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# Standing Committee on Finance

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**EVIDENCE**

## Thursday, April 22, 2010

## Chair

**Mr. James Rajotte**

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● (1535)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call to order the eleventh meeting of the Standing Committee on Finance.

I want to welcome all of our witnesses here this afternoon.

Pursuant to Standing Order 108(2), we are continuing our in-depth study of the retirement income security of Canadians, focusing on pensions and other issues.

We have with us here today two people appearing from one organization, and three persons presenting as individuals. We have, from the Canadian Office and Professional Employees Union, Mr. Serge Cadieux, national president; and Pierre Gingras, legal counsel to the national executive. As individuals, we have Mr. Lee Lockwood; Ms. Norma Nielson, professor and chair of insurance and risk management at the Haskayne School of Business, University of Calgary; and as the last individual, Mr. Tony Wacheski.

Thank you all for being with us here this afternoon. We will start in that order with presentations of up to seven minutes, and then we'll have questions from all members of the committee.

Monsieur Cadieux, will you be starting?

[*Translation*]

**Mr. Serge Cadieux (National President, Canadian Office and Professional Employees Union):** Thank you, Mr. Chairman.

On behalf of the Canadian Office and Professional Employees Union, which is affiliated with the CLC, I would like to thank the Committee for its invitation to appear today. COPE represents members in both the private and public sectors. Many of its members are in work places that fall within federal jurisdiction, particularly all the employees working for the Laurentian Bank of Canada.

Because of its concern for the financial security of its members, our union has, over time, succeeded in negotiating private pension plans for approximately 80% of its members. However, the financial crisis has severely affected what we considered to be a secure benefit. Despite all of our efforts, difficult negotiations, compromises and sacrifices, we are now seeing significant declines in terms of retirement income replacement. A deterioration in the fiscal position of pension plans has intensified employers' attacks on defined benefit plans. thereby contributing to workers' insecurity, as they are left to deal with market risks and volatile interest rates on their own.

We think it is important to point out that our pension plans, like most private plans, do not include provisions that protect retirees from inflation. We believe that our prospects of enhancing protection of future retirees' purchasing power are, at the very least, jeopardized. We still believe it is important to establish, maintain and enhance our registered pension plans, despite current difficulties. Employers are neither interested in or able to individually support plans when the number and volatility of those plans may be an obstacle to their potential profit margins.

The problem has far more to do with the inability of public plans, such as CPP and QPP, to provide more than 25% of maximum pensionable earnings. We firmly believe that a public, universal plan that provides better coverage could be achieved in the current environment. Full indexation, universal coverage, risk-sharing among society as a whole, portability and protection from job insecurity or discontinuation, as well as economies of scale in relation to administrative costs, all militate in favour of such reforms.

In that sense, we fully support the proposals made by the Canadian Labour Congress, which are intended to double CPP and QPP benefits. We are also of the view that the way to improve economic conditions in retirement is definitely not to add a second level to the CPP and QPP plans in the form of voluntary RRSP-type contributions. In order to meet our goals, factors such as mandatory plans and plans that can provide indexed predictable pensions are critical, in our view. We also believe that the amount of maximum pensionable earnings must be adjusted upwards, which would allow many workers to benefit from a more acceptable replacement income, in relation to the wages they were earning prior to retirement.

With respect to the financial security of our active and retired members, we are also calling for better protection of monies invested in pension plans in the form of deferred wages, as well as protection for retirees' pensions. We cannot afford not to guarantee protection, from the uncertainties surrounding a business' financial health, of savings accumulated over a lifetime. There is a cloud of insecurity over workers in the pulp and paper industry, and the same applies to people working in companies which are having financial difficulties, are in the process of restructuring or are threatened by globalization. Social security must be reviewed.

Finally, for the benefit of all Canadians, we believe that a social security system worthy of the name must afford the most disadvantaged members of society the financial protection that will raise them above the poverty line. Unfortunately, not all of them have had an opportunity to contribute to a pension plan. It is our duty, through the Old Age Pension and Guaranteed Income Supplement, to ensure the welfare of these individuals who have contributed to our society's advancement. Therefore, immediate and significant enhancements are necessary.

Our union organization has held consultations with its constituency and has passed resolutions that support the CLC proposals. These proposals have been greeted with enthusiasm because they represent accessible reforms that can be gradually implemented. We can do better and we must do better.

COPE is proposing to double defined benefits under the CPP and QPP, in order to guarantee a better minimal pension for all Canadians. It would be funded through a minimal, gradual increase in contributions over a seven-year period. Increased contributions would double the average amount of replacement income provided by CPP pension benefits, raising the maximum benefit to $1,635 per month, in 2009 dollars, but over a seven-year period. Because CPP benefits are indexed to the cost of living, stable and portable from one job to the other, they would provide everyone with a minimal pension income in the form of defined benefits.

We are also proposing to raise the Guaranteed Income Supplement benefit by 15% in order to keep seniors out of poverty. This would stimulate Canada's and local economies in these difficult times. This would be done on a continuing basis given that low-income seniors, who are paid that additional amount every month, would be more likely to spend it to meet essential needs.

We are also calling for mandatory pension insurance, similar to other types of insurance available in Canada for critical assets. A pension is one of the most important assets a worker can have. That insurance would be funded by pension plans and by a 0.1% tax on financial transfers of securities in Canada. Speculators who were responsible for the recent financial chaos would thus be required to protect pension funds.

COPE also believes that other measures are required, in addition to the three previous proposals. With respect to private pension plans, there is a need to amend the Bankruptcy and Insolvency Act in order to make workers who contributed to the pension plan secured creditors.

● (1540)

**The Chair:** You have one minute left, Mr. Cadieux.

**Mr. Serge Cadieux:** Thank you.

We would also like to see all forms of premium holidays abolished. I know that Parliament has already tackled this. In my view, there should be no ceiling on contributions.

Furthermore, there is a need to increase the maximum pensionable earnings, in addition to doubling the defined benefit rate of replacement income for everyone, by raising it from 25% to 50%; to raise the ceiling from $46,300 in 2009 to $62,000, and to index it on a yearly basis so that there can be an actual doubling of benefits for more workers. COPE is opposed to a system of voluntary contributions as a way of improving CPP.

In conclusion, COPE believes that the Canadian government must act on an urgent basis to adopt this important series of major changes, rather than simply bringing in changes on a piecemeal basis. It is by introducing these major changes that we will succeed in providing adequate protection to all Canadian citizens, leaving no one behind.

Thank you for your attention.

**The Chair:** Thank you for your presentation.

[*English*]

The next presenter will be Mr. Lockwood, please.

**Mr. Lee Lockwood (As an Individual):** My name is Lee Lockwood and I reside in Langley, B.C. I've been a Nortel LTD wage replacement recipient for 14 years.

Industry Minister Clement stated in the House on Monday that governments should not be superseding a settlement agreement reached between parties in the private sector. As someone directly involved with what happened, I believe the government needs to know that Nortel imposed a settlement of duress by its threat to stop payment for LTD medications effective March 31. A contract entered into with a gun to your head is extortion and cannot be considered a valid contract.

The judge rejected approval of the settlement agreement on March 26, having reserved judgment on the same for three weeks. On Sunday, March 28, 93 LTDers were sent an e-mail by the self-appointed steering committee and given four hours to consider acceptance or rejection of a revised agreement, which had to be approved by the court prior to March 31. I saw no evidence that there was significant approval for the settlement. It was not given notice of same by council.

This revised settlement gave me nine months of medical benefits, yet we had to forfeit all rights of remedy to over $100 million missing from the health and welfare trust. The second settlement also had me give up my right to benefit from a potential BIA amendment that would have solved the poverty that the missing money will now cause our group. Had the CCAA and BIA protected the long-term disability claims, we would never have been exposed to these tactics.

Industry Minister Clement must supersede this extorted deal with the reposed amendment to the CCAA-BIA to give preferred status to LTD claims.

I wish to put a human face on employees who are on long-term disability benefits. Employees who are on LTD benefits are already severely compromised from a health and income perspective. They shouldn't have to worry about the physical integrity of the employer LTD benefit plans they rely on to live.

Having joined a Nortel subsidiary as a strategic account manager in February 1990, it has only been since they filed for CCAA that I have learned my LTD wage replacement income is being paid by a bona fide third-party underwriter. My other 400 colleagues receiving LTD wage replacement benefits are not as lucky as I am.

In October 1996, rapidly declining health dictated my years as a road warrior with Nortel were finished. At this point in my career with Nortel I was earning in excess of $140,000 per annum. I was operating a farm raising purebred beef cattle, as well as providing financing alternatives for small business. Immediately my income took a 64% reduction. In addition, I had to retain legal counsel and threaten to sue Nortel for release of a copy of the LTD policy, even though I was an implied party to the agreement.

Imagine the position of my fellow Nortel employees receiving LTD wage replacement benefits who will be deprived of most of their payments from Nortel, effective December of this year. They will be forced to subsist, meet family obligations, and pay medical and dental expenses from their meagre CPP payments of $1,100 a month. Most of these people have prescription medications that cost them substantially more than that on a monthly basis.

Closer scrutiny of the benefits enrolment documents in place in 1996 stated that while ADD and life risks were underwritten by Mutual Life, all medical and dental items were self-insured, with the company paying the full tab. LTD coverage was being offered by the company, but nowhere in the documentation is the word “insurance” used and an underwriter named. Does this represent full disclosure of pertinent facts for a prospective hire or current employee to make an informed decision as to who the true supplier of this critical indemnification would be?

My Nortel compatriots had signed up for an LTD benefit plan wholly ignorant of the planned obfuscation of the true details by Nortel's use of weasel words. These people were hired for their engineering and management talents, not to determine if they were about to be potentially misled or defrauded by their employer. If I as an individual who was used to dealing with complex contracts, agreements, and legal actions on behalf of the company did not detect anything out of line, what chance would the average legally unsophisticated employee have?

The only benefit major human disasters can have is supplying the impetus and appetite for change to ensure they will never reoccur. For example, the inquiry into the sinking of the Titanic mandated there would be life jackets and lifeboats on board for all. Bank failures during the Great Depression mandated the formation of the CDIC, which guarantees a minimum of coverage for every bank and credit union account in Canada.

We must immediately address the current needs of employees on self-insured LTD wage replacement benefits who are about to lose their benefits due to the insolvency of their employer. We must realize and acknowledge that companies are increasingly using the CCAA as an effective business tactic to rehabilitate their balance sheets. This rehabilitation process generally consists of but is not limited to blowing off trade creditors, repudiation of debt and lease obligations, and beating recalcitrant labour back into line. Needless to say, the self-insured LTD wage replacement programs are shed with the other obligations.

