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Chair

Mr. James Rajotte

Standing Committee on Finance

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•(0835)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 68th meeting of the Standing Committee on Finance. Our orders today, pursuant to the order of reference of Monday, May 14, 2012, are to continue our study of Bill C-38, An Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012.

We want to thank our witnesses for coming in early this morning. We have four guests with us here in Ottawa, and one individual in Hamilton by video conference.

I want to thank you for joining us here today.

We have first of all, as an individual, Mr. Michael Wolfson; and from the Council of Canadians with Disabilities, Mr. Vangelis Nikias. Welcome as well. From the Canadian Life and Health Insurance Association, we have Mr. Frank Zinatelli; from the Rotman International Centre for Pension Management, Mr. Keith Ambachtsheer, who is back again before the committee; and as an individual from Hamilton, Mr. Arthur Sweetman.

Mr. Sweetman, can you hear me okay?

Dr. Arthur Sweetman (Professor, Ontario Research Chair in Health Human Resources, Department of Economics, McMaster University, As an Individual): I can hear you now.

The Chair: Thank you, Mr. Sweetman, for joining us.

You each have up to five minutes for your opening remarks, and we will proceed in the order I outlined.

So we'll start with Mr. Wolfson, please, for an opening statement.

Dr. Michael Wolfson (Professor, As an Individual): First, thank you for the invitation to address the committee on the very important issues raised by the current budget bill.

Since the invitation only came yesterday afternoon, I have had only a brief time to prepare specific remarks. I apologize in advance if my remarks sound a bit grumpy, but I figure we might as well have, as they say, a full and frank discussion here. I will focus my remarks on changes to the old age security and guaranteed income supplement, the OAS and GIS, specifically the proposal to raise the age of entitlement from 65 to 67 starting after 2020, phasing in over a number years.

To use an impolitic phrase, perhaps, I find the proposal half-baked and ignorant. While these words may sound harsh, let me explain.

The proposal is half-baked in that it starts from a perfectly reasonable premise, that with steadily increasing life expectancy and the improving health status of Canada's population, it is appropriate that the age at which Canadians typically withdraw from the paid workforce should gradually increase.

The proposal is ignorant in that it ignores decades of excellent policy analysis on these issues and charges ahead with a piecemeal, ad hoc change, coupled with poor—and depending on which piece you read—even disruptive explanations of the rationale.

Let me briefly expand on these two characterizations.

The idea of raising the age of entitlement is not at all new. Indeed, at the beginning of my career in the federal public service, more than 30 years ago, I worked on the report on the retirement income task force published by the Department of Finance in 1979, if my memory serves me correctly. At that time we projected the aging of the population, which we have since experienced—and so we can ourselves a little pat on the back for the projections.

We noted that the U.S. had recently legislated a gradual increase in the age of entitlement, and we recommended more than 30 years ago that the government consider following suit. So I'm not at all opposed, in principle, to the idea; indeed, I was involved in the analysis that recommended it ages ago. But that report and many others have all focused on Canada's retirement income system, not on specific programs only.

The OAS and GIS interact with other programs, both explicitly in terms of the various formulae like the income tax, and implicitly in terms of informal relationships, for example, with workplace pension plans. So this OAS proposal is only half-baked because it fails to consider OAS and GIS as part of a system of interrelated programs, including the Canada and Quebec pension plans, income taxes, RRSPs, workplace pensions, etc..

I know from my experience in the public service that the policy branches in various ministries, including Finance and Human Resources, have the talent and capacity to recognize these key factors and to produce policy advice that is well thought out—or at least they used to have this capacity. I don't know now.

I cannot figure out where the failure is occurring with this government, though one fairly consistent theme is an inclination to disregard evidence, indeed to limit or destroy the public service's capacity to produce high-quality information. For example, I read in a recent issue of *Policy Options*, the magazine of the IRPP, a portion of the Prime Minister's speech at Davos. He said literally that the CPP was fully funded. Whoever wrote that speech clearly does not know the facts.

Just pick up the report on the CPP by Canada's Chief Actuary and you will see that the Canada pension plan is less than 20% fully funded. The apparent attempt to rationalize dealing with the OAS alone without bringing in the CPP looks seriously ill-informed. Both major programs involve intergenerational transfers.

Moreover, some of the words—and I can't point to them specifically—look to be fanning the flames of intergenerational conflict. But our objective, assuming a thoughtful, well-informed, and well-intentioned Parliament, should be to find a set of principles and then legislation that will make all the components of Canada's retirement income system both fair, and understood to be fair by all Canadians.

The Chair: You have one minute, please.

Dr. Michael Wolfson: This is doable in terms fairness. I refer you to the 1983 report of parliament's Special Committee on Pension Reform. Members of Parliament worked together, and despite substantial political and ideological differences, they were able to agree unanimously on an approach to intergenerational fairness.

Let me just close with one point.

The one inconsistency is that this is not an austerity measure, at least in terms of the current fiscal situation of the government, because it won't have an effect on the budget for at least a decade. It's about fiscal sustainability.

I find it interesting that last summer, when the Chief Actuary tabled a report saying that TFSAs would have a billion-plus dollar impact on the GIS, that didn't cause any concerns on the part of the government about long-term sustainability. Yet in January, the government suddenly decided there was a problem with fiscal sustainability.

You have to appreciate that I spent 35 years in the federal public service. I'm now a professor. When I started in the federal public service, I was proud of our role in providing impartial and extensive information for Canadians generally and for public policy discussion. I'm not sure I'd feel the same way today.

Thank you.

• (0840)

The Chair: Thank you for your presentation.

We'll now hear from the Council of Canadians with Disabilities, please.

Mr. Vangelis Nikias (Project Manager, Convention on the Rights of Persons with Disabilities, Council of Canadians with Disabilities): Thank you, and good morning.

The Council of Canadians with Disabilities, the representative voice of Canadians with disabilities, is pleased to have the

opportunity to present to the finance committee and thanks the committee for this invitation.

Budget 2012 has created some new initiatives that CCD believes will help us build a more inclusive and accessible Canada, as well as some initiatives that raise serious questions and, possibly, new barriers for people with disabilities.

With regard to the positive measures, the creation of an employment panel to report to Ministers Flaherty and Finley, by December, on best practices within the private sector on the employment of persons with disabilities is welcome, and CCD is eager to be of assistance.

Equally important and positive were the revisions to the registered disability savings plan, RDSP, that removed a significant barrier for persons with intellectual disabilities and their families to opening an RDSP account. The RDSP continues to be a program of significant benefit to Canadians with disabilities and their families.

As well, CCD was pleased to see the allocation of 10 million new dollars to the opportunities fund, a program that helps Canadians with disabilities get jobs.

On old age security, OAS, reform, what is of concern to the CCD is the raising of the age of eligibility for old age security and the guaranteed income supplement, GIS, from age 65 to age 67. There are a disproportionate number of Canadians with disabilities living in poverty. Between 45% and 60% of those living on social assistance—welfare—are persons with disabilities, and this number continues to increase. Many Canadians with disabilities have been and will continue to be excluded from the current labour market unless significant new initiatives are created to remove barriers to employment.

The old age security benefit, coupled with the guaranteed income supplement, is better than any social assistance program in Canada, with the exception of Alberta's AISH program, where a significant increase was announced in December. Suddenly, many Canadians with disabilities look forward to turning 65 because they will have a better income benefit and they will be raised out of poverty.

Increasing the age of entitlement for OAS will force persons with disabilities to live in poverty longer. OAS, while the foundation of Canada's retirement policy, does not exist in isolation. In fact, many other benefits are designed to work in tandem with OAS.

Therefore, the CCD recommends that your committee carefully weigh the following questions: Will the raising of the age of entitlement trigger a change in the age exemption in the Income Tax Act?

Will long-term disability plans and workers' compensation policies now extend benefits to age 67? Presently, LTD claims and workers' compensation claims end when people become eligible for OAS. Will this change increase premiums?

Will Canada pension plan benefits also change the age of eligibility? Will this apply to both the early retirement and full benefit?

We believe that the points raised by CCD are worthy of study. The new policy initiatives should enhance the status of Canadians with disabilities, not create greater disadvantages for them.

● (0845)

There is time to ensure that the OAS reforms cause no negative impact or extend the poverty of Canadians with disabilities. CCD urges the Government of Canada to consider and ameliorate the negative impact that the OAS changes will have on Canadians with disabilities.

As for employment insurance reform, EI, sadly, is of benefit to only some of our members, in that many persons with disabilities continue to be excluded from the labour market or work part-time and are unable to establish enough insurable weeks to be eligible for EI. The proposed EI reforms must recognize that persons with disabilities face additional barriers to employment. Some jobs are simply not suitable, depending on particular impairments and related barriers. For example, I am sure that none of you want me driving a car.

Some hon. members: Oh, oh!

