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Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the ninth meeting of the Standing Committee on Finance. In our orders today, pursuant to Standing Order 108(2), we are continuing our study of the retirement income security of Canadians.

I want to thank all the witnesses for being with us here today. Presenting as individuals, we have with us Mr. James Pierlot and Madam Josée Marin. From Mercer, we have Mr. Malcolm Hamilton, senior partner. We have two individuals with us from the Canadian Chamber of Commerce: Shirley-Ann George, senior vice-president for policy, and Sue Reibel, senior vice-president and general manager, group savings and retirement solutions, Manulife Financial.

Thank you so much for being with us here today.

We'll start with Mr. Pierlot's presentation, go down the list, and then have questions from members.

Mr. James Pierlot (Lawyer, As an Individual): Thank you, Mr. Chairman.

I'd like to address my comments to the issue of adequacy of retirement savings among Canadians.

How much Canadians should save for retirement depends on a number of factors. As a rough guide, it is often suggested that to maintain one's standard of living in retirement, pension income from all sources should be about 70% of pre-retirement earnings.

So, for example, a retiree who is earning $60,000 annually in the last year of his or her employment should be receiving pension income from all sources of approximately $42,000. If the retiree is receiving an average CPP and OAS of $12,000, he or she will need to have saved enough in a pension plan or RRSP to provide a pension of about $30,000 in order to achieve a target replacement ratio of 70% of final average earnings.

How much will this $30,000 pension cost? At today's annuity purchase rates, the cost of providing a dollar of pension that's indexed and provides spousal survivor benefits is about $21, if the pension starts at age 60, and $18.50 if the pension starts at age 65. This means that to have a pension of $30,000, this retiree earning $60,000 at retirement will need to have saved between $550,000 and $650,000, depending on the desired retirement age.

Of course, it must be acknowledged that a pension replacing 70% of final average earnings will not be the right target for everyone. Some retirees will need more, while others will need less, depending on the level of pre-retirement earnings, whether the retiree owns a home or rents, whether the retiree's spouse has pension income, whether there are any dependents, and the cost of living in the area where the retiree resides.

How much have Canadians saved for retirement? It's a difficult question to answer because the data available on private retirement saving in Canada do not provide a clear picture of how much Canadians have saved for retirement. Nevertheless, there is substantial reason to believe that Canadians working in the private sector are not saving enough for retirement and are not well prepared for retirement.

According to data collected by Statistics Canada for 2005, the median retirement savings for Canadian families in which the major income earner is close to or at retirement age are quite low: $55,000 for a family that has an RRSP only; $227,000 for a family that has a pension plan only; and $245,000 for a family that has a pension plan and an RRSP. Assuming retirement at age 60, these savings would deliver monthly pension incomes of $218, $900, and $972 for a family.

These numbers are obviously low, and it is important to remember two things about them. First, they reflect the retirement savings of families, not individuals. Second, they're based on savings data for public and private sector workers. Since public sector workers typically have much higher rates of retirement savings, this means that private sector retirement savings must be considerably lower than these median amounts suggest.

So how much have public sector workers saved? Let's take a federal public service worker as an example. In 2006-07 the average number of years of service at retirement was 30.5 and the average retirement age was 58. Assuming a career-ending salary of $70,000 per year, a public sector worker with 30 years of service retiring at the median retirement age will collect a pension worth about $850,000 at current annuity purchase rates.

For a two-income public service family, this translates into total family retirement savings of about $1.7 million. This excludes any additional RRSP savings that the family may have accumulated in addition to their pension savings.

The difference between public and private sector retirement saving raises a serious question as to whether the regulatory structure for retirement saving may be preventing private sector workers from accumulating adequate pensions.

In the public sector, 85% of workers participate in a pension plan that provides a very good pension, but in the private sector, 75% of workers have no pension at all. Why? The answer lies primarily in unduly restrictive federal tax rules that effectively prevent most private sector workers from joining a pension plan or saving for retirement in their RRSPs at the same rates that public sector and private sector workers with good pension plans do.

● (1535)

Tax rules that prevent private sector workers from accumulating good pensions include the following: you can't join a pension plan unless you have a job with an employer who sponsors one; you can't contribute income from self-employment to a pension plan; and if you lose money in your RRSP or DC pension plan due to a market downturn, you can't contribute more to catch up.

Quite routinely, the retirement savings of public sector workers are five to seven times as much as they are in the private sector. This is not to suggest that public sector workers don't earn their pensions or that public sector pensions should be reduced. Most public sector pension plans are well managed and operate cost-effectively due to their economies of scale.

Indeed, one solution to the problem of inadequate retirement saving in the private sector would be to deploy the successful public sector model in the private sector and make membership available to private sector workers who have no coverage. But under current tax rules, this is not possible.

It's my view that the focus of retirement saving needs to be the reform of tax rules that prevent adequate private sector retirement saving.

Thank you.

The Chair: Thank you very much for your presentation.

[*Translation*]

Ms. Marin, you have the floor.

Ms. Josée Marin (As an Individual): Good afternoon. I am here to talk about Nortel's workers who have a long-term disability. We are a group of people suffering from diseases like cancer, scleroderma, Crohn's disease, heart disease or mental illnesses. Several people from our group do not even know what is happening. We find ourselves in a horrible situation because Nortel sold us life insurance, accident insurance and disability insurance, for which we paid premiums. We thought we were insured under Sun Life and Clarica.

In 2005, we heard that Nortel was actually playing the role of insurance company and assuming the risk. This means that Nortel should have set aside the reserves necessary for benefits to be paid out in the future, based on an actuarial study. I am wondering where our insurance premiums went. Our life insurance, accident insurance and disability insurance will disappear on December 31. We are uninsurable for the rest of our lives, and there is no possible remedy. But Nortel did things right in the beginning. There is a trust administered by an independent trustee. Despite that, we were the victims of a breach of trust. In fact, over $100 million in revenue for people receiving a disability pension are missing.

After signing the agreement with Nortel, we learned that Nortel borrowed $37.1 million from the $100 million for needs other than those of the beneficiaries and that the company left an IOU note in the trust. Actually, Nortel stopped its contributions to the trust years before going under the protection of the Bankruptcy and Insolvency Act. So we are absorbing the bankruptcy, and it is depleting quickly. Yet, before stopping its contributions to the plan and stopping it, Nortel was obliged to notify the trustee. The trustee should have done an actuarial study to determine the future needs to be met by the trust. That was not done. Nortel has still sent no notice. I am wondering whether Nortel is trying to get away by sending the notice as late as possible to prevent any recourse and to make it impossible to recover the funds. In fact, the company will be bankrupt. The other problem is that the U.S. Securities and Exchange Commission discovered in 2005 that the trust, of which we are beneficiaries, was actually combined with Nortel's operating income. That suggests to me—to me and others—that Nortel might have used the funds to inflate its operating income, not to mention other ploys that come to mind.

Ordinary people like us do not stand a chance when companies go bankrupt in Canada because lawyers are paid by the company and they are not asked to produce results for the people they are representing. In addition, our law firm signed a confidentiality agreement with Nortel and Ernst and Young. We have been kept in the dark from the beginning. Even worse, we were controlled, gagged and shattered by our lawyer, who attacked the group and isolated those who were asking the real questions and were looking for solutions. Our case could have been solved from the beginning by blocking sales in order to force Nortel to negotiate and assume responsibility or even to restructure itself. Nortel was fine, but the executives were less so. Nothing was done. The more the company nosedives, the deeper it gets, the longer it takes and the more money the lawyers and controllers collect.

What really shocks me is to see that the bankruptcy industry in Canada is in fact a big happy family. In the case of Nortel, the judge came from Goodmans LLP, who represents Ernst and Young in bankruptcy. In addition, David Richardson, who is now the chairman of Nortel, comes from Ernst and Young. He was appointed at Nortel after the company declared bankruptcy. The day Mr. Zafirovski left, Mr. Richardson was promoted to chairman, with an increase in his salary of more than $100,000 offered by Ernst and Young, now running Nortel. The lawyers representing me are very vocal about their disgust with how we are being treated. But these very same lawyers represented Massey Combines Corporation and Eaton's, and no recommendation was previously made to the government to change things. In fact, that would be to their disadvantage. Bankruptcy is an industry that pays handsomely.

The superintendent and Nortel have not been honest from the beginning of the bankruptcy. Mr. Doolittle, who is now president, was offered double the salary, putting it over the $1.7 million mark for the next two years. In his affidavit, he claimed that Nortel would continue to pay the benefits, but he never mentioned that the trust had a deficit and that the contributions to our disability fund had stopped. In addition, Murray McDonald, the court monitor at Ernst and Young, mentioned in his first report that there was a surplus in the trust, although it was running at a deficit.

● (1540)

He kept saying that we contributed to the trust according to past practices. He should have waited for the settlement agreement to know that there would be a deficit, because Ernst & Young did not disclose anything before, even though it was in possession of an actuarial study done by Mercer in January 2009. While under bankruptcy protection, how could Nortel, a company that did not even do any restructuring and claimed not to have any money, have the audacity to grant more than $333 million in bonuses for key employees and more than $137 million in court-approved bonuses—the same court that rejected Nortel's agreement to satisfy junk bond holders? They are the ones who wanted to keep any amendment to the Bankruptcy and Insolvency Act from applying to our group. Junk bond holders will get a few extra cents for each bond at the expense of our lives, when they are already making an exorbitant profit buying default swaps at more than 60¢ for every $100 in bond denominations.

How could the court endorse an agreement that put us out in the street and took away our right to sue the trustees when we were the victims of a breach of trust and were denied the right to a settlement fairness hearing, which is absolutely necessary for invalids? If you compare our situation to that of pensioners, we expect to receive 17% of our income, whereas pensioners are guaranteed to receive 69% to 92% of their income if they live in Ontario, which half of them do. Furthermore, our payments stop in January 2011, while those of pensioners continue as usual and my pension ceases to exist.

Although an appeal has been filed, there is only one solution for us. The government must support Bill S-216 on humanitarian grounds. We are in a serious crisis that demands immediate action, or else even more lives will be lost. We have already lost two members, including one who lost her will to live because she was under too much stress. She was too worried that her medication would be cut. Her family said she truly lost her will to live.

