we prefer home ownership to financial savings, including pensions.

I'm trying to rebut the argument that there are a lot of people who are ignorant about pensions. I'm arguing that they understand they have to make trade-offs, and they choose home ownership over pensions in their twenties and thirties when they're starting out.

Committee members have these metrics, so I won't belabour them, but again, it's showing a very nice segmentation—age and debt. And as we know, as we get older we pay down our mortgage and we have more equity, more savings to finance our pensions, among other things.

Canadians' household net worth, after a brutal recession, is now $6 trillion, which is an extraordinary amount of savings. This raises the question, if we're not saving enough, how much is enough? This slide of the homeowner equity is showing that, as is personal savings as a percentage of balance sheets.

I picked this metric from Statistics Canada from 2006. I want to go to the second slide, and it shows, once again, that the single largest asset is not pension assets or savings or retirement RRSPs, but home ownership, again reflecting the choice of Canadians to buy homes before any other investment.

I'm very conscious of my time, so I'll push forward very quickly.

Bismarck established the world's first pension in 1870, as the chancellor of Germany. He was a very clever politician. He set the pension retirement age at approximately the age of life expectancy. You dropped dead about the time you were eligible to collect the pension, which was 65. Of course pensions were highly sustainable in Bismarck's Germany, if you had very few people collecting.

Now, of course, women live to age 83—that's Statistics Canada data—and men to age 78. We have to start at least talking about adjusting the minimum pension age to 70 to reflect the much longer lifespan. Why 70? Well, in the OECD, more precisely in Europe, a good number of countries have already increased the age to 67. The U.K. shifted to age 68 last year.

● (1535)

The former Congressional Budget Office director is strongly advocating 70, as are the former director of the currency, who did the video *I.O.U.S.A.*, and Pete Peterson, author of *Gray Dawn*. Pension ages in the OECD are going up, according to OECD analysis.

Just finally, because I have only a few slides left, I really want to talk about pension unfairness. I'm sure you'll hear this from others, such as the CFIB. Although I am in the public sector—I am a tenured academic—I did work for ten years in the private sector in banking, and I have great sympathy for people in the private sector, many of whom have no pension, while we in the public sector have very generous pensions. This is unfair to those in the private sector.

There are things that can be done. Annual caps on retirement savings rules can be addressed. There should be restrictions on private large-pooled pensions. Savings for timed pension plans should be addressed. What we really should be aiming for as an overarching goal, a policy objective, is a common set of pension rules that are approximately equal between the public and the private sectors, with a common pensionable age of 70. I realize many of my colleagues—academics and friends of mine in the public sector—are not going to be happy with this recommendation. Also, we should be discussing, because of the problems with Nortel, looking at one possible option—and I hope this committee will—being a pension guarantee corporation similar to the one in the United States, which is working, apparently, quite well.

The point I want to finish up with is that if you as the committee and you as Parliament increase pensions to produce much more generous pensions, it is going to mean a diminution of moneys available to Canadians to buy their houses. There is a trade-off involved. It's all very fine to talk about creating a much more generous Canada pension or other pension systems that are mandatory, but it will represent a diminution of moneys available for home ownership, and that's the trade-off that has to be addressed.

Thank you very much.

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

We'll now go to Ms. Di Vito, please.

Ms. Tina Di Vito (Director, Retirement Strategies, Private Client Group, BMO Financial Group): Thank you, Mr. Chairman.

On behalf of BMO Financial Group, I am pleased to present some views on retirement income security of Canadians.

Throughout my career, I've been involved in financial planning and dealing with the many issues that the committee is facing right now. As financial planners, we hear from our customers all the time. We have first-hand knowledge of what's on their minds. I would be pleased to share that with you this afternoon.

In addition, as director of BMO retirement strategies, I'm head of the BMO Retirement Institute, which we established two years ago. The retirement institute is an independent research group that prepares reports and provides insight and financial strategies for individuals who are planning for, or are currently in, their retirement years. Our work is supported by the BMO Advisory Council on Retirement, which is chaired by someone well known to you, former clerk of the Privy Council Mel Cappe. The panel is made up of a cross-section of talented individuals across the country, including one of your colleagues from the red chamber, Senator Pamela Wallin.

We see all of this—the institute, the reports we publish, participation in events like these—as part of our efforts to help Canadians make better financial decisions. As a bank we are trying to do our bit to improve financial literacy among Canadians, and that is the thinking behind our customer commitment to making money make sense.

At BMO Financial Group it is our firm belief that Canadians need to take charge of their retirement. We see this as a very deliberate exercise that involves three basic steps: creating what we call your retirement picture, then building a financial frame for that picture, and finally putting in the financial strategies to help you achieve your retirement goals by starting that process as early as possible. This approach helps to identify savings gaps and trade-offs, as my colleague Ian Lee was talking about, between paying down a mortgage or saving for retirement that is necessary, but it also includes options that we're now seeing, such as working longer, spending less, or deliberately changing lifestyle in retirement.

In our view, Canadians are not doing all they can to save for retirement. We've conducted quite a number of surveys through the retirement institute, and I'd like to share some of the results with you.

For example, in January a survey we did showed that only 34% of Canadians had a financial plan. This was a significant improvement from 2008, when 27% of Canadians had a financial plan, but we think there is still a significant gap. That is part of the reason we're here today discussing pension reform and whether there is a problem or not.

We did another survey at the end of February, right after RSP season, and only 38% of Canadians reported making an RSP contribution before the deadline. When we asked the respondents why that was the case, not surprisingly, two-thirds of the respondents cited lack of funds as the reason for not being able to make an RSP contribution. In fact, they identified it as an important thing to do; they just had a lack of funds.

Another interesting finding from our research is that Canadians today, unlike our parents' generation, seem relatively unconcerned about taking debt into retirement. This is not a good idea. We urge all our customers, as well as Canadians, to do their utmost to enter retirement debt-free.

The research results are a little troubling. I think they particularly signal a cause for concern for members of the boomer generation who are on the verge of retirement. People retiring now are living longer—well beyond age 65—but they're saving less, and the trend away from defined benefit plans to defined contribution plans has certainly shifted the burden of managing retirement savings from institutions to individuals.

I will point also to the other matter that is of great concern to Canadians today, and that's financial fluency. I think the two issues go hand in hand. In fact, most people in this country have neither defined benefit plans nor defined contribution plans, although I should point out—and this may be of interest to our friends from the CFIB here today—that banks such as ours do offer individual pension plans as an alternative to provide a defined benefit plan for small business owners. In other words, there are some private sector alternatives to alleviate defined contribution or defined benefit gaps.

Many commentators of late have been focusing on the public pension side of the equation, but what I would like to address today are some brief changes to the existing RSP and RIF rules that would give Canadians more control over their retirement assets. I set these out in an article that appeared in *Policy Options* magazine last month, but I will summarize a few of those ideas today.

First we recommended the removal of the age restriction for contributing to an RSP. Canadians are living longer and working longer; it makes sense that they should be able to save by using their RSP for a few more years instead of having to stop making contributions at age 71. We can talk more about that later.

● (1540)

We also recommended reducing taxes paid on RRIF withdrawals. Currently, RRIF withdrawals are taxed as ordinary employment income, potentially attracting top rates of taxation and receiving none of the preferred tax treatments the underlying securities in those plans would have generated had they been invested outside of an RRSP. Instead, we recommend that only the deferred employment income contributions to the plan be taxed as employment income. The investment income would be taxed at a lower rate—something that would mimic what those funds would have been taxed at had they been earned outside of those plans.

We also recommend that the prescribed rate at which funds must be withdrawn from a RRIF be reduced. Currently, at age 71 the minimum RRIF withdrawal is 7.38%. We're recommending something lower than that to allow the RRIFs to last as long as Canadians will.

Next we think you should broaden the opportunities, when plan contributors die, to pass on their RRSPs and RRIFs tax-free to children who have RRSP and RRIF accounts as well. Why not allow tax-deferred rollover to the next generation to allow sons and daughters to benefit from their parents' RRSP savings? This could be an immediate benefit to people approaching retirement whose parents might still be alive. Those funds currently will pass to the second generation, but only on an after-tax basis. This could provide a boost to individuals who are short on savings for retirement.

● (1545)

The Chair: You have one minute, Ms. Di Vito.

Ms. Tina Di Vito: We recommended tax-free rollover from RRIFs and RRSPs to RDSPs in the last budget. We were very happy to hear that announcement included.

I'd like to make one final comment about Ian Lee's presentation on using home equity as a retirement vehicle. In our experience as financial planners, Canadians are very reluctant to move out of their homes during old age, and prefer to age at home.

Secondly, the amount of equity that is freed up when a home is downsized is often much less than anticipated. Although we view homes when totaling net worth and savings, using them as an alternative to registered savings plans could be misleading.

I thank you, Mr. Chairman. We'll be pleased to answer questions.

The Chair: Okay. Thank you very much, Ms. Di Vito.

Now we'll go to Ms. Swift with CFIB, please.

Ms. Catherine Swift (President and Chief Executive Officer, Canadian Federation of Independent Business): Thank you very much for the opportunity to be here today to speak with you.

In the pension area, small and medium-sized firms certainly have a number of interesting challenges, some of which have been alluded to a little bit by the earlier presenters. Because we don't know yet which way our discussions are going to head, I thought I'd open with some principles that are important to the small and medium-sized business community, which is equal to about just under half of our economy in Canada. This is obviously a very important group for the economy generally and for employment in general, because typically small businesses punch above their weight in terms of job creation.

As an example, you might be interested to know that during the last recession aggregate employment in the small and medium-sized business community stayed constant. It did not fall collectively, as some firms were down and some were up. They added a very welcome degree of stability during that time. They are obviously an important constituency. Naturally I'm biased, but I do think it's important overall.

Some of the principles.... A number of options have been put out on the table so far, such as doubling CPP premiums—in other words, doubling a mandatory payroll tax. We feel some type of voluntary option or options obviously would be much more welcome. We already have a high payroll tax burden in Canada that does fall disproportionately heavily on the smaller firm. And of course it really is a tax on jobs. That is something we would be very strenuously opposed to.

Think of the self-employed. The self-employed person pays both the employer and the employee proportion of CPP. You'd be asking them to pay 20%. That's pretty rich. Just using that example shows you that's not a particularly functional solution.

Something that was proposed by the Canadian Life and Health Insurance Association was perhaps to require firms with 20 employees and up to set up a plan. Again, we don't know details about that, but that type of mandatory approach we would oppose as well.