Mr. Vangelis Nikias: In other instances, people cannot relocate for employment because their support services are not portable, or accessible transportation systems do not exist. EI reform must include in its assessment an understanding of disability, the barriers to employment for persons with disabilities, and the need for appropriate accommodation.

CCD seeks a federal labour market strategy for persons with disabilities that will improve labour market participation and, in particular, address the issues of young people with disabilities, including aboriginal people with disabilities. They must be supported to move from school to work. This transition is critically important and new investments are required.

CCD reminds all members of Parliament that Canada ratified the UN Convention on the Rights of Persons with Disabilities over two years ago. Ratification means that Canada has undertaken to continuously improve the standards of living of persons with disabilities, including through retirement benefits, per article 28 of the UN convention. This commitment is especially relevant to the proposed OAS changes, which if implemented without adequate compensatory measures, will have the effect of further impoverishing Canadians with disabilities, not improving our standards of living.

We ask that you take these concerns into account in your considerations, and we thank you for the opportunity to appear before you today.

The Chair: Thank you for your presentation.

Mr. Zinatelli, please.

Mr. Frank Zinatelli (Vice-President, General Counsel, Canadian Life and Health Insurance Association Inc.): Thank you, Mr. Chairman. I am Frank Zinatelli, vice-president and general counsel of the Canadian Life and Health Insurance Association Inc.

I would like to thank the committee very much for this opportunity to contribute to your review of part 4 of Bill C-38, An

Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures. With your permission, Mr. Chairman, I would like to make some very short introductory comments.

The Canadian Life and Health Insurance Association represents life and health insurance companies, accounting for 99% of the life and health insurance in force across Canada. The Canadian life and health insurance industry provides products, which include individual and group life insurance; disability insurance; supplementary health insurance; individual and group annuities, including RRSPs, RRIFs, TFSAs, and pensions. The industry protects more than 26 million Canadians and over 45 million people internationally. The industry makes benefit payments of \$64 billion a year to Canadians. It has almost \$514 billion invested in Canada's economy, and it provides employment to nearly 135,000 Canadians. Finally, life and health insurers are regulated at the federal level under the Insurance Companies Act, and are also subject to the rules and regulations that are set out in provincial Insurance acts.

Mr. Chairman, we welcome this opportunity to appear before the committee as you seek to develop your report to Parliament. The industry is very supportive of some of the divisions contained in the bill. Let me comment briefly on two of these.

First, division 22 of part 4 would amend part III of the Canada Labour Code to require federally regulated private sector employers that provide benefits to their employees under long-term disability plans to insure those plans, subject to certain exceptions. This would require employers who have uninsured long-term disability plans to insure those plans so that in the case of bankruptcy, employees who are on long-term disability at the time of the bankruptcy will continue to receive those benefits as long as they are disabled.

The Canadian life and health insurance industry is very supportive of this legislative initiative. We believe it is critically important to ensure that employees on long-term disability are protected in the event of a plan sponsor's financial stress or insolvency. History has shown that when an employer becomes insolvent and its LTD plan is uninsured, disabled employees can sometimes lose benefits. We have had three examples of this happening in the last three decades.

Currently in Canada there is little regulation of uninsured LTD plans. There is no requirement that employers set aside adequate reserves to cover future liabilities arising from these plans. If reserves are set aside, there is no restriction on how those funds are invested. There is also no obligation to keep funds in trust to protect them from creditors. As a result, there are no protections in place to ensure that there are adequate funds available to support ongoing LTD claims in the event of an employer's bankruptcy.

Requiring that LTD plans be offered on an insured basis will provide the maximum protection for disabled employees, and will ensure that they are paid, regardless of their plan sponsor's financial situation. We believe this is the best route to address the protection of those on LTD. With insured plans, the risk and financial liabilities for providing the LTD benefits are transferred to the insurer. The insurer's responsibility with respect to disability benefits continues even when the plan sponsor experiences financial difficulties, or after the plan is terminated. Indeed, after a plan sponsor's bankruptcy, the insurer will continue benefits for disabilities that began while the group policy was in force.

In order to protect those on LTD, it is crucial that there be funds available to support all ongoing disability liabilities, even if the employer is bankrupt. We believe that the legislative initiative set out in division 22 of part 4 would be effective in achieving the public policy objective of fully protecting individuals on LTD.

As an industry we are making representations to provincial governments recommending that they make equivalent changes.

• (0850)

I will now turn briefly to one other matter. We note that division 2 of part 4 would amend the Trust and Loan Companies Act, the Bank Act, and the Cooperative Credit Associations Act to prohibit the issuance of life annuity-like products. The provisions of the current legislation indicating that only life insurance companies can provide life annuities are relatively clear, and I see this as a technical amendment that will be helpful in reinforcing the rules and the policy objectives already in place.

The industry greatly appreciates this opportunity to participate in the committee's review of part 4 of Bill C-38. I would be pleased to answer any questions you may have.

Thank you, Chairman.

The Chair: Thank you for your presentation.

We will hear from Mr. Ambachtsheer now, please.

Professor Keith Ambachtsheer (Director, Rotman International Centre for Pension Management): Thank you.

I was made aware yesterday afternoon that I had to be here this morning, so you'll be relieved to know that I don't have any prepared notes.

Some hon. members: Oh, oh!

Prof. Keith Ambachtsheer: However, I do have some Porter notes taken at 22,000 feet only one hour ago, and they go something like this.

A French philosopher about 150 years ago said that demography was destiny. Every once in a while that turns into reality, as will be the case as we start this next 20- to 30-year period. The way to think about this is that we currently have four workers per retiree in Canada today. That ratio will go from 4:1 to 2:1 in the next 20 years. So you just have to imagine a world with that new ratio.

I put it to you that the fundamental thing we have to ask ourselves is how do we maintain our standard of living with that ratio, and the simple logic is we have to get people over 65 in the workforce.

That's the simple logic. So to me that's the background and, by the way, we all live longer than we did a long time ago. Those are the underlying realities.

I have three issues that I'll touch on very briefly. The first one is the move in OAS from age 65 to 68, which is long overdue. Michael said it was on the radar screen in 1979 and the U.S. actually did this decades ago and it's hardly noticeable that it's happening. We are doing it more quickly, because we waited longer and it is what it is, so let's get on with it and let's get over the fact that we need to do this.

To me a subpoint would be that given the degree to which we're interested in fiscal sustainability—and this is one element of it—I wonder whether we really need to have that clawback range from about \$65,000 to \$110,000? The other way to pose the question is do seniors who have income over \$100,000 really need to even get a piece of OAS? So one way to make it a cheaper program is to think about that question and figure out whether there isn't some interesting answer there.

The other thing Michael mentioned that I'll reinforce is that you can't look at these things on their own. We have an integrated retirement income system, and even though it's a complex system, if you don't keep track of all the pieces and whether they fit or whether they don't fit, you will lose focus and do things that are stupid. For example, the piece I will bring into it is that when you look at employment-based pensions, the issue is the private sector workforce and the fact that most private sector workers don't have an employment-based pension plan. That, to me, is a major issue.

We've looked at a number of ways of dealing with that, one of which was to expand the Canada pension plan. That got voted off the ship. So now we're left with PRPPs. It's sort of the best at this, the only hope for the next few years. Unfortunately, with the track that we're on, I think they're going to fail, which would be a sad thing given that we've worked at this for the last three or four years. My concerns are the following.

First, if you don't have auto enrolment, if you don't automatically enrol workers into these plans, they're not going to happen. We already have voluntary RRSPs. Why would we want to create another program that looks like that? So this is one element that needs to get dealt with. Quebec, to its credit, is dealing with it. Nobody else has gone this far.

The other thing is the question of this integrated system, in that these PRPPs have to fit into the larger scheme of things. I'll give you an example. Our current system provides 100% income replacement for low-income workers through GIS, OAS, and CPP. So getting them into a PRPP doesn't make any sense at all, because basically all those hard-earned savings will be taxed back by lower GIS payments later down the road. That's just one example of the design thing that we have to put into PRPPs to make them do the job. They have to target private sector, middle-income workers, which means, for example, that you shouldn't start deductions in PRPPs until you get past the first \$30,000 of income. That's just one example.

●(0855)

That leads to the other thing. We need a really smart licensing body to make PRPPs work. We need, in effect, a CRTC of pensions. You need about a dozen providers at the most, because you need scale. You need oversight to make sure that these services are delivered at low cost, and you need a regulatory process that understands that.

Here I would say that OSFI actually has some very good people in it, but they're wondering what's going to come out in the regulations and what their job is going to be with respect to PRPPs. Frankly, they don't know right now. That's a sad state of affairs.

There's also the dumping of it back on the provinces that's going on. They're being told to figure it out. Again, that's a shame. We did the Canada pension plan reforms in the 1990s together, and it's still, by global standards, a world-class program.