The Nortel scenario is unique in the unusual fact that there are no secured creditors. The unsecured creditors are trade creditors, employees owed severance, junk bond holders poised to double dip, the pension deficit, LTD wage replacement recipients, and future medical and dental benefits for retirees and employees on LTD.

● (1545)

To top it off, there's expected to be $6 billion in cash available from operations and from the sale of the business units, with the sale of the intellectual property yet to take place. It is unfathomable that this much cash is simply sitting there with 400 disabled employees about to sink into an economic black hole in December 2010.

The only realistic hope these people have is input from this committee to move the government to some form of acceptable positive action to force Nortel and other employers currently in bankruptcy protection to pay all of their promised disability benefits, and the adoption of either Bill S-216, tabled by Senator Art Eggleton in the Senate, or of MP Wayne Marston's bill on its reintroduction into this session of the House of Commons.

The CCAA-BIA amendment for the preferred status of LTD benefit claims not only addresses the humanitarian crisis at hand for the Nortel employees, it provides for a permanent backstop to protect all future disabled persons.

After adopting the CCAA-BIA amendment for the disabled, governments should revisit making it mandatory for employers to insure their long-term disabled wage replacement income and medical benefits. The notion of safe self-insurance by employers because they are too big to fail is nonsense when one considers the implosion of GM, Chrysler, AbitibiBowater, Canwest, Nortel, and many others who were merely a 20-second clip on CBC's *The National*.

Please note that the requirement for long-term disability benefits to be insured is a private sector solution that does not cost the public purse. Insurance underwriters bail each other out in times of crisis, and owing to the industry's Assuris protection fund, there has never been a failure by the insurance industry to pay out on legitimate claims.

In summation, Mr. Chairman, the reason we are in this predicament is the sheer greed of corporations. In order to knock a few basis points off the cost of legitimate LTD insurance provided by underwriters who have been in the business for decades, they're willing to sacrifice the fiscal security of the disabled.

My only hope is that this committee and our government will do the right thing and respond now to the pleas for just and compassionate treatment of disabled Canadians in corporate bankruptcies. Every Canadian will applaud our MPs for their willingness, on a non-partisan basis, to address this Canadian disabled crisis.

Thank you.

● (1550)

**The Chair:** Thank you very much, Mr. Lockwood.

We'll now go to Ms. Nielson, please.

**Ms. Norma Nielson (Professor and Chair in Insurance and Risk Management, Haskayne School of Business, University of Calgary, As an Individual):** *Bonjour*. Thank you for inviting me to appear before you today.

In order to cover key points in seven minutes, I have borrowed a format from David Letterman: The top ten things the federal government can do to improve the retirement income system available to Canadians are.... This is my view from 30,000 feet.

I'm an academic, so I have to start with number ten: Support research that will provide better linkages between data sources for registered pension plans, group and individual RRSPs, and other assets. That research also needs to examine the adequacy of retirement income for families, and not just for individuals. The work that was done through the Ministry of Finance last fall was an important first step in this direction, but it leaves many questions unanswered and indeed unanswerable.

Number nine: Amend tax treaties, especially the one with the U. S., to provide reciprocal recognition of other nations' tax-favoured retirement savings vehicles. Right now those Canadians whose citizenship in other countries requires them to file taxes there as well as here effectively have no access to tax-supported retirement savings. A dollar put into an RRSP does reduce current Canadian taxes, but that reduction may well be converted into a tax increase in the other country.

Canadian tax rules currently permit charitable contributions to organizations recognized under U.S. law within limits. Why not recognize contributions to U.S.-qualified plans on the same terms as contributions to Canadian-registered plans? Why shouldn't the Windsor resident working in Detroit be allowed to have the same tax treatment for participating in a 401(k) plan that a neighbour working in Windsor might receive on a defined contribution RPP? Rollovers back and forth across the border would also be a wonderful idea.

Number eight: Revisit some government-imposed restrictions—not all federal by any stretch of the imagination—regarding the purchase and sale of annuities. It might be possible to have a qualified outsider, such as a life insurance company, manage the assets and liabilities of a pension plan that's winding up on an administrative-services-only basis. Bring in the insurance company's guarantee on only a small portion of the uncertainty, the unpredictability of those claims, to provide the needed guarantee. That would tie up far less of the insurer's capital, thereby reducing costs and allowing correspondingly higher payouts. Similarly, restrictions that allow only Canadian companies to service this market keep qualified sellers, such as branch offices of sound foreign companies, from competing to sell annuities. This in turn also results in less competition and potentially higher prices.

Number seven: Definitely within the realm of finance, gradually begin to issue a few longer-duration Government of Canada bonds. Securities that extend to at least forty years and possibly fifty will assist those trying to hedge the longevity risk, whether pension funds or annuity sellers, in matching their assets and liabilities. Removing a portion of the associated reinvestment risk will, in the long run, aid in the development of a more competitive and more complete annuity market.

Number six: Equalize the payroll tax assessment on different forms of retirement savings. Currently contributions to RPPs do not attract EI and CPP contributions, but contributions to group RRSPs do. This differential tax treatment skews decisions and may be hindering the growth of group RRSPs—not necessarily by employers but perhaps by employees—as an important retirement savings vehicle. The unanswered question I'm admittedly leaving on the table for you is, if this change were implemented, how contributions to individual RRSPs should then be treated.

Number five: Extend the super-priority provided to pension plans of bankrupt companies to include due but unpaid special payments for solvency deficiencies and unfunded liabilities; that is, for supplemental liabilities and not just the normal costs. There is a good description of the details of such a proposal and the reasons supporting it in the recommendations of the Alberta and B.C. joint expert panel on pension standards. I won't use any of my time to go further into that today.

Number four: Recognize the special challenges faced by immigrant populations. Those who arrive in Canada at mid-life or later have a limited time in which to earn benefits under OAS and CPP or QPP. They also have less time to accumulate individual retirement savings, perhaps even having been forced to leave assets behind in a country that's not safe to stay in any longer. The recent changes to CPP that drop a few more years of low earnings from the calculation will mean incremental improvements for this population, but perhaps there are other adjustments that can be identified to balance the benefits of our system with the degree to which we wish to support our immigrant population.

● (1555)

Number three: Consider creating the infrastructure needed for the private sector to offer efficient investment vehicles that commingle funds from multiple sponsors. This may be a new registered plan vehicle, but more likely it can be achieved with adjustments to the definition of plan sponsor and specification of adequate disclosure requirements.

Number two: If you proceed with changes to CPP—and I'm still a little bit on the fence on that one—focus first on a gradual expansion of the yearly maximum pensionable earnings, the YMPE, from one times average annual earnings to perhaps 125% of annual earnings. Even maintaining the current 25% target replacement ratio, such a change will gradually result in an increase of CPP benefits by 25% of 25%, or about a 6.25 percentage point increase in the replacement ratio. That number would close a majority of the gap between those who do and do not have RPPs, based on Statistics Canada work. It also would be accommodated automatically into existing payroll systems and existing RPP integration rules, minimizing the administrative costs associated with implementation and transition.

Number one: Permit plan sponsors to include provisions such as automatic enrolment, so-called opt-out rather than opt-in rules. Employ “save more tomorrow” options, where people can sign up today and they don't actually see anything taken from their paycheque until a year from now, and allow plans to provide default investment options in their registered pension plans that may be age-based, or otherwise well-thought-out expert advice that's the default option, rather than no advice at all being the default option. These types of changes will do much to overcome the negative impacts of human inertia that are evident in lots and lots of this literature.

In conclusion, the system we have now is functioning pretty well for a reasonably large proportion of Canadians, but there is room for improvement, with most of the needed improvements taking the form of fine tuning. What I've presented to you here today are a series of ways that can address incrementally those pockets where the biggest problems have been identified. In addition, there's also tremendous room for simplification and harmonization of retirement income legislation and regulation. I recognize this is not something that the federal government can do in isolation, but I commend you to please take some leadership in the area.

I thank you for your attention today and I look forward to an engaging and interesting discussion over the next hour and a half.

**The Chair:** Thank you very much, Ms. Nielson.

We'll now finish with Mr. Wacheski, please.

**Mr. Tony Wacheski (As an Individual):** Good afternoon.

Current insolvency laws are devastating thousands of Canadians’ retirement income security. You must insist that the Companies' Creditors Arrangement Act and Bankruptcy and Insolvency Act be amended now to fairly protect those with no leverage in the bankruptcy process and reduce the tax burden for all Canadians.

On April 30, 2009, after 18 years of very dedicated service, I was terminated. My salary and benefits were halted immediately. I did not receive a penny of severance. I scrambled to survive. I paid the penalty to refinance my mortgage, halted payments to my three daughters' RESPs, halted payments to my RRSP, and could no longer hold life or health insurance. I became a full-time job seeker and received EI for the first time.

The CCAA is being exploited and manipulated by restructuring lawyers and junk bond holders to allow corporate executives to avoid legal obligations at the expense of the most vulnerable in the process. Bondholders are inducing bankruptcies for large profits, lawyers are making millions, and executives are receiving the obscene bonuses. Everyone wins except past employees, the shareholders, and the taxpayers.

CCAA negates the provincial Employment Standards Act. I and thousands of others severed will be lucky to someday get 15¢ on the dollar for our legally entitled severance and pension deficits. Apparently it is true that the more outrageous and extraordinary the transgression the easier it is to commit in clear view.

The Nortel bankruptcy is one of the most complex international insolvency cases in history. You must release the auditors and forensic accountants onto this case to determine the truth.

I am an average Canadian who tried to do all the right things. I worked myself through university, received an engineering degree, and joined a blue-chip company with a defined benefit pension plan, five days after graduation. We worked very hard creating products and patents and building the equity in the company.

Times were good. Nortel was Canada’s darling, with huge profits and skyrocketing stock. Then executives got greedy, twisted the rules, lined their pockets, and started the downward spiral. Nortel's stock price plunged, evaporating retirement savings of thousands of Canadians.

The CEO was fired with cause in 2004 and was charged with fraud affecting the public market in 2008, but by that time the damage to Nortel's reputation and operations proved unrecoverable.

You must strengthen Canada’s ability to investigate, enforce, and deter white-collar crime. These nefarious crimes are too costly to too many innocent people to be allowed to continue.