However, we do feel more flexibility could be introduced into the system to permit small and medium-sized firms to offer plans at a lower management cost than currently exists. Right now, the most accessible tool for a small firm is a group RRSP. As we know, management fees on those tend to be significant, so that's not the most efficient way of operating there.

But there definitely are ways—such as multi-employer pension plans—of making those rules a little easier for a smaller business, which is never going to have much in the way of economies of scale, to be able to tap in, join with other employers, and achieve the economies so they could bring down that cost-of-fees element.

As Ian Lee mentioned earlier, yes, we have done a lot of research on the large and growing gap between not just pensions but pensions as well as remuneration in the public sector versus the private sector. It's present at all levels of government. We'll just focus on the federal for the moment.

The current gap, if you include salaries plus pensions and other benefits in the federal public service, averages over 40%. Obviously that's a significant number. A lot of people have put forward the notion that as far as this issue goes, all we need to do is to get businesses to pay the same as they do in the public sector and all our problems would go away. For starters, if we did that, we wouldn't have any businesses left, because they simply couldn't compete. They have to compete in the marketplace, which governments do not. Also, they're not unrelated issues. Again, the example that if people don't have the money to put into an RRSP, there are probably a number of reasons for that. One is that we have quite high tax levels. The more you tax people, in part to pay for very generous pensions and benefits in the public sector, the less they're going to have to put away for their own retirement. So some fairness needs to be brought to bear there, and we very much believe that no one in the private sector—employee or employer—should be asked to put up one more cent to any kind of mandatory pension solution until we've made a start on bringing some fairness to the public sector versus the private sector disparities.

Entrepreneurs also have some special challenges in their own retirement, succession, whatever you want to call it. We have a large baby boomer contingent in the small-business sector, just like every other sector of the economy. They're looking to retire. We were very happy that government increased the lifetime capital gains exemption from $500,000 to $750,000 a couple of years ago. There are other measures. I'm saying don't only focus on pensions; maybe focus on some of these other tax measures that could also grease the wheels for the entrepreneurial group to be able to hand off, sell their businesses successfully. That's often their own retirement.

● (1550)

That leads me to the first slide here, which is based on some data going back to 2006. We're right in the middle of doing another survey on a bunch of related issues and will have that by the end of the month. So we'll be able to meet the deadline and will make sure that you get that information. We'll probably have it in about ten days, I would say. So these data are a bit old, but I don't think they're going to be terribly out of date.

When we asked our members in 2006 what was important to them in their own retirement, personal savings and assets were number one; lifetime capital gains were obviously also very important; then proceeds from the sale of a business, naturally; and RRSPs were not unimportant in the mix; and then there were dividends from business; and then the CPP, and so on. You can see that there.

The next slide looks at the types of plans offered in the workplace. Again, there are a lot of impediments right now to offering workplace plans. We think it's a good target area to do some work—and, again, you can see those data for yourselves. By and large, there are not pension plans offered in most of the small-business workplaces, and the typical tool tends to be group RRSPs. The third slide shows that matched employee contributions to a group RRSP is the most important tool.

For the owners who do not offer a plan, the number one reason obviously was that it was too expensive. Just under a third said it was too complicated and burdensome, and a pretty significant contingent of business owners, about a quarter, had no interest in offering a benefits plan because their employees say that's not where they want to go. So they don't see the value in offering that kind of plan.

When you look at the private sector versus public sector issue in terms of registered pension plan coverage, it's virtually 180 degrees different. There's very large coverage, over 80% coverage, in the public sector, and just a little bit less than that in the private sector. Those are StatsCan data, by the way.

Retirement age is something else. Some others were talking about the need to increase retirement ages, as we're living longer, which is good, but it does put the pressure on pensions. On this slide, we see those in the public sector retire significantly younger than those in the rest of the economy.

I know a lot of people say that public servants pay for their pensions. Well, the current federal situation is that they actually only pay 32¢ on the dollar now, but it is slated to go up to 38¢. So about two-thirds is being paid for by the private sector. Even so, private sector workers can't afford to put away for themselves what they are required to contribute to public sector pensions. So even if it were a 50-50 split, it wouldn't achieve fairness.

Finally, just to sum up, we have this two-tier system, the private versus public systems. It causes labour market distortions, as small business often get their employees poached away by the public sector. Of course they're subsidizing that poaching with their own tax dollars, and that is a little perverse. There's also the problem of the aging population, and so on.

Just in closing, we really need better information on our public sector liabilities. We see the trouble Greece got into, in part because it has a very bloated public sector with very attractive benefits. That's not Greece's only problem, but it's a key one. In Canada, we need to get a grip on our own issues, so we need better disclosure from government.

Thank you very much.

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

We'll now go to FETCO. Mr. Farrell, will you be starting?

Mr. John Farrell (Executive Director, Federally Regulated Employers - Transportation and Communications (FETCO)): I will. Thank you, Mr. Chairman, and thank you very much for inviting us to talk to this committee once again.

I am John Farrell, the executive director of Federally Regulated Employers—Transportation and Communication, otherwise known as FETCO. Here with me as advisers to FETCO are Mr. Ian Markham, Canadian retirement innovation leader for Towers Perrin, and Dr. Marlene Puffer, managing director for Twist Financial. Mr. Markham is a leading actuary in Canada, and Dr. Puffer holds a PhD in finance and applied statistics and is an expert in fixed income and pension investments.

FETCO is an organization consisting of a number of major employers and associations under federal jurisdiction in transportation and communications. A list of our companies appears in appendix A. FETCO members employ approximately 586,000 employees. The majority of FETCO's members provide defined benefit pension plans, and some of the companies also provide defined contribution plans.

Last spring we appeared before this committee to discuss our recommendations for strengthening the pension plan benefits for employees and retirees without unduly constraining the financial flexibility of plan sponsors to maintain appropriate investments in their businesses. Then last October the government announced its intention to make specific changes to the Pension Benefits Standards Act and associated regulations.

The proposed changes are intended to be a balanced package of measures that resulted from extensive consultation with Canadians. The proposed changes provide enhanced protections to pension plan members. These include the following: full funding for any deficit upon plan termination; filing actuarial valuations on an annual basis; restrictions on contribution holidays; a prohibition on plan amendments if a plan is less than 85% funded on a solvency basis; an increase in the current “excess surplus” limit on employer contributions above its current 10% threshold to 25%; and greater pension plan financial disclosure to plan members.

The proposed changes in funding rules, including the ability to utilize letters of credit, will moderate, to some degree, the current volatility of employers’ defined benefit pension contribution requirements. These are much-needed changes that will provide employers with greater predictability in managing their cashflow.

FETCO's members support this balanced package and the changes to the Pension Benefits Standards Act and regulations. We would like to emphasize both the importance of these proposals being implemented and their implementation on a timely basis.

The need for permanent changes in the pension plan funding rules are apparent. Twice in the last four years the government has introduced temporary funding relief to address the onerous and volatile nature of solvency funding requirements. Yields on long-term government bonds, on which solvency liabilities are based, remain at historically low levels. Financial markets remain volatile. Defined benefit plan sponsors continue to be burdened with onerous and volatile solvency funding requirements.

Bill C-9, recently tabled in the House of Commons, contains the proposed changes to the Pension Benefits Standards Act. However, most of the details will be contained in regulations, which have yet to be pre-published. We urge the Parliament of Canada to adopt the proposed changes to the Pension Benefits Standards Act and the government to issue enabling regulations prior to June 30, 2010, the filing deadline for year-end 2009 actuarial valuations.

Now I'd like to address the issue of creditor status in the event of bankruptcy. I know this committee is examining the creditor status of less than fully funded pension plans in the event of a sponsor’s bankruptcy, and we would like to offer FETCO's comments.

We appreciate the policy intent of providing enhanced protection to pension plan beneficiaries in the event of a sponsor’s bankruptcy. The unintended but nevertheless adverse financial ramifications of such enhanced protection could, however, be significant.

Legislation granting preferred creditor status for pension plan deficits would negatively impact existing creditors, including corporate bondholders, as well as plan sponsors that rely on capital markets for financing. It would increase sponsors' financing costs. It would reduce the value of the sponsors' existing bonds. It would reduce the availability of credit to plan sponsors. For weaker plan sponsors, it could limit access to credit of any kind, and it could put fragile sponsors over the edge in a bankruptcy situation.

Equally important, granting preferred creditor status to pension plans would cause significant collateral damage to countless Canadians. Reducing the value of the plan sponsors' bonds would erode the retirement savings for thousands of Canadian seniors for whom corporate bonds are a key component of their portfolios.

● (1555)

As well, most Canadians' retirement savings, whether held in RRSPs, defined contribution pension plans, or other vehicles, are exposed to corporate bonds. Their retirement savings would also be eroded if defined benefit pension plans were granted preferred creditor status. In addition, it would exacerbate the inequities between Canadians who participate in defined benefit pension plans and those who participate in other types of retirement plans that cannot, by the nature of those plans, benefit from preferred creditor status for any loss in value.

Preferred creditor status for pension plans would place companies that offer defined benefit plans at a competitive disadvantage against companies that do not offer defined benefit plans, as well as companies in jurisdictions that do not provide such preferred creditor status, including the United States, Great Britain, the Netherlands, and Germany. As a result, such legislation would serve to accelerate the private sector's move away from defined benefit plans.

In considering the security of plan participants' benefits, it is critical that legislators not lose sight of the fact that the basic premise underlying the security of their benefits remains a financially strong sponsor. Companies must continue to invest in their businesses to remain competitive and increase productivity. Failure to do so will weaken companies and may even put some companies out of business. Continuing to burden companies with incremental costs, including the costs associated with preferred creditor status for pension plan deficits, will accelerate the process.

Now I'm going to return to the retirement income system in Canada.

FETCO supports the broader consultations that are currently taking place in Canada to ensure the ongoing strength of Canada's retirement income system. At the heart of these consultations is the question of pension coverage for Canadians. Professor Jack Mintz's December 2009 report stated:

> The OECD suggests the Canadian retirement income system performs exceedingly well by international standards, with the three pillars enabling Canadians to provide enough retirement income to sustain an adequate standard of living in retirement.

FETCO believes that the existing mandatory elements of our current retirement savings system are, in total, sufficient as a minimum framework. Further, we believe that the diversity of the various components of the system reduces risk and contributes positively to income security in retirement.

It is generally acknowledged that Canada's existing social security programs provide sufficient basic retirement benefit for those at lower earnings levels. In the event that governments wish to enhance the current system for middle-income Canadians, we oppose a mandatory expansion of the Canada Pension Plan. Employers need to have a large range of pension design options at their disposal that are suitable for their particular cost and risk tolerances.