That's the integration issue.

The third issue that came up in the budget is public sector pensions. I'll simply say that you now have comparable current income between private sector and public sector employment. The difference is that a public sector employee gets an increment of about 30% of pay in the form of deferred wages, and that's an issue. The budget says that it's going to deal with it, but doesn't really say how. I'd be interested to know what exactly the plan is.

We have this 18% deferral right now in terms of how much income you can save today and defer. It is 18% of pay. So why don't we put everybody on the 18%-of-pay program for starters, and if you want to be fair, we'll split the 18% to 9% and 9%. We have to end up with an employment system for public sector workers that basically is 9% and 9%, which equals 18%. By the way, the taxpayer in the future can't bear any more risk in these programs. They have to be self-insured.

Here's my proposition. The richest plan of all in the country is actually the members of Parliament's pension plan. That's all of you. So why don't you think about starting by closing down your plan and going to a PRPP for MPs with a contribution rate that's split 9% and 9% between the employees and the employers? Lead the way.

●(0900)

The Chair: Thank you for your presentation.

Now we'll go to Dr. Sweetman for his opening remarks, please.

Dr. Arthur Sweetman: Thank you very much for inviting me. I appreciate the time.

While I'd be happy to answer questions regarding division 24 of the bill on old age security, division 43 on the EI Act, or division 54 on immigration and refugee protection, I'm going to speak initially on the OAS and EI components.

I have to say that like many of the previous speakers, I'm favourably disposed to policies that encourage Canadians to remain active in the labour market later in life, because that will increase labour force participation and national output—although some care needs to be taken to protect those workers who are unable to work.

It's clear that life expectancy has increased and is increasing. Since 1966, when CPP was started, life expectancy has increased by about 10 years for men, and eight years for women.

Although so far we've been focusing on the phased-in increase in OAS eligibility, it seems entirely possible to me that the voluntary deferral provisions might be at least as valuable, offering an extremely sensible policy as an incentive for a very large increase in years of labour force participation.

The weakness with the current proposal, as has been mentioned by some of the previous witnesses, is that the current reform does not fit into a comprehensive package. We need to be worried about how these various pieces of the system fit together.

We might want to push a little bit further and have an automatic system, more like the Swedes do, as opposed to the piecemeal, occasional system that we seem to have. In Sweden, there's automatic indexing of the age of retirement according to gains in life expectancy. This seems very sensible, although we might want to have some sharing rule whereby gains in life expectancy are partly allocated to increased years of work and partly allocated to increased years of retirement.

As a second point on OAS, I'd like to put a further nail into the coffin of the modern falsehood often heard in popular discussions that somehow senior workers need to retire to make way for younger workers. Economists have frequently called this the lump of labour fallacy, and have done so for many decades. There is not a lump or a fixed number of jobs in Canada, and it's not the case that if someone takes a job, someone else will lose one. In fact, there are frequently complementarities whereby all age groups benefit from the labour market success of particular age groups.

Relatively recently, some very high-quality work has been done comparing across 12 developed countries, and it's been summarized by two American economists at Harvard and MIT, and one Canadian economist at UBC. It persuasively concludes that there's no evidence supporting this idea that seniors are taking jobs from young workers. In fact, the evidence suggests that the alternative is true: Youth employment increases and youth unemployment decreases as older citizens remain employed. As well, survey work by Statistics Canada suggests that older workers appreciate and value employment.

Turning to EI, although not discussed as much, the recent changes to EI by the minister that seem quite valuable are the improved collection and dissemination of labour market information regarding job vacancies. If implemented well, this seems like an extremely important and potentially very valuable change. I would hope that all job seekers would have access to this new information system, and not only employment insurance claimants.

Turning to the suitable work provisions that the current legislation is striking out and replacing with regulations, I see the increased flexibility of regulations as advantageous. Although it goes beyond the text of the budget, I think it's worth thinking about the ramifications of the regulations that might follow from the changes to the budget, as announced recently by the minister of HRSDC. Although clarity in the regulations is useful, my sense is that the proposal is sometimes a bit too stringent for truly long-tenured workers. This partly follows from a very generous definition of long tenure.

In terms of the impact of the regulations, it seems entirely likely that many of the initial reactions in the media and by politicians to the minister's proposals might be off the mark. In particular, the high unemployment rate regions of eastern Canada might well not be the most affected by the suitable work changes.

● (0905)

As background, it's useful to distinguish between the impacts of the proposed new regulations for suitable work on individuals and the aggregate impact on regions of the country. It's also important to realize that for these new suitable employment regulations to have any impact, there have to be job openings.

At the level of the individual, it seems reasonable to believe that frequent claimants in low unemployment rate regions, especially in Alberta, will probably be the most strongly affected by the policy changes. There are a lot of job openings in Alberta and the EI claimants who are frequent claimants will be required to take them. However, there are relatively few EI claimants in Alberta, so the aggregate impact on the region is not likely to be particularly strong.

It seems reasonable to believe that the aggregate impacts will be felt most strongly in EI regions that are in the middle of the unemployment rate or spectrum that frequent EI users populate; that is, that the impacts will be strongest in regions that combine an appreciable number of EI claimants who are potentially most strongly affected and also regions that have an appreciable number of job openings for those workers.

It's undoubtedly true that these reforms will cause some short-term pain for some workers; however, in the long run, if it works, it should reduce unemployment and cause firms and workers to tailor their unemployment patterns less to the parameters of the EI system. This will beneficially increase productivity.

It's also worth noting that individuals need not remain in the first job they find after terminating EI benefits. In fact, the research in labour economics suggests that an employed search is not necessarily less productive and can sometimes be more productive than job search when one is unemployed. The key issue is that job search need not end when EI benefits do.

Looking forward, if Canadian society can find a way to reduce the deleterious EI incentive that subsidizes full-time work for part of the year only, we can then perhaps turn our attention to improving the system for those who are poorly served at present, especially long-tenured job losers and permanent part-time workers in low-income households.

Thank you very much for the invitation to speak today.

The Chair: Thank you for your presentation, Mr. Sweetman.

We'll start members' questions with Mr. Marston, please.

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

Given that I'm from Hamilton, Mr. Sweetman, I have to start with you.

There have been some very significant points made by presenters today, and I'm not going to engage you to any length other than to comment on your suggestion that we have to look at a comprehensive view of pension retirement security as a whole, rather than hiving off one part, or another PRPP or OAS. I just want to say that I agree with that comment.

I'm going to move on, though, to Mr. Ambachtsheer. I think I'm close in the pronunciation...?

Prof. Keith Ambachtsheer: Well, if you're not Dutch, you're doing as well as you can.

Voices: Oh, oh!

Mr. Wayne Marston: Well, my grandmother's name was Keirstead, so I have a problem there.

I appreciated your comments about the PRPP and the fact that it's not mandatory, because we've spoken about that many times in the House, cautioning that it devalues the whole goal of the PRPP when it's not mandatory—or at least the goal that's being talked about.

In the past I've been in conferences where you've spoken about the Canada pension plan and increasing that plan. I still think, sir, there's an opportunity for us to get something done on that. It may not be at the pace that we would like to see, but again, going back to Mr. Sweetman's commentary about how we have to look at this on a more holistic basis, would you agree with that, sir?

● (0910)

Prof. Keith Ambachtsheer: Absolutely, and in fact, that's one of the things I said, but obviously I didn't say it well.

I think we're all agreed that the best systems, such as the Swedish system, which Mr. Sweetman mentioned..... It's a smaller country, with six million people versus 33 million. It's also not a federation, and another one of our challenges is working within a federation.

But having said all of that, if we don't get the pieces together, it's like trying to design a car where not everybody works together to make sure it has fuel efficiency, etc. It's not going to work very well.

Mr. Wayne Marston: Coming from the labour side for many years, we hear the talk of best practices, and this is one of those areas where we should be looking around the world for the best practices and applying them.

I'd like to go to Mr. Nikias. You also well brought forward something that we have gone to many times. It's the fact that people who are on a disability pension at 65 will pay a penalty with this change, because in most cases they'll remain in that pension for two extra years at a much lower rate than with OAS and GIS combined. As well, you mentioned people who are on social assistance suffering the same thing.

We had a briefing on Bill C-38 and were told that in the full costing of the changes to the OAS, the social policy simulation database or other types of econometrics were not used. I'm really not directing that question to you so much as Mr. Wolfson, perhaps.

If you've worked for the civil service, Mr. Wolfson, have you ever seen the application of that database?

Dr. Michael Wolfson: Indeed, I've used it. I paid StatsCan \$600 a couple of months ago and ran my own analysis.

Mr. Wayne Marston: Can you imagine, sir, the government of the day not using that and not providing MPs with the outcomes from that process to allow us to do the due diligence necessary to look at these changes and give them proper consideration?