I want to add that when the agreement came to light and we learned that there was a deficit and a loan to Nortel, we had only 10 days to find a lawyer to object to the agreement. Despite the fact that the firm of Rochon Genova was moved by our situation and stepped into the lions' den, the judge rejected all of the reasons for our opposition. The only reason the agreement was rejected and then re-signed was to benefit junk bond holders. That is outrageous. What a rotten thing to do to throw 400 people out in the street, some of whom are going to die. I am one of the people who will end up in the street. There is nothing else I can do because I will get only about $8,000 a year. I cannot survive on that when I have around $7,000 a year in medical expenses.

That is all. Thank you.

● (1545)

The Chair: Thank you very much for your presentation.

It is over to Mr. Hamilton.

[*English*]

Mr. Malcolm Hamilton (Senior Partner, Mercer): Good afternoon. My name is Malcolm Hamilton. I'm a pension actuary and have been for 30 years. I'm here speaking on my own behalf today.

I'm not going to try to answer all of your questions, but I'll make some observations on three of them, starting with the one about how our pension system compares to other OECD countries.

My company, Mercer—it's mine in the sense that I'm employed by it, not that I own it—created something called the “Mercer Melbourne Global Pension Index” last year, the purpose of which is to grade and rank retirement systems in the world. This was the inaugural run. We only looked at 11 countries, one of which was Canada. We gave them all a grade from A to D. We ranked them. Nobody got an A. Canada was one of four countries to get a B. Officially we came fourth, so we were out of the medals, but it was very close. There was no real significant difference between one and four; they were all viewed as good systems.

I won't bore you with how the ranking is done because it's very complicated, but here's the bottom line. I do believe that if you lined up the world's pension experts and gave Canadians an opportunity to change their problems for the problems of other countries, for the most part we wouldn't do it. I really can't think of a country that has fewer problems than Canada in the area of retirement savings.

Now, understand what that means. To some extent, it's like being the tallest of the midgets. I'm not saying that Canada's system is great. I'm not saying it shouldn't be improved or can't be improved or doesn't need to be improved, but we don't need to beat ourselves up in the sense of imagining that other countries have this right and we're the only one who has problems.

The top-ranked country in the Mercer Global Index was Holland. I know that if you read Dutch newspapers and read Dutch stories about the Dutch pension system, you would think it's one of the worst in the world. If you read Australian stories about the Australian system—they came second—you would think they had one of the worst systems in the world.

The fact is, when you have financial crises, retirement savings plans do badly. That's to be expected. I think it's almost unavoidable. When they do badly, the newspapers all over the world complain about their own systems—as they should—and what we all need to take from that is that we can do a better job. We need to learn from these things and we need to make the system stronger, but we shouldn't think that we're starting from a bad point, because we're not.

The second thing I want to comment on is the notion of how we treat underfunded pension plans when companies go bankrupt and what we do about the losses that pension plan members incur when that happens.

Let me bore you with a little history. If you go back to the 1960s in Canada, you could have a registered pension plan and set aside no money at all. That was permitted and it was done. In the 1960s, people decided—and I think one of the big events at the time was Studebaker's bankruptcy—that this was no way to run a pension system. You shouldn't have a pension system where the pension disappears at the same time the employer disappears.

Since that time, we have funded our pensions in Canada. We started off with basically “going concern” funding, which means that you put money in the plan on the assumption it keeps going, the only problem being that sometimes when the plan stops, even though there's enough money to keep it going, there isn't enough money to pay the benefits. In the 1980s we introduced solvency funding to try to address that problem. More recently, we have another round of reforms, federally and provincially, to try to improve the situation when plans wind up.

Now, none of these is going to be fully successful. The system today is much better than it was in the 1960s or the 1980s or five years ago, but the fact is, if there is a global financial calamity, if stock markets drop by 50%, if interest rates plunge, thereby raising the cost of discharging all the pension obligations, and if companies go bankrupt at the same time, if those things all come together as they did in 2008, pension plans will be badly funded at that time. The unlucky members of the unlucky plans that are wound up by bankrupt organizations will have an exposure and will lose benefits.

● (1550)

If we think we need to do something about that...and I'll point out that this is really no different from what happens to anyone with an RRSP. Everybody who had an RRSP—other than the few invested only in government bonds—saw their stocks go down when they got to 2008. Their corporate bonds went down, everything they had went down. They all lost money. In essence, they had the same type of experience as the unlucky few in defined benefit plans whose plans wound up at that time.

If you want to do something about that, there are four things you can look at.

One, increase funding levels. Try to put so much money in pension funds that even if there are dire economic events there's still enough money left over.

Second, you could tell pension funds they shouldn't take so much investment risk. Life insurance companies with annuity promises: don't put the money in the stock market. You could tell pension funds to take less risk with their investment.

The third thing you can do is a national insurance arrangement, like what we see in the U.S., or Ontario, or the U.K. They're all guaranteed money losers. They will all go bankrupt. But there still may be something to be said for that.

The last thing you can look at is the one that I believe you're considering—namely, saying that in that unfortunate circumstance, we will give preferred status to the members of the pension plan vis-à-vis secured and unsecured creditors. I think that works, but I think it's very dangerous.

I think all four have undesirable consequences. None of them will be painless from the perspective of the pension system. But that last one, I personally think, would probably be the most painful. Everybody is focusing on the fact that, well, the pensioners will go first so they'll get all their benefits. Nobody is focusing on the fact that when those companies go out to borrow money, they're going to find that either it will be hard to borrow or the borrowing will come with strings—i.e., you cannot improve your pension plan, because if the pensioners go before the secured creditors, why would you lend money to an organization that at the last minute can improve its pension plan and take away all the security for your debt? These types of things need to be thought through.

In the ten seconds that remain to me, I will simply say, on the issue of whether Canadians are saving enough, that one thing we know is that the incomes of retired Canadians are quite good for people who never saved enough. There was never a time in my life when people were thought to be saving enough, and yet it's worked out well for the current generation. Most studies find it hard to prove that Canadians aren't saving enough. Equally, they find it hard to prove that they are saving enough.

So while I think there's reason for concern, and I think there are difficult circumstances going ahead, again, so far the system has worked pretty well.

Thank you.

The Chair: Great. Thank you for your presentation.

We'll now go to the Chamber of Commerce, please.

Ms. Shirley-Ann George (Senior Vice-President, Policy, Canadian Chamber of Commerce): Thank you, Mr. Chair. My name is Shirley-Ann George and I am the senior vice-president of policy for the Canadian Chamber of Commerce. With me today is Sue Reibel, senior vice-president and general manager of the Canadian group retirement solutions for Manulife Financial.

Thank you for inviting us to appear. This is a hearing that matters. This hearing and the study you've undertaken will impact millions of Canadians. We commend you and your committee for undertaking this study.

As you know, the Canadian Chamber of Commerce is Canada's most representative business association. With a network of more than 340 chambers of commerce and boards of trade, as well as corporate members, we speak for approximately 175,000 members.

Given the scope of businesses we represent, each topic included in the committee's study on Canadian retirement income security is of interest to our members. However, due to time restrictions and other presentations you have already heard, our presentation will focus only on the third pillar of retirement savings, that is, workplace pensions and RRSPs.

The Canadian Chamber of Commerce believes that Canada's current overall retirement savings system is sound. Legislators and policy-makers need to focus on improvements in the gap areas, rather than fundamental changes.

It is estimated that up to 50% of private sector employees have no workplace retirement savings plans. It is no surprise that much of the current discussion on the retirement savings issue has focused on ensuring that private sector employees have more access to employer-sponsored retirement savings plans. There is a growing appetite to give the private sector more retirement savings options. This approach was voiced last week by Alberta's finance minister at the national retirement income summit in Calgary and is shared by some of his counterparts.

Canadian businesses need the flexibility to choose retirement savings solutions that fit their businesses' sizes and resources. At the same time, Canadians' retirement savings and income needs vary significantly. We recommend that the federal, provincial, and territorial governments consider a balanced and competitive approach to retirement savings that includes more private sector options for businesses and employees.

Most small and medium-sized businesses have limited or no resources to support offering retirement savings plans. This means that policy and regulatory changes should focus on improving defined contribution pensions and group RRSPs to make them less costly and easier for small and medium-sized businesses to offer.

Ms. Reibel will outline specific improvements that could be made to the existing framework for employer-sponsored retirement savings plans to give more businesses the tools to help their employees save for their retirements. All levels of government need to work together, and with private sector providers, to make it happen. Doing so has the potential to benefit millions of Canadians who have either no or insufficient retirement savings.

I will now turn to Ms. Reibel.

● (1555)

Ms. Sue Reibel (Senior Vice-President and General Manager, Group Savings and Retirement Solutions, Manulife Financial, Canadian Chamber of Commerce): Thank you, Shirley-Ann.

As Shirley-Ann mentioned, I am responsible for overseeing Manulife's group retirement business. At Manulife we provide employee benefit and retirement solutions to more than 20,000 businesses and about 3,500,000 Canadians. We support businesses with two employees and businesses with 40,000 employees.

I have spent a significant amount of time over the last year talking to business owners and their advisers about their retirement programs. In some cases they have decided not to offer such programs to their employees.

For the purposes of this discussion, there are a number of things we need to address through regulatory and legislative changes to, first, increase access to more businesses and encourage more businesses to offer workplace retirement programs and, second, once we have a program in place, to enhance participation and savings of the employees when a plan is there.

Let me begin with increasing access to employer-sponsored retirement programs. Most Canadians who do not have a workplace pension work for small and medium-sized businesses. These employers find pension rules difficult and costly, and instead look to group RRSPs, which are more flexible and easier to administer, and that's when they decide to offer a plan.

There are a number of obstacles in play that are preventing access to such plans. This can be addressed through two avenues. The first is to change the defined contribution pension regulations in 11 jurisdictions in Canada to simplify the regulations and allow for multi-employer pension plans; the second is to make changes to the Income Tax Act that will strengthen group RRSPs to give them more pension-like qualities. Using the existing RRSP framework, the Government of Canada could quickly and effectively, and with minimal cost, significantly improve existing plans and encourage more plans.

The changes to the Income Tax Act would include the following.

First, allow multi-employer plans within the group framework. This would reduce administrative and compliance costs and provide economies of scale.