Finally, the modernization of pension plan standards to support the viability of defined benefit plans is an important element in supporting retirement income adequacy for many Canadians. This will enable plan sponsors to continue to manage the risks inherent in their defined benefit plans, thereby allowing them to maintain these plans for current and future Canadians.

Mr. Chair, thank you very much for the opportunity to make these comments. I will turn to my advisers if you have some technical issues you want to discuss.

● (1600)

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

We'll now go to Ms. Cameron from OSFI, please.

[*Translation*]

Ms. Judy Cameron (Managing Director, Private Pension Plans Division, Office of the Superintendent of Financial Institutions Canada): Good afternoon and thank you for inviting me here today to contribute to the Finance Committee's study of the Retirement Income Security of Canadians.

The Office of the Superintendent of Financial Institutions (OSFI) is the primary regulator of banks and insurance companies, as well as private pension plans that fall under federal jurisdiction. Federal pension plans represent about 7% of all private pension plans in Canada, and about 12% of total pension assets. The bulk of private pension plans in Canada are regulated at the provincial level.

Today I will provide an update on the current pension environment as OSFI sees it, and briefly describe some of OSFI's tools for monitoring the status of federal pension plans.

[*English*]

Everyone is likely aware that pension plans have been significantly affected by the financial and economic turmoil of the past few years. Pension plan assets were eroded by the stock market decline that began in autumn 2008, while pension liabilities have increased due to extremely low and declining long-term interest rates. At the same time, the economic slowdown has meant that many sponsors have not been well positioned to provide increased funding.

While there are some signs that the economy is strengthening, private pension plans will continue to face challenges. Unfortunately, the strong investment returns that pension plans earned in 2009 have been offset to some degree by the effects of the very low interest rates on plan solvency liabilities.

These trends are perhaps best illustrated in OSFI's solvency testing results. A pension plan's solvency ratio is the ratio of plan assets to liabilities. Solvency valuations are actuarial calculations that use assumptions based on the pension plan being terminated and the assets used to pay promised benefits. They approximate how plan members would fare if their plan terminated at the valuation date.

OSFI estimates solvency ratios for federal pension plans every six months to provide a snapshot of the financial health of the defined benefit plans that we regulate. We monitor how the average ratio changes over time, as well as the proportion of plans that are significantly underfunded.

● (1605)

The Chair: Excuse me.

Is there a BlackBerry that's near the microphone? We're getting some interference with the reception.

Sorry about that. We were just getting interference in the reception. Please proceed. Thank you.

Ms. Judy Cameron: Two years ago we reported that the December 2007 average solvency ratio of federal plans was estimated at 1.05. In other words, pension plan assets, on average, exceeded liabilities by an estimated 5%. A year later, at year end 2008, the ratio had declined to 0.85, meaning that the market value of pension plan assets would have been sufficient to cover, on average, only 85% of promised benefits on plan termination—a significant reduction from 2007 to 2008. Our most recent estimates show that the average ratio has increased modestly to 0.90 at December 2009.

An indicator that has shown a more marked improvement is the proportion of materially underfunded plans. Based on OSFI's estimates, at the end of 2009, only 15% of all federally regulated pension plans had a solvency ratio of less than 0.80, whereas at the end of 2008 the comparable proportion was 40%.

A pension plan's reported solvency ratio has a direct impact on the funding that the sponsor must contribute under federal funding regulations, which do not require defined benefit pension plans to be fully funded at all times, but where the ratio of assets to liabilities is less than one, the plan must make special payments to address the deficiency. The provinces and many other jurisdictions have similar rules. So while the most recent solvency testing results suggest an improving trend, many plan sponsors will still be required to make significant special payments, which may pose challenges for some plans.

OSFI's primary objective in estimating solvency ratios is to detect problems and challenges early so that we can, working together with the pension plans, take steps to safeguard members' benefits where we feel they are at risk.

Solvency testing is a key element of OSFI's enhanced monitoring of federal pension plans. We use the results to identify underfunded pension plans and determine if the administrators of these pension plans are taking appropriate actions to deal with the situation. Where warranted, OSFI intervenes in a number of ways, ranging from encouraging plan sponsors to cease contribution holidays to requiring enhanced notification to members, to requesting early valuation reports.

Consistent with how we supervise financial institutions, OSFI takes a risk-based approach to supervising pension plans, tailoring our activities to the risk profile of our plans. Over the past two years we have identified those pension plans that have been most challenged by market conditions and have taken actions to protect the rights and interests of pension plan members and other beneficiaries.

While regulators such as OSFI have a role to play, under the terms of our legislation the primary responsibility for dealing with the challenges facing pension plans today rests with the pension plan administrators and sponsors. Therefore, effective plan governance is critically important to controlling risks. So a key focus of OSFI's supervision is to assess the quality of a pension plan's governance.

OSFI regularly reminds plan administrators to be prepared for a wide range of potential shocks or adverse events and to use regular scenario or stress testing as a risk management tool. We believe regular scenario testing will help plan administrators to understand and prepare for the risks they face.

Given the current economic environment and the resulting impact on the health of Canadians' pension plans, it is more important than ever for governments, regulators, and pension plan administrators to work together to meet the challenges currently facing private pension plans.

● (1610)

[*Translation*]

Thank you for listening. I would be happy to take any questions you might have.

[*English*]

The Chair: Thank you very much for your presentation, Ms. Cameron.

We'll now go to questions from members.

Mr. McCallum, you have seven minutes.

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

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

I'd like to start out with a line of questioning I had a few meetings ago with some bank and insurance company representatives. I want to say that I think it's a good idea to break down some of the barriers to multi-employer pension plans, as recommended by some of the banks and insurance companies, but I think at the same time one can have a voluntary supplementary Canada Pension Plan. It's not either/or; I think the two can coexist, and it would provide more choices for Canadians. The bankers and insurers at that meeting didn't seem to disagree with that.

First, I'd like to ask Ms. Swift, would you be in favour of such a combination?

Ms. Catherine Swift: The challenge for the CPP—and I'm sure the banks and insurance people told you this—is that they don't really have mechanisms right now; they don't have the infrastructure to have an individual contribution type of thing. But barring that, I think that within reasonable limits, the more options the better.

So, no, we're pretty agnostic in terms of whether it's private, whether it's CPP, whether.... You don't want to be reinventing the wheel all the time, but no, in principle I think that's fine.

Hon. John McCallum: Thank you. Let a thousand flowers bloom, and more choice is usually better than less choice.

Mr. Farrell, would you have a problem with that?

Mr. John Farrell: No. We would support such an arrangement, providing it's a voluntary arrangement.

Hon. John McCallum: Yes.

And Professor Lee?

Prof. Ian Lee: No, I agree with you completely. I like your phrase, too, “let a thousand flowers bloom”, as long as it's not mandatory.

Hon. John McCallum: We seem to have a consensus, including everybody but the Conservative Party. That's good.

Let me now come to the question of the pension guaranty corporation, in relation to what you said, Mr. Farrell, about not favouring preferred status for pensions in bankruptcy.

I understand your argument: the problem is that it leaves the pensioners in a bad situation. Two of the countries you mentioned that are not giving preferred status are United States and Britain, both of which have a pension benefit guaranty corporation. Don't you maybe have to have one if you don't have the other? Otherwise you leave pensioners in a really untenable situation.

I see Professor Lee is nodding his head, so let me ask him first, and then go to Mr. Farrell.

Prof. Ian Lee: I agree with you. The pushback and the criticism that we've seen by ordinary Canadians has been on the very unfairness of a pension that fails. So either the Companies’ Creditors Arrangement Act has to be modified or, preferably, a private sector insurance corporation. We have the Canada Deposit Insurance Corporation, which is analogous in banking, and you, as a former banker—

Hon. John McCallum: I'm interested that you're proposing this pension insurance, because you're not a raving socialist. Usually these proposals comes from unions.

Isn't it true, to take the other side, that the U.S. corporation has a big deficit? Do you think it's financially viable?

Prof. Ian Lee: I'm studying that right now, and I can't answer the question as to whether it is viable. I'm not sure what level.... It really depends on the effectiveness of the regulation by OSFI, at the front end, what level of premiums are required.

Hon. John McCallum: Mr. Farrell, will you accept that if you don't want to have better treatment of pensions in the event of bankruptcy then it's a much stronger case for a pension guaranty of some sort, or else the pensioners are totally out in the lurch?

Mr. John Farrell: Not necessarily. I'll defer to Mr. Markham, who'll be able to help us with this answer.

Mr. Ian Markham (Canadian Retirement Innovation Leader, Towers Watson, Federally Regulated Employers - Transportation and Communications (FETCO)): On that score, a problem of these pension benefits guaranty funds is that if you're a planned sponsor and you're running your plan as best you possibly can, and it's reasonably well funded or very well funded, then the risk is that you will end up putting your moneys into this guaranty fund, and thereby protecting other plans that may have been run with more risk in their asset portfolios and so on. As the better-run plans' sponsors, and the ones who are managing their plans more carefully, you potentially end up subsidizing the other ones. That is one of the reasons why it's an extremely unpopular deal for companies that are in voluntary pension arrangements.

You've only presented two choices, between the preferred creditor status and a pension benefits guaranty fund. Where FETCO would come from, and I think where many private sector defined benefit plans would come from, is let's strengthen, through OSFI and through all the provincial regulators, the funding of pension plans so that each organization will be perhaps doing actual evaluations more often, perhaps having a cushion of extra funding, and so on and so on. In other words, strengthen the funding of pension plans and at the same time provide some quid pro quos to making it easier to keep these DB plans going.

● (1615)

Hon. John McCallum: You've still got to address the issue that bad stuff sometimes happens. You don't really have a solution, neither insurance nor preferred status, for plans that go bankrupt.

Mr. Ian Markham: FETCO's solution would be not to do either. It would be to strengthen the system of funding—

Hon. John McCallum: But even if you strengthen the system, it won't be perfect. There will be failures.

Mr. Ian Markham: It won't be perfect. That is correct.

Hon. John McCallum: Okay.

Ms. Di Vito, I like a lot of your proposals. All of them cost quite a lot of money. The one that I have a bit of a problem with is the rolling over to the next generation, because the whole principle of RRSPs I thought was that you get the tax benefit when you contribute but you pay it back when you're older. If you allow it to go to the next generation, why not the next one and the next one and the next one? It seems to me that infringes on the basic principle of RRSPs. Even though there may be some benefits, it seems to me it's a slippery slope.