Dr. Michael Wolfson: I used to work in the tax policy branch of the Department of Finance, and when we were writing a budget, we would put in tables with exactly the kinds of numbers you're talking about.

Mr. Wayne Marston: Have you used the survey of labour and income dynamics as well?

Dr. Michael Wolfson: Not directly or recently.

Mr. Wayne Marston: Not directly, but would that be something that is normally taken into account when this type of work is done?

Dr. Michael Wolfson: Yes. It forms one of the foundations of the social policy model to which you just referred.

Mr. Wayne Marston: Again, to anyone who would like to respond, how can we possibly do due diligence in the area of EI reform and OAS changes so that we can know those kinds of impacts on Canadians without having those models put to use to give us the benefit of that information?

The Chair: Do you want to direct that, Mr. Marston? You have about one minute left.

Mr. Wayne Marston: Anybody who would like to take a shot at that would be fine.

The Chair: Who would like to answer that?

Prof. Keith Ambachtsheer: I would just add that it's not just research within the federal government. When you take academia into account, a great deal of research has been done on pension reform in Canada in the last three years.

Mr. Wayne Marston: That's exactly my point, sir.

Prof. Keith Ambachtsheer: The International Centre for Pension Management is based in Toronto. We see everything from around the world. We're not short on information and knowledge. It's about how we put the pieces together—or don't.

Mr. Wayne Marston: We have the option of using a lot of material out there, but it's not being used. We need that comprehensive view.

Thank you very much.

The Chair: Thank you, Mr. Marston.

We'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you all for appearing before us this morning, getting up early, flying in by plane. We've worked some long hours too, but I don't think any of us had to get up as early as you did, so we really appreciate that.

Mr. Zinatelli, I think we've met before at the industry committee. There was an issue at that time, and still today, that banks were offering financial products that functioned like life annuities. There are federal laws that prohibit that; however, there was some way of getting around it, and that was a real concern to you. One of the things we've learned, especially in the finance committee, is fortunately that one of the great things about this country is that we have strong financial institutions—banks, and life insurance companies. And they don't just service Canada, but they're throughout the world. So it's important that the companies you represent remain viable.

Why is it important to ensure the continued separation of banking and insurance in our economy? I want you to address it, because this budget does address that issue. Could you maybe tell the committee if we're on the right track, or if that is going to work for you?

● (0915)

Mr. Frank Zinatelli: Thank you for the question.

I think the budget and the subsequent bill address that in a very technical manner. I believe that if one were to look at the existing legislation, I would certainly interpret it as having established that separation, I believe, way back at the beginning of the universe in 1992, when there was a total reform of the financial sector, and when the legislation for the insurance industry was updated for the first time in 60 years. That was a major update. The separation was created at that time.

What I understand from the evidence the minister has given before one of the other committees is that there may have been products introduced in the market about which there may have been uncertainty in terms of where they fitted, and the government wanted to reinforce the separation that is in place.

As I said in my remarks, I see that as very much a technical amendment to reinforce the rules already in place.

Mr. Dave Van Kesteren: Good.

The other thing I wanted to talk about is that there was a bill—Mr. Marston will correct me if I'm wrong, but I think it was Bill C-393—that appeared before industry committee and dealt with private pensions. One of the heartbreaking things about pensions is that when a company collapses, as Mr. Nikias has pointed out, they can be eliminated, and those people can subsequently be left without a pension.

This bill addresses that too. That issue has surrounded companies like Nortel. Nortel, of course, is administered through the province.

I wonder if you could tell us why that is important. One of the things that came out in the testimony is that if we enact laws that put those claims ahead of the bank's notes, it's quite possible that very healthy companies would be challenged by the bank and could have to go into bankruptcy because they have that obligation to meet. So insuring these products spreads it around.

I wonder if you could just comment on why that's important and why that piece of legislation will be helpful for us.

Mr. Frank Zinatelli: Bill C-38 addresses very much a specific subset of that issue. It doesn't address the pension issue, for example, in terms of creating new priorities, etc. What it addresses is long-term disability benefits that are effectively being paid in situations where an employer self-insures, or determines that they will be able to make those payments to long-term recipients in the long run.

Of course, what can happen is that the employer unfortunately can go bankrupt. We have had three instances in the last three decades. One was Massey Combines in the late 1980s, I believe. You will recall there was the example of Eaton's, and most recently, Nortel. In all three cases there were individuals on LTD who found themselves with no income conceivably coming in.

I recall historically that in those first two situations there were some interventions, and ultimately, there was some income at least, but it does create a real problem that we don't want to see happening going forward.

Mr. Dave Van Kesteren: This bill does this.

Mr. Frank Zinatelli: It addresses this for private sector federal companies.

The Chair: Thank you, Mr. Van Kesteren.

Mr. McKay, please.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair, and thank you to the witnesses for getting up as early as we did.

I wanted to get a conversation going between Professor Wolfson and Mr. Ambachtsheer about your article. You've written several interesting articles, but I wanted to focus on the article in the *Toronto Star* that OAS savings could turn out to be costly. Your argument is essentially that the government will save "\$4 billion", but by the time you take out taxes, etc., you are down to \$3.5 billion, ignoring the effect on provincial revenues. What are poor people supposed to do? They are going to have to dip into their savings, or move in with relatives, or they either have to go on welfare, or the GIS program gets enhanced.

Have I summarized it correctly? Is this announcement much to do about nothing? By the time you shuffle all these chairs on the deck you're essentially, not only not saving anything, you're just creating a downloading effect either on the ability of poor seniors to look after themselves or on to provincial revenues.

• (0920)

Dr. Michael Wolfson: When I ran those simulations it was before the budget so I didn't know what the government was going to do with GIS. It hadn't been clear. I assumed the OAS eligibility would be raised from 65 to 67, but the GIS would be kept. I didn't think the government would want to cut incomes for the poorest of the seniors

in that particular age range, but in fact the bill does propose to do that. It changes the dollar amount of the savings.

There are clearly knock-on effects. If you have less income, there is less income tax paid, and there are less commodity taxes, sales taxes, GST, HST that are collected. There is a knock-on effect for the provinces to the extent that people go on social assistance to make up the difference, particularly if they have no other sources of income.

To reinforce comments of a couple of other folks, Arthur and Keith, it really is useful to look at this as a system, because there are these interacting aspects. The technical machinery exists to do it. I don't remember the numbers precisely since I only started at this last night again.

Hon. John McKay: I'm just reading the numbers.

Dr. Michael Wolfson: We are talking hundreds of millions of dollars moving around here.

Hon. John McKay: Do you essentially agree with his analysis?

Prof. Keith Ambachtsheer: I think there is the question of the absolute amount of taxes that you are willing to allocate to this area. Then there's a distribution effect of how you use that money.

The example that I used, if we want to be more frugal, if you like, from a fiscal sustainability point of view, we must focus more on specific groups that need the assistance more than others do.

I go back to my example of paying OAS to people that are in retirement making over \$100,000 a year.

Hon. John McKay: It makes no sense.

Prof. Keith Ambachtsheer: Yes.

Hon. John McKay: Putting what you now know into this article with the changes with GIS, is your analysis the same, in effect, that the net effect on the fiscal balances of both governments combined would be essentially nil?

Dr. Michael Wolfson: I think the federal government would be better off. The key phrase is that I put both governments together, because there are offsetting effects on the provinces. Plus, there are another 70,000 65-year-olds and 66-year-olds who would fall below the low-income line.

Hon. John McKay: So the feds are better off, and the provinces are worse off. What's that number?

Dr. Michael Wolfson: I confess that I don't remember.

Plus, the simulation assumed that the GIS would continue. It'll be a bit different, given that it wouldn't.

Hon. John McKay: It is helpful to know.

Have you thought about this, Mr. Ambachtsheer?

Prof. Keith Ambachtsheer: I haven't done the technical modelling, but if you do it at a high enough level, and you do it deductively.... I think the projection was that if you didn't do anything with respect to OAS, it would go from 2.5% of GDP to 3.3% of GDP. If you make these changes, obviously you're going to do less. The only point I'd make, again, is that moving the age is essential. I focus more on the fact that we need to have more people in the labour force 20 years from now because of what's happening to demographics. That's the way I look at it.

The question around fiscal sustainability is this math around how much we want to spend on these things and how we allocate to various groups.

The Chair: Okay, thank you.

Thank you very much, Mr. McKay.

We'll go to Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair.

I, too, would like to thank everyone for preparing such articulate presentations on such short notice. It has really been a good conversation.

It's interesting, of course, that many of the people my age, when we were in our twenties, thirties, and forties and entering the workforce, had no idea that OAS and GIS existed. They thought the Canada Pension Plan was going to be broke. Our whole perspective was that we had to take care of ourselves. So when I came to Parliament and learned what we do have out there, I was actually pleasantly surprised that we have a system that is relatively supportive in Canada.