Second, lock in employer contributions. Current group RRSPs do not legislatively restrict access to retirement savings. The ability of workers to access contributions, especially their employer contributions, makes group RRSPs unattractive to many business owners. It also makes employers hesitant to match employees' contributions.

Third, limit portability. While they continue to be employed by the sponsoring employer, employees should not be permitted to transfer their locked-in assets out of the plan. When employees switch employers or retire, they will have the option to transfer their group RRSP to one offered by their new employer, into a DC plan, or into another locked-in savings plan.

Finally, apply pension-like tax treatments to contributions and payouts. Unlike employer contributions to a pension plan, employer payments to a group RRSP attract EI and CPP. Employer contributions to a group RRSP should not attract either of these taxes. As well, payouts from a pension plan can be split between spouses at age 55; income received from an RRSP can only be split at age 65.

Once an employee has access to an employer-sponsored retirement program, there are a number of regulatory and legislative changes that will enhance participation and savings. The first is automatic enrolment for employees, with the ability to opt out, and allowing employers to re-enrol their employees at set intervals, thereby capturing employees whose personal circumstances have changed and who no longer wish or need to opt out. The second is to allow for auto-escalation of employee contributions; they will increase over time with either a pay raise or a promotion.

We believe these improvements will make the existing framework for employer-sponsored retirement savings plans stronger and create more flexibility for businesses.

Thank you.

● (1600)

The Chair: Thank you very much for your presentations.

We'll start with Mr. McCallum.

You have seven minutes for questioning.

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

[*Translation*]

I want to thank all our witnesses for being here this afternoon.

I want to start with Ms. Marin.

I am very aware of the fact that the problem you and your colleagues face is extremely serious. That is why Senator Art Eggleton introduced a bill in the Senate.

The problem is that it may take too long, and I know you do not have much time. I asked the government members about it twice during question period. If the government were indeed on your side, this could be dealt with very quickly. We put the question to the members of the government, and so far we have not received a positive response. Nevertheless, we are doing what we can at this time.

Ms. Josée Marin: I understand. I hope that the government will appreciate just how urgent the situation is.

Hon. John McCallum: Yes, I appreciate the urgency of the situation, as well as the severity.

Ms. Josée Marin: Yes.

[*English*]

Hon. John McCallum: I'd like now to turn to Ms. Reibel.

Basically I agree with the thrust of what you have said, which is that it would be a good idea to have multi-employer pension plans to break down barriers, to expand such plans to have this private sector solution.

I have also suggested to other private sector people who have come before us that I favour that, but I favour as well a supplementary Canada Pension Plan. I don't think it has to be one or the other. I think the two can coexist. An important principle of economics, I think, is that more choice is usually better than less choice for consumers, and there are some advantages in what you propose for some people and there are some advantages in supplementary Canada Pension Plan that is voluntary.

Would you accept that this might be a good idea, that we go along with your proposal and simultaneously a supplementary Canada Pension Plan that is voluntary in nature?

● (1605)

Ms. Sue Reibel: The possibility does exist that the two could work simultaneously. There are two things that I would urge the government to explore.

The first is the associated cost of building such a plan within the government and the impact that would have on setting the fees for such a plan. If you look to the U.K. experience right now, you'll see that it is very challenging for them. They have embarked on a supplementary government-run plan and have determined that it's going to cost them considerably more. As a result, they've had to levy a 2% charge on every deposit that goes into that plan because it has cost them almost a billion dollars to set up the plan.

Hon. John McCallum: That's a one-time cost, is it? It's not an annual cost.

Ms. Sue Reibel: It's the initial set-up, then the annual cost in addition, so it's been more costly than they assumed it would be.

You have to understand that the CPP as it exists right now is set up as a defined benefit plan. A supplement would be essentially a defined contribution plan. They run on different engines and require a different infrastructure that the government would have to build.

The second piece to consider is that whenever the government embarks on something sponsored by them, there is, rightly or wrongly, an implied guarantee or the expectation that the government will be there. Again, this is a defined contribution supplement and the government has to understand that Canadians, rightly or wrongly, will assume that the government will be there to cover their losses. It's something that you have to go into with your eyes open; that's not to say things can't be overcome, but there are just things to consider.

Hon. John McCallum: Okay. Well, thank you. I'm not sure I agree with the second point, but we would certainly have to look into cost, although the CPP Investment Board seemed to think it could be done.

Mr. Hamilton and Mr. Pierlot, I know that you know about this topic even though you didn't speak about it today. I'd just like it if you could perhaps comment on whether you agree with the coexistence of a private sector solution and a supplementary CPP.

Mr. James Pierlot: My view on a supplementary CPP is that it can be workable if it's a defined contribution arrangement and it's voluntary—or at least you can opt out if it's automatic enrolment.

There are different iterations of a supplementary Canada Pension Plan. One, some people talk about expanding the defined benefit guarantee under the current CPP, or increasing the YMPE, or increasing the benefit amount. The other is having a defined contribution arrangement.

If it's the first—in other words, if it's an expansion of the current CPP—you have to make it mandatory for everyone. If it's going to be defined contribution accounts—

Hon. John McCallum: But I'm talking about a defined contribution, voluntary.

Mr. James Pierlot: Yes. I think Sue has identified a number of the challenges associated with setting it up. There are going to be communication challenges. If people have any exposure to market risk with their investments and their account balances go down, then you're going to have to somehow communicate to them why.

But I think my biggest concern about a supplementary CPP—and I don't think it's insurmountable—is the aggregation of a very large amount of money in government hands. Compare the performance in 2008-09 of the CPP fund and the QPP fund—

Hon. John McCallum: Okay—

Mr. James Pierlot: One did 25% worse than the other.

Hon. John McCallum: I'm sorry to cut you off, but I wanted to give Mr. Hamilton a chance, and we have about 30 seconds.

The Chair: You can give a short answer, Mr. Hamilton.

Mr. Malcolm Hamilton: Thank you.

I don't see why you can't proceed with both. It seems to me that the private solution will be ready well before the public one. It is going to take the Brits five years, and that's five years from having decided what they want to do. We're not at the “deciding what we want to do” stage yet.

The prudent thing to do would be to eliminate the barriers to having the private sector solution work. Get some task group figuring out what kind of supplementary Canada Pension Plan we need to launch if this doesn't solve all the problems, but hold off on deciding absolutely whether you need to launch it until this has its opportunity. I am worried that the Canada supplementary plan will crowd this out as an alternative if both are made available at the same time.

Hon. John McCallum: [*Inaudible—Editor*]...head start.

The Chair: Thank you, Mr. McCallum.

Monsieur Paillé, s'il vous plaît, pour sept minutes.

● (1610)

[*Translation*]

Mr. Daniel Paillé (Hochelaga, BQ): Thank you, Mr. Chair.

Indeed, Mr. Hamilton, you are right not to say “my” company in talking about Mercer. It reminds me of Mr. Wallace when he said “my” government. I would rather it not be his.

Some hon. members: Oh, oh!

Mr. Daniel Paillé: They say that our pension systems are very good. When comparing systems, Mr. Hamilton, you say you agree. That being said, the fact remains there are still people such as Atlas and Nortel workers, and the 50% of the population working for private companies who do not have a pension system. It is nice to say that we have the best system in the world, but we cannot stick our head in the sand; we need to make it better.

I have a question about something you said. In fact, I would call it an urban legend about funding. A number of stakeholders have come here to tell us that it would be wonderful if employee pension plans were a preferred claim in the event of bankruptcy. They say that companies would no longer be able to fund themselves and that rates would be terrible.

As someone who has had his hand in that pot for his entire career before coming here, I have to say that is totally false. I think that giving out loans, being involved in funding and buying bonds or shares from companies requires a risk analysis. Investors would never prohibit themselves from investing in a good company. Perhaps this would have a large impact because these people might pay more attention to situations such as Nortel's and perhaps keep a closer eye on the company than what we see today.

Given your funding experience, why do you say it would be a lot more expensive and, in some cases, impossible to fund? Where does that come from? Where did that urban legend start?

[*English*]

Mr. Malcolm Hamilton: I'm not sure that it's an urban legend, because we haven't had the issue on the table.

I'm not an expert in bankruptcy and I'm not an expert in the corporate raising of money, but I guess what I would observe is the following if I was lending to a corporation that didn't have a defined benefit pension plan. If I was told that if the corporation adopted a rich defined benefit plan, even if it was adopted after I lent them the money, and then it went under, with no money in the pension fund, all the pensioners who had been given a pension in that last year would get the corporate money before I, who lent the corporation money, would be repaid, I assume that what I would do is put in a debt covenant saying that there are things with pensions that the corporation is not allowed to do in exchange for accepting that loan.

I think borrowers will be rightfully very concerned about corporate amendments that improve pension plans with no money in the pension fund to pay for them. They'll be rightfully concerned about corporations having risky investment policies. They would know that what often happens is that companies go bankrupt at unfortunate times, when stock markets are down. If they have a risky investment policy, again, the creditors are the parties exposed.

I think there will be a lot of strings attached to the loans that go to those corporations. They'll decide that it would be better not to have a pension plan, or that if they have a pension plan, it would be better not to improve that plan, because it will make their borrowing situation quite complicated.

[*Translation*]

Mr. Daniel Paillé: I would tend to agree with you by saying that yes, in fact, loan agreements for large companies are extremely complex. They include a lot of restrictive clauses and a tremendous number of conditions. That probably should have made creditors stop and think, causing them to ask whether Nortel's employee insurance system, for instance, was not in a non-arm's length trust controlled by a third party. They probably would have had the means or, at the very least, they could have ensured they had the means to pay what they offered because a pension plan is basically income, deferred pay.

I have a question for Ms. Marin. The situation is extremely urgent. A bill is before the Senate. We are in the House of Commons, and the bill will eventually have to come before the House for a vote. The only elected members of this Parliament are in the House of Commons.

Have you had any discussions to have this government act swiftly and bring a bill before the House of Commons?

● (1615)

Ms. Josée Marin: The bill was introduced, but perhaps I will leave it to Mr. McCallum to elaborate on that. Obviously, we tried to get our story out there, to make people understand our situation and to explain that people's lives are on the line. It is crucial that this bill move forward, that it come before the House of Commons as quickly as possible and that it be passed before Parliament rises for the summer. I am telling you, this is a tragedy. It may be taking place far from the spotlight, but it is a tragedy. It is appalling.