Ms. Tina Di Vito: Currently, we already allow tax-free rollovers to a surviving spouse upon the decease, whether they have an RRSP or a RRIF. It puts individuals who do not have a surviving spouse or common-law partner at par. This is very common in Canada, where we see the divorce rates rising significantly for the 55 and over. Through death or never marrying at all, chances are quite high you will be single in retirement. You don't have that same opportunity to roll over your RRSP or RRIF assets to another individual.

If we are looking at baby boomers today and if our argument is that they're not saving enough, that they're carrying debt into retirement, there seems to be an incentive if we allow RRSP or RRIF assets to go from mom and dad to a child, as long as they put it into their own RRSP and RRIF. If they decide to spend that money prematurely, then the government would certainly collect their tax revenue. That's the premise of that.

The Chair: Thank you.

Thank you, Mr. McCallum.

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé (Hochelaga, BQ): If I understood the last remark, the objective is to ensure that people who die were married to younger people, who then marry other younger people after their spouse dies. That's one way to do it.

I noticed that my banking colleague addressed the first remark to his banking colleagues. I'm going to start with a professor, since I was one myself.

Professor Lee, you say you prefer to own a home rather than accumulate an RRSP. I would say that is quite reasonable. I see that my children, people in their thirties, prefer to invest in a home since they will have the enjoyment of it for a long time, while their RRSP, it concerns me. That's essentially me. So it's a problem. Your remarks about pensions in fact related to the later part of a person's life. With all the advertising we've had about "Freedom 55", we were freeing ourselves from something. So we have completely changed the culture in this respect.

When you say we have to achieve equality between the private and public systems, which of the two do you change? Do you bring the public down to the level of the private, or do you raise the private up to the level of the public?

[*English*]

Prof. Ian Lee: I'm going to speak against my own interest. I think public sector pensions are too generous. My pension is too generous. I think the private sector, the small-business sector, is being mercilessly exploited, to use the language of social democracy. We need to reduce the pensions in the public sector to even out the differences with the private. The principal method is by increasing minimum mandatory retirement to age 70.

[*Translation*]

Mr. Daniel Paillé: I appreciate that you can say that. It's clear that you have permanent employment, if you can say such a thing.

Ms. Di Vito, have you consulted with the government about your RRSP rollover idea? I think being able to roll RRSPs over to our children tax-free is an idea worth considering. What you said about how RRSPs should be taxed like salary for the contributions and probably at a lower rate for capital growth is also interesting. Have you had discussions with the Government of Canada's Department of Finance on that point?

● (1620)

[*English*]

Ms. Tina Di Vito: Yes, we have had some informal discussions on that.

One of the recommendations we made was to allow RRSPs and RIFFs to roll over to an RDSP, the registered disability savings plan, which I noted earlier has been proposed in this year's federal budget, so we were quite pleased. But this is something that we see as a significant advantage to those Canadians who are so-called “under-saving”. Being able to inherit an RRSP intact, free from taxes, to replenish their underfunded RRSPs would be a significant benefit to Canadians.

When we look at baby boomers, this is the group on whom, across the country, there will be the biggest impact. They will be entering retirement over the next five to ten years en masse, and we think they are under-prepared for retirement.

Looking at current seniors, their lifestyle is very different. Boomers today will not retire to that same lifestyle. You said you are your children's RRSP. The fact remains that there is a sandwich generation. Baby boomers today are caring for their children, for themselves, and for their aging parents. One of the things we've seen first-hand is how caring for parents and their long-term care needs later on in life is now falling to the children because their parents have not adequately planned for that.

[*Translation*]

Mr. Daniel Paillé: Thank you.

I would like to ask the Canadian Federation of Independent Business representative a question because she has done an excellent survey. To all intents and purposes, there are two kinds of businesses: those with 0 to 49 employees, where a very large majority have no pension plan, and those with between 50 and 500 employees, where 56% of them have employer and employee plans. The reason you cite is that it's too expensive.

Have you observed differences between the provinces? Quebec is the SME champion in Canada. Have you seen differences between Quebec, where there are the most SMEs, and elsewhere in Canada?

[*English*]

Mr. Doug Bruce (Director, Research, Canadian Federation of Independent Business): That survey data is for Ontario only. As Catherine Swift mentioned, we will be surveying our members across the country, but my guess in looking at some of these survey questions and results in the past is that it probably wouldn't vary significantly by province. The key aspect here is the size of business. A lot of them can be in a seasonal sector. The employees, for example, don't have these plans, because there's less demand among their staff to have a retirement savings plan in the workplace as well. But in terms of provincial breakouts, we will be able to have that data available for the consultations by the end of the day.

[*Translation*]

Mr. Daniel Paillé: Thank you.

I'd like to ask one last question about FETCO. With all due respect, I would say that, in my opinion, you are propagating the urban myth that the financial markets would be a nightmare if pension plans were given creditor status or employees were preferred creditors.

For quite a long time, throughout my career, I was a company CEO, and I know that granting or applying for credit is a function of risk analysis. In my opinion, that would be part of the risks and the analyses. I agree that there would have to be a buffer period, to use that term, but I don't think we can say it would be a nightmare and we absolutely can't make employees preferred creditors when they retire because it would scare people.

[*English*]

Mr. John Farrell: I'll defer to Dr. Puffer to answer your question.

Ms. Marlene Puffer (Managing Director, Twist Financial, Federally Regulated Employers - Transportation and Communications (FETCO)): The big question about the impact on the capital markets is to get away from thinking about it as the impact on average and the impact under normal circumstances. It's very difficult to assess what the impact would be immediately if this were to be done. If any study purports to be able to provide data to that effect, it's just not feasible to actually estimate it. You can't run that social experiment.

What we do know is that credit-rating agencies take into account in their evaluation of the credit-worthiness of companies the status of the pension plans, and we do know that they account for the deficit position of a pension fund as additional effective debt held by the company. So for those companies that have a substantial defined benefit pension fund, and at the times when they are either in a deficit position or there's a high risk of a deficit position because of their investment strategies, those companies in particular would absolutely be impacted, and potentially quite significantly, potentially through a decrease in their credit rating and therefore an increase in their financing costs.

● (1625)

The Chair: Thank you.

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

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair, and thank you to all our witnesses for appearing here today.

I'm glad we have OSFI here with us, and that's where I'm going to direct my questions to start with.

We haven't had the regulator here to explain some of the jurisdictional issues that we all face. I'm privileged to have met with almost all of you before in this process, so I've heard some of the challenges, and we're hearing more as the witnesses continue to come to our committee. I'm glad that the rest of are able to hear these challenges.

We know the complexities of this situation. Ms. Cameron, we realize the importance of making sure that any new policy direction we take is in cooperation with the provinces and we're seeing more and more provinces step up to that, rather than working at cross-purposes. Can you provide us with a quick analysis of the jurisdictional issues that pension regulation policies present to you and to the provinces?

Ms. Judy Cameron: Do you mean the differences in the regulations, the rules?

Mr. Ted Menzies: Yes.

Ms. Judy Cameron: One of the jurisdictional issues is simply that under the Constitution, pensions are regulated according to where the area of employment is regulated. In some businesses employees fall under federal regulation; those businesses include banking, telecommunications, interprovincial transportation, etc. Then there are areas of employment that fall under provincial regulation, and a company can have employees who fall into both categories. They can have some employees who are regulated at the federal level and some who are regulated at the provincial level. Those are called multijurisdictional pension plans; they're subject to many kinds of rules, and I think that makes the administration of the plan much more complicated.

Ideally you would have some form of harmonization of rules. That would require a lot of coordination between provincial and federal governments, and that's really beyond the scope of the regulators. To deal with this challenge, regulators have been working on a reciprocal agreement that allows the regulator with the plurality of members to regulate on behalf of the smaller jurisdictions in the context of a particular plan. That approach minimizes the burden, but it doesn't eliminate it.

Was that the area you were...?

Mr. Ted Menzies: Thank you. I appreciate that.

To continue, we've had some very devastating stories provided to us from the Nortel people, and they were just a sampling of people whose pensions have been threatened. We sympathize with those people, but we need to make sure that we have an understanding of the regulatory role specifically in terms of Nortel pensions.

You are the federal regulator of pensions, and that jurisdiction is outside bankruptcy and CCAA. What role did you have in Nortel, if any?

Ms. Judy Cameron: We had absolutely no role in Nortel, because the employees of Nortel are subject to provincial regulation, and the pension plans of Nortel are therefore subject to provincial oversight.

Mr. Ted Menzies: Is it under provincial jurisdiction regulations, then?

● (1630)

Ms. Judy Cameron: Yes, it is.

Mr. Ted Menzies: Okay, thank you.

Once it goes beyond that, we realize the challenges.

Mr. Lee, we're hearing a lot from those who want to go pretty fast. They've got a magic solution and they want us to fix it today. I think we share that concern with a lot of the provincial ministers, although they are not all finance ministers; some of them are actually pension ministers.

When we came out of the session in Whitehorse, six provinces said they were going ahead with consultations. We've been criticized federally for actually listening to Canadians, and I think it has been demonstrated here today and other days that we need to do that.

Ted Morton is our new finance minister in Alberta, and I'll quote him. Ted Morton argued for an incremental approach. His suggestions are a major shift from Alberta's previous stand that pension reform is urgent and that a voluntary supplement to the Canada Pension Plan is probably the best approach. Morton also rejected proposals for a mandatory expansion of the Canada Pension Plan as a way to help retired people make ends meet. He said a bulked-up CPP would only exacerbate the problems of today's system and foist a bigger burden on young people to support the growing number of seniors. When he said that, Ontario's finance minister, Dwight Duncan, said he always has urged a cautious approach to pension reform, and now Alberta is actually singing the same tune.

Would you agree that such an approach is prudent? As the finance minister said, “Do no harm”. We've got a good system.

Prof. Ian Lee: Yes, I agree completely.

In the last several months I've been to some academic conferences, seminars, discussions on pension, and it's quite astonished me. That's why I led with the slide from the OECD. When you listen to people in the academic community, and I suppose some of the public sector unions, you would think there's an apocalyptic crisis in Canada with pensions. Then you look at the data. I've pushed this with scholars and asked where the data is that shows the crisis. Because our elders, 65 and older, are the third wealthiest on the planet earth. What are we trying to do? Make them the wealthiest in the world?

So I think we should be going much more slowly and much more prudentially than rushing into it and going for a so-called big CPP mandatory pension that's going to drive up the premiums and reduce discretionary income of Canadians. This will fall especially on young Canadians, on my son and daughter, and militate against their buying a home. Young people don't sit around at 25 saying they can hardly wait to open their RRSP to collect 45 years from now. They want to buy a home. That is their value. It's a very strong value in Canadian society.