We've talked about a lot of countries having made this change already. Of course, we have until 2023 in terms of how the details ultimately work out. I know that the minister has indicated that it's not going to be to the detriment of the provinces in terms of their fiscal situation. We've brought up the issue of people with disabilities and people in some difficult circumstances, and it might be 61 and it might be 62 and it might be 65.

Can anyone speak internationally to what other countries did with this transition?

● (0925)

Prof. Keith Ambachtsheer: The most interesting example may be Sweden. They really took their whole system apart about 10 years ago and kind of put it back together based on what they saw going forward. They call it a notional DC system—defined contribution system—which basically means that everybody in the country puts in 16% of pay. It may be split between employers and employees, but the total is 16% of pay. Fourteen per cent of that goes to a redistribution system and goes out as pensions, and the other 2% goes into individual retirement savings accounts. That's the broad system.

The question then becomes what 14% of pay going into the pool will buy you. They have a forward-looking system that actually looks at forward demographics and asks how much they can pay out if they want to be equal between this generation and future generations. They will recalculate on that basis, and the amount of

pensions that come out of that system can go up or down as the demographics change.

They also integrate the longevity question, which is that if people are going to live longer, and we still put in 14% of pay, then the pension has to be less, or you have to save more on your own.

That's a very broad design in which everybody understands the system and how it works. We have a much more complicated system. We have many more moving parts.

Mrs. Cathy McLeod: We've talked about some countries going from 65 to 70 or from 65 to 67. Did they have any specific strategies if someone was really experiencing challenges with the transition? Were they different strategies, or really, did that piece remain the same?

Prof. Keith Ambachtsheer: What I like about the OAS change, and Arthur Sweetman mentioned the point, is the ability to choose when you start taking it. And it is actuarially fair. If you wait three or four years, the amount is adjusted for the reality that you waited three or four years to take it. I think one of the design elements we need in the system is to give people more choice and more options as to how they retire, when they retire, and whether there is a gradual phase-in of retirement. These all need to be part of what we think of as a holistic solution.

Mrs. Cathy McLeod: Mr. Nikias, I note that you positively received the idea of the creation of the expert panel to support the labour market inclusion of people with disabilities.

When you talked about a federal labour market strategy, were you talking about a bigger piece, or would this be one part of it?

Mr. Vangelis Nikias: Certainly that will be part of it. One specific idea I think you could recommend, which would help people with disabilities—I know we have called for it in the past—is to make the federal public service a model employer for people with disabilities. That would have a beneficial impact on people with disabilities, and I would suggest on the federal public service as a whole.

That would be a component of a broader labour market strategy.

Mrs. Cathy McLeod: Thank you.

The Chair: Thank you, Ms. McLeod.

Monsieur Caron, s'il vous plaît.

[Translation]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): My question is for Mr. Sweetman. Like my neighbour here, I agree with your vision on retirement and the economic security of citizens. I also agree with Mr. Ambachtsheer who says that we really need to have an overall vision of the whole system, and economic security after 65 or 67, rather than looking at this clause by clause or point by point.

Mr. Sweetman, my questions are about employment insurance. I agree with you, Mr. Jean, and some of my Conservative colleagues: in some parts of Canada, there is a labour shortage. You would have to be blind not to see that, in fact. I also see that Canada does not have a single economy; rather, it is a mosaic of regional economies. The reality in Alberta, particularly in Fort McMurray, is not necessarily the same as in my riding in eastern Quebec or in the Atlantic provinces. You mentioned that the impact of changes to employment insurance would be felt more in Alberta, where there is a labour shortage, than in the Atlantic provinces where many seasonal workers live.

I'll give you an example. In my riding, there are still a lot of seasonal jobs, even though there is greater economic diversification. An employer I know, a cabinet-maker in my riding, has to lay off her specialized staff two to three months per year. She runs the risk of seeing these people leave—and that is in fact what happens on occasion—because they can't find a permanent job. In order to stay, they need to be able to supplement their work income with the employment insurance benefits. What this reform means to that cabinet-maker is that to be able to keep the skilled workers she has trained, she may have to hire them and pay them to do nothing to ensure that she does not lose them. These are skilled workers who were specifically trained in and for her business.

Can you comment on that situation, and also on the fact that other regions in Canada may have a different economic reality than the one you probably studied in large urban centres?

• (0930)

[English]

Dr. Arthur Sweetman: Thank you very much for the question.

I'd like to clarify one point before responding. That is, when I talked about Alberta, my projection is that individual workers in Alberta who are frequent claimants will be much more strongly impacted than workers in other regions, especially other regions with high unemployment rates. That's different from talking about whether the region will be very impacted by the policy change. I don't think Alberta will be much impacted.

There will be a small number of workers in Alberta who will be extremely impacted. The regions that will be most impacted are regions with a lot of workers who are frequent claimants and therefore most subject to the policy, and a region that has jobs available for those workers.

I agree with you entirely that Canada has a broad diversity of economic circumstances and a large number of regional economies. It's not clear that the EI system right now functions very well in any of those regions. If you think about the EI system, it encourages, in fact it subsidizes, part-year but full-time work. I think this is particularly detrimental.

There was a recent study—in my mind, a very good, high-quality study—comparing northern Maine and southern New Brunswick over an extremely long period of time. The U.S. introduced its unemployment insurance system first, in the 1930s. Canada then built its unemployment insurance next, and after that, the EI system became more generous. You can see workers over long periods of time, and you can see firms in particular, over long periods of time,

tailoring their behaviour to the parameters of the EI system. You see a massive increase in part-year, full-time work.

I view this as very detrimental to the Canadian economy. If you look at some other countries, Scandinavian countries, that have weather and climate very similar to us, you don't see this. You don't see construction, for example, as a seasonal industry. It's not a seasonal industry. But in Canada, the EI system encourages it to become a seasonal industry.

I think the more we can redesign our EI system so that it does not subsidize, support, and in fact encourage seasonal work, and the more it encourages people to work all year round and encourages employers to have year-round jobs, the better we'll be.

This will be a painful thing for many workers to change, because we've built up this system that functions the way it does over a long period of time. Workers and firms have become very used to it. But for the very long term, it is problematic.

The Chair: Thank you.

We'll go to Ms. Glover, please.

• (0935)

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair.

Welcome to all the witnesses.

Mr. Wolfson, there's something about you that I really like. I think it's the fact that you're a blunt person. I'm a blunt person, too. In our little exchange before the session, I wanted to make sure I encapsulated what you think about the OAS.

From what I learned—correct me, if I'm wrong—you believe in raising the OAS, but you believe it should be done over a longer period of time. Yes, or no?

Dr. Michael Wolfson: Yes, plus. It should be done over a longer period of time, and it should be done in concert with a fundamental review, not as a piecemeal stovepipe kind of policy.

Mrs. Shelly Glover: I hear you. We have said we're not going to start any changes to this process until 2023, which gives time for people to adjust their behaviours and so forth. We're going to also be evaluating it as we go along. That's what governments do. We evaluate and adapt as we need to. I can assure you that we intend to continue to monitor this.

You also said that in 1979 this was on the radar. Are you saying we should have started this a long time ago? Should we have raised the age of OAS a long time ago?

Dr. Michael Wolfson: Yes.

Mrs. Shelly Glover: Okay. Thank you.

Dr. Michael Wolfson: OAS, plus other things, like CPP. Think about the tax system, age exemption—

Mrs. Shelly Glover: When you talked about CPP, oddly enough you mentioned some comments made by the Prime Minister with regard to CPP being funded. It's different from OAS, isn't it, Mr. Wolfson? It has its own pool of revenue assigned to it, where OAS does not. It comes out of general revenues, correct?

Dr. Michael Wolfson: Correct, but both involve intergenerational transfers.

Mrs. Shelly Glover: Yes, and you've already said that. But the fact remains that it has its own pool of revenue and it is actuarially sound for at least 75 years.

It's an investment fund, so it's very different. When we say it's fully funded, it's because it is actuarially sound. An interpretation of the words is what I'm suggesting. I just want to make sure we clarify it so that you understand exactly what's meant by the term that was used.

Mr. Nikias, you had some questions about CPP. I want to take advantage of this opportunity to share the answer with you.

I have only five minutes, and it will be quicker for me to read what's been said about it than to improvise. So if you'll allow me, I'll read it. How will the CPP and other federal programs be affected by the age of eligibility increase?

The Government will ensure that certain federal programs, including programs provided by Veterans Affairs Canada and Aboriginal Affairs and Northern Development Canada that currently provide income support benefits until age 65, are aligned with changes to the OAS program. Without such an alignment, individuals receiving benefits from these programs would stop receiving them at age 65 and face an income gap until age 67 when they become eligible for the OAS pension and the GIS.

Which is what you said, Mr. Nikias.