Mr. Daniel Paillé: Likely the only way that Mr. McCallum could deal with the matter before Parliament rises in the spring is if he were in the government. And for that to happen, an election would have to be called.

I would just like a brief explanation from Ms. Reibel. On page 6, you say that employers would be hesitant to match employee contributions in multi-employer plans and that it may be necessary to prevent workers from accessing their pension plans. Does that not contradict the fact that participation in a pension plan, in others words, the contribution, constitutes differed pay?

[*English*]

The Chair: Ms. Reibel, a very brief response, please.

Ms. Sue Reibel: I was referring to a group RRSP. There are no restrictions right now.

What employers are concerned about is the fact that they will contribute to their employees' retirement program and then, a year later, an employee takes that money out of that retirement program and buys a big-screen TV. They are contributing to their employees' retirement, but the money is not being used for their retirement. That is one of the reasons. When I talk to employers, they are saying they would rather give the money somewhere else.

The Chair: *Merci*.

We'll go to Mr. Hiebert, please, for seven minutes.

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

To continue with that line of questioning, you suggest in your written comments that the government lock in employer contributions. Are you not suggesting that they lock in employee contributions as well?

Ms. Sue Reibel: Obviously that would be very desirable from a long-term savings perspective, but again, that is a very significant change to RRSP regulations. It's really the government's call on how far to push that. A lot of employers would prefer both pieces to be locked in. With the desire to have Canadians save more for retirement and have the money there for retirement, locking in would be desirable. But I think that goes against the framework of registered retirement savings plans. It could be done, but it's a question... But for sure, employers are looking to have their contributions locked in for retirement.

Mr. Russ Hiebert: So that the employees could not take out the employer portion.

Ms. Sue Reibel: Correct.

Mr. Russ Hiebert: Now, isn't there a problem of commingling?

Ms. Sue Reibel: No, we segregate. Our record-keeping systems segregate the employer contributions from the employee contributions and we track them, so they wouldn't be commingled.

Mr. Russ Hiebert: Mr. Pierlot, you commented a few minutes ago on the comparison between private and government returns on pension investments. You didn't really get a chance to elaborate, but you were referring to the CPP versus the QPP, I believe.

Mr. James Pierlot: That's correct.

Mr. Russ Hiebert: Could you just finish your line of thinking there? I mean, I've seen the returns from the CPP myself and I sometimes wonder if there wouldn't be better way to invest. Could you elaborate?

Mr. James Pierlot: I'm not an investment expert. My expertise is legal. By simply reading the reports from the Canada Pension Plan and the Quebec Pension Plan, I've observed a fairly wide divergence in the rates of returns for those plans throughout the last economic downturn. The divergence is about 25%, which is really significant.

● (1620)

Mr. Russ Hiebert: Which was higher and which was lower?

Mr. James Pierlot: The CPP was higher. I understand the reason was that the CPP had very little exposure to asset-backed commercial paper. The QPP, or the Caisse de dépôt et placement du Québec, had more exposure to that.

The large government pension funds operate fairly cost-effectively and generally deliver fairly good returns, but I think when you put all of that money into the hands of a few investment managers, you have a diversification risk. When all of the pension money is managed by all of these different managers in the private sector and one of them makes a mistake, it won't affect everybody. If more money is aggregated than we currently have and it's in the hands of a few investment managers, when they do well, it's great. But if they make a mistake, we all lose.

Mr. Russ Hiebert: So it's diversification.

Mr. James Pierlot: Diversification is the issue and there are solutions for that. For example, you could take blocks of a supplementary CPP fund and farm them out to the private sector, so that if any one group of investment managers didn't do well, it wouldn't affect the entire fund. There are ways around the problem.

Mr. Russ Hiebert: In your opening remarks, you also mentioned a need for reform. Specifically, you commented that an employee currently can't join a pension plan without having an employer who sponsors it. Are you suggesting, then, that self-employed individuals or employees who have an employer who doesn't want to sponsor a plan should be allowed to join their own pension plans? How would that be different from simply investing in their own RRSP?

Mr. James Pierlot: The reason it would be different is that there are two kinds of pension plans that are permitted under the Income Tax Act: defined benefit and defined contribution.

Defined contribution works just like an RRSP. Defined benefits are more complex arrangements that allow you to fund toward a particular targeted retirement benefit.

In a defined benefit pension plan, there's aggregation of risk and there's aggregation of assets. That presents opportunities for more flexible investment policies and also to lower costs. Under the current tax rules, individuals are not allowed to pay for their own defined benefits. An employer must do it.

Mr. Russ Hiebert: Is there a reason for that policy?

Mr. James Pierlot: It's a historical restriction that dates back to the very beginning of pension saving when it started in 1917 under the Income Tax Act. At that time, you could only have employer contributions to a pension plan. That changed in 1946, I think it was, when employee contributions were permitted. But those restrictions have carried through, and the Income Tax Act essentially says that you can only have pension contributions in respect to your income from an office or employment, which means employment income, and your employer has to pay for those defined pension benefits.

Under the Income Tax Act, the amount of money that you can put away for retirement is much greater under a defined benefit arrangement than it is under an RRSP. So there's this real inequality between the two kinds of plans. This is one of the reasons why the public sector plans are better: because they're all defined benefit plans.

So what I'm really suggesting here is that we disaggregate the employment relationship from pension savings, so that anybody can contribute taxable income to any pension arrangement within an aggregate lifetime tax limit. Essentially, eliminate the distinction between defined benefit and defined contribution plans, and just give everybody the same limit. Allow anybody to contribute up to that limit in any arrangement they so desire, whether it's be pension plan or an RRSP.

The Chair: You have 30 seconds.

Mr. Russ Hiebert: My last question is for Mr. Hamilton.

You talked about strings being attached by lenders to companies with pension plans. If this change were to occur, do you think fewer corporations would offer pensions because of the strings attached with financing their companies from a start-up perspective and onwards?

Mr. Malcolm Hamilton: It would be a complication. Now, in all honesty, corporations right now are not looking to start up defined benefit plans. That's one of the reasons there's so much concern about the decline in defined benefit plan coverage. So if nobody is starting them up anyway, this isn't going to be a big change.

I do think that it will make the ones that are struggling to continue plans regret more strongly that they have the plans if they find out that in order to access the capital markets they have to deal with these very complicated loan covenants.

The Chair: Thank you, Mr. Hiebert.

We'll go to Mr. Marston, please.

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

Ms. Marin, before we go any further, I find it difficult when we are talking so much about pensions and you have your particular issue facing you; I mean, we've proposed to the government, through a bill that I tabled, the potential for change. We certainly will support the Liberal bill if it comes to the House of Commons. We've asked the government to do whatever they can do. In fact, the purchase of annuities of a couple of hundred million dollars, while it doesn't sound huge, could take care of the situation. So a variety of things with potential are still out there.

Mr. McCallum talked earlier about a supplemental CPP, and, Ms. Reibel, I wouldn't mind directing a question on this to you—or anybody else who wants to respond. The NDP has proposed a similar thing, but rather than a supplemental CPP on the side, with new administration, we're talking about growing the core assets for the CPPIB to manage. Right now, 4% or 5% is contributed to the CPP by the employer and 4% or 5% by employees. We're saying to increase the contribution by the employer by 2.5% and, over a 40-year plan, to grow it.

We're looking at an existing framework. We have OAS and CPP. We're thinking in terms of the fact that I think was mentioned in your report, where you talked about the 50% of people who don't have a plan, while overall for workers, about 63% have zero savings and no pensions whatsoever.

So I'm curious about this. Because if we increase at the lower end for everybody, I don't see that as taking away from those people who are secure enough financially to invest themselves. I'd like your comments on that, please.

I'm sorry. I'll just add that it would be mandatory. So please comment on increasing the premiums and the cash in the base of the CPP as opposed to having a supplemental plan with its added costs.

● (1625)

Ms. Sue Reibel: I'd like Shirley-Ann to support me on this answer as well, because she's representing a large population of Canadian businesses in this.

I agree that there is an existing infrastructure for the existing plan, and adding on to it from an ease of use perspective is there. I think we have to look at the impact of mandatory increases in contributions on the economy and business. I think this is a good spot for Shirley-Ann to comment.

Ms. Shirley-Ann George: Anything that would in essence be a payroll tax, in one form or another, would definitely be of concern, especially to small businesses in Canada that are trying to get out of a very difficult downturn. While 2% may sound small, 2% over a broad base of employees can be a significant cost, especially when we're facing the very high increases in EI premiums that are coming.

Mr. Wayne Marston: We understand, but also, as you heard from the British experience, it's going to take some time to do whatever we decide to do. Hopefully, going forward, we'll be somewhat better off than before.

On mutual funds, just out of curiosity, what would be the administration fee per year on a mutual fund, percentage-wise?

Ms. Sue Reibel: Percentage-wise, depending on the type of fund and its complexity, the fees are generally between 2% and 3%, and that includes for advice. There's an advice model and support and financial advice are given to the buyer by the individual who is selling that mutual fund. So you have to be aware of that, too.

Mr. Wayne Marston: Not to go too far into it, but one of the problems that somebody indicated to us is that the people who want to invest on their own behalf face the difficulty of having all of these choices. Again, coming back to the CPPIB, there is the fact that if you increase the core assets, part of that cost is equal to the administration fees. That's the point I'd like to make.

Mr. Hamilton, you were talking about preferred status. I was the one who tabled the bill in the House regarding preferred status during bankruptcies. We all know that a judge will follow the letter of the law in the CCAA. Rather than pointing a nasty finger at the judge, we recognize that this is what they're required to do.

When we look at making a change, one of the statements made is that the investment climate would change as result of granting preferred status. At a previous meeting, I raised the fact that a study tabled in Australia in 2005 said that there was just a very marginal change, and in their case, of course, they're still considered one of the top four places in the world to invest. Are you aware of that study?

Mr. Malcolm Hamilton: I'm not aware of the study. Australia has a largely defined contribution system. They've basically abandoned defined benefits. So I don't know why they'd even have the issue.

● (1630)

Mr. Wayne Marston: I couldn't respond to that. One of our witnesses spoke about it.