I received 69% of the commuted value of my pension and have not recovered RRSP room. I emptied my TFSA and watched my debt grow. Saving for retirement, or in fact retiring at all, became a dream, not a plan. Keeping the house became the priority. Thousands of Canadians, from hundreds of companies, are in the same situation.

Initially I believed the law would ensure all creditors would fairly share the proceeds from the sale of Nortel's assets. But all creditors are not created equally, even if they have equal priority.

The suppliers have leverage. Their goods and services are still needed. They sit on the creditors committee and they use their leverage to line-jump. For example, Airvana already received $40 million in payments related to outstanding invoices it had with Nortel.

Bond holders are investors assuming risk as a part of doing business. Yet they are able to use credit default swaps to insure their credit losses in bankruptcy. These hedged junk bond holders influence the bankruptcy process through the unsecured creditor committee and benefit from liquidation, with large profits.

It is legal, and it's happening now. But wait, there's more.

Nortel's Canadian estate is being depleted by foreign creditors who are controlling the process at Canada's expense. There are many examples. First, the Carling campus was mortgaged to the U.S. estate to continue Canadian operations. You must ensure the Canadian court is equipped to fight foreign estates from extracting money from Canada and hoarding it in their estate. There are provisions in NAFTA to enforce equalized payments.

There is still more.

The pensioners, severed, and LTD are represented collectively by a law firm approved by the corporation. This law firm is responsible to a single person from each group, and that representative is biased to suppress information and limit consultation with the people they are supposed to represent.

The pensioners, severed, and LTD quickly realized the inequity in the laws and began lobbying to change them. Our only leverage was the possibility that the government would correct these archaic laws. The creditors understand that the laws could and should be changed and negotiated a deal with our representatives, taking away our faint hope that you would address these injustices.

Our representative ignored our opposition to accepting the lopsided deal that eliminated all our bargaining power. The group of LTD are appealing this devastating deal. The largest voting group was divided and conquered by our own representation.

Please explain the rationale for keeping these maleficent laws. They are being exploited to make some very rich, while plunging hard-working Canadians into financial ruin and destroying their ability to retire.

A recent plan will pay Nortel's CSO a $4-million bonus, while thousands will never receive employment standard minimums. Timely severance would have provided a means for these people to avoid drastic actions for survival and keep their retirement dreams alive.

● (1600)

There are 34 other countries that have preferred or better status for employment claims in bankruptcy laws along with functioning credit markets. All the studies I have seen indicate that the negative effect on the cost of capital is a myth.

Bankruptcies are costing taxpayers. The government downloading cost in the case of Nortel alone is estimated at $355 million, plus the $500 million the Ontario government put into the pension benefits guarantee fund.

The right path is clear: amend the BIA and CCAA immediately, and have the amendments retroactively apply to all current CCAA and BIA proceedings.

I ask you to consider the following. Voters many have a short memory for the proroguing of a government and become complacent with the opaqueness of a promised transparent government, but they will never forget the actions or inactions of a government that allowed, and keeps allowing, the destruction of their financial security and retirement dreams.

Protecting Canadians' retirement income will require more than specific programs to help workers save money. It will require a constant and unwavering oversight by all Canadian ministries and strong laws to protect Canadians' dreams of retiring.

However, you can make one positive step in the right direction today. You can protect the hard-working Canadians that build the companies and wealth in this country by amending the CCAA and BIA, and by taking steps to ensure that the Canadian estate is protected from international insolvencies. You have the power, the mandate, and the responsibility to make this change now. Listen to your constituents and do the right thing and stop this great injustice.

Thank you.

● (1605)

**The Chair:** Thank you very much for your presentation.

We'll go to questions from members.

Mr. McCallum, you have seven minutes.

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you, Mr. Chair, and I thank all of the witnesses for being with us this afternoon.

Perhaps I could begin with Mr. Lockwood and Mr. Wacheski. I'll basically tell you how I see the state of affairs and then ask you one question.

Certainly we are highly aware of this issue. As you probably know, Mr. Lockwood, we have a bill in the Senate, through Senator Art Eggleton, that would effectively fix the situation for those on long-term disability. We support it strongly. The idea would be to initially improve, in the Bankruptcy and Insolvency Act, the position of people who are on long-term disability—which is what they have asked for. We think this would be sufficient.

In the medium term, I think we'd also want to change the law further so that in the future companies would be obliged to either fund or insure their long-term disability plans, so that problems like Nortel is facing now would not happen again. We've studied this closely and I'm aware of the seriousness of this situation.

We don't have our own bill for pensioners, but the NDP does, and we'd be committed to that.

We have asked the government in question period if they will support our own Senate bill, because I know that time is of the essence, but so far they have shown no inclination to support it. That is where the matter stands now, as far as I can figure it out.

I'd like to ask each of you just one question. Have you or any of your representatives, to your knowledge, representing either the long-term disabled or the pensioners, spoken to anyone in the government on this subject, and what answer did you or your representatives receive?

**Mr. Lee Lockwood:** I have sent a couple of letters. I essentially received what I would call “template” responses, which more or less defers the issue to the provincial authorities.

**Hon. John McCallum:** Can I ask to whom in the federal system you've sent your letters?

**Mr. Lee Lockwood:** To Mr. Flaherty and Mr. Clement.

**Hon. John McCallum:** Thank you.

Mr. Wacheski.

**Mr. Tony Wacheski:** I've been talking to my member of Parliament for over a year now. I have met with him twice. The only reason for not implementing these changes has been the cost of capital. At one point, I was offered a meeting with Mr. Clement for a further discussion on this, but Mr. Clement didn't want to talk about it because he said he already had enough information. Then my member of Parliament didn't want to talk to me any more either.

I haven't heard any reason beyond the cost of capital, yet all of the studies that I've seen and that other people have shown to this committee say the same thing, that the cost of capital is not a good reason at all.

I would love to know what the other reasons are. I asked him repeatedly to please give me the arguments for this. I have not heard of anything else.

**Hon. John McCallum:** You don't have to answer this question if you don't want to, but just to complete this discussion, can you tell us who your member of Parliament is?

**Mr. Tony Wacheski:** Mr. Pierre Poilievre.

**Hon. John McCallum:** Okay, thank you.

The following has to do in part with Mr. Cadieux's testimony. It happens that I came across an article from the *Montreal Gazette*, dated Friday, November 8, 1963. That's of some relevance, because the headline of the editorial was “Time to Reappraise Pension Plan”.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** It's true.

**Hon. John McCallum:** The article covered all of the arguments in 1963 why it might be a terribly dangerous idea for Canada to adopt a Canada pension plan.

The first problem was that the provinces might not agree. The second problem was the impact it would have on Canada's need for investment capital. They were concerned that the cost would be too high and they concluded that the “The real need is to make use of the delay to undertake a thorough investigation...to determine the place of the particular plan among the needs and capacities of the country.”

It reminds me of this government's attitude to reform of the pension plan. It's always too dangerous, and it always wants to make sure that nothing is broken and that we undertake endless investigations.

● (1610)

[*Translation*]

My question is addressed to Mr. Cadieux.

I do not agree with the specifics of your proposal. We are seeking a supplemental plan that would be voluntary, whereas you are looking for a non-voluntary plan. So my question is: what has the government's reaction been to your reform proposal? Was it similar to what was described in *The Gazette* in 1963?

**Mr. Serge Cadieux:** We do not agree at all with the Liberal Party with respect to voluntary contributions. In fact, we note that the plan set up in the early 1970s, which encouraged individual savings, has been a total failure. Right now in this great land, 60% of workers do not have an occupational pension plan and one third of seniors live below the poverty line. I think we have to face the facts. Forty years down the road, it is clear that the appetite for individual savings and RRSPs has not met expectations. When the public plan was set up based on a 25% contribution rate, the government and its social partners hoped that employers would negotiate supplemental pension plans to make up the difference. Indeed, the Supplemental Pension Plans Act was in place. However, we are seeing now that the majority of defined benefit plans are in serious trouble.

I represent wage earners from AbitibiBowater who saved their entire lives in order to contribute to their plan. Go and talk to them. The example of the gentleman sitting next to me is a flagrant one. After 40 years, we do not think that non-mandatory individual savings will change what the past was unable to change. We already have an example going back 40 years. It is not as though we were starting on day 1.

I am not yet aware of the Conservative Party's position on this. I attended a conference in Toronto organized by the CLC and the Ontario Labour Federation. Mr. Flaherty, the Minister of Finance, was in attendance to hear the presentations. To my knowledge, the Conservative Party has yet to take a definitive position on this. The Liberal Party, on the other hand, seems to have made up its mind before even hearing everyone's suggestions. We believe a national conference on pensions should be convened. It is necessary that everyone have an opportunity to present their views and that the issues as a whole be debated before the parties adopt a firm position.

[*English*]

**The Chair:** Merci.

Thank you, Mr. McCallum.

[*Translation*]

Mr. Desnoyers, you have seven minutes.

**Mr. Luc Desnoyers (Rivière-des-Mille-Îles, BQ):** Thank you, Mr. Chairman.

I would like to welcome all our witnesses. I see this as an historic moment. We are turning an important page in our history. We are aware that there are major problems with respect to pensions and that they have a very serious impact on our society.

By way of response to my Liberal colleague,I would just like to mention that the House of Commons Standing Committee on the Status of Women passed a report. That report, which was tabled in the House of Commons last December, states that the Canada Pension Plan replacement rate should be doubled. A majority of members from all parties voted in favour of that proposal. I imagine that this will be on top of retirement savings plans.

My question is addressed to Serge Cadieux.

You talk about the need to find a new way, to show vision. You have presented some important ideas. Has any thought been given to the costs of these proposals? How should we approach this? In the current population, who has a real pension plan and who does not? Under your model, who would be covered and how?

**Mr. Serge Cadieux:** As I was saying a little earlier, according to current data, approximately four workers in ten have an employer-based pension plan. In terms of RRSPs, studies conducted in 2005 show that 70% of Canadians do not have an RRSP. The average value of it, for those who do have an RRSP and are between the ages of 55 and 65, is $60,000, which means a pension of about $250 a month. That is not enough to retire with dignity.

Doubling the Canada Pension Plan rate—from 25% to 50%—would result in an increase in contributions of less than 6%. That increase would be shared by workers and employers. These figures were approved by Mr. Bernard Dussault, who was Chief Actuary of Canada from 1992 to 1997. Therefore, the contribution would increase from 4.95% to 7.8%. We are proposing that this be done over a seven-year period, which would require an increase of only 0.4% in order to double benefits for all Canadians.

It should not be forgotten that 93% of Canadians contribute to the Canada Pension Plan. So, we are casting the net very wide.