...alignment will ensure that these individuals do not face a gap in income at ages 65 and 66. The Government will also discuss the impact of the changes to the OAS program on [CPP] disability and survivor benefits with provinces and territories, who are joint stewards of the CPP, in the course of the next triennial review.

The reason I tell you this is that I want to reassure you that the work isn't finished, but we do have partners in this, the provinces and the territories.

I do want to ask you about proactive enrolment, though, and how that might help our disabled folks. Do you see the proactive enrolment into OAS as a good measure for our disabled Canadians?

Mr. Vangelis Nikias: The proactive enrolment into OAS?

Mrs. Shelly Glover: Yes. Instead of having to apply, which is right now the way you can get access to both OAS and GIS, the government has put proactive enrolment in this bill so that those seniors who can be identified easily by looking at other measures will automatically be enrolled as opposed to them having to apply.

Mr. Vangelis Nikias: Of course.

Mrs. Shelly Glover: It's a good measure?

Mr. Vangelis Nikias: Yes, of course. I do want to clarify, though.

Mrs. Shelly Glover: Sure.

Mr. Vangelis Nikias: Thank you for the opportunity.

One of the points we made, and I want to reiterate, is that people with disabilities—especially women with disabilities and aboriginal people with disabilities—because of lower labour market attachment rely on social assistance.

I applaud the philosophy of looking at these issues and aligning the changes to the OAS, but we have to also think about the impact

on people who receive social assistance and who may have to receive social assistance, if we don't take adequate compensatory measures until the age of 67.

Mrs. Shelly Glover: Yes, and the Government of Canada will be compensating the provinces for that. That's also in the bill.

Mr. Ambachtsheer, do you agree with proactive enrolment?

• (0940)

Prof. Keith Ambachtsheer: Inertia is a fundamental human trait. Therefore, if people have to do something actively to make something happen, x% won't do it.

So if you flip that around.... I had mentioned auto-enrolment earlier in terms of PRPPs as being essential to making that program work.

Mrs. Shelly Glover: Absolutely, and that's in the PRPP plan.

Prof. Keith Ambachtsheer: No, it's not.

Mrs. Shelly Glover: Well, for those who take it, they're automatically enrolled. They have to opt out.

Prof. Keith Ambachtsheer: No, the employer has to enrol the employees into the plan. That means...you know, that's automatic enrolment that has force. If you leave it voluntary for employers as to whether they sign up for this or not, you're going to leave a large gap of workers out of the game.

Mrs. Shelly Glover: Yes. I hear you.

The Chair: Thank you.

We'll go to Ms. Nash, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you very much.

I have so many questions, but I'll start with you, Mr. Nikias, and just pick up on your point about what happens to low-income people, especially people with disabilities, because of the OAS change.

I know that in my community, people who are on Ontario disability benefits are really living with a lot of hardship—many people with disabilities at the bottom end of the income scale.

I'm noting that Canada as a whole doesn't have the aging problem that many other OECD countries have. Obviously Canadians demographically are getting older, but not as rapidly as some other countries.

The concern I want to raise, just to pick up on something you said, is that between 2006 and 2009, about 128,000 more seniors became low-income. About 70% of those were women. For many of these women, the combination of OAS and GIS is the key factor for them in preventing poverty. Obviously many of these people are people with disabilities.

I'd just like to ask you what you think waiting an extra two years for OAS and GIS could mean for these low-income Canadians, especially people with disabilities.

Mr. Vangelis Nikias: Continuing on for two more years at existing social assistance rates—except Alberta's, as I said, so I mean those in other provincial systems—means two years of poverty, which people avoid or get out of by receiving OAS and GIS at the age of 65. Raising the OAS age of eligibility to 67, which means continuing on social assistance, means two more years of poverty. That is not a good policy option for Canada.

I mentioned earlier our ratification of the UN convention. I said we have agreed that we are going to improve the living standards of persons with disabilities, including through retirement benefits. I hope I have answered your question.

I applaud the idea of compensating provinces for the continuation of social assistance, but that still leaves two years of poverty for people who will be on social assistance for two more years.

Ms. Peggy Nash: Thank you.

Canada, of course, spends a significantly smaller portion of its GDP on public pensions than do OECD countries on average, and as I said, Canada's population is younger than that of most other OECD countries.

I don't have time to ask you about it, but I also note that, given that another change in this budget implementation act will take away the requirement for proactive employment equity measures for federal contractors, there will no longer be a requirement of private contractors to the federal government to hire people with disabilities in proportion to their representation in the general population. That's another step backwards.

I do want to get time to ask Mr. Zinatelli about his support for the proposal around insuring long-term disability benefits. There were some very moving public statements by former Nortel employees who were cut off and who suffered great hardship through that catastrophe. I met someone in my riding just a couple of weeks ago, a very senior scientist for Nortel, who had lost 40% of his pension because of the Nortel bankruptcy. He still found it unbelievable that such a successful company could end up in that nosedive.

I just want to get your thoughts about pensions.

● (0945)

The Chair: Be very brief.

Ms. Peggy Nash: Is there any kind of insurance you've been thinking of around private pension plans?

The Chair: Be very brief, Mr. Zinatelli. We're over time.

Mr. Frank Zinatelli: That is certainly another very important question that will have to be discussed and that has been discussed to a great degree. I believe this LTD initiative we have started is very positive. We are hoping that the provinces will also come on board with similar initiatives to address employers that operate under those jurisdictions.

The Chair: Thank you.

Ms. Leitch, go ahead, please.

Ms. Kellie Leitch (Simcoe—Grey, CPC): Thank you very much. I want to thank everyone for their presentations today.

Actually, my first question is directed to Mr. Nikias.

Thank you very much for being here today.

In my previous life, I spent most of my time dealing with families with children who had cerebral palsy. I'm a pediatric orthopedic surgeon from Bloorview, so I can appreciate your comments about families who have children with disabilities and their needs for the future.

I'd like to get your comments on one of the particular initiatives that's outlined in this budget, the RDSP. We have received a significant amount of feedback. I have to say, I actually received a lot of feedback in my clinics, when I was still practising, about the RDSP and the need for flexibility and changes within that program.

Could you comment on this measure, on the need for the provinces to work together in order to bring this measure forward, and on the necessity of it for families, and give us your thoughts with regard to the RDSP?

Mr. Vangelis Nikias: I can say without any reservation that the initiative, the RDSP, has been positive. It helps Canadians with disabilities and their families to plan for the future. Obviously—and this is a long-standing approach by the Council of Canadians with Disabilities and others—if we are going to make progress in the disability area generally and with respect to this program in particular, it is important to have very good collaboration among the various levels of government.

In terms of the program itself, we have been very positive. We consider it a very positive development.

Ms. Kellie Leitch: The second question I have for you is focused on what you raised as labour market attachment.

I have met many families whose older adolescent children are looking to be attached to the workforce and are looking for a means to do that. This budget moves forward with increased funds in the opportunities fund for persons with disabilities, particularly the expert panel as well. Could you give us some best practices that you know of so that we can move forward with that initiative?

You have commented on older individuals with disabilities being in poverty. One of the ways to obviate that is for younger people with disabilities to be incorporated and attached to the workforce. That's the initiative we're moving forward on, to make sure they have opportunities just like every other young Canadian.

Could you give me your comments with respect to our expert panel? Do you agree that was a good initiative? Also, do you agree that an increase in funding of \$30 million for the opportunities fund for persons with disabilities to increase labour market attachment was a positive move for people with disabilities?

Mr. Vangelis Nikias: The opportunities fund is a positive program. The new \$10 million that the government has allocated is a positive initiative and we applaud that.

The panel that the ministers are putting together is a good way of exploring good practices. It's a good way of bringing together people with disabilities. That's why we are offering to help with the functioning of the panel in its work, and also to bring together private sector employers and come up with best practices and a plan for a labour market strategy.

All these things I think are very important and positive developments.

Ms. Kellie Leitch: Thank you very much, sir. I really appreciate that. We look forward to getting your comments and your input on that, because obviously your organization and many others across the country are extremely important for moving forward with that.

My next question is for Dr. Sweetman. I'll be very quick. You commented with respect to the EI program and getting people back to work and the increase in the development of more resources for individuals to be able to attach themselves to the labour market, because they may be out of work because of some temporary issue for themselves and we want to get them reattached.

Could you elaborate a bit more on what portions of these changes you see are key with respect to the impact they will have on specific regions in the country?

• (0950)

Dr. Arthur Sweetman: I think what you're referring to is the labour market information changes that the Minister of HRSDC announced recently. I view these as very positive. It's about the federal government systematically collecting information about job opportunities and disseminating it to Canadians in a very timely, in fact, a very forceful way.