Mr. James Pierlot: There's one thing I wanted to observe about the priority creditor status issue. I think we need to ask ourselves a question. Why is it that you have people from Nortel who are demonstrating in front of legislatures when they lose their pensions, but then you have a very large group of DC and RRSP investors who are not?

I think the reason is that when people were working for Nortel, someone made them a promise. They promised them a pension, and in the case of all of the people in DC plans and RRSPs, a pension was not promised. They were told that they would get a contribution to their pension plan, or they made contributions themselves and then they went through a market downturn and they lost money, but they understood that.

I think this is an important thing to remember in terms of how we're going to design the retirement savings system going forward.

Mr. Wayne Marston: This is a leg of it, and I agree with you, but in the case of AbitibiBowater, Fraser Papers, and Nortel, they were all promised that their deferred wages would be there for them. In the case of the LTD, the moneys were not set aside—

The Chair: You have 30 seconds.

Mr. Wayne Marston: —so we're talking about changing the CCAA and BIA to account for that, to offer workers the protection they need.

Mr. James Pierlot: Right, and the reason why I bring up this issue of the promise is that essentially I think what has really been going wrong with defined benefit pension plans in these situations you mention is that people have been told something that's not true, and they're upset about it. They were relying on a promise and they didn't get it.

Mr. Wayne Marston: It's also their own wages that are being abused—

Mr. James Pierlot: But it raises a question as to whether these plans were sustainable or that model was sustainable, or whether we need something more like a targeted benefit pension plan model, where there's an explicit understanding from the beginning that there's risk.

The Chair: Thank you.

We'll go to Mr. McKay for a five-minute round.

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

Thank you, witnesses.

I want to focus on the four comments you made, Mr. Hamilton.

First of all, on the fourth comment, with respect to the urban legend, it does make perfectly good sense that a lender would be a bit more hesitant if in fact they knew that in a bankruptcy or an insolvency they would rank as a lower priority. That makes perfectly good sense with respect to a defined benefit plan. Does the same concern apply with a defined contribution plan?

Mr. Malcolm Hamilton: No, but defined contribution plans virtually can't wind up with deficiencies. What happens when you have a 2008 is that everybody's account balance drops just as fast as the assets, so you end up with a perfectly solvent plan where everybody's benefit is substantially reduced.

In the defined benefit, the pension stays up and the assets disappear. That's the thing that causes the deficiency that is the source of the underfunding.

Hon. John McKay: Okay. In the conversation, that hadn't been clear to me.

Your third point had to do with a national insurance. You didn't really expand on this and you seemed to think it was a really lousy idea, so I wasn't quite sure why you thought it was such a lousy idea.

Mr. Malcolm Hamilton: It's not that it's a lousy idea. It's been tried in Ontario, and the Ontario government just had to throw in $500 million. It's been tried in the U.S. and it's insolvent. It's been tried in the U.K., where it's sort of insolvent, and that's a more recent experiment.

The problem is that it's not clear that you can insure this risk. Because the main problem with this insurance is that if you try to charge the ones with the biggest risks, you find they're the ones who can least afford to pay, and this is a real problem when you have an insurance system where the big bill goes to the organization least able to pay the big bill. Nobody has yet found a way to do this in a way that is totally self-supporting.

Now, I have no objection if governments want to say, look, we're going to do this, we know it's a money-loser, and we know it will, from time to time, go insolvent and need bailing out; the taxpayers will bail it out and we think that's a good use of public money. That's fine. The problem with it is obvious, though, and it is that the taxpayers include many people who don't have pensions, and what they're told is that from time to time money will be used to bail out the ones with pensions.

If we want to go there, let's just be open. Most governments so far have really not been open about it. They say that they're doing this, it's going to be self-supporting, and the government won't have to put any money in. But when the hard times come, the government has to put money in.

Hon. John McKay: You make a very good point. The problem is that ultimately it ends up being the taxpayer, no matter how you slice it, one way or another.

For our friends here in Nortel, who's going to bail—bad choice of words.... Who's going to supplement what they've obviously lost, other than the taxpayers of Canada? So directly or indirectly, honestly or dishonestly, it becomes a taxpayer-funded solution, in which case I guess the question is, why wouldn't you at least try to mitigate your anticipated loss with some form of insurance on private pension plans?

● (1635)

Mr. Malcolm Hamilton: Do you mean government insurance or private insurance?

Hon. John McKay: In effect, each plan pays some form of insurance against the bankruptcy of itself.

Mr. Malcolm Hamilton: I have no problem with going down that road, but let's just be honest about it. Everybody has tried to find a way to make this self-supporting. To date, nobody has succeeded. It's a difficult thing to do. But if we think that's a good use of public funds, let's say that from time to time it will lean on government and we think that's appropriate.

Hon. John McKay: Your third point—

The Chair: You have one minute.

Hon. John McKay: —had to do with taking less risk and, certainly, the distinction between CPP and QPP was a pretty valid point of distinction. How would you describe to pension managers what is less risk?

Mr. Malcolm Hamilton: In defined benefit plans, less risk is picking assets that track the liabilities. This typically means long-term government bonds. If you had a pension plan in 2008 and it was all in long-term government bonds, you were fully funded at the beginning of the year and you were fully funded at the end of the year.

But here's the problem. You can tell pension plans to go down that road. The next thing I look at is what kind of return they are going to get on long-term government bonds and the answer right now is 4%.

Hon. John McKay: On the QPP versus the CPP problem, they wanted quick returns, they wanted to boost their bases—

The Chair: Okay.

Hon. John McKay: —and as a consequence, they ate it.

The Chair: Thank you.

Mr. Malcolm Hamilton: The one thing we know is that they don't want 4% returns.

In the 1990s this looked great, because you could go to safe assets and get decent returns. Right now it's pretty lean if you try to de-risk the pension plan.

The Chair: Thank you.

Monsieur Carrier, s'il vous plaît, pour cinq minutes.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you, Mr. Chair. First of all, I want to welcome all the witnesses.

My first question is for Mr. Hamilton.

Earlier, I was shocked to hear you say that the situation in Canada was actually pretty good and that we ranked fourth in the world. You seemed to be saying that your company has expertise in ranking countries' retirement plans. So you should analyze all the retirement plans.

Despite everything going on right now, you are telling us that things are going well and that we do not need to change much. However, the committee has already met a number of times to study ways of improving Canada's pension system, as a result of the fact that many retired workers ended up with nothing after paying into their company's pension fund. You must not be affected by the problems that these employees are facing right now, if you can say such things.

Nevertheless, I want to know whether you have any suggestions to improve things and keep this from happening again. You are aware that my party introduced a bill that seeks to take into account the benefits of employees who are lost after their company goes bankrupt and to allow them to, at the very least, receive refundable tax credits at the end of the year. The NDP also introduced a bill to at least give employees preferred creditor status during bankruptcy proceedings.

Do you have any suggestions or recommendations for improving the system so that these people do not have to go through this type of difficult situation?

[*English*]

Mr. Malcolm Hamilton: Let me break this into two questions.

What I said earlier is that, relative to other countries, our system works pretty well. If you think there are countries around the world that didn't have a problem with 2008, and where the pensioners are fine, give me the list at some point, because I'm not aware of them.

Second, let's understand what we're talking about here. There's the pension system and then there's the economic system. What we had in 2008 wasn't a pension crisis; it was an economic crisis. It was a financial markets crisis. It took all the assets down.

Most pension systems are built on retirement savings, retirement savings in the sense that they have big pools of assets, and the bigger the pool of assets you had, the more money you lost in 2008. The big plans lost money and the little RRSPs lost money. The only people who didn't lose money are the people who invested entirely in government bonds.

If the question is about what people have to do to avoid a recurrence of 2008, it's to have a pension system built entirely on government bonds earning 4%. The problem is that this turns out to be a safe but unaffordable system. If you work out the cost of good pensions with 4% returns, you get, like the federal public sector plan, 34% of pay.

Most people don't think they can afford to pay 34% of pay for a pension plan. So you have to decide at some point whether you're going to learn to take the risk and deal with the risk, or whether you want to avoid the risk. If, as most systems do, we decide to take the risk, one of the things you have to resign yourself to is that when those very rare years come along, like 2008, there will be problems.

● (1640)

[*Translation*]

Mr. Robert Carrier: We get a limited amount of time. I have less than a minute left.

So do you not think that increasing the Canada Pension Plan would be safer than relying on systems built by private companies such as Nortel, which do not favour employees? At least that way, workers accumulating retirement income would have a more reliable source of income. The Canadian Chamber of Commerce and Manulife did not make any recommendations today. I can understand since they are in a bit of a conflict of interest given that they offer employer retirement programs, which is good for business. But it does not seem good for employees.

[*English*]

The Chair: Very briefly, Mr. Hamilton, please.

Mr. Malcolm Hamilton: Yes. I am not averse to expanding the CPP. I would do it by taking the earning ceiling up, not by taking the 25% up. But here's the thing: any extension of the CPP now, in order to treat the children fairly, has to be fully funded.

You should ask the question. If the existing CPP had been large and fully funded, it would have had $2 trillion going into 2008. That's what a fully funded large CPP would have looked like. It would have lost $400 billion in 2008. That's what would have happened. There would have been pain. So as for the notion that when the bad years come along there won't be pain if we set up the big asset pool in the QPP and the CPP, there will still be pain.

The Chair: Thank you.

[*Translation*]

Mr. Généreux, please.

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

Mr. Hamilton, I want to continue along the same lines. I find the idea of preferred creditors especially intriguing. Earlier, I saw Ms. Marin's reaction when you were talking about the minimum interest income rates necessary for pension plans to survive. Ms. Marin is here to tell us about a human tragedy. Obviously, it is not interest rates that will save her life. So if I were in her shoes, I would hope to hear something to the effect that numbers are all well and good, but there is also a human element.

That brings me back to my initial question. Would the idea of preferred creditors—and I am picking up on Mr. Paillé's question a bit—really serve as a deterrent for companies that wanted to continue creating jobs and providing adequate pensions to their employees?

[*English*]

Do you follow me?

Mr. Malcolm Hamilton: It would make more sense to ask the corporations that than to ask me. I think it would complicate the borrowing of money for some of them, but they would know that better.

I want to point out something else about the way these plans are supposed to work. Pension plans used to be unfunded, and then they were funded. The proper way to protect people when these events happen is to have better funded pension plans taking less investment risk.