● (1615)

**Mr. Luc Desnoyers:** What about RRSPs and administrative costs? You provided some numbers. Do you have an idea of the cost of your proposal?

**Mr. Serge Cadieux:** I read that the cost of administering the Canada Pension Plan is 0.25%, as opposed to more than 10% or 20% in administration costs for defined benefit plans or even RRSPs. There are clearly economies of scale to be had in a public plan.

**Mr. Luc Desnoyers:** I have a brief question for the witnesses from Nortel. We are all questioning why the Conservative government did nothing to help you. The three Opposition parties agree that something has to be done. At the same time, the Conservative government stepped in to help the auto industry. It provided billions of dollars in assistance, including protection for the pension plan. The strange thing is that they did it for that industry but have done nothing for you.

I would be interested in hearing your comments.

[*English*]

**Mr. Lee Lockwood:** Well, I sent a letter to Mr. Flaherty decrying the whole bailout of General Motors and Chrysler, saying they are market failures, let them go with the wind. Mr. Flaherty wrote back stating there was such a major infrastructure of businesses depending on the automotive sector that they couldn't allow it to go down. The labour automatically became a partial owner of the new venture.

We didn't have a chance to get a bailout, even though we had several product lines that were very successful around the world. I guess we're second-class citizens.

**Mr. Tony Wacheski:** From Nortel's perspective, we aren't asking for a bailout; we're asking for the laws to be changed to address the terrible injustices. I agree that the auto industry is important, and if the United States does it we have to follow suit. But with Nortel, there were so many terrible things that happened with respect to almost criminal behaviour in the company, and all we are asking is that we correct these laws that are perpetuating it.

[*Translation*]

**Mr. Luc Desnoyers:** Mr. Cadieux, you talked about amending the Bankruptcy and Insolvency Act so that employees are deemed to be secure creditors. I would be interested in hearing more on that.

**Mr. Serge Cadieux:** The example given by my colleague to my left is a telling one. In this country, it is abnormal for workers who have contributed to a pension plan—in other words, deferred wages—and are relying on pension income to get them and their family through old age to have to face a situation where the employer goes bankrupt but their pensions are not secured.

Let us take the example of GM. Their pension plans were 39% capitalized. If GM had gone bankrupt, it would have been a catastrophe for workers and retirees. There is a significant gap there.

**Mr. Luc Desnoyers:** How much time do I have left, Mr. Chairman?

**The Chair:** You have 30 seconds left.

**Mr. Luc Desnoyers:** In reality, we are aiming for more extensive public protection. The costs will be borne by workers and employers. If we pay less in defined benefits or under other kinds of plans, employers could contribute and build up the Canada Pension Plan. Is that your goal?

● (1620)

**Mr. Serge Cadieux:** Yes, exactly. It is actually a transfer of funds. The employer would not pay more; he would simply pay less for the defined benefit plan and more for the public plan—because most of these are registered plans.

[*English*]

**The Chair:** Merci.

Mr. Wallace, please.

**Mr. Mike Wallace (Burlington, CPC):** Thank you, Mr. Chairman. And thank you, guests, for coming today.

I need to put this on the record. The Bloc member indicated that federal money went to GM's pension plan, which is absolutely not correct. We did provide some loan guarantees to get them over the hump, but they paid us back, actually this week. We all are owners of GM, and I hope they pay us back through a stock option that they're doing. Anyway, I just want to be clear that it's not the case.

First of all, just for my own understanding, I have a question for the Canadian Office and Professional Employees Union. I think you were very clear on what you're looking for, which I really appreciate. But who do you represent? I don't know who you are, who makes up your membership. I would like to know that, if I could.

[*Translation*]

**Mr. Serge Cadieux:** Our members work in both the public and private sectors. We have members across the country, from Quebec to British Columbia. We represent professionals such as lawyers, engineers and architects. We also represent people who work for school boards in Quebec and for B.C. Hydro in British Columbia—in other words, technicians, office employees and professionals. That is our niche. We do not represent any particular industry sector; rather, we represent many different fields of activity. However, we only represent white-collar workers—office employees, technicians and professionals.

[*English*]

**Mr. Mike Wallace:** How big is your membership?

[*Translation*]

**Mr. Serge Cadieux:** We have 40,000 members.

[*English*]

**Mr. Mike Wallace:** Thank you.

If I'm a lawyer, I can just sign up with you and pay my union dues to you. Is that how it works? Are they all within corporations, or are they private individuals too?

[*Translation*]

**Mr. Serge Cadieux:** They are not lawyers working for private law firms. They work for specific employers. For example, we represent the lawyers who work for the municipal court in Montreal, as well as government lawyers and B.C. Hydro engineers. They all work for a specific employer.

[*English*]

**Mr. Mike Wallace:** I'm not trying to criticize you. I'm just trying to find out who you represent.

Have you surveyed your membership on how they feel about a doubling of the CPP, and if so, how did you do that?

[*Translation*]

**Mr. Serge Cadieux:** We held a convention in 2008 where a number of resolutions were passed. We looked at the issue of retirees, which is a major concern for our members, given that many of them have been affected by pension plan or solvency deficits.

Everyone has clearly understood that the way forward is to improve public plans. Defined benefit employer pension plans would remain in place, but it is important to go beyond the current 25% coverage under public plans, and also increase maximum pensionable earnings, which we feel do not reflect today's industry realities.

[*English*]

**Mr. Mike Wallace:** Are most of your members in a defined pension plan?

[*Translation*]

**Mr. Serge Cadieux:** Yes, most of our members are covered by defined benefit pension plans. As I stated in my presentation, 80% of the members we represent have a pension plan. For most of those 80%, it is a defined benefit plan, but there are also defined contribution plans.

[*English*]

**Mr. Mike Wallace:** I appreciate that. Thank you very much.

[*Translation*]

**Mr. Luc Desnoyers:** Mr. Chairman, I have a brief point of order.

[*English*]

**The Chair:** A point of order, yes.

[*Translation*]

**Mr. Luc Desnoyers:** I would just like to clarify something. I am not sure I understood his comments earlier. He said I had not told the truth about GM. Is that what he said? Is he calling me a liar?

[*English*]

**Mr. Mike Wallace:** No. I could if you want me to.

[*Translation*]

**Mr. Luc Desnoyers:** No. Perhaps—

[*English*]

**The Chair:** Mr. Desnoyers, as I understand it—

[*Translation*]

**Mr. Luc Desnoyers:** Perhaps the translation was not clear.

[*English*]

**The Chair:** —Mr. Wallace said that you had said GM's pension fund had received funding from the government. And Mr. Wallace said that was in fact not the case.

● (1625)

**Mr. Mike Wallace:** There was no federal money. That's all.

[*Translation*]

**Mr. Luc Desnoyers:** Okay; my apologies, Mr. Wallace.

[*English*]

**Mr. Mike Wallace:** The province put money in, but we did not.

**An hon. member:** Not federal.

**Mr. Mike Wallace:** Not federal money.

**An hon. member:** Not a penny.

**The Chair:** Order, order.

Mr. Wallace, you have the floor.

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

**Mr. Ted Menzies (Macleod, CPC):** There were no brown envelopes at all.

**Mr. Mike Wallace:** Professor Nielson, you're not getting a lot of questions because you have very technical suggestions here, I'd say.

**Ms. Norma Nielson:** It's a technical subject.

**Mr. Mike Wallace:** It is a technical subject; we're finding that out.

I have no idea, to be honest with you, what the tax advantage is to an American for a 401. I know what 401(k) is, I hear about them, but I don't know what the difference is between—

**Ms. Norma Nielson:** It's essentially the same kind of product. It just meets definitions set out by the IRS instead of Revenue Canada. The limits are somewhat different.

**Mr. Mike Wallace:** The limits in contribution, but what about for my own.... Let's say I make $100,000, and I put $2,000 into my 401 (k) or $2,000 into my RRSP. What is the actual difference to the individual? You're asking us to work with our federal counterparts to make sure the rules are treated exactly the same on both sides of the border. Is that not correct?

**Ms. Norma Nielson:** Or that you recognize that they have retirement savings products that are essentially not biased in favour of the highly compensated. The qualified plan rules serve much the same purposes the registered plan rules do here.

If somebody moves across the border, they can't currently transfer their retirement savings. If you get married and move to Arizona, you're going to run into a whole bunch of tax complications because you want to cross the border. I can say from personal experience, you face a lifetime of dual tax returns.

**Mr. Mike Wallace:** Do you have any idea how many people this affects?

**Ms. Norma Nielson:** Calgary has a fairly high percentage of Americans who cross the border and work in Calgary for a while, or Canadians who get transferred to Houston with Shell. There's a fair bit of mobility in the Calgary market, and I know there's more than that in the Windsor corridor. So I would say there are pockets of it around the country. That's why it's not number one, it's number nine, right?

**Mr. Mike Wallace:** I have 30 seconds, so I'm going to ask you, on our copies, we're missing one of your numbers. Number three in mine says “Yuri somebody and Grant somebody, data on transfer income”, so we don't have one of the bullet points you were talking about.

**Ms. Norma Nielson:** You don't have a number three?

**Mr. Mike Wallace:** I have a number three, but it's says “Yuri somebody”. I will give you a copy of mine. If you could resubmit the corrected version, I'd like to see what that other.... I know you spoke to it, but we didn't have it in front of us. I'd appreciate that.

**Ms. Norma Nielson:** Certainly. I'll give you this one.

**Mr. Mike Wallace:** Thank you.

**The Chair:** Thank you, Mr. Wallace.

We'll go to Mr. Marston, please.

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

I just want to say to Mr. McCallum that when he talks about 1963 and those headlines, it was Stanley Knowles who proposed CPP. With the Liberal government of the day, we were able to proceed with that. Things can be done together when we want to work together.

I'm concerned here, lately, because the government's speaking points on pensions seem to be changing. We've had conversations with them. Mr. Menzies and I have had very positive conversations. But it makes me nervous. Something that helps me feel somewhat better is that the government was saying roughly the same thing before the economic downturn. They said that there wasn't one, and then all of a sudden they were prepared to backstop the corporations, which I have no problem with them doing, by the way. I'm not pointing a finger. I'm giving them some credit here.

On the other side of that, I think we have to look at the situation so many Canadians find themselves in today. Mr. Cadieux, I want to commend your organization and others in the labour movement, who have defined benefit pensions and have protection now, for proposing changes to CPP because they see the value not only to their members but to people across the country who have problems.