Mr. Ted Menzies: Home or business.

Prof. Ian Lee: Exactly. So I hope that you as members of Parliament proceed cautiously.

The Chair: Okay, you're out of time. Thank you, Mr. Menzies.

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

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

I'm the raving socialist who proposed the preferred status bill, so I thought I'd get that on the table right away.

I'd like to ask a question, and feel free not to answer. Is there anybody among our panellists here today who earns less than $50,000 a year?

The reason I ask that is we're here for retirement income security. A quarter of a million Canadians today are living below the poverty line. I went to 24 communities—and Ted Menzies has heard a lot of these stories as well—where women are eating cat food to get protein. I don't mean to denigrate anybody here, and I greatly respect the people at this table for the expertise you bring, but I want to put those things in context.

Ms. Di Vito, I agree with you on a couple of points. People purchase their homes to live in. If it were the way Mr. Lee has described, I would have a lot less heartache in my office, because I have people coming in asking how they can keep their homes, and they really want to do that.

One important point that you raised was the deferred income concept. The pensions people pay into are their wages they're putting aside. The discussion has got to the point where somehow that's a company asset. Well, damn, that's their money.

Sorry, I shouldn't get too carried away.

Ms. Swift, it will surprise you, but I agree with you too that the backbone of this country is small and medium-sized business. I don't quibble with you on that. But when we talk about the CPP, one point you did make was that the premiums would double. With the proposal that's come from our party—and I don't know which one you've been looking at—the premiums today are at 4% or 5% for employer plus employee, and we're talking about adding 2.5% to each one of those, which is 14%, just to try to put it where it is.

This is one of those days when I've made a lot of notes because I am really interested in the information you're bringing to us.

Ms. Puffer talked about not having a study that could look at what would happen with preferred status. Are you aware that this week the Australian government released a report that said the impact on investment costs there is negligible? It was released Tuesday of this week, so it might be one worth taking a look at. When we started looking at this ourselves, we found there was very little research in areas like this we could turn to. That's why we value the input you're giving us here today.

Now back to Ms. Swift. Robert Brown, a former head of Price Waterhouse, came out recently in favour of an expansion of CPP. He was talking about a 35% increase. Obviously that wouldn't suit me, but I'm trying to find real-world solutions to this, as I think everybody is. We have the public system. We have the private system. We have some investment people are able to do. As I say, 63% of Canadians can't put aside for pension. So going back to the public side, to build a floor where people will have a chance at dignity, those perhaps even from the business community who can't get beyond that, how far would you be willing to go in expansion of the CPP?

● (1635)

Ms. Catherine Swift: That's exactly why we're doing the survey we mentioned today, because we also know—and that was in some of our earlier data—our members value CPP as a program. Indeed, we worked with Paul Martin back in the 1990s to educate our members. These pension issues are complicated. I'm sure you've all become aware of that in the last little while, and you have to come up the curve.

We'll keep you posted. Again, there is no silver bullet here. I don't think there is any silver bullet. I don't think CPP or any of the things we're talking about are silver bullets. I think it is a combination. I would certainly agree with the notion of going cautiously. Let's not forget the crisis our CPP got into in the mid-1990s. There were a lot of reasons for it, but one of the key reasons was that Pierre Trudeau's government in the 1970s ratcheted up benefits. At that time there were a lot of us baby boomers, and we had way more people paying into the system than taking out of it, so it took 25 years for the CPP to go into crisis. There were also some other reasons, such as provinces borrowing the money at sub-prime rates, and so on. The good news about that was we did pretty much fix the CPP in its current structure.

The caution is that often these pension issues don't come to roost for decades down the road, and this is what is scary. There are a lot of problems that have been mentioned by others: low interest rates, markets crashing, and so on. Those markets will come back, but again, timing is everything. Thirty years from now, when we are probably going to be dead, this might be turned totally on its head. This is what has to be factored into it.

It's tough in politics to have long-term thinking, but, boy, this is one issue where I would really recommend it.

Mr. Wayne Marston: First of all, I agree with you on long-term thinking. The 63% of people who have nothing started today in 40 years' time are going to be in another part of our system in one form or another if we don't take solid action today. That's why we're trying to look at it. That's why we're talking about income security in the future. So I absolutely agree with you. For those people, we have to find an answer today to build it for 40 years. When we talk about doubling CPP, nobody means next week. We're talking about 40 years down the road, if it is properly funded. That is a crucial view, that we all have to step back.

There were a couple of points made—Mr. Lee made one of them, and I'm not sure who else—about the public sector plans and how wealthy they are. Let's not start a race to the bottom. Let's start bringing other people up. Raise people up so they can contribute more into the economy of this country.

Prof. Ian Lee: You want me to respond, I gather.

Mr. Wayne Marston: If you wish.

Prof. Ian Lee: I don't see retiring—I think “freedom 55” is a fraud. We are living to 80 and 85. My mother passed away last fall at 93, living in her own home. There are a lot of people living. We can't retire at 55 and be fully sustained.

Mr. Wayne Marston: We talked about a national pension summit. One of the reasons for the national pension summit is to put everything on the table and to see if there is a better way. Is there a national plan? Is there a better way?

Prof. Ian Lee: Can I correct you on one thing, Mr. Marston?

● (1640)

Mr. Wayne Marston: Sure.

Prof. Ian Lee: You were speaking about poverty. You were talking about young people or middle-aged people. Yes, but when they turn 65 that's why we created the old age pension and the GIS. They are not poor, because the statistics are showing it.

Mr. Wayne Marston: OAS and GIS pay $1,162 a month, sir.

Prof. Ian Lee: I showed you the OECD slide.

Mr. Wayne Marston: Just a second. Just hear me. It pays $1,162 a month. In Toronto, Montreal, or Vancouver try living on that. Tell me how well off they are. Most of them—a quarter of a million of them—are women who stayed home and raised their kids and didn't get into CPP—

Prof. Ian Lee: We have the second-lowest level of poverty in the world.

The Chair: Mr. Lee and Mr. Marston, we're just out of time, and Ms. Swift did want to comment.

Do you have a very brief comment?

Ms. Catherine Swift: I just want to mention the concept of the so-called race to the bottom, which I've certainly heard more times than I can count. It would be very nice if business could afford that, but they have to compete. The reason governments have higher wages, salaries, benefits, parental leave, and more holidays, and on and on is that they're not competing in a market. People and unions always want more, but the pie is only so big, so the more one sector sucks out, whatever that is, the less there's going to be available for the others, and businesses have to compete.

The Chair: Thank you, Mr. Marston.

Thank you, Ms. Swift.

We'll go to Ms. Hall Findlay, for a five-minute round, please.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chair.

Thank you very much, everybody, for being here.

This is a question for Mr. Farrell, but Ms. Puffer and Mr. Markham, feel free to answer.

In any request for credit, any enterprise is going to have all of their costs and their profit outlook looked at. We were talking about changing the priority for pension plan pensioners in the case of a bankruptcy. When I hear that this is a problem, because it will increase the cost of credit, would that not also be true for government regulations that would require certain activities to protect the environment? Would that not also be true for additional costs a company would have to incur to address workplace safety? Would that not also be true for anything else you could think of that a corporation or enterprise would be required to do for the benefit of consumer safety or for the benefit of its employees?

In the larger context, obtaining credit depends on a company's profitability, or its forecasted profitability, or the out-there costs, ultimately. Can you comment on that? Why would this be any different from changing the priority in this instance? Why would that be any different from any other costs that might be imposed on a corporate entity or business enterprise?

Ms. Marlene Puffer: The important distinction is that the other ideas you suggested are more about ongoing cashflow obligations. That is obviously one of the considerations if I'm going to lend a company money. Are they going to be able to repay their debt on an ongoing basis? I evaluate the probability of bankruptcy and financial distress for the company.

Both things matter, but when you start to think about changing the priority in the event of financial distress, the analysis is a conditional thing. It's conditional on the company becoming insolvent.

Ms. Martha Hall Findlay: Would that not almost make it less likely? For example, in the event of insolvency—CCAA or bankruptcy—you had a cost of *x* attributed to the change in priority, but you had operating costs, assuming an ongoing operation, that had the same cost of *x*. Because the one is conditional, arguably, that would almost be even less of a detriment in terms of obtaining credit.

Ms. Marlene Puffer: You have to evaluate the trade-off. That's exactly what the credit analysis consists of. It evaluates that trade-off. So the answer is that you can't determine it in general. It's an answer that would depend on the circumstances of the company and on the amounts you're talking about.

Ms. Martha Hall Findlay: Right, but it is true that anybody who is considering giving credit to a business enterprise would consider this, perhaps, an added cost, even though conditional, just like any of those other issues I mentioned.

Ms. Marlene Puffer: Absolutely. Yes.

Ms. Martha Hall Findlay: What we've seen in a number of cases, especially in areas like environmental regulation or workplace safety or consumer product safety, or even in cases of less immediately tangible things, such as a better employee environment, is that organizations have voluntarily gone that path in order to appear to be, or be, better corporate citizens or enterprises. They hope to get more market because of that or more and better employees applying to their organizations. Why would this be any different from that?

● (1645)

Ms. Marlene Puffer: I think what you are seeing in the world of corporate pension investment management is exactly that kind of behaviour. What we're seeing is a trend towards liability-driven investing. That is, companies voluntarily take on strategies that strengthen the financial soundness of their pension plans.

The Chair: You have 30 seconds.

Ms. Martha Hall Findlay: I'm not talking about the financial soundness. I mean enterprises taking on changes that would actually make them better corporate citizens. I guess I'm arguing that changing the priority to avoid a situation we've now seen at Nortel, particularly in the case of long-term disability, would be right up there with having a better environmental record, for example.

I want it out there that increased difficulty in accessing credit is not anything different from any other cost that might be imposed on a corporate enterprise.

The Chair: Okay, thank you.

Mr. Markham, be very brief, please.

Mr. Ian Markham: I think where the difference lies is that for the companies that have the big DB plans, the size of the liabilities and assets in those pension plans and of the deficits—especially what we've been experiencing—can completely swamp the whole company. The costs of environmental and other issues are probably somewhat smaller for most organizations than the impact of financing that deficit is for the big, well-known companies that have been around for decades and decades. The pension costs or liabilities of quite a number of organizations are certainly bigger than half the assets of the company, but for many of them they're actually bigger than the company itself. For those organizations trying to raise cash, let me just give you an example—

The Chair: Be brief, Mr. Markham.

Mr. Ian Markham: Ms. Cameron talked about the funding of federally regulated plans. Those are well-funded plans, actually. The provincial plans are worse funded.