That's what insurance companies do when they write annuities. They take the money in, they buy bonds, they don't take huge investment risks, and they're well capitalized. So in 2008 the annuity payments continue, the disability payments continue, and the life insurance payments continue.

If what we want to do is have more secure disability benefits or more secure pension benefits in these plans, the natural place to start is with the funding requirements and with the investment rules, as opposed to trying to clean up the mess once the sponsor goes under and there isn't enough money. It's very hard to clean up the mess once you've allowed the mess to happen.

● (1645)

[*Translation*]

Mr. Bernard Généreux: You also talked about obstacles to setting up better private pension plans. What obstacles are you referring to, in particular?

[*English*]

Mr. Malcolm Hamilton: I'm not sure that I was the one talking about that.

[*Translation*]

Mr. Bernard Généreux: Maybe it was Ms. George or Ms. Reibel.

[*English*]

Ms. Sue Reibel: I believe I was.

Mr. Bernard Généreux: Oh, sorry.

Ms. Sue Reibel: When we look at small businesses and what it takes to put a pension or a retirement program in place, especially when you get to businesses with fewer than 100 employees, they just don't have the administrative capabilities and the staffing resources to support such a thing. They have an office manager who does 10 or 15 things and they are not retirement or pension experts.

We have seen numerous companies get into trouble by trying to meet the compliance requirements associated with pensions. A lot of them just decide that it's not worth the aggravation to support and offer such a thing to their employees. They'd rather just give them the cash. That's what we hear is standing in the way of smaller employers putting a plan in front of their employees, so, one, make it easier for employers, and, two, make it easier for employees to then participate.

[*Translation*]

Mr. Bernard Généreux: By the way, I belong to your organization. I am an entrepreneur with 20 employees. But we have never been able to put that in place because of the size of the business. It would require more resources than we have.

At another meeting, a witness spoke to us about multi-employer plans. What is the chamber of commerce's position on that option?

[*English*]

Ms. Shirley-Ann George: As you know as a member, we do offer multi-employer insurance plans in a number of different ways. To have the opportunity to also offer a multi-employer pension plan is something we would definitely look at if it were an option for us, but right now the law does not allow that.

The Chair: You have about 10 seconds.

[*Translation*]

Mr. Bernard Généreux: In fact, I have another question for...

[*English*]

The Chair: I'm sorry. I think we're done. *Merci*.

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

Hon. John McCallum: Thank you. I'd like to share my time with Mr. McKay.

I have just one question for Mr. Hamilton about how good our pension system is compared with those of other countries. Your index put us at number 4 out of 11. I was just looking at some OECD statistics; I think they were the most recent ones. On average, for the average worker—I think it's the mean salary—if I remember the numbers correctly, the replacement rate for Canada was 44%, while for the OECD it was about 56%. So according to that measure, by OECD standards we're definitely below average.

I would have thought that replacement rate for the average worker was a fairly key statistic. We're better than average on the lower-income side. I think we're slightly worse that average on the higher-income side. We're definitely worse than average for the average person. I wonder how you would react to that or if you think that's an important indicator.

Mr. Malcolm Hamilton: Let's understand what that statistic is. That isn't the replacement rate of someone with average income in Canada; that's the replacement rate for someone with average income in Canada who's not a member of a workplace pension plan and who never saves a dime their whole life. That's basically what they get from government benefits. It's what they get from old age security, Canada Pension Plan, and the guaranteed income supplement.

That comparison is saying that if we look at just government pensions—if we don't look at private savings and if we don't look at workplace pensions—how does Canada compare to other countries? You're quite right: we compare very well if you're half the average wage. That's the place where Canada is relatively strong; we have a big safety net for low-income workers. At the average wage, we are less than other OECD countries on average, and at the high end we're very low compared to the other OECD countries. But that is just looking at government benefits.

Now, what we would be looking at is a retirement system. We're not trying to assess the adequacy of government benefits. The issue is, when you combine workplace pensions with the government pensions and personal savings, how does the income of retired Canadians compare to that of people elsewhere?

There is a statistic that I find more revealing. The OECD did a study in which they said they would look at the after-tax income of seniors in Canada versus that of working Canadians and adjust for family size to recognize that families need more money because they have more people to support with their family income. The ratio in Canada was 90%, i.e., seniors' after-tax income adjusted for family size was 90% of what it was for working people. In looking at the OECD countries, I think we were third of the 20 or so countries. So the conclusion was that when you looked at all sources of retirement income, our system was doing pretty well.

Again, I'm not advocating complacency. I'm not saying that because it's okay today for people already retired, we can safely assume that it will be okay 20 years from now for people now aged 45. But as far as how the system is doing today is concerned, it stacks up pretty well.

● (1650)

Hon. John McCallum: Thank you.

The Chair: You have one minute.

Hon. John McKay: One minute? How do I always end up with the short end of the stick? Anyway...

Ms. Reibel, given your premise with respect to changes to the Income Tax Act, it seems to me that essentially you want an employee locked into the plan. In fact, in your third point, you say to limit the portability: “While they continue to be employed by the sponsoring employer, employees should not be permitted to transfer their assets out of the plan”.

Can you explain that and the rationale behind it?

Ms. Sue Reibel: Well, one of the advantages of an employer-sponsored plan is aggregation of people. That drives costs down to the benefit of all of the individuals in the plan. Having active employees remain in the plan and keeping their assets in the plan helps in economies of scale.

Hon. John McKay: It works for you. I don't see how it works for me.

Ms. Sue Reibel: That gets passed on to the members. It all pushes through, so the more members, the more assets, and the lower the fees. If you restrict movement while they're actively employed by their employer, that grows the assets. It would work the same way in a pension. In any pension plan, the more assets and the more people there are, the lower the cost. It's also for the benefit of the individual, as they're receiving some significant value from their employer-sponsored plan.

The Chair: Thank you.

We can come back to you, Mr. McKay, after Ms. Block.

Ms. Block, please, for five minutes.

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

Thank you to all of our guests for being here. I've certainly enjoyed the debate today.

Recently I read in the April edition of “The Ambachtsheer Letter” an article entitled, “High Noon for Pension Reform: From Debates to Decisions”. I want to quote from it:

> We have had the good fortune to be an active participant in this process since the beginning both as a contributor, and as a listener. Here, we offer our updated thoughts on each of the three major issues set out above and how they might be resolved. In doing so, we are mindful of Roger Martin's observation that the discovery of better answers should continue until the very end of the design process.

I want to build on what you said, Ms. George. You began your opening remarks by stating that this is “a hearing that matters” and that any changes made will have an impact on Canadians for years to come. I believe that, which is why our Conservative government is taking the time to conduct the kinds of consultations that we have, through this committee, our Minister of Finance, and our parliamentary secretary, and certainly we see what's going on with the provinces.

You also stated in your remarks that the Canadian chamber believes that Canada's current overall retirement savings system is sound and that legislators and policy-makers need to focus on “improvements in the gap areas, rather than fundamental changes”.

Can you just quickly recap for me what you would see those gap areas being? Then, I'm also wondering if you can comment as a national organization on the need for policy-makers, provincial and federal, to work together.

● (1655)

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

The gap area that we were focused primarily on looking at today is the gap where 50% of employees and the self-employed simply don't have access to pension plans. That's a serious problem that needs to be addressed, so we would urge this committee to make sure that in any report you have you clearly recommend that this gap be filled, along with some recommendations on how to do it.

On your second question, I apologize, but could you repeat it?

Mrs. Kelly Block: In your role as a national organization, certainly in representing municipalities or businesses from across the country, can you comment on whether you see the need for the provinces and the federal government to work together on the solutions we come up with?

Ms. Shirley-Ann George: One of the challenges the private sector faces today in filling that gap—and one of the costs that small businesses have to face especially—is that there's different legislation in the provinces and in the federal government. Some sort of cooperation or harmonization that would just reduce those costs is one more way to encourage companies to provide pensions for their employees.

Mrs. Kelly Block: Okay. Thank you.

The Chair: We have about a minute.

Mr. Menzies.

Mr. Ted Menzies (Macleod, CPC): I'll be very quick, Mr. Chair. Thank you.

I have all kinds of questions and I thank everyone for being here, but I wanted to pick up on Ms. Reibel's comment about the U.K.

We just heard recently that the original cost of this U.K. voluntary plan was 35 basis points. Now, apparently, the minister that's attempting to put it together is saying that they need about eight to ten more years to do this and, oh, by the way, it's going to be 200 basis points higher. So while Mr. McCallum is saying that's a wonderful idea, who on earth is going to pay for that?

Ms. Sue Reibel: Those numbers are correct. The expected annual cost was 30 basis points. They recently announced that they're going to levy a 2% charge on every contribution that comes into that plan to cover the set-up costs. They don't know how long that 2% is going to be in place. They said it could be 10 or 20 years until they can make the fund self-sustaining.

Mr. Ted Menzies: It's hugely complex to set up. Obviously they thought it was a slam dunk. It's not as easy as some here are suggesting it could be.

Ms. Sue Reibel: Well, I don't know all the details of how they've structured it, but they had to hire a number of people to support it and build the systems. Anything on that scale, a national scale, is expensive. I mean, our industry has invested in this for decades, so—

The Chair: Okay.

Ms. Sue Reibel: It's there.

The Chair: Thank you.

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

Hon. John McKay: That's a comparison between apples and oranges, it seems to me. I tend to think that this is a false comparison, because with CPP, setting up an additional defined contribution plan is not rocket science. It can be run separately. There is an infrastructure already in place, and their return has thus far been at least as good as, if not better than, private sector funds.

Anyway, that wasn't where I was going. It was with respect to this locked-in business. It seems to me that your argument is essentially that it works for the mutual fund industry or the private sector administration.

But it doesn't necessarily work for the folks who are in the plan; you could effectively be the next Nortel, and I'm the beneficiary in the next Nortel, and I'm stuck with a really lousy plan. Because you say that the ability of workers to access funds, especially employer contributions, "makes group RRSPs unattractive" to many employers, and also "makes employers hesitant to match employees' contributions". You go further and say that when employees "switch employers or retire, they will have the option to transfer" only to another plan, another group RRSP, or one offered by a new employer. Effectively, it's a locked-in savings plan. I can't get at my money.