On the proposal the NDP put forward, we talked in an opposition day motion last June, and prior to that, of doubling the CPP. The rates are 4.5%, and you indicated less than 6%. We were talking about 5%. The total is 13.9% to do that.

We had a presentation last week from a young lady from a firm—I think it was Manulife, if I'm remembering correctly—who said that their administration fees are 2.5%. That's a ballpark figure.

The area of contention is that the Liberal Party, for instance, and some of the provinces are talking about a supplemental CPP, with new administration costs and costs for setting up all these things. We believe that introducing that should go directly to the core assets of CPP. You don't have the new administration—none of the set-up fees. But I would agree with you on the critical point of mandatory versus voluntary. Canadians, we've also heard in testimony here, are moving more debt forward into retirement than at any other time in history.

To some extent, we have to change the dialogue we hear. I heard that in your presentation. Stop calling these things payroll taxes, and start understanding that they're deferred wages. They're not the assets of the company; they're the deferred wages of the employees. That brings us right back to the Nortel situation.

I'm leaving this kind of open for anybody who wishes to respond. I'm trying to lay some track, as we used to say where I worked.

Ms. Nielson, nobody's asked you a question. Here is one very simple one. You mentioned people managing pension plans going forward rather than buying annuities right now, if I understood your presentation. One of the proposals we've talked about is that if you have a company winding up the pension plan, instead of buying annuities for the younger people, you move the plan forward by having it managed by the CPPIB. That's something you can think in terms of.

● (1630)

**Ms. Norma Nielson:** The CPPIB has had a very good track record over the past ten years or so. Managing separate plans and potentially keeping track of individual participants is not what they do now. It would be a very different infrastructure.

**Mr. Wayne Marston:** I'm sure that there would have to be some changes made to accomplish that.

One of the things that strikes me has not been part of the conversation. This morning at 11 o'clock I was with the Bloc member, Mrs. Carole Freeman, talking about the need for increased old age security and GIS immediately. We've talked about that before. The ground between us and the Conservatives I don't think is all that far, in that we're saying that we have to do something for old age security immediately. I have Bill C-501, which addresses bankruptcy insolvency. We have in the Senate what the Liberals have done. Those are priorities that must move forward.

I heard again in Mr. Cadieux's presentation the call for a national summit on pensions. There are two stages. If we do those things that are urgent, if we look at the doubling of CPP and all the implications, we do it over a reasonable period of time. Nobody's talking about rushing into it.

Mr. Wacheski, in your presentation I heard some concerns, I'll call them, about the process you were in. I'd like to know what those concerns are, if you want to elaborate on them and if you want to make any suggestions. Principally, I guess it's about the agreement that was put in place

**Mr. Tony Wacheski:** Bankruptcy is definitely like a very big, messy divorce, and there are hundreds and hundreds of people participating in it. Whoever has the most leverage and resources will win. I think it's the responsibility of the government to create a level playing field so everybody has an equal opportunity.

As we're seeing now in these cases, the only way we're going to have a level playing field is if the employees are protected by the law. So the law has to give past employees priority; there's no other way I can see. I think we can do that right now. As you said, this is something that's urgent and can be done now.

As for the process, the lawyers are in place and....

**The Chair:** You have one minute, Mr. Marston.

**Mr. Wayne Marston:** There is an important point here, and it particularly affects the Nortel workers. I raised it the other day. I think I heard it in one of your commentaries just now. It's that many of the assets of Nortel in particular have been transferred to U.S. estates. We do have a provision in NAFTA that calls for equal treatment. Has anybody tried to address that?

**Mr. Tony Wacheski:** The process is so long and complicated, and the lawyers are restricted in how much money they spend per month, because that money comes out of the estate. The lawyers have already charged $300 million, I think. As you said, the severance is $162 million. There have been allegations of actual fraud with respect to the health and welfare trust.

On Tuesday our representation said it was going to take too long and be too hard to actually pursue litigation on these allegations. So this is a possible crime that will go unchecked because of the way the bankruptcy process is going.

● (1635)

**Mr. Wayne Marston:** You're saying that the application of NAFTA in this would require—

**Mr. Tony Wacheski:** I didn't touch on NAFTA for that.

**Mr. Wayne Marston:** I didn't want to misunderstand you. Thank you.

**The Chair:** Thank you, Mr. Marston.

**Mr. Tony Wacheski:** Thank you, Mr. Chair.

**The Chair:** We'll go to Mr. Pacetti for five minutes, please.

**Mr. Massimo Pacetti:** Thank you, Mr. Chair.

[*Translation*]

I want to thank the witness for appearing today.

Mr. Cadieux, we do not have a copy of your brief, but if I understood you correctly, your third point had to do with pension insurance. What exactly do you have in mind?

**Mr. Serge Cadieux:** We are talking about insurance for defined benefit plans. The idea is to avoid a situation where workers and retirees end up with a much smaller pension when a company goes bankrupt. One example would be the people working for AbitibiBowater. That company has placed itself under the protection of the Companies' Creditors Arrangements Act. The capitalization of the pension plan is between 65% and 70%. If the company fails, the retirees and employees who contributed will no longer have a pension plan. They will be entitled to 65% of the value of their vested pension benefits.

**Mr. Massimo Pacetti:** Who will pay for that insurance? Who will manage it? How would that work? I am trying to understand.

**Mr. Serge Cadieux:** It would be an independent agency. This has been done elsewhere in the world.

**Mr. Massimo Pacetti:** I am asking the question because, if AbitibiBowater cannot afford to pay Quebec Pension Plan deductions, I am wondering how will it be able to pay the administrative costs of this insurance?

**Mr. Serge Cadieux:** We are proposing that part of the contribution come from members—not necessarily the company; it would come from the members' contribution—as well as a tax on stock market transactions. If memory serves me, this is something that exists in 13 other countries, like the Tobin tax on stock market transactions. In 2007 alone, a 0.1% tax on the Toronto Stock Exchange alone would have raised $7 billion. That is an attractive fund.

**Mr. Massimo Pacetti:** Yes, but that is a tax somewhere else. If we decided to tax financial services, who would decide how to spend the money? It is a whole other decision as to whether to spend it in the pension system or somewhere else.

Personally, I think the expenses should be tied to the benefits. As for insurance, who will pay for insurance on those benefits? Most of the time, the problem is that the companies that fail have not paid their share. So I do not know how they would be able to pay insurance premiums. That is what I am wondering.

**Mr. Serge Cadieux:** I am trying to answer you by explaining that one of the solutions—

**Mr. Massimo Pacetti:** Our time is limited; that is why I interrupted you.

**Mr. Serge Cadieux:** One of the solutions we are putting forward is a contribution by members. The plan members are the employer and employees who contribute to the plan. There are also pension committees which have certain obligations.

The employer is required to deposit his contribution each month. The problem arises when a stock market and financial crisis occurs, such as the one we experienced recently; when the actuarial evaluation arrives, you realize that the plan is only 70% capitalized. When a company goes bankrupt, I do not think the government should just leave people to fend for themselves.

So, insurance is needed. There have been experiences with it elsewhere in the world, such as in the United States and even Ontario, but the fund is not adequately capitalized. I think there should be restrictions placed on that. Let us go back to the example I gave earlier: how long did it take to run down the surpluses? It is not right for a pension fund to be capitalized at only 110%. A lot of employers and companies took premium holidays when times were good, saying that this would never happen. But it has happened twice since 2001 and a lot of pension plans have been suffering since.

**Mr. Massimo Pacetti:** Okay. I have another question for you. You represent a good cross section of the Canadian population. You represent both the private and public sectors.

**Mr. Serge Cadieux:** Yes.

**Mr. Massimo Pacetti:** If contributions to the Canada Pension Plan and the Quebec Pension Plan were not voluntary—if they were mandatory instead—

**Mr. Serge Cadieux:** Yes?

**Mr. Massimo Pacetti:** —what effect would this have on the people you represent in the public sector? Would that bring down their costs? Would it be more advantageous? Would it be more equal, or would there still be that difference between the public and private sectors?

**Mr. Serge Cadieux:** All Canadian workers would benefit by having a basic universal pension income greater than $11,000 a year. It makes no sense these days for people to have an income of $11,000 a year. For people with supplemental plans, other contributions would be made to the plans. There are some pension plans where contributions amount to 26%.

Most of these plans are integrated plans. If the public plan's share increases, there will be a decrease in contributions to the private plan. That does not mean that people would pay less; they would pay the same, but it would be distributed differently. There would be greater solidarity among Canadians, because even people who do not currently have a pension plan could contribute.

This may not be the ideal solution. At the very least, however, we need to take the time to convene a truly national conference, in order to hear everyone's point of view before adopting a definitive position. I think that would be the intelligent thing to do, given that the public plans have been in place for 40 years.

● (1640)

**The Chair:** Thank you very much. Thank you, Mr. Pacetti. Mr. Carrier, please.

**Mr. Robert Carrier (Alfred-Pellan, BQ):** Good afternoon and welcome to our Committee.

Among the different pieces of testimony we have received, there is one that seems a little offside—the comments made by Ms. Nielson, who spoke a lot of private companies and pension plan insurance companies.

In fact, Ms. Nielson, since you hold the chair in insurance and risk management, it is perfectly normal that you should have talked about that. However, as parliamentarians, we have been hearing from people for several weeks now with the aim of enhancing pension plans for workers all across Canada. We are confronted with cases like that of the former Nortel workers and others we are aware of, including the Jeffrey mine in Asbestos, Atlas Stainless Steel, and so on. The people who worked for these companies contributed to unsecured pension plans and ended up losing all of their pension income.

Earlier, Mr. Marston seemed to say that our approach is not that different from that of the Conservatives. I certainly hope we are coming closer together because, last fall, the Bloc Québécois tabled Bill C-290, An Act to amend the Income Tax Act (tax credit for loss of retirement income) to at least provide a refundable tax credit to people who lose their pension benefits when the company they work for goes bankrupt. That will not resolve all the issues, but the Conservatives actually voted against even that minor protection.

Mr. Lockwood mentioned earlier that he was hopeful with respect to the bill currently before the Senate, Bill S-216. If the government wanted to quickly provide assistance in the above mentioned cases—particularly since it now has a majority in the Senate—it could speed up that review in order to resolve the rare cases of people who lose their disability insurance and find themselves with nothing.

Personally, I feel that all the parties have to make a real effort to move closer together, so that we can make these improvements. I would like to ask Ms. Nielson to comment on what Mr. Cadieux was proposing,—a doubling of CPP so that all workers will at least have a secure pension system, one that does not depend on a company's profitability or the way the insurance fund was managed. It has been proven, however, that the Canada Pension Plan is safely managed.