If you go back to March 2009, the typical funded ratio was around 65%, maybe 70%, or even lower than that. Had those organizations at that time tried to raise extra cash in March 2009, it would have proven to be too costly. They couldn't do it because of the massive deficits in their pension plans. In these cases, the legislation that we're talking about may have driven the company under and the plan members may only have received 60% or 70% on the dollar, whereas otherwise, if they had been able to see it through, they might have ended up today at 85%.

The Chair: Thank you.

Monsieur Carrier.

[*Translation*]

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

I would like to pursue the subject highlighted by my Liberal colleague. I was a little surprised earlier, Mr. Farrell, in your presentation, when you opposed pension plans being regarded as preferred creditors at the end or in a bankruptcy, particularly since you are not proposing any alternative. It's easy for you to oppose that obligation, that avenue that could be explored. There is a lot of talk about it at present. Not to be socialist, as my colleague said, but we are very concerned about providing a minimum of protection for the public. We are talking about improving protection for the public as a whole, but I think we must at least meet some minimum when people have worked all their lives in a company, when they have sacrificed a portion of their earnings to accumulate a comfortable pension, and then they find themselves with nothing at the end. I think business owners can't say this isn't important because it would cost us too much. I'm wondering whether you at least have an alternative, to protect the public.

In Quebec, legislation was enacted last year. It means that when a company goes bankrupt, the Quebec Pension Plan, the equivalent of the Canada Pension Plan, takes over from the bankrupt company's pension plan. That is an approach that might be suggested. In that case, I put it to you, because you have no alternative for protecting workers who find themselves with nothing. What do you have to say in your defence?

● (1650)

[*English*]

Mr. John Farrell: Would anybody care to answer that?

Mr. Ian Markham: If I could just comment on the Quebec solution, if you're an organization and the plan is 85% funded—and perhaps Ms. Cameron can peer-review what I'm saying here—the Caisse de dépôt then takes over the pensions at that 85% level. So people effectively have to accept that at that moment in time, their pensions have dropped in value.

The object is that the Caisse de dépôt would then invest, using certain principles, and hope over time to push that 85% back up towards the 100% mark. In order to do that, they may have to take a little risk, and as I understand it, if the risk goes the wrong way and the plan members are receiving their 85% and the pension fund that the Caisse is holding for that particular group does not have enough money in it, then it's the Quebec taxpayers who have to come in and boost it back up to the 85%. So the risks are actually being borne by Quebec taxpayers. If that's a solution on the table, I suppose it's worthwhile talking about it, as long as it's understood where the backstop is coming from.

[*Translation*]

Mr. Robert Carrier: To your mind, the lives of workers who find themselves with nothing, that isn't a risk that the Canadian public should assume. That is what I conclude from your presentation.

I was also listening to Ms. Cameron earlier. On the question of our concerns about the bankruptcy of Nortel, which the Parliamentary Secretary to the Minister mentioned, and in reply to his question, she said there had been no comments about the Nortel situation because the company was provincially chartered. Is that in fact what you said, Ms. Cameron?

Ms. Judy Cameron: Yes, that's right.

Mr. Robert Carrier: To my knowledge, Nortel has establishments in several provinces of Canada. Does that mean that the company is incorporated in only one province and pension plan protection depends on that province?

The Chair: You have about 30 seconds left.

Ms. Judy Cameron: I'm not an expert on the Nortel situation. If I understand correctly, most of the employees were from Ontario or Quebec. So there were some pension plans that were regulated by Ontario and others in Quebec.

The Chair: Thank you, Mr. Carrier.

[*English*]

Just before I go to Ms. Block, I understand we have some very special visitors and observers here in the room with the finance committee. I want to welcome officially on behalf of the committee the high commissioner from Tanzania and the leader of the opposition, who are currently saying hi to Mr. McCallum.

Some hon. members: Hear, hear!

The Chair: Thank you for being here.

They're here to observe our discussion on pensions and witness discussions on truth to power, as Mr. Lee would say.

We will go now to Ms. Block, please.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much, Mr. Chair, and thanks to everyone for being here and for your presentations today.

My comments and my subsequent question will be for CFIB.

We've repeatedly heard proposals that would double or greatly expand CPP benefits. I hadn't heard a lot about the cost it would impose on small to medium-sized businesses until your presentation today. I note you have spoken before about some of the dangers, as well as national backstops, of public insurance funds for pensions. I'd like your views on this.

However, before we go there I would like to share the following exchange that occurred at the status of women committee between my colleague Mr. McCallum and Dr. Edward Whitehouse of the OECD. I quote Mr. McCallum:

> My last question is on pension insurance. I think it was Ontario, the U.K., and the U.S. that we heard were in deficit, and it's a problem. Many people argue that there's a moral hazard issue with pension insurance.
>
> First, do you agree with that? Second, are there examples of pension insurance operating successfully among OECD countries?

Mr. Whitehouse, who is the head of pension policy analysis and social policy division for the Organization for Economic Co-operation and Development, responded with the following:

> The United States set up the Pension Benefit Guaranty Corporation in the mid-1970s. Many distinguished economists have written about the PBGC, and as far as I can see, this insurance fund was essentially in very large deficit from day one when it opened. It really acted as a very large subsidy to airlines, steelmakers, and carmakers over the ensuing years

He went on to say:

> The pension protection fund in the United Kingdom tried to learn some of the lessons of what went wrong with PBGC in the U.S.
>
> I'm afraid that I don't think there is a good international example of one of these types of insurance funds. In theory—I'm not referring to any of them in practice, but in theory—they have the danger of becoming like a black hole. They can suck in a lot of money very quickly.

I note that in a December 16th letter to the federal, provincial, and territorial finance ministers, you recommended the following:

> CFIB members overwhelmingly reject the notion that governments should backstop them. Guaranteeing pension plans exposes them to future financial risks and creates a disincentive for the plans to be cost-effectively managed. It also sets a dangerous precedent by giving other troubled pension plans reason to ask for this type of lifeline. Bailing out certain pension plans “on the fly” will certainly have a long-term detrimental effect on public finances.

I'd like you to expand on that comment, if you would.

● (1655)

Ms. Catherine Swift: I'm glad that somebody reads these letters.

This is the conundrum of these kinds of funds. We consult with actuaries all the time. We're not actuaries, although we're rapidly getting there—I'm thinking that will be my next career.

My understanding from the people who look more closely at these issues than I do is that it has never worked anywhere, ever. I know that's not a good answer.

You talked about Quebec. It's the taxpayer subsidizing....

So who gets the subsidy? The unfortunate reality, from a macroeconomic standpoint, is that you have the good companies, and of course personal taxpayers as well, subsidizing the bad. That has been the experience. That's a fact.

You can say set up a fund.... The Ontario government just devoted half a billion dollars of taxpayers' money to its fund, which they've had in place for quite a while. It's a royal failure. If you want a Canadian example, there is a recent one.

You're right. We're repeatedly subsidizing. They tend to be more standard industrial industries—steel, autos, and that kind of thing. We're representing the small businesses, and our members don't get those kinds of bailouts. They're never eligible for them, but they are subsidizing them.

From a macroeconomic standpoint, you're getting the successful repeatedly subsidizing the unsuccessful. I think anybody can see that's kind of.... You might agree you want to do that but you don't really know why.

The line about pensions is that everybody wants to go to heaven but nobody wants to die. Everybody wants a guarantee, but ultimately people pay for those guarantees. That's the problem in a nutshell, and that's the challenge for policy-makers. How do you balance off these competing interests?

The last time I checked, nothing is guaranteed on this planet. We do the best we can. This is where we hopefully can find a mix of things that will help people help themselves. Everybody wants a decent retirement for everyone. We can all agree on that. How do we best achieve that without overly burdening any one group?

Mrs. Kelly Block: Thank you.

The Chair: Thank you, Ms. Block.

We'll go now to Mr. McCallum.

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

I'd like to make three fairly quick points and then I'll share the rest of the time with my colleague Mr. Pacetti.

I want to confirm that when I asked the question, I believe Ms. Swift, Mr. Farrell, and Mr. Lee expressed support for some kind of voluntary supplementary CPP. Right?

You all nodded your heads.

Nobody can disagree with being prudent, but I think the main difference between us and the Conservatives is support for this voluntary CPP. The three witnesses said they support this.

The Chair: I think Mr. Farrell wants to comment.

Mr. John Farrell: For a clarification, that's a voluntary employee contributory arrangement, and not a joint contributory arrangement.

Hon. John McCallum: Okay, thank you.

My second point is to Mr. Markham. I'm not sure if your point about the U.S. insurance for pensions is quite accurate. I am told that the weaker the position of your pension plan, the higher the contribution rate, so bad performance is penalized and good performance is rewarded. If you structure the contribution rates correctly, then you can deal with the problem you raised.

● (1700)

Mr. Ian Markham: You're correct. With these various schemes around the world, I think by and large they do try to have contributions that are based on risk. But when you have a very large organization that fails, its massive deficit can then swamp the whole insurance scheme, dropping its own funding to very dramatically low levels. That has to then be built up on the backs of others, even though they were paying contributions on that basis.

Hon. John McCallum: Okay, thank you.

I'm rushing a bit because I don't want to take all the time.

My last point is that there is a tendency between the government party and Jack Mintz to paint a very rosy picture of our pension system. I've been in an academic world and I know about selective use of statistics. I agree that in some areas Canada is very good, such as the statistics on older people.

If you look at the core statistics for the OECD, which is the replacement rate in retirement for people of average income, Canada's figure is a 44% replacement rate for the person with the mean income, compared with 58% for OECD. I don't think it can be said that our overall performance is anything so terribly wonderful.

I'll leave it at that and turn to Mr. Pacetti.

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

Thank you, Mr. Chairman.

I have a couple of questions, but I want to go back to the issue of this CPP, voluntary or mandatory. If everybody is in agreement with voluntary, there isn't a problem, but statistics show that a lot of people have not been able to contribute to RRSPs. The only thing that will happen is that the people who have the money will voluntarily put it into the CPP, so I don't think we'll solve the problem.

Our job is to try to find perhaps a middle ground or a middle road. If we're looking at something that's going to be useful, let's say 15, 20, 25, or even 30 years down the line, can't we find a middle ground?

Ms. Swift, my experience as an accountant is that small businesses are willing to do something for their employees if it's going to help them keep their employees. In the surveys, it's too expensive. It's always too expensive for small businesses, but the complicated part is what I've always found. If we can ameliorate something that is already there, being the CPP, it doesn't necessarily have to be doubled, because I think that would be too costly for the employer, but something in the middle would probably work. Couldn't we work towards that?