I buy your argument that you lock them in to try to create a critical mass in order to be able to run a fund. What I don't understand is, having said all that, why, if I feel your plan is awful, I can't get out of it.

● (1700)

Ms. Sue Reibel: There are a couple of points in there. One is that you're referring to these as mutual funds. These are employer-sponsored plans. I know that there has been earlier communication that the cost and scale of employer-sponsored plans is very different from a retail mutual fund. For very large employers, it can be 50 or 60 basis points when you aggregate all those people together. That's what I'm talking about, the two or three—

Hon. John McKay: As opposed to 200 basis points...? Okay.

Ms. Sue Reibel: Those are on individuals; this is a group. The points I've brought forward, all those things that I've put forward, exist right now within a defined contribution pension that's regulated by a province. All the characteristics already exist under the pension legislation. What I'm suggesting or recommending is to allow those same characteristics within a group RRSP. They work right now in a DC plan, a defined contribution plan, regulated by the provinces and the federal government. I'm asking that they also work within an RRSP.

Hon. John McKay: But suppose I were prescient, saw your plan as the next Nortel, and wanted to get out of the plan. Suppose, for whatever reason, that I wanted to get out of this plan. What you're recommending here is that I would be stuck. Is that correct?

Ms. Sue Reibel: It's not like a Nortel plan because that's a defined benefit plan. But I'm saying that while the employer sponsored it, you can stop your contributions; you can move your contributions out. But the employer's contribution should stay there while you're employed by that employer, because they're putting in that benefit to you.

Hon. John McKay: Okay. Well, that's an interesting distinction. So you're saying, "I'm not stuck, but you as the employer are stuck."

Ms. Sue Reibel: The employer has made the choice to put their plan there. The employer can move their plan.

Hon. John McKay: Okay. That's a legitimate point.

I have one minute left, and I'll go back to Mr. Hamilton here, who has been very popular this afternoon.

Your first point was to increase funding levels. It just seems to me so blindingly obvious that if those funds...

Can you just expand on that thought for us for a second, please?

Mr. Malcolm Hamilton: The way you traditionally try to make benefits safer—if you're going to choose risky investments—is to put more money aside than you think you need so that if you lose some of it, you've still got enough.

Here's the problem with defined benefit plans. Employers don't want to do that, because they're told that if they put too much money aside and if things aren't bad, if they get good experience and the surplus gets large, there is no guarantee they'll ever be able to get it back. So we put them in a system where we say, “You should all be very responsible and make sure those benefits are adequately secured, but if you over-secure them, you lose the money.”

Naturally, they find this a bit like a rope-a-dope. If they put too little aside, everybody criticizes them for exposing the members. If they put too much aside, everybody turns up and says, “Whoa, look at all that surplus. I guess that should be given away.”

That's a problem. Unless that problem gets addressed—there have been all sorts of proposals to address the problem, but nobody's done it—it's hard for the employers to do the thing that would most naturally address benefit security.

The Chair: Thank you.

Thank you, Mr. McKay.

We'll go to Mr. Wallace, please.

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

I want to thank our guests today. We've had an excellent discussion. I appreciate the input you are providing.

Obviously there is no one answer to all the problems we're having with the pension issue. We're looking at it here, and the minister is going across the country with Ted, looking at the issue. I had a public meeting in my riding where pensions were not the whole meeting but a significant portion of it.

To the chamber, it's my understanding that multi-employee plans can exist as long as they're all within the same industry, or the same grouping. You indicated to a previous question that your members might be interested in plans that allow multi employers, regardless of what industry they're in.

Can you definitively tell me if your members, as chamber members, are actually demanding that issue in terms of the ability to have pension plans, and is it important in terms of not only their own future retirement but retention of employees?

● (1705)

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

We have not asked our members if they would be interested in that option. It's simply not something that we could legally offer them. The question has never been tabled.

Definitely, from our members' perspective, one of the things they look for from membership is something that will reduce their overall costs. Any kind of plan, whether it be auto insurance where we have plans for reduced costs for gasoline...you know, a number of what we call “affinity” programs. What they do is provide greater access to more, especially for small business, at a lower cost. Some sort of system that allowed us to provide pensions where the individual employers would not have to incur these significant costs for administration would be something that we would be happy to talk to companies about; some sort of group plan.

Mr. Mike Wallace: Okay.

To Mr. Pierlot, if you have a copy of your statement—I don't think I have it in front of me, but it might just be in this pile of paper here—I wouldn't mind having it. There were a couple of things in there on taxes.

My view is that there is no magic solution to this. We need to find some things that make sense. Your issue in terms of being able to make up for losses in your RRSP, in terms of increasing your contribution levels, based on what your loss is...or I'm assuming that's what you're talking about. If I lost money on my RRSP this year, but it doesn't really affect my contribution levels for next year, you're saying we should be able to do that. I'm not sure that's administratively possible, but I'm assuming it is.

It's an idea that I'd like to see, so I would appreciate having a copy of anything you have concerning the tax piece. If you would send a copy to the clerk, they would pass it around.

Just for my own education, you are listed as an individual, a lawyer. Are you with a firm that deals with just tax issues, retirement issues? I don't understand your background.

Mr. James Pierlot: I was formerly with a consulting firm analogous to the firm that Malcolm Hamilton belongs to. My speciality is in pension law and also in the area of pension tax law. I wrote a paper in 2008 that I published with the C.D. Howe Institute, which I will certainly make available to you.

Yes, this is what I was proposing in this paper: that everybody's retirement savings be subject to a lifetime limit, which effectively would allow for catch-up retirement savings when people incur losses in the markets.

Mr. Mike Wallace: We're hearing a bit about an additional voluntary program for CPP. I don't understand, personally. My contribution to my RRSP is voluntary. Aren't those with cash going to be taking advantage of it, and those who actually need to be saving, if it's voluntary... What advantage does this give to them?

Mr. James Pierlot: I think that's a legitimate question, because really, a voluntary CPP is a big RRSP in which everybody participates. Why is that better than participating in an RRSP on your own? Well, there might be a couple of reasons.

First of all, if you're putting your money into a fund that is professionally managed, as the CPP Investment Board does now, maybe your fees will be a little bit lower and your investment results a little bit better. Because typically people don't choose their investments very well, and they don't do as well as large pension managers do with the money.

The other advantage is that you don't have to think about it.

But in essence, putting your money into a supplementary CPP is pretty much the same as putting it into an RRSP, conceptually.

● (1710)

Mr. Mike Wallace: Thank you.

The Chair: Thank you.

You can certainly send your report to the clerk, and we'll distribute it.

Mr. James Pierlot: Okay.

The Chair: Also, Mr. Hamilton, you mentioned the Mercer study earlier.

Mr. Malcolm Hamilton: Yes.

The Chair: If we could get a copy of that as well, we'd appreciate it.

Mr. Malcolm Hamilton: Sure.

The Chair: We'll go to Mr. Marston now, please.

Mr. Wayne Marston: I want to thank the guests today. This has been one of the better discussions we've had in regard to pensions.

I have a couple of quick things. Earlier it was mentioned that there was an economic crisis as opposed to a pension crisis, but it did cause people, because of AbitibiBowater, Fraser Papers, and Nortel—and the list goes on—to step back and ask, what can we do? As we looked at things, we found out that 300,000 Canadians live on less than $1,160 a month, which is below the poverty line, because they only collect GIS and OAS. There is a critical problem there.

Again, you've heard me say several times that 63% of Canadians have nothing at this point; they're not doing anything. We had a witness say the other day that Canadians are pushing more debt forward than at any other time in history. There are a number of things in play here.

I keep coming back to the foundation—our public pension system. That's why we talk about expanding CPP, and in a mandatory way for those people who have made the choices. We're not trying to take away from the ones who have the discretionary moneys to go further than that, but to try to ensure.... I mean, we either pay now or we pay later.

Ms. Marin, there's something I'm going to say to the government that I think you should listen closely to. You had Nortel with a situation of $2.4 billion in cash assets and about $4 billion, if the numbers are right, in other assets. A lot of it has been transferred to the U.S. estate and that has presented a real problem. To the government, I would suggest that somebody on the government side take a look at asking, under the terms of NAFTA, for opportunities equal to those of those estates, because I think there's a potential opening there for this, and it should be followed up on. I'd really appreciate it.

Now, Mr. Hamilton, a few minutes ago you were about to make a comment, and you were stopped. Is there anything you'd like to add?

Mr. Malcolm Hamilton: I did want to comment on the fees in the British plan because I'm not sure people are properly understanding them.

So in essence, understand how these fees work. There is a fee on contributions and then there's a fee on your assets. If you trace a contribution, it goes in one year and typically comes out 25 years later; you pay the fee on the contribution once and you pay the fee on the asset 25 times. So if you have system that's charging 2% per annum on assets—

Mr. Wayne Marston: That's huge.

Mr. Malcolm Hamilton: —every dollar that goes in is paying 2% 25 times before it comes out. That's a third of your savings gone in fees.

As for what the British did, they have a very low fee on assets of 30 basis points. They've introduced—albeit late in the game, and everybody is upset—a 2% fee on contributions. But if you did a weighted average and you said you're putting money away for 25 years, and you'd pay 2% up front and 0.3% per year thereafter on the asset, what does that work out to as an equivalent charge per annum on the asset? It would be about 0.4%. It's nothing like 2%.

Mr. Wayne Marston: Sure.

Mr. Malcolm Hamilton: The math there is very important, because if your retirement savers end up losing 5% of their savings along the way, they're hugely ahead of losing 30% of their savings along the way.

Mr. Wayne Marston: We certainly appreciate this caution on that.

Going back to the national pension insurance for a second, you talked about Ontario. Its scheme was introduced in the 1990s, but it was chronically under-funded. It was ignored by three governments, three different parties, over a period of time. I'm not so sure that the concept might not have been good in the beginning, but there's no point in having these plans unless we're going to fund them properly or we have a way of funding them properly.

The Chair: You have one minute.

Mr. Wayne Marston: I guess for us in the NDP the bottom line in this is that we're looking at securing the foundation, and on the conditions that you've been asking for, over and above, for business, we're not opposed to those, to a legislative change. We wouldn't be opposed to that at all. If we can manage across the spectrum in a fashion that takes care of those people at the bottom end and allows for other options, there's not a problem there.