I would like to hear your views on this. It would still be possible to have private pension plans.

[*English*]

**Ms. Norma Nielson:** Raising the replacement ratio to 50% is a little too large. It's like hitting the tack with a sledgehammer. It's in the right direction but it's a bit too heavy-handed.

The research report that my colleague Jack Mintz worked on with Mr. Menzies and his office in the fall indicates that the lowest 30% or so of Canadians, among the 60% in particular who do not have pensions, have replacement ratios in the 90% range and higher because of the excellent job that OAS and GIS do in combination with CPP. So there is a gap in the middle that needs to be closed, but the gap is not as big as we thought it was going into the fall.

First of all, there is a little bit of disconnect. I have been asking for 12 years, where did this 70% replacement ratio number come from? And I have had a few political answers. I have had no actuarial answers. But we're starting to have some evidence that maybe the right replacement ratio is in that 50% to 60% range.

There is some information that is not yet ready for public release that suggests that if you look at couples, the group that's right above the YMPE—the middle decile, to use Stats Canada's very statistical terminology—have replacement ratios in the 40% to 55% or 60% range. And 40% is a little too low, so if we could push that 40% up closer to 50% I think we will have solved the most urgent part of that problem. And a 25% increase in the YMPE would cut that in half, perhaps.

● (1645)

**The Chair:** Thank you.

I'm going to take the next round, as the chair.

I want to start with Mr. Lockwood. I appreciated your presentation. In your presentation I think you adequately described what the challenge was with the LTD plan with Nortel, which is that it was in-house.

I don't know this for certain, but certainly the presentations we've had to committee.... The perception you had, as an employee of Nortel, was that it was managed in-house. So it was not managed by a third party, by Sun Life or Manulife, where it would have been in much better shape. And if it had been in bankruptcy or CCAA you would not be in the situation you are today. So I appreciate that.

One of the challenges raised by Manulife and Sun Life is that if you change the BIA or amend the CCAA you may in fact encourage more companies to take more risk and do their plans in-house, and thereby five years or seven years down the road we actually will have not one massive challenge like Nortel but seven or eight or ten companies that would be in this position.

What's your response to that concern they have raised?

**Mr. Lee Lockwood:** I want to clarify something. Number one is the fact that the group I was with at Nortel actually had a true third-party insurance plan and I actually am covered by it. None of the other employees are.

When we made the transfer to the other group at Nortel, all the documentation was very ambiguous. No one would have known they were sliding off a truly third-party underwriter to a self-insured plan. That was the first challenge.

**The Chair:** Just to clarify, you are covered and others are not because it was covered by a third party and that plan was changed.

**Mr. Lee Lockwood:** That is correct in my case. So out of 410 people who are basically going to slide into the pit, I am the only person covered by a bona fide program.

But of course when I went to enrol with the new documentation there was no indication that it had ceased to be a truly underwritten insured plan by Manulife or whoever, and it went to a self-insured situation. There was no indication of that whatsoever.

**The Chair:** Yes.

**Mr. Lee Lockwood:** So it was almost a bait and switch.

**The Chair:** But can you address the concern that Manulife and Sun Life have raised?

**Mr. Lee Lockwood:** What I am promoting is that these firms should be forced to buy insurance from a third-party underwriter, and there are half a dozen in the business that offer that service. Companies should not be offering self-insured plans. This concept of being too big to fail is garbage, and we've seen the implosion of these various companies.

**The Chair:** And as a final clarification—because you mentioned in your address about secured and unsecured—you want to be at the top of the unsecured? You're not asking to be a secured....

**Mr. Lee Lockwood:** It actually should be ahead of the secured parties.

The premise is thrown on the table that this is going to cost extra in the world of capital. I disagree with that. It will be taken into account when the lending covenants are put into place. Companies have their lending covenants reviewed with the lenders on an occasional basis. I've been a lender in the past. You keep in mind what your minimum requirements are and they're adjusted accordingly.

● (1650)

**The Chair:** So you're saying that in terms of the disability claim they should be a secured creditor.

**Mr. Lee Lockwood:** Well, in this case.... But I'm referring to Nortel because they had a self-insured situation. If disability insurance is offered by a true third-party underwriter, the insurance companies are supporting it; it's not even on the table for discussion.

**The Chair:** Okay. My time is quickly running out, but I did want to ask a follow-up question with respect to the pensioners. There is the pension, the severance, and the disability, so you actually have three challenges. In terms of the pension plan, our understanding is that it has a deficit of about $1.1 billion.

Mr. Wacheski, our understanding is that the pension plan is funded about 80%. Is that accurate?

**Mr. Tony Wacheski:** Right now, it's 69%; that's what they think. It will be calculated at the end of the year. The Ontario pensioners get the benefit of the pension fund.

As a severed employee, I took out the commuted value at 69%. If I would have got my full 100% of the commuted value, I would have been able to buy an annuity at only 62% of what the pension was worth. I'm behind twice.

The pensioners are in a better place than the LTD people, who are getting nothing. The severed people are losing all of their severance, as well as whatever pension deficit they have equal to the pensioners.

**The Chair:** I'd like to follow up, but we have to go to the next round.

We have Mr. McKay, for five minutes.

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

My first question is to Ms. Nielson. With respect to item six of your top ten, "Equalize the payroll tax assessment on different forms of retirement savings", currently contributions to RPPs do not track EI and CPP, and RRSPs do. I don't understand that, and I don't understand the rationale behind it.

**Ms. Norma Nielson:** I think that's my point. I don't know that there is much of a rationale behind it.

Essentially we're seeing a lot of retirement savings occurring through group RRSPs, which is a mechanism that was designed with individuals in mind. When we see an employer deciding whether to do a defined benefit plan, a true DC plan, or a group RRSP, one of the factors they may think about is that if they go with a DC plan, they save this 5% of payroll and this 1.4% of payroll. If they go with a group RRSP, which tends to be the smaller employers, because it transfers the administrative responsibility largely to one of the larger insurance companies or large institutional investor-type companies, they pay the contribution into the group RRSP, and they pay the 5% of payroll to CPP on the same dollars, up to 47%.

**Hon. John McKay:** This is plan-to-plan. This is DC-to-DC and DB-to-DB.

**Ms. Norma Nielson:** This is when the employer is choosing whether to offer a DC plan or a group RRSP. If they choose to offer the group RRSP, they're implicitly choosing to pay higher payroll taxes.

**Hon. John McKay:** But is that necessarily a defined benefit plan?

**Ms. Norma Nielson:** No, group RRSP, by definition, is closer to a DC plan.

**Hon. John McKay:** Exactly. So there doesn't seem to be any rationale one way or another as to what attracts—

**Ms. Norma Nielson:** No, it seems to be an evolution in the marketplace. The RRSP, which was originally designed for individuals to go to the bank on February 28 to stick money in an account, has been adapted to provide efficiencies and economies of scale by covering a few hundred people at a time.

**Hon. John McKay:** So one costs the employer another 5% on top of whatever the—

**Ms. Norma Nielson:** And it perhaps costs the employee. It more likely leads to lower enrolment by the employees because they have that much less disposable income.

**Hon. John McKay:** Mr. Cadieux, the issue you seem to be most concerned about has to do with the state of voluntariness, shall we say, with respect to the deductions. You make a good argument that a voluntary deduction won't cut it. The question then becomes is it a mandatory deduction, or is it one of these automatic deductions with an opt-out—a negative option billing concept? Between those two choices, what would you prefer?

[*Translation*]

**Mr. Serge Cadieux:** Neither one. It has to be a mandatory contribution deducted from income, just as there is a mandatory contribution to employment insurance. A wage earner does not have the choice of not contributing to Employment Insurance.

The last 40 years have been a failure. Voluntary contributions have meant that 70% of Canadians do not have an RRSP.

● (1655)

[*English*]

**Hon. John McKay:** And would you apply that mandatory to...? Would you treat private plans in the same manner as you would a hybrid CPP or a QPP?

[*Translation*]

**Mr. Serge Cadieux:** Some places have defined benefit pension plans, but others do not. Sixty per cent of workers do not have a pension plan. The majority of those who do, have integrated plans. So, if we enhance the public plans, pressure on the private plans will be reduced. In a way, it would be a transfer of contributions. And people who have no pension plan would have access to a more decent pension income—$22,000 rather than $11,000, which is the current amount.

[*English*]

**Hon. John McKay:** Thank you.

Mr. Wacheski—

**The Chair:** Very briefly.

**Hon. John McKay:** —you're proposing that you amend the BIA and CCAA immediately and retroactively?

**Mr. Tony Wacheski:** Yes.

**Hon. John McKay:** Have you talked to lawyers about that?

**Mr. Tony Wacheski:** Yes. This all comes down to the deal that was struck and some of the difficulties that happened around it. As I said, the bond holders and the creditors realized that if the BIA was changed they would be negated. So they came to us and said they had a deal if we gave up all our rights to sue, all our rights to everything, including any future changes to the BIA because there might be criminal activity, and they'd give us for the severed a $3,000 loan on our money and then for the LTD a little more health care in the rest of the year.

Retroactively, I'm saying the law can change now for any case that's in CCAA now or BIA now. Not so long ago the credit default swaps were changed retroactively to help the asset-backed paper problem we had a couple of years ago. That was changed during this thing for the banks, and why can't we do the same thing for the people?

**The Chair:** Okay.

Thank you, Mr. McKay.

Ms. Block, please.

**Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC):** Thank you very much, Mr. Chair, and thank you all for being here today. I've really appreciated the discussion we've had so far.

We have heard from a number of witnesses over the past few weeks who have shared with us from many different perspectives, but I believe they have agreed on a number of things, and the first is the importance of consulting.

Mr. Cadieux, I heard you speak today about the importance of a pension reform summit and the need for us to do that, and you even noted the apparent rush by our colleagues across the way to come up with solutions before we've completed that process.

Ms. Nielson, you identified the fact that our system is evidently being served relatively well. In fact, this would be supported by a number of things we have heard along the way.

Finally, you also noted there is tremendous room for simplification and harmonization of retirement income legislation and regulation, and you recognize this is not something the federal government can do in isolation, so we've also heard we need to be working with our provincial counterparts in terms of looking for solutions.

I'm just wondering if that's what you meant by that comment, if you would like to expand on that.