One of the big problems for many job seekers is identifying job opportunities. The search process itself is difficult. Anything government can do to increase the efficiency of the search process has the potential to be very beneficial. I am very keen on this. I think if it's executed well, it has the potential to be a very beneficial program. I hope they extend it not just to EI recipients but to all job seekers in Canada. If we can help people know more about jobs that are available locally, that would be very beneficial.

In particular, one of the things—

The Chair: Thank you. I'm sorry, but we are over time. We can come back if there's more time at the end.

Monsieur Mai, s'il vous plaît.

[Translation]

Mr. Hoang Mai (Brossard—La Prairie, NDP): Thank you, Mr. Chair.

[English]

Mr. Nikias, yesterday and the day before, we heard from Canada Without Poverty and Campaign 2000. They came before us and asked the government to work in terms of trying to tackle poverty. They said that in this budget there's nothing that really does tackle poverty.

Even in your case, I think you mentioned that one of the unintended consequences of this bill is that people with disabilities will live in poverty longer. What are the consequences of disabled people living in poverty longer?

Mr. Vangelis Nikias: What are the consequences? Where do I start? Perhaps their food budget is affected negatively. Their health is affected negatively. Shelter is affected negatively. I hate to be sensational, but living two more years in poverty for people who are

already poor is basically a prolongation of social misery. Why should we in Canada, even by mistake, do something like that?

Mr. Hoang Mai: You also mentioned that, obviously, when we're talking about people who are affected by GIS—and with disabilities and you also mentioned aboriginal people—we're really talking about people who definitely do need the help, and in this case the government is not doing its job in protecting those people. Am I correct?

Mr. Vangelis Nikias: Our approach, as the Council of Canadians with Disabilities, is that we want to raise these issues, to work with the government and parliamentarians to address problems as they arise.

Mr. Hoang Mai: Thank you very much.

Mr. Wolfson, you've worked with Statistics Canada, Treasury Board, the Department of Finance. When we were asked to look at this bill and when we had the officials come here, we asked for more information regarding OAS, for instance, how much it would cost. We never received a clear answer from the officials. It was only after, and through the media, that we received some of the information.

Can you comment a bit in terms of how much information we get here now in terms of the bill or in terms of the budget? Is it normal? Is it sufficient for us to make clear decisions?

Dr. Michael Wolfson: I can't comment on its normalcy because it's been over 20 to 25 years since I was involved in the policy departments, but my impression is that there is a tremendous capacity in this country and in the Government of Canada—at least until I was there—to produce sophisticated policy analysis. In my own experience, for example, when I worked with this parliamentary committee in the early 1980s we could call on Health and Welfare—as it was called then—or the Department of Finance, to produce detailed numbers and the parliamentary committee routinely asked for them and got them. My impression is that continued for many years, but I have no idea what you guys are getting now. My impression is, not as much. It's disappointing.

• (0955)

Mr. Hoang Mai: It is disappointing. We had the Parliamentary Budget Officer saying that we have an unacceptable lack of transparency. He's also saying that we cannot make decisions regarding the information or the lack of information that we have right now. When we talk about OAS, for instance, and we talk about the modelling, there are a lot of questions that were asked for which we didn't get answers from the officials. Also, if you look at the budget, it's not as clear in terms of all the impacts, especially the economic impact, from that budget. So we don't have all the information that we should have as parliamentarians who have to make decisions regarding the implications of the policies. For instance, when we talk about people with disabilities, we have now learned that those impacts will be there.

Just very briefly, how much compensation do you think that the provincial governments will receive according to this budget, with all of the implications?

Dr. Michael Wolfson: The short answer is that I don't know because it's a projection.

But just back on the business about information, I'm afraid, folks, that the government is behaving in a way that seems to imply that it doesn't care as much about evidence. It knows what it wants to do.

The Chair: Thank you.

Mr. Albas, please.

Mr. Dan Albas (Okanagan—Coquihalla, CPC): Thank you, Mr. Chair, and I appreciate the witnesses being here today. This is a very important topic to me. I'd actually like to discuss something that so far I haven't heard a lot of discussion about today, so I'm going to be directing my questions, Mr. Chair, to Mr. Sweetman.

There's been a lot discussion in this country on the need for introducing long overdue reforms to the immigration system, which we all know faces significant challenges. Researchers, commentators and—obviously here—elected officials, in particular, have noted the need to make admissions and decisions more quickly and that improving economic outcomes for new immigrants will be better for prospective immigrants and for Canada. I should say that this, Mr. Chair, is exactly what the government is striving to do. I'd like to ask Mr. Sweetman if he can explain to the committee the benefits of a more responsive, flexible, and economically focused immigration system.

Dr. Arthur Sweetman: Clearly, our immigration system is in need of reform and the minister has announced an amazingly large and detailed series of reforms over the past couple of months, most of which are not part of this budget. The elements that are in this budget are primarily to give the minister more responsibility to be able to make ministerial instructions—that is to make short-term changes—and also to affect the queue of people applying to Canada, the so-called inventory or backlog. Reducing the inventory or backlog is really very important since it increases the flexibility for the system to make it responsive, which has great advantages for Canada if you're going to be filling niches, if you're looking for people who are complements to current Canadians in production.

Someone, though, is going to have to bear some pain associated with that policy. At the moment, what the budget seems to be doing is putting a large percentage of that pain not onto the Canadian population, but onto the people who are in the queue waiting to apply to become Canadians. There is definitely a need for reform, and there's going to be some pain associated with that reform. One of the questions that this budget is dealing with is: who's bearing that pain?

Mr. Dan Albas: Thank you. I appreciate hearing that.

Switching to a different subject. Two economists from Hamilton's McMaster University—Byron Spencer and Frank Denton—released a report earlier this year, and they argued quite convincingly that the eligibility age for senior's benefits should be raised, because of longer lifespans and a crunch in public money. According to their statistical predictions, by 2035 there will be two workers for every one person over the age of 65. Today, the ratio is more four to one.

Do you agree with your McMaster colleagues about the inevitable consequence of an aging population, for example, reforming social programs, and how would modifications to old age security in today's act help address some of these long-term challenges facing Ottawa and our ability to pay?

Dr. Arthur Sweetman: I am 100% in accord with my colleagues in their projections. I think they are simple numbers; it's a question of what we do in response. I think that the elements in this budget are a good first step, but they're not a comprehensive response.

One of the things we might want to think about, which hasn't been discussed so far, is the need to give Canadians incentives to stay in the labour market longer. If we think about 1976, 66% of Canadian males between 60 and 64 were part of the labour force. That declined until 1996 when it was 44%, and it subsequently bounced back to 58%. We need to remove barriers and add positive incentives, to help Canadians who are in that age range stay in the labour market longer.

Earlier we talked about support for people who are not working. What we need is encouragement so people will work. I think some of the elements of this budget move in that direction, even if they're not comprehensive yet.

• (1000)

Mr. Dan Albas: Thank you.

Just with regard to that, programs like ThirdQuarter are being offered to try to encourage more people to get back into the labour force as they come to the third quarter of their lives, but earlier we also mentioned the deferral program for old age security.

In my riding of Okanagan—Coquihalla, we have quite a high number of seniors in proportion to other age groups, and a lot of people enjoy the flexibility of this particular measure.

What other programs would you suggest we look at to incentivize people to stay in the workforce longer?

The Chair: Just a brief response, Dr. Sweetman, please.

Dr. Arthur Sweetman: I think we want to think about the whole package: RRSPs, CPPs, the whole range of government public policies. I think that the voluntary deferral provisions in the budget are extremely good, and we want to think about that type of thing writ large across the retirement system.

The Chair: Thank you.

First, I want to thank our witnesses and ask if they can stay another 10 minutes.

Colleagues, I have another couple of rounds. I know some of you have House duty. I will not be entertaining any motions, so if you do have to get to the House, please feel free to do so.

I'll go now to Mr. Jean, please.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

I have some questions for Mr. Nikias. I introduced myself to him earlier, and I've found his testimony very interesting.

Some of the information I discovered was that in Europe approximately 15% of people are disabled; Greece has a proportion of over 10%. When I started to break down the statistics, I discovered it's about 15% in Canada, but of that, 56% of people over 75 are disabled, and 33% of people between 65 and 74 are disabled. So it appears to me that a large proportion of Canada's population of the disabled are elderly. So the more we can do for the elderly in this country, such as some of the things we have done—income splitting and things like that—seems to indicate from my perspective that it would be better to remove more people from the category of disabled, or at least to help them with their daily lives. Would that be fair?

Mr. Vangelis Nikias: First, let me congratulate you on giving me your Braille card, it's highly appreciated.

The question of defining disability is a very complex one. I think what is important to understand is that, with the aging of the population, impairments are increased, but that is linked very closely to the question of barriers people face—and that is a question of disability.

So impairments with environmental problems are leading to disability. So what we can do in Canada is by improving our disability support systems, by improving accessibility, by all those things, while we have higher rates of impairment, we can maintain or reduce our levels of barriers, in other words, disability. So the question I think you raised is, should we support seniors with disabilities? The answer, of course, is absolutely, yes.