Mr. Lee, in terms of what you were saying, that the public service pension is too much, that would be an area where the public service pension could be reduced, because they'll have a CPP in 15, 20, or 25 years to compensate for the additional CPP payments. So couldn't we find a middle ground, somewhere that private industry and the public would actually find a middle road?

The Chair: We have about 30 seconds, but we will have time for another Liberal round. So shall we get one person to respond now?

Mr. Lee.

Prof. Ian Lee: I don't disagree with what you said in principle, but I really do think the solution is raising the retirement age. Whether it's age 70 or not, one can quibble over that, but if we look toward increasing it—I shouldn't have said the retirement age, I should have said the pensionable age, because you can retire when you want, just fund it yourself—the pensionable age is critical.

I don't think most people would argue that western Europe is a socially unjust part of the world. They're moving very strongly across Europe towards age 67 or 68, and they're talking about going to age 70. I think that would wash away or deal with a lot of the sustainability issues, as well as the fairness issues, if you had one common pensionable age at which you could draw a pension.

The Chair: Thank you. We'll come back to that in another round.

Monsieur Généreux, *s'il vous plaît.*

[*Translation*]

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chair.

I would like to thank all the witnesses.

Mr. Marston, you asked the witnesses earlier whether all these people earned less than $50,000 a year. Given that I am an entrepreneur myself, you have somewhat insulted me. In the last 15 years, before I was elected as an MP, I earned $25,000 a year because I had decided to be an entrepreneur, to create jobs. I have been a member of the CFIB for about 15 years. I made a personal choice, to be an entrepreneur and work 80 hours a week, and I succeeded. Today, I have 20 employees and a $2 million turnover. I'm very happy doing what I do. However, that has nothing to do with what you earn or don't earn. It's the responsibility of making sure that one day, what we do belongs to us. I sincerely believe that this is up to all of us, each of us individually.

Ms. Swift, I appreciate your remarks. As I said earlier, I am a member of your organization.

Do you think it is realistic to think about 70 as the retirement age?

● (1705)

[*English*]

Ms. Catherine Swift: When you think of the fact in the introductory comments that people used to retire at age 65 and die before age 70, it's not that we're recommending that, but we have increased our lifespan massively. Again, that's a good thing. But when you look at the math of these pension plans that were put in place, it's not only longevity; it's decreasing retirement age, notably in the public sector. It's not changing in the entrepreneurial sector; it's exactly the same retirement age as it was 30 years ago, age 66.

I do think it's something again where, if you phase it in over time, it doesn't have to be terribly punitive. There will be opposition. Of course there will be opposition. That's one thing.

The other element that hasn't even been mentioned is health care costs. When you see a lot of pension plans and some of the defined benefit plans—again, notably in the public sector—they have health care elements attached to them. That is also going to up the costs, because health care costs, as we know, are going nowhere but up.

So there are a lot of reasons we really should look at increasing the retirement age. That's one part of it, but it's not the only part of it.

[*Translation*]

Mr. Bernard Généreux: Thank you.

I will be splitting my time with Mr. Hiebert, but first I would like to ask one final question.

No one today has talked about the Nortel employees who have fallen completely into the void in terms of disability payments. I think that is really a pity. They lost everything, which isn't the case for Nortel retirees. No one talked about that in the presentations.

Mr. Farrell, could you talk about that? Unless the fact that people who become disabled have no pension, no protection whatsoever, doesn't interest you.

[*English*]

Mr. John Farrell: What has happened at Nortel is very unfortunate. Nortel has a terrible situation. I think they have unique circumstances, with respect to the way they managed their arrangements and their long-term disability plans, that don't necessarily exist in other situations.

Certainly we've been through a very difficult time in the last few years with respect to pension plan funding. It's been the most horrendous time most people who deal with pensions have ever experienced. I think we have to make sure that we don't have some sort of knee-jerk reaction and change the way everything is managed in terms of pensions in Canada just because we've had a very difficult time in the last few years.

I believe that if the regulators are working hard with the employers who are providing private pensions, and if the governments are listening to what people are saying, as you are here today, we can find solutions to problems without necessarily having to change the entire rule book. I think there's lots of opportunity to have great dialogue in this country about solving pension problems, to work closely with regulators, and to make sure that pension plans that somehow get offside are brought back into the real world.

● (1710)

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

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Okay, I have a quick comment.

I've heard the opposition talk about a voluntary, employee only, CPP supplement. Other than being a mandatory payment, that sounds a lot like a personal, private investment plan. I'd love to get some comment on that.

Mr. Lee, you mentioned that homes are the primary investment of Canadians and that they should be viewed as investments that can be used in retirement. Later on you mentioned that your own mother died at 93 in her own home. I'm wondering whether she was able to access the equity in her home.

Prof. Ian Lee: You've asked a good question. No, she wasn't; she lived there. I'm not suggesting that all homeowners, when they turn 65, liquidate their homes.

I am doing research on this right now. I wish I could give the data to you. I can't really disagree with Ms. Di Vito. I don't have the data. We know, every one of us in this room, anecdotally, that some people, when they retire, downsize. My brother just sold his house in Edmonton to buy a house in Thunder Bay for half the price. There's lots of anecdotal evidence. What I'm looking for is empirical data on this issue that I can report back on.

The Chair: I'm sorry, but I'm trying to keep members to their time, and we're well over time here.

Go ahead, Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

If we could pick up where we left off, Mr. Lee, what would happen if we increased not the retirement age but the age at which we could start collecting our CPP? What would happen exactly?

Prof. Ian Lee: Do you mean if we increased the minimum pensionable age? It would reduce the pressure on pensions. It would reduce the payouts.

Right now, in the public service, you can retire at 55, as you know.

Mr. Massimo Pacetti: Will we increase the amount we'll collect, or will we decrease the payments? How would you view it?

That would be the problem, right?

The other problem is that there's a five-year discrepancy between women and men, so I think men should probably collect at 65 and women at 70, and that would probably equate.

Voices: Oh, oh!

Mr. Massimo Pacetti: Somebody has to stick up for us men.

Ms. Swift, in terms of finding a balance and small businesses being able to pick up some of the costs of these mandatory or voluntary schemes, there'd have to be a cost somewhere. I just don't see how it would be cost-free to anybody. Businesses would have to somehow be involved in any decision-making that took place.

Ms. Catherine Swift: This is one of the reasons for the survey we are currently in the middle of conducting. We want to understand what the major pressure points are. We know, however, through other ongoing research we do, that the number-one problematic tax for small businesses is the payroll tax. This is a payroll tax.

Again, never say never. What is reasonable? There's no silver bullet. CPP isn't the silver bullet. We really do need a multi-faceted solution to this.

Mr. Massimo Pacetti: I'm looking for the silver bullet, though.

Ms. Catherine Swift: We'd all love one, but let's be realistic: there isn't one. This is why we're doing the study. We'll have it to you and everyone else before the end of the month, before the finance minister's consultations are done.

Mr. Massimo Pacetti: Okay.

Yes, go ahead, Mr. Markham.

Mr. Ian Markham: I want to jump in. Earlier you asked a question about what would happen if there were a voluntary CPP supplement, which would be on a defined contribution basis. It's going to suck money out from the RRSP contributions people would have otherwise made.

There's a very important point here. One of the biggest drops in people's retirement incomes is the expense ratio charged for the ability to get any investment income. Many people don't understand how to invest their RRSPs, so they tend towards fairly high-cost vehicles. If you have a voluntary supplement to the Canada Pension Plan, it could be run, theoretically, at a much lower expense ratio. The impact would be huge.

Mr. Massimo Pacetti: Then you'll be able to cover many more people. That's the whole idea here.

Mr. Ian Markham: But it can also enhance their pensions. If it does suck away the RRSP money from higher expense ratio investments, then maybe over time it will actually enhance the pensions people have access to.

Mr. Massimo Pacetti: Ms. Di Vito.

Ms. Tina Di Vito: I do have a question. When we're talking about the the Canada Pension Plan, one of the things about being in the financial services industry is that I know Canadians are very concerned about leaving an estate. Under CPP currently, if you are 65 years old and contribute your entire life and start collecting at 65, and die a year later, notwithstanding our longevity issue that we've discussed, what happens to the CPP? You get the maximum $2,500 death benefit. So if we are diverting funds from an RRSP where there is estate value left, what is the solution potentially for CPP? That's my concern, that currently there is no estate value left there.

Mr. Massimo Pacetti: I think we're all in agreement that we need various sources of pension and all that, but the idea also of increasing the CPP is to make the net bigger as well, to expand it, and to try to bring in the people who are not contributing to an RRSP and don't have access to a public pension plan.

Catherine, when you survey your members sometimes you'll just ask a general question—would you like to increase QPP or CPP payments—and I don't know how I would answer that if you don't quantitate it. So I don't know if that's a solution.

Ms. Catherine Swift: What we make a point of doing, especially on these kinds of issues, which are complicated.... And as I said, I mentioned it earlier, when the prospect was doubling CPP premiums back in the mid-nineties, we did a very comprehensive survey and we did a huge education portion of that along with it. You know what? Our members said okay. They said “We'd rather do something else, but we understand the value of this. It's important to us, so phase it in over several years.” And that's what happened, and so on and so forth. So, no, it's of no interest to us or anybody else to ask a question that we don't get an accurate answer on.

One point I want to make very quickly is on something that really hasn't been discussed—it's been discussed a little tangentially—which is that a lot of the problems are at lower income levels. Because really, there are certain target groups that are the ones we really need to worry about; we don't need to worry about everybody. Lower-income to middle-income people are the ones who are likely to have the biggest deficit here in the private sector. We have a punitive income tax system, notably at lower levels. Really, if somebody can keep a bit more of their money, then they're going to be able to put some into a plan that they can't now. So don't throw that one out in your discussions either.

Mr. Massimo Pacetti: Exactly. You guys have to stop raising taxes.

● (1715)

The Chair: Thank you, Mr. Pacetti.

We'll go to Mr. Hiebert, please.

Mr. Russ Hiebert: Thank you.

To continue along the lines that Mr. Pacetti and myself were discussing, Mr. Markham, you said that you were in favour of a voluntary employee-only CPP supplement type of income. You said, if I understood you correctly, that naturally many Canadians find themselves investing in high management expense ratio types of investments. A mandatory supplement would force them not only to invest, but secondly would likely reduce their costs of investment because it would be managed by the CPP or some similar fund, and have a lower expense ratio. Are we simply saying that Canadians have a choice: they can invest their own money in an index fund, for example, with a low MER, and get equivalent kinds of returns, or they can have the government on their behalf withdraw from their paycheque and get the same outcome? Because it's not guaranteed.