**Ms. Norma Nielson:** That is precisely what I meant. I have a 22-page booklet with 11 rows listing the different requirements in 11 different jurisdictions for pension law and pension compliance. It adds an incredible administrative burden and has to add to the cost of any employer's plan. If you want more employer plans or a slower demise of employer plans, make them more manageable and more affordable.

**Mrs. Kelly Block:** Okay.

I also want to go back to either your first or your last recommendation, depending on if we are going to follow along with David Letterman's pattern. You said support research that will provide better linkages between data sources for registered pension plans, group and individual RRSPs, and other assets. You said the work that was done last fall was an important first step, but leaves many questions unanswered or unanswerable, and that's a little concerning to me. Would you be willing to expand on what you mean by that?

● (1700)

**Ms. Norma Nielson:** Certainly. The research that was done in the fall for the ministry was the first time the databases that are available out there actually put pension plans and group RRSPs in the same study. They're among some of the first studies that look at what other assets people have, perhaps investing in their family farm or a small business, or in their home equity, and trying to factor. It's very difficult to factor assets into income, because it very much depends on the choices that individuals make. It becomes much more complex, but there has been some very good work done in NBER—the National Bureau of Economic Research—in the U.S. and other places to try to begin to build models like that.

As I intimated, there is some ongoing work at StatsCan that for the first time is trying to look at not the replacement ratio of individuals but the replacement ratio of couples. Very, very often, retirement decisions and retirement savings are not factors made by individuals; they're made by a couple. So if one half of a couple has a very good defined benefit pension plan, the other person may not spend nearly as much time worrying about retirement savings. They may put the education savings in that spouse's name.

So there's a lot of evidence that people make decisions about retirement as a couple, and we're just beginning to have data that looks at household level income and retirement savings and replacement ratios rather than looking at it for individuals. In terms of the individual data, if you have a homemaker who has no income, she or he could have been named on a spousal RRSP over the years, or maybe the spouse's pension is sufficient with spousal benefits that they've determined that's not necessary.

There are a lot of reasons where zero might be the right number if you're only looking at an individual and not at a household. So those are the kinds of questions we cannot get answered, given the state of the data.

**Mrs. Kelly Block:** Thank you very much.

**The Chair:** Thank you, Ms. Block.

We'll go to Mr. McKay again.

**Hon. John McKay:** Professor Nielson, your number one request was for an automatic enrolment. Are you suggesting that it should be a legislated automatic enrolment?

**Ms. Norma Nielson:** No. I'm suggesting that the plan sponsor be given the option of including the negative option, as you so eloquently referred to it. The plan can be designed with an opt-out kind of feature.

**Hon. John McKay:** Why can't that be done today?

**Ms. Norma Nielson:** Well, if it's illegal in one province, then it's a challenge for a national employer to try to do it in one province and not in the others.

**Hon. John McKay:** Is it in fact illegal?

**Ms. Norma Nielson:** I don't know. It could be a liability fear issue as well, that if they opt in and then things go badly....

**Hon. John McKay:** Is it a liability?

**Ms. Norma Nielson:** It may be tied to the fiduciary liability concerns.

**Hon. John McKay:** Would it be a liability issue, or would it be a sales issue?

**Ms. Norma Nielson:** Sales from whom to whom?

**Hon. John McKay:** Well, you're going to have to convince a sponsor to do this, and then he or she, the sponsor, is going to have to get his or her employees on side to agree to negative option billing.

**Ms. Norma Nielson:** The evidence is that you'll have about a 40% higher participation rate with an opt-out type design, where doing nothing gets people in rather than having doing nothing getting people out.

**Hon. John McKay:** And what would be the basis of being able to get out of the plan?

**Ms. Norma Nielson:** In a typical employment situation, it would be going to the HR office or ticking a box on a form. It's about as much work as getting in, but it seems to be a barrier to humans. It never quite makes it to the top of the list.

**Hon. John McKay:** So you wouldn't make the barrier that difficult.

**Ms. Norma Nielson:** No.

**Hon. John McKay:** Presumably, if you changed jobs you'd want to be able to get out.

**Ms. Norma Nielson:** It really has nothing to do with vesting, once you're in the plan. It has to do with whether you're automatically in or automatically out when you meet your six months or when you first come on payroll.

**Hon. John McKay:** Is this, by definition, limited to defined contribution plans?

**Ms. Norma Nielson:** No.

**Hon. John McKay:** Could you do it by a defined benefit plan?

**Ms. Norma Nielson:** Universities are a bit of a weird animal, which have a contributory defined benefit plan.

**Hon. John McKay:** Do you think anybody is going to be doing defined benefit plans any more?

**Ms. Norma Nielson:** I think they're a wonderful source of security. If we can keep the ones we have, we'd be doing very well.

● (1705)

**Hon. John McKay:** Well, you're not going to get an argument from me, that's for sure.

**Ms. Norma Nielson:** Eliminating the complexity would help a lot, but the risk and.... The employment world has changed. People staying with one employer for 40 years is no longer the norm.

**Hon. John McKay:** It has gone by the board.

**Ms. Norma Nielson:** Therefore the defined benefit's a harder thing to match up with employment.

**Hon. John McKay:** When you talk about creating the infrastructure needed for the private sector to offer efficient investment vehicles, what's the problem? Why can't that be done?

**Ms. Norma Nielson:** Right now there are rules that prohibit the comingling of funds. So if a union plan wants to have a multi-employer-sponsored arrangement they can, with the union named as the plan sponsor. If a bunch of small ski resort operators want to get together to have a pension plan, pool their assets and administrative overhead costs and divvy them up, they can't do that because a financial institution like Manulife or Royal of Canada is not allowed to be a plan sponsor and take on the legal role of a plan sponsor.

**Hon. John McKay:** Am I done?

**The Chair:** You have one minute.

**Hon. John McKay:** I have a final question, Mr. Wacheski.

On this desire to get to the top of the priority list, I'm not quite sure how high up the priority list you're going. Are you above unsecureds?

**Mr. Tony Wacheski:** Yes.

**Hon. John McKay:** Are you above preferreds?

**Mr. Tony Wacheski:** No.

**Hon. John McKay:** Okay. So you're below preferreds.

**Mr. Tony Wacheski:** We don't want to be super-priority; we just want to be above all the people who have the leverage we don't have.

**Hon. John McKay:** So you're above unsecureds. Are you below secureds?

**Mr. Tony Wacheski:** Yes.

**Hon. John McKay:** And you're below preferreds.

**Mr. Tony Wacheski:** I believe so.

**Hon. John McKay:** Okay. So you're creating a fourth category, if you will.

**Mr. Tony Wacheski:** I don't know if that's true.

**Hon. John McKay:** It's like a fourth category, because you would have priority ahead of all unsecureds but below the government, if they owed taxes. That's kind of cute, isn't it?

**Mr. Tony Wacheski:** Sure.

**Hon. John McKay:** Thank you.

**The Chair:** Thank you, Mr. McKay.

Monsieur Généreux, *s'il vous plaît.*

[*Translation*]

**Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC):** Thank you, Mr. Chairman. I would like to thank all our witnesses for being here.

First of all, Mr. Cadieux, you said earlier that it would be a good idea to convene a national summit to look at all the issues surrounding pension plans. What is strange is that we are being accused of all sorts of things. Right now, we are being accused of holding useless consultations, because apparently some people are already prepared to make decisions. But based on what I have heard from witnesses so far, this study does not appear to me to be useless. So, again, I would like to thank you for being here.

Ms. Nielson, what exactly are your reservations regarding the possibility of doubling plan contributions? I want to be sure I understand your concerns regarding a twofold increase in CPP contributions.

[*English*]

**Ms. Norma Nielson:** If you're going to do this on a fully funded basis, that means we start collecting the taxes today. The people who will have actually doubled their replacement ratio will see those benefit cheques in about 40 years. So a lot of it is a concern about paying for 40 years before anybody starts to see a very big benefit. It has political challenges as well, as I suspect those of you on the other side of this table know better than I do.

[*Translation*]

**Mr. Bernard Généreux:** Do you think Mr. Cadieux's proposal to bring in the increase over a long period of time could be a solution? Would that answer your concerns? Obviously, if we did this overnight, a lot of people would clearly be unhappy about being forced to do this. However, if it were done gradually over a long period of time, would you find that acceptable?

[*English*]

**Ms. Norma Nielson:** It could be. There's a very small window of people with insufficient retirement savings—below a 50% replacement ratio benchmark. Not everybody who has no pension plan has inadequate retirement income. It's a relatively small group and tends to be in the lower-middle to middle class. It would be less disruptive and perhaps just as successful to target that group—which might be those making between $47,000 and $60,000, for example—if we can solve that problem.

I don't know how disruptive it would be to the availability of other pension coverage. If you start doubling the taxes right away, I think you'd see more employers killing the pension plans they still have and getting out of the liability, the extra administration, and the cost.

● (1710)

[*Translation*]

**Mr. Bernard Généreux:** Mr. Cadieux, as part of these Committee hearings, we heard from Mr. Lee, who is a professor at the University of Ottawa. In his presentation, which was eloquent, he said that, compared to other OECD countries, we are not necessarily facing a crisis with respect to pensions and pension-related issues. According to him, we have just come through a financial crisis, which had an impact on pensions. Considering what you said, I would like to know whether you think that is a realistic statement.

As I was listening to you earlier, I was thinking about my own situation as an entrepreneur. I have a business that employs 20 people. But we do not have a pension plan. As I listened to your proposal, I began wondering who was going to pay for it and how I could remain competitive as an employer and young entrepreneur. If I had to add that to my expenses, I do not know how I would manage. Small firms also have to be competitive.

How would these measures be implemented?

**Mr. Serge Cadieux:** We need to make a distinction. First of all, the eminent professor who appeared before you was probably talking about private pension plans. The insolvency problems associated with these plans since 2001 are due, in large part, to two successive financial crises. Obviously, when interest rates begin to rise and people stop taking premium holidays, it will be possible to stabilize defined benefit pension plans.

However, what you need to know, as members of Parliament, is that six out of every ten Canadians do not have a pension plan. For a small business, it is far less costly to contribute 3% more, over seven years, to a public plan than it is to contribute to a defined benefit plan. I know of few defined benefit plans in Canada where the contribution is less than 13, 14, 15, 16, 17, 18% and, nowadays, it is as much as 20% or 21%. Rather than contributing to a defined benefit plan, a small business would really be better off contributing to a public plan, because the risk is distributed over the entire population. I think that everyone would benefit from that. You were talking to Ms. Nielson earlier. We are clearly not suggesting that the increase happen all at once. It has to be capitalized and spread over a number of years, as was done when reforms were introduced in 1991.