Mr. Brian Jean: Thank you. I think you're right. Removing those barriers—communication, such as business cards, things like that—help to bring these communities together with people who don't have disabilities.

Mr. Sweetman, I was very interested in your testimony. I'm from Fort McMurray. I know Mr. Caron, who asked you questions earlier, was talking about seasonal workers. I want to let you know that I have 50,000 to 60,000 people, from all over the country, currently living in work camps in Fort McMurray. They're three weeks in, and they usually get one week off.

Is this something the government can concentrate on, the mobility of workers from one part of the country to another, to help seasonal workers, wherever they may be, find employment during the off-season?

• (1005)

Dr. Arthur Sweetman: Certainly mobility assistance for seasonal work could be very valuable.

If we look at the employment rates in Alberta, it is the one jurisdiction in Canada that basically has no seasonality anymore. It used to, 20 years ago, but it doesn't anymore. Whereas, in other parts of Canada seasonality has increased quite substantially.

Anything we can do to avoid part-year seasonal work and encourage people to be productive all year round is beneficial.

Mr. Brian Jean: Absolutely.

I don't know if you've had an opportunity to see the *National Post* this morning, but Windsor has a Tim Hortons in a hospital. Did you see that article?

Dr. Arthur Sweetman: No, I'm sorry. I didn't.

Mr. Brian Jean: I didn't know it was possible for Tim Hortons to lose money, but they have a Tim Hortons business in a hospital that has to pay rates of \$26 an hour, instead of the usual \$10 an hour that other Tim Hortons pay their staff. As a result, taxpayers are on the hook for \$265,000 in losses per year.

I had a similar situation. I had a Quiznos in Fort McMurray, the busiest Quiznos in North America for a period of time. I had to pay \$25 an hour, and I couldn't change the retail prices at that time.

Can you comment on that, as far as what's happening in the rest of the country—the artificial, inflated employment wages that aren't competitive?

Dr. Arthur Sweetman: I'm not sure how artificially inflated those wages are in all regions of the country. In Alberta, you're in the middle of a boom, and in booms, wages go up. I don't think that's artificial inflation; that's economics at work.

In other parts of the country—

Mr. Brian Jean: In Windsor, it's a union issue. They can't employ anybody in the hospital who is not union. They have to pay \$26 an hour, which is obviously a non-competitive rate.

Dr. Arthur Sweetman: I can't speak to that. I haven't read that article.

The Chair: Thank you.

I realize we're going past the time, but as the chair, I want to take advantage of the panel we have here. I do have a few questions.

A number of you have raised the issue of the need for a comprehensive approach to changes to retirement income, or income security.

Mr. Wolfson, you raised the issue of RRSPs. Perhaps I'll address my questions to Mr. Wolfson, Mr. Ambachtsheer, and Mr. Sweetman.

In terms of RRSPs and RRIFs, one of the other witnesses said we should look at the RRIF conversion rate, or the mandatory withdrawals for RRIFs. Is that what you're pointing to when you mention RRSPs?

Dr. Michael Wolfson: No, I wasn't thinking of that specifically. In fact, I invented the RRIF, in 1980, and I can tell you the story, if you want, about why I did that.

The kind of cacophony that one sees, where you have to mature your RRSP by age 71; CPP, you can claim at 65, plus or minus five years; OAS, in the fullness of time, you will start at 67, plus perhaps up to 72, but not below 67.... These things are uncoordinated.

The Chair: But should you have the same age for all of them?

Dr. Michael Wolfson: There should be flexibility. I agree with Keith on that.

We can think of a band, whether it's from 60 to 70, or 62 to 72, or eventually higher than that; that's fine with me. But we should be thinking of a band and coordination and integration.

Employers have plans that already have ages in them for workplace pensions.

The Chair: Mr. Ambachtsheer or Mr. Sweetman, do you want to comment briefly on that, the coordination between...?

Prof. Keith Ambachtsheer: I'll bring up a somewhat different issue. You have something like \$300 billion or \$400 billion of RRSP money in retail mutual funds. Those are currently being charged 2% plus, in terms of fees. In a low-return environment, it doesn't work.

To me, a lot of these technical things are interesting and important, but I believe we have a fundamental market failure, in the sense that we have this retirement income system—a large part of it is RRSP-driven—and people are not going to get any kind of return on their contributions in the current retail mutual fund environment.

That's one of the big things we could be doing through PRPPs, but as I say, I don't see it coming yet.

The Chair: Okay.

Mr. Sweetman, do you want to comment on that in terms of coordination between RRSPs, RIFFs, and the OAS changes?

• (1010)

Dr. Arthur Sweetman: I think that definitely the ages need not be the same, but they should be coordinated across those various public policy elements, and they probably shouldn't be fixed over time. As Canadians age—or at least as life expectancies increase—those fixed years should be adjusting accordingly.

The Chair: One witness actually said with respect to OAS that you don't fix the ages, but you actually adjust it as life expectancy changes. Is that what you would recommend?

Dr. Arthur Sweetman: Well, that's what Sweden did, and it's certainly something that we should be looking at very seriously for Canada.

The Chair: As well, I have a question for the three of you with respect to simplification and coordination. Maybe I'll start with Mr. Ambachtsheer.

In terms of GIS and OAS, is there a reason to have the two separate, or should the government actually look at, say, combining the two and means-testing it so that you'd cover low income? Is that a simpler way of doing it?

Prof. Keith Ambachtsheer: I think simplification is important. To the degree that we are now already means-testing OAS and GIS, but very differently, why would we not rethink it as to what we are trying to do with this piece of public pension support? Why don't we rethink who we're targeting and what's the best way to do it? That's what I would like to see happen.

The Chair: Okay.

Mr. Wolfson.

Dr. Michael Wolfson: I agree. I actually simulated some options like that, where I'm saying, look, if we're going to have a guarantee, why have a 50% effective tax rate on the first \$6,000 or more, which, with the provincial top-up, claws back a large part of what the private sector is doing with workplace pensions, and then have a zero effective marginal tax rate? Then the income tax kicks in and then the clawback kicks in. It's a dog's breakfast.

Prof. Keith Ambachtsheer: Then add the TFSA—

Dr. Michael Wolfson: Yes.

Prof. Keith Ambachtsheer: —which create another level of complication, in the sense that you pay the tax up front and you don't pay the tax later, and the income from that is not related to whether you get GIS or not. So it's hugely complex—all these pieces....

The Chair: But on the TFSA, how do you...? I mean, I love the TFSA, frankly, and I'll just be very candid about that. So how do you actually coordinate that better with the system, then?

Prof. Keith Ambachtsheer: Well, right now if you have this piece that you can take a low tax rate on today, not pay taxes on later, and have it not impact the eligibility for OAS and GIS—

The Chair: Okay—

Prof. Keith Ambachtsheer: —clearly it makes a lot of sense for most people to go the TFSA route. Now, if you create a PRPP system that doesn't allow you to go into TFSA's.... It's complex, right? Or should we in fact allow the PRPP system to use the TFSA instrument, if you like it so much?

The Chair: I guess the other thing that all of you would say.... I'm running out of time here, but if a person stays in the labour force—which many of you have mentioned as one of the reasons for changes to OAS—and earns some income, we should obviously not be clawing back so that there's no benefit to them staying in the workforce. I assume the three of you would agree with that.

Dr. Michael Wolfson: Well, you can't get away from some clawback. There's going to be an effective marginal tax rate somewhere in the system.

The Chair: Yes.

Dr. Michael Wolfson: But what I would really feel much happier about would be if somebody were actually looking at it comprehensively as a system and doing the analysis. The tools exist to do that. One way or another, there's going to be an effective tax rate, whether it's a GIS reduction, or an OAS clawback, or the actual formal income tax rate.

The Chair: The last word on this goes to you, Mr. Sweetman. Do you have any further comments on that?

Dr. Arthur Sweetman: I would agree with what everyone has said, with one caveat. There's a trade-off with simplification. Simplification is good on its own, but a slightly more complex system allows you to target very carefully. So if there's something worth targeting, and if we really want to target, then the complexity might be worthwhile. The problem, of course, is that this is a two-hour question and a 30-second response.

The Chair: Yes, and I appreciate that, but I did want to take advantage of having the witnesses here and ask a few questions. I'm a person who loves information, so if any of you have anything further for the committee to look at.... I know that we did look at this issue in the last Parliament—I don't think as extensively, perhaps, as we should have in terms of our own committee—but if any of you have anything further for us to consider, please do submit it. I will submit it to all members.

I want to thank all of you for being with us today.

Mr. Sweetman, thank you for joining us from Hamilton.

It was a very good discussion.

Thank you, colleagues. We'll see you on Monday.

The meeting is adjourned.

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