I know that I'm pretty well out of time.

The Chair: We have 30 seconds for a very short response.

Mr. Hamilton?

● (1715)

Mr. Wayne Marston: [*Inaudible—Editor*]...not going to vote NDP on the spot, so...?

The Chair: Ms. Reibel, do you want to respond briefly?

Ms. Sue Reibel: I think we have to be careful about how broadly you make that statement, too. Because as Malcolm has said, the income earners at the bottom end of the spectrum in Canada, relative to other countries, are well taken care of. There has been a lot of work. I understand that there are always individuals who are struggling, and that is unfortunate, but we have a very strong first two pillars, and I think we have to look at where the challenges are in the middle income bracket more so than focusing broadly across all.

The Chair: Okay. Thank you.

Mr. Wayne Marston: There are 300,000 below the poverty line, though.

The Chair: Thank you very much.

Colleagues, it looks as though there may not be a vote tonight. I think the vote is tomorrow. If the bells go, of course we'll have to end the meeting, but if not, I think we can fit in three short rounds.

We'll start with Mr. McKay.

Hon. John McKay: I want to pick up on Mr. Wallace's concern about RRSPs and the opportunity to refund, if you will, your RRSP. If in fact, for argument's sake, I lost $50,000 in my RRSP and the rules were amended to put that money back in, do I get an additional $50,000 worth of income tax deductions?

Mr. James Pierlot: Sorry. Could you repeat the last part again?

Hon. John McKay: If I've lost $50,000 in my RRSP and have $50,000 that I want to put back into my RRSP, and if the rules were amended to allow that, would I get an additional deduction of $50,000 off my income tax?

Mr. James Pierlot: Yes, you would. The reason is that what I've effectively proposed is to equalize the tax treatment between defined benefit plans and DC plans. In a defined benefit plan, whatever is required to fund the benefit is tax deductible. If the assets of the plan go down such that there's not enough money for the benefit, you can put more in to top it up. There's actually no conceptional limit to the amount of money you can put in to top it up, and it's all deductible.

Hon. John McKay: Isn't that a kind of moral hazard argument, though? Particularly if I've self-administered—but even if I'm not self-administered—it is arguably, from a tax standpoint, advantageous to me to mismanage my RRSP.

Mr. James Pierlot: I'm not sure how it could ever be advantageous to lose money in your RRSP.

Hon. John McKay: Okay, it's a little bit of a stretch.

Mr. James Pierlot: Ultimately, even though you get the additional tax deduction, you're still going to be out of pocket more money—

Hon. John McKay: Yes, I agree with that. But on the other hand, the government's revenues are down by a similar amount of money.

Mr. James Pierlot: They are down in respect of the tax deduction, but my point is that this is already happening for the fortunate people in defined benefit plans. But it's not available to the people in the DC plans and the RSPs. Those people in the DC plans and RSPs, which are most private sector workers, get lower overall contribution deduction room, plus no ability to catch up. So we really have a two-class system here.

Hon. John McKay: To show my great generosity, I'm going to share my remaining two seconds with Mr. McCallum.

Hon. John McCallum: I probably have about 20 seconds.

I just want to confirm one point with Mr. Hamilton.

Are you saying that the British system, when you combine the 200-basis-point contribution rate and the 30 basis points per year, is equivalent to 40 basis points per year?

Mr. Malcolm Hamilton: I'm guessing that for somebody whose money is in for 25 years, it would work out to something like that. It's easy arithmetic to do.

Hon. John McCallum: I just wanted to make sure Mr. Menzies heard that. Thank you very much.

Ms. Sue Reibel: May I add one comment on that?

The Chair: Go ahead, Ms. Reibel.

Ms. Sue Reibel: The analysis that has been done so far in Britain has actually equated it to about 1.5% for the immediate future, for the next 10 years, when they've done that. When you look at it for 40 years as Malcolm does, yes, it drops down significantly, but they're looking at people who are 10 to 15 years away from retirement and what that cost is. Again, it depends on how you look at your math, but this is what I've been reading. They figure it's about 1.5%.

Hon. John McCallum: Thank you.

The Chair: Thank you.

Monsieur Paillé, s'il vous plait.

● (1720)

[*Translation*]

Mr. Daniel Paillé: I just have a brief comment on this.

Clearly, it always depends on the period. Even though the Canada Pension Plan is valid right now, there may be problems 15 or 20 years down the line. When all the baby boomers—and there are many here at the table—leave politics and really retire, then there will be a problem.

Earlier, Ms. Reibel, with respect to what my NDP colleague was saying, you indicated that it was dangerous to make generalizations. But you can also have generalizations at the other extreme, which are also unique, when you say things such as the poorest people in Canada by and large receive the best treatment in the world. But that cannot serve as an excuse not to look for ways to increase the state's capacity to offer better pension plans to its citizens. There are still a tremendous number of things that need improvement. When you look at the situations that employees of Nortel, Atlas Steel and others have described to us, it is clear that there is still a lot of room for improvement.

I would just like us to be cautious in terms of estimating the cost. Of course, we can talk about 50 or 250 business points to scare people. But it is a matter of management capacity, and sometimes you have to be confident. Compare Quebec's pension plan to Canada's. The small decision that Quebec made in the 1960s to fully fund the plan has given rise to tremendous results to date, as compared with Canada's situation. Of course, there was 2008—as Mr. Hamilton pointed out—when things went downhill. But when you study a pension management model, you look at more than a single year. As for what you said earlier about losing $200 billion or $300 billion in 2008, it is important to note that that money was made back in 2009. I think we need to use caution there.

Thank you for meeting with us.

[*English*]

The Chair: Does anyone wish to comment?

Mr. Hamilton.

Mr. Malcolm Hamilton: The only comment I'd make is that it hasn't been made back. One thing you have to understand about the pension math is that if you lose 20% one year and you make 10% the next, you're still down 10%.

But that's not the big thing. The big thing is that you weren't supposed to do zero and zero; the whole thing is planned on the assumption that you're making 6% a year. So when you're supposed to do 6% and 6% and you end up at minus 10%, you're still 20% down from where you're supposed to be. So pension plans, notwithstanding the fact that 2009 was good, are a long way from being back to where they're supposed to be.

[*Translation*]

Mr. Daniel Paillé: I think we understand the math. If 20% is lost in one year, you need to make 25% the following year to make up for it and be at 0/0. I think we understood that.

[*English*]

Mr. Malcolm Hamilton: It's not enough to get to being even.

Mr. Daniel Paillé: No, it's just to be at zero.

The Chair: Okay. *Merci*.

We'll finish.

Mr. Menzies, please.

Mr. Ted Menzies: Thank you, Chair.

Once again, thank you to our witnesses.

This has been an excellent panel that has put out a lot of good points.

Ms. George, I noted Perrin Beatty's comments about all governments working together. In fact, in your presentation you talked about that as well, about all government levels working together.

Some members of the opposition think they've found the magic bullet, that they've solved it, and we keep hearing that they already have the conclusion to fix it. I just want to note something for your interest. The finance minister and I have visited five different provinces of late. We saw finance minister Wes Sheridan in P.E.I., Kevin O'Brien in St. John's, Dwight Duncan in London, Ontario, Ted Morton in Calgary, and Rosann Wowchuk, all sitting shoulder to shoulder beside the finance minister, taking notes and listening to people, and we still don't think we have the exact answer. So I'd be encouraged to also hear from your members, and we appreciate this.

But there is no magic bullet. We hope that coming out of this process your members can provide even more advice on this. That's just a quick comment, if you will.

● (1725)

Ms. Shirley-Ann George: Thank you for that.

We are always very encouraged when the federal and the provincial governments can work hand in hand on issues. In Canada it's the only way we can make any substantive progress on these tough challenges. All too often we see bunfights between the two levels of government, so we're encouraged by what we've seen.

On your request for more input from Canadians, we would be happy to send out a notice to our chambers across the country and encourage those that have views to submit them. I assume you mean into the finance department's consultations...?

Mr. Ted Menzies: Yes, we have an online consultation at the Finance Canada website.

Ms. Shirley-Ann George: We'd be happy to do that.

The Chair: Very briefly, Mr. Menzies.

Mr. Ted Menzies: I need to address Monsieur Paillé's comment about an urban legend. Very quickly, I will share with the folks here the rural truth, reflecting on the fact that if we change the creditor status in this issue, it will affect businesses. We're challenged in the rural areas right now. Farmers are signing general security agreements for a minimal part of their operating money for the year. They can't go back anywhere and get any more financing.

So we need to be very cautious about crippling these companies by encumbering them with the similar situation with the creditor status. We need to be very, very cautious. I would welcome Mr. Paillé's visit out to my part of the world and we'll show it to him.

An hon. member: [*Inaudible—Editor*]

Mr. Ted Menzies: We ran out of time for questions.

The Chair: Okay.

Did you want to comment on that? Is that a final comment, then?

Mr. Ted Menzies: That's fine. I won't abuse my time, Chair.

The Chair: Thank you, Mr. Menzies.

Mr. Wallace, you wanted to move your motion.

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

I'd like to move the motion, which was handed out, to request the Parliamentary Budget Officer to provide an estimate on the cost of Bill C-290, the private member's bill that is coming back to this committee.

An hon. member: [*Inaudible—Editor*]

Mr. Mike Wallace: Thank you. I think it's information we can all use.

The Chair: Is there any discussion?

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: Mr. Chair, I would like the Parliamentary Secretary to the Minister of Finance to tell us whether the minister has confidence in the Parliamentary Budget Officer.

[*English*]

Mr. Mike Wallace: Of course—

Some hon. members: Oh, oh!

[*Translation*]

Mr. Daniel Paillé: If he does not have confidence in him, what is the point of doing these things?

[*English*]

Mr. Ted Menzies: We're all looking for...[*Inaudible—Editor*]. We listen all the time, Monsieur Paillé.

Mr. Mike Wallace: Call the question. Let's go.

The Chair: All in favour?

(Motion agreed to)

The Chair: It's unanimous. Thank you. That's carried.

I want to thank the witnesses. As was mentioned many times, this was an excellent panel and excellent suggestions were brought forward. We appreciate that very much.

If you have anything further you wish the committee to consider, please forward it to the clerk. We will ensure all members get it.

Thank you for your time today.

The meeting is adjourned.

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