**The Chair:** Thank you very much.

Mr. Marston.

[*English*]

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

Ms. Nielson, when you were talking before about plans where people were 90% covered as a replacement ratio, Statistics Canada says there are close to 300,000 Canadians, mostly on old age security and GIS, who are living below the poverty line on about $1,160 a month. As just indicated by Mr. Cadieux, 63% have no pensions and no savings whatsoever at this time.

I can understand Mr. Généreux's concerns about new employer taxes, but the proposition of doubling CPP to the employers' side is 2.5%. Coming back to the replacement ratio, were the people taken into account who were on minimum wage, or the 300,000 I referred to who were probably stay-at-home mothers, because most of them were women and never got into CPP? So you have a situation where 63% of the people have nothing and very low income, and they are facing a wall when retirement comes. You have the other ones who are already living below the poverty line. Are they in the mix of what you studied?

**Ms. Norma Nielson:** Yes. But they were not my studies that I cited.

There's no doubt that 95% of not very much is still not very much.

**Mr. Wayne Marston:** That's exactly my point.

**Ms. Norma Nielson:** The way to deal with that is not to talk about replacement ratios. If it needs to be raised, then perhaps look at the OAS and GIS and say, “How little is too little?“ It's really a separate question from the pension issue.

● (1715)

**Mr. Wayne Marston:** I agree, and that was the point I was trying to make. We talked earlier in this particular meeting about something needing to be done for OAS and GIS right now, for those people who are in poverty now, and then we're looking at the mid-term in the evolution of a plan.

Mr. Cadieux talked about seven years doubling the CPP before you start to get some return, 40 years before it's fully funded. That was at the 5% for each.

If you think in terms of a national process—CPP—it takes you away from the encumberment of all those different provincial laws as well if we're able to make that adjustment there. Would that not make sense to the private employers who are struggling through the maze that they have to go through, especially if they happen to have their business over two or three provinces?

You have yourself a national plan to begin with. We're seeing that as a foundation. We're not seeing that as a resolution of all the problems. God bless them; if somebody has a private defined benefit plan, more power to them. If somebody is an entrepreneur and can make better and invest, that's wonderful too. That's not meant to be an impediment to future investment; it's to build that foundation going forward to ensure that we capture the bottom end who are getting lost along the way now.

So I'm pleased to hear that you did take those people into account, but again, as you said yourself, 90% of minimum wage is still 90% of very little.

On the CCAA, Mr. Lockwood, there is Bill C-501, which Mr. Rafferty has put in for our party, which was originally my bill. Are you aware that there was an Australian study in 2005 that said that having preferred status for pensions had very little impact on the investment climate?

You're aware of that.

**Mr. Lee Lockwood:** Yes, absolutely.

**Mr. Wayne Marston:** Ms. Nielson, were you aware of that study?

**Ms. Norma Nielson:** No, I don't believe I am.

**Mr. Wayne Marston:** It was tabled in 2005, so I thought I would put that on the table.

Mr. Chair, I think I've covered everything I need to.

**The Chair:** Thank you, Mr. Marston.

We have time for three quick rounds. We're going to Mr. McKay to start it off. If we could do three-minute rounds, it would be very helpful.

**Hon. John McKay:** Thank you, Mr. Chair.

Mr. Wacheski, just to finish up the conversation with respect to priority and whether you're preferred, ahead of preferred, or behind preferred, I'm looking at a definition of what constitutes preferred here. For our purposes, I think, really, it's the public purse, whether you rank ahead of claims by municipalities or provinces, and so on.

**Mr. Tony Wacheski:** We're just asking to be above the unsecured, first in the list of the unsecured, because the rest of the unsecured have all the leverage; we have none.

**Hon. John McKay:** Okay. Thank you.

**Mr. Tony Wacheski:** I'd really like to understand the arguments against changing this. I haven't heard any, so I would like to hear them. If anyone can offer them, please do.

**Hon. John McKay:** I'd be interested myself.

Finally, Professor Nielson, with respect to number eight, where you talk about revisiting government-imposed restrictions on the purchase and sale of annuities, I'm not quite sure I understand that problem.

**Ms. Norma Nielson:** There are some requirements. I may have my federal and provincial requirements a little muddled in this one, but if a plan is winding up even partially, it must convert all the assets from the pension into an annuity. Given that the annuity market seems to be very constrained and not terribly efficient, I'm not sure that's the best solution to the problem. There may be a more creative way to get security for the people being turfed out of, say, a disinvestment, a de-acquisition kind of thing.

**Hon. John McKay:** Who's doing the constraining?

**Ms. Norma Nielson:** In the market there are a number of factors. One seems to be that annuities are very capital-intensive for the financial institution. Another is that, among people buying annuities, there tends to be a huge amount of adverse selection: only healthy people with grandmothers who live to 108 are the ones who buy them. So it's a combination. In fact, in some ways it's evidence that the market is working, but it's not working perhaps as well as....

Given that it does seem to have relatively high prices compared to the risk that's being transferred, there are regulatory capital considerations that I think could be reviewed, as well as perhaps saying maybe the insurance company can manage this on behalf of the pension fund—a way to really handle the orphan pension funds. The CPPIB is one option, but there may be private sector alternatives as well.

● (1720)

**The Chair:** Thank you, Mr. McKay.

[*Translation*]

Mr. Carrier, please.

**Mr. Robert Carrier:** Thank you, Mr. Chairman.

Mr. Cadieux, you referred in your presentation to a 15% increase in the Guaranteed Income Supplement and a doubling of Canada Pension Plan benefits. These are two separate measures. The Guaranteed Income Supplement is a social measure, whereas the Canada Pension Plan represents workers' accumulated savings.

You seem to know a lot about pensions. Based on your experience, could a doubling of Canada Pension Plan benefits—in other words, savings—result in less need or demand for the Guaranteed Income Supplement? Would it have an impact?

As you mentioned, income from GIS benefits is currently below the low income cutoff. For quite a few years now, the government has expressed its opposition to the idea of increasing it. By doubling workers' forced savings, would we solve part of the problem?

**Mr. Serge Cadieux:** Yes, absolutely, in both the medium and long terms.

This is something that is needed because, at the present time, people are no longer contributing to the plan as they are receiving benefits. Let us not forget that, according to the most recent statistics, one third of seniors have an income less than $15,000 a year. One has an effect on the other. If we double CPP benefits, people will have less need of the Guaranteed Income Supplement. It is funded through workers' and employers' contributions.

I have been negotiating collective agreements for 30 years now. When the employer makes a contribution, that contribution is negotiated. It is differed salary and it is part of the payroll.

**Mr. Robert Carrier:** I see.

When you were discussing your proposal to double pension plan benefits, you also talked about portability. It seems to me that is automatic with a public plan of this type. What exactly did you mean?

**Mr. Serge Cadieux:** I see this as another significant advantage for employers and for the different provinces. Transfers are currently not allowed under defined benefit plans. Even when they are, the process is very difficult and the actuarial costs are extremely high. As a consequence, there are very few.

When someone is benefiting from a public plan, whatever employer he may work for, his years of work will continue to accumulate throughout his career. These days, the world of work is not what it was 40 years ago. People just do not spend their entire career with a single employer. They may work for seven different employers, and it may even be more than that in the coming years. What we are talking about is a plan where people are not penalized when they stop working, whatever number of employers they have worked for in their lifetime and whatever province they may work in. For example, it could be a female worker who has children.

**The Chair:** Thank you.

[*English*]

Go ahead, please, Mr. Menzies.

**Mr. Ted Menzies:** Thank you, Chair, and thank you to all of our witnesses. It has indeed been an interesting panel.

I would just like a point of clarification, Mr. Cadieux. It may have been an error in translation, but I hope you didn't say 40% of seniors were in poverty. Did you say 4%? Because what came through in my ear was 40%, and I think you know that's not accurate.

[*Translation*]

**Mr. Serge Cadieux:** One third—33%—of seniors have an annual income of less that $15,000.

[*English*]

**Mr. Ted Menzies:** OECD qualifies their seniors' poverty levels, and those are accepted around the world. We're one of the lowest. We have 6%. I just wanted to clarify that. I think I'm going to go with the OECD number.

Ms. Nielson, you raised some very interesting and technical points. Mr. McKay asked the question I was going to ask about annuities. He is accurate; it's not a fluid enough market. I talked to some of the large pension fund holders, and if they did wind up, there wouldn't be enough annuities in Canada to deal with that, so they're basically trapped.

● (1725)

**Ms. Norma Nielson:** That's one of the reasons for the technical suggestion that might increase some of the economic efficiency and functioning in that marketplace.

**Mr. Ted Menzies:** You commented that there were no more defined benefit plans being set up. I'm not going to mention any names, but one of our largest employers in Canada continues to set up defined benefit plans to entice employees to come and work for them and keep working for them.

**Ms. Norma Nielson:** And there was a major Calgary company that switched from defined contributions back to defined benefits. So it's the exception rather than the rule, but it's still out there.

**Mr. Ted Menzies:** I'm not saying that it will continue. It's difficult.

**Ms. Norma Nielson:** I was speaking in terms of the aggregate statistics.

**Mr. Ted Menzies:** There's an actuary in Calgary who is actually setting up defined benefit plans for small businesses and continuing to do so on a daily basis. So these plans are out there, but they are challenging.

I was happy to hear two of our witnesses today suggest that it is good that we're looking seriously at this and consulting with our partners across the field, from the provinces to the territories, because the opposition too quickly finds a solution in search of a problem before we've actually defined it.

Do I have a minute left?

**The Chair:** You have about 30 seconds.

**Mr. Ted Menzies:** Mr. Cadieux, you talked about taking off the funding ceiling. I'm not sure what your point was there.

[*Translation*]

**Mr. Serge Cadieux:** No, I did not talk about removing it. I talked about increasing it to $62,000. If memory serves me, it is currently $46,300. So, we are proposing to increase it. If it is spread over the entire period, there will not necessarily be any additional costs—

[*English*]

**Mr. Ted Menzies:** Thank you.

[*Translation*]

**Mr. Serge Cadieux:** — because it is funded by plan members.

[*English*]

**The Chair:** Thank you.

I'm sorry, but we are near the end of our time.

I do want to thank all of you for being here with us this afternoon and for your presentations. If there is anything further you wish the committee to have, please submit it to the clerk.

I believe, Ms. Nielson, that Mr. Wallace did ask for further clarification on one of your points.

We want to thank you for being with us here today and responding to our questions.

The meeting is adjourned.

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