What are your thoughts on that?

Mr. Ian Markham: First of all, you used the word “mandatory” right in the middle of your remark there—

Mr. Russ Hiebert: Scratch the “mandatory”. We're talking voluntary.

Mr. Ian Markham: Okay, it should be voluntary. If Canadians were generally astute in terms of how to invest their RRSPs, if they understood, if part of their education was a very thorough review of management expense ratios and how they work, and how important they are, and compound interest, if Canadians were actually blessed with that knowledge, then I suspect we may not be talking about a voluntary CPP too. I think the fact is that many Canadians still find investing in their RRSPs quite frightening—even though we've got Tina here, who is able to help them with these things—so they may make the wrong decisions. By having a body that has some excellent investment specialists who are able to provide vehicles that change their risk over from higher risk to lower risk over their lifetimes, have low management expense ratios available to them, that gives people the opportunity of saying, “I don't understand how to invest my RRSP. I can't gain access to investment counsellors because I can't afford it. I don't know where to find them. But here at least is a body of knowledgeable people who can help me invest and I should be able to get a far higher pension that way.”

There are other solutions, of course. The insurance industry is very interested in offering their services, and that may work very well as long as we can get the management expense ratios lowered down so people do indeed have access to something that would be of the nature of 40 basis points or 50 basis points.

The Chair: Ms. Di Vito did want to comment as well, Mr. Hiebert.

Ms. Tina Di Vito: If I could just quickly comment, Ian, you're absolutely right. Within BMO Financial Group, Canadians do have access to professional advice to help them make decisions on how to invest their money. When we look at the management expense ratios, we do not want to overlook the fact that BMO Financial Group is the only Canadian bank offering ETFs, which are a very low-cost investment alternative. Then when we go beyond ETFs, we also look at many other saving vehicles that don't have management expense ratios associated with them.

My concern with having voluntary CPP contributions being managed by external professionals is how do we guarantee that this investment management would be sufficient? Just look at our pension plans. Will they be too conservative and err on the conservative side? Who will make up these types of deficits? Will we be any better off?

A voice: That was a commercial.

Mr. Russ Hiebert: It sounded a bit like that.

It sounds as if the answer is perhaps a combination of providing more options to Canadians, but also focusing on investor education. If we are looking for a solution that's 20 or 30 years from now, as Mr. Marston has suggested, investor education could be part of the plan to help Canadians understand their options. This would be one option but would not be mandatory. Then they could choose however they wished.

We didn't finish our conversation, Mr. Lee, because you were cut off. With the 30 seconds that I have, how would you propose that we address the problem of finding equity, or finding assets like homes that can be more available to Canadians when they retire?

● (1720)

Prof. Ian Lee: I'll give a very short answer. I think you have to get the data on this, the empirical data, to definitively answer what percentage of Canadians are downsizing or converting their home equity into retirement savings. Right now we're all talking about it, but we don't have hard data. That's what I'm doing research on, but there are also others doing research on this. Your committee needs that information. I think that many pension experts underestimate—that's my theory, my hypothesis—the value or utility of home ownership in terms of pensionable earnings upon retirement.

The Chair: Thank you.

Thank you, Mr. Hiebert.

We'll go to Mr. Marston, please.

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

Mr. Généreux, I want to make a point here: the reason I raised the $50,000 in the beginning was not to malign or humiliate anybody, but to try to talk about the lens through which people are looking at this problem. Those who earn in the area above $50,000 a year have a different perspective from those below that figure.

I agree with everyone at this table that this is not something we can get a quick solution for. We as a party have offered some suggestions and ideas. One of the things we talked about was somehow addressing the quarter of a million people who are below the poverty line in an immediate way.

On preferred status, Ms. Puffer, I should correct one thing I said. When I talked about the Australian survey, I should have mentioned that it was brought to our attention by Melanie Johannink, who was here on Tuesday. It was a 2005 study, so when I said it was released on Tuesday, I gave the wrong impression and should correct that.

We're talking about a situation that when Nortel shut its doors it had $2.4 billion or thereabouts in cash assets, and $4 billion in solid assets. It refused to pay severance. As my friend across the way mentioned, there are 400 people who are walking away with nothing. I had two people in my office in Hamilton who are long-term retirees and who are facing a loss of benefits and everything. So that does bring a certain passion to what we're all trying to do here.

It should be a two-stage process, in my view. We must do some things immediately. I think one of them is to protect the quarter of a million people and the other is to give preferred creditor status for pension plans. We also need a national summit to bring together the people and ideas that we're all hearing, and to do it with due diligence to ensure that we do the best thing we possibly can do.

For small businesses, I believe we need a mandatory CPP increase, though people may take issue with this, for a small-business person to put something into, instead of putting their money into an RRSP where they have administrative and other fees going forward. As my friend indicated, there are some people in small businesses who live a very fine line financially, particularly in the early years. If things do improve, they would still have the opportunity to further invest later in life.

We have a generation, as Ms. Di Vito said, that's parking debt into the future. It's a generation that's not looking at planning in a way that my parents did or we have been able to do. As a result of that, I again bring us back to perhaps considering a mandatory CPP. If you think in terms of growing the assets exclusively within the CPP, where it's mandatory, rather than having a supplementary plan on the outside with its new administration and new costs, whether or not we get to the full doubling, I think it's something we have to give very serious consideration to.

I've made more notes here than I probably should have done.

Ms. Cameron, if you look at the situation at Nortel, though it's been indicated before that you had no role to play, the only possible federal role would have been an amendment to the CCAA or the BIA to help to protect those workers with those kinds of assets, the $2.4 billion in cash and the $4 billion in solid assets. That would have been the only way, that I can see.

Ms. Judy Cameron: There's certainly no role within the pension regulatory system.

Mr. Wayne Marston: I agree.

You made the point, I think, about the underfunding of the guaranteed plan in Ontario. It has been there for 15 years or thereabouts. There's no point in putting a plan in place unless there's a strategy to fund it as well. Again we're talking long term here, and again that brings me back to this national pension summit. I think there are a lot of minds beyond government circles or beyond sitting at this committee that we could put in a room over a period of time and come up with some real resolutions going forward. If we don't, in 35 or 40 years we're going to have a catastrophe in this country.

I don't have any comments beyond that.

● (1725)

The Chair: Thank you, Mr. Marston.

Ms. Di Vito, I just want to finish up here by clarifying a few things in your presentation.

First of all, you talked about raising the maximum RRSP contribution limits. Others have talked about a lifetime contribution limit as opposed to an annual limit. Would you favour that as well? Is that what you're referring to here?

Ms. Tina Di Vito: We have to remember that we do have a carry-forward opportunity, which I think is almost akin to a lifetime maximum. I think the lifetime maximum that people are referring to is, at age 55 or older, to have an additional lump sum amount, say $50,000 or $100,000, that could be available in terms of RSP contribution room.

Another suggestion that I put forward recently went back to our pre-1995 rules where in fact if someone aged 55 or older, for example, were to get a severance payment, he or she was able to roll over $2,000 per year of service into an RSP tax-free. We can't do that any longer. That could mimic the additional lump sum contribution that you're speaking of as well.

The Chair: Okay.

I also want to clarify where you recommend that the prescribed rate at which funds must be withdrawn from a RRIF be reduced—reduced to what or reduced by what?

Ms. Tina Di Vito: Right now, at age 71, the minimum withdrawal is 7.38%. Given that we are living longer, at that rate of withdrawal and if it increases, that money will not last. We've heard that 4% or 5% withdrawal rates were more sustainable, but I leave it up to future discussion to determine what that exact amount is.

The Chair: Okay.

With respect to your second recommendation, that the contributions be taxed as employment income and the investment income be taxed at a lower rate, do you have a cost to this?

Ms. Tina Di Vito: We have not determined a cost at this point. At this point, it's a suggestion.

The Chair: Okay.

In terms of the age of 71, in your first recommendation, you're not saying to move it from 71 to 73, as other witnesses have.

Ms. Tina Di Vito: I had also heard conversations of age 71 to 75. I don't know what that magic number is. Perhaps as we have further studies in here....

One of the things I have noted from self-employed individuals—business owners—is that their retirement date tends to be later anyway. When Canadians are asked how old they feel versus their chronological age, they say they feel 15 years younger than they truly are. The age 71 limit has been around for many, many years. If we accept the fact that we are living longer, to age 93, as my colleague's mother has, perhaps 71 is not appropriate any longer.

The Chair: Okay, thank you. I appreciate that.

The last issue I want clarification on is the issue of pensionable age, which both Mr. Lee and the CFIB, Ms. Swift, raised. And you're right, it is pensionable age, not age of retirement.

Prof. Ian Lee: Yes.

The Chair: Have you done any studies, Mr. Lee, or do you want to supply any to the committee with respect to any savings if you do raise the age?

Obviously this is something that, if the government were to look at it, would have to be done gradually. You can't simply do it overnight.

Do you have any further information that you could provide? Do you have something that you want to supply to the committee?

Prof. Ian Lee: Not on the savings side. If you have so many years and start later collecting, you don't have as much money to fund. That was the logic of that.

But I'm collecting data on the Europeans, because the Europeans are way ahead of us in this respect of pushing back retirement age. This is happening just in the last two, three, or four years because of their massive deficits as they confront these unsustainable pensions.

The Chair: Are they giving their citizens, though, five years' notice? Over what period are they doing that in terms of raising the age?

Obviously they can't make a change like that overnight, so are they giving a certain amount of leeway before they implement it?

Prof. Ian Lee: Well, Ms. Swift brought that up. I never thought that this would be announced overnight. It would produce a revolution.

It would be staged, as they did with social security in the States, where they are moving it back and it's announced ten years in advance of the change so that people can make adjustments to their financial planning.

The Chair: Okay.

Ms. Swift, do you want to make a brief comment on that issue?

Ms. Catherine Swift: For once, no. I think we've already said enough.

The Chair: Thank you.

On that note, I do want to thank all of you for being here. I apologize about sometimes shortening the time, but we try to get as many members in for questions as possible.

If there's anything further, if you want to supplement any of your answers or presentations, please submit that to me or the clerk. We will ensure that all members get it.

Thank you so much for being here.

Colleagues, I just need someone to move acceptance of the subcommittee report.

Mr. Mike Wallace: So moved.

(Motion agreed to)

The Chair: Okay, thank you.

The meeting is adjourned. We'll see you Tuesday.

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