

Government Annuities Act

were two, one decreasing the interest rate from 4 to 3 per cent and the other changing the actuarial basis by adopting a new mortality table. This author points out on pages 15 and 16 of the brief:

(b) The greatest volume of government annuities business is now concerned with the underwriting of group retirement plans where all employees, in poor and good health, are included, and where average life expectancies are much lower than among a group of individuals, each of whom has purchased an annuity because he has reason to believe that he will live long enough to at least see a return of his premiums.

The new mortality rates are based on a longer life expectancy. In view of the fact that life expectancy is increasing it seems plausible to adopt rates that recognize that fact, but it is one thing to adopt such rates when you are dealing with individual cases where each person is in a somewhat preferred class and another thing when you are dealing with a group of employees, some of whom are healthy and some of whom are not so healthy but who are all mixed in together. William M. Mercer Limited, I may say, has made a most exhaustive study of annuities, both public and private.

As we pointed out in 1948, we were deeply disappointed at the decrease in the value of annuities resulting from order in council P. C. 1713, which changed the rates of annuities on two counts. I have in my hand a document from the Department of Labour showing the cost of annuities under the old rates in effect prior to April 19, 1948 and under the rates that became effective after that order in council was passed. I find from this that a male aged 30 years purchasing an annuity of \$100 a month to commence at 65 years and guaranteed for ten years would have had to pay \$15.06 per month under the old rates, but would pay \$20.50 under the new rates, an increase of 36 per cent. A female person, aged 20, buying an annuity of \$100 per month to commence at age 60 and guaranteed for ten years would have had to pay \$14.37 under the old plan, but pays \$20.64 under the new, an increase of 43 per cent. These tables are available and hon. members can work out other examples for themselves.

Those are some of the changes effected by the order in council which Mr. Mitchell tabled on April 19, 1948. We regret that when the whole question of annuities is being looked into there is no suggestion from the government side that anything is going to be done to restore the rates which were in effect prior to that date in 1948. Apart from the excuse of changing the mortality tables, the

[Mr. Knowles.]

excuse that was given for changing the interest rate was that the interest rate on Canadian government bonds was down a bit from what it had been. Since then we have had at least one increase in the interest rate of one class of government bond. There have indeed been other increases, but I mention in particular that the new series of Canada savings bonds carries a rate of 3.21 per cent, when averaged out over the ten-year period, as compared with 2.75 per cent paid by the previous issue of the same series. If there has been a reversal of the trend that was indicated to the house in 1948 I suggest that recognition should be given to that reversal and the annuities brought back to the 4 per cent figure which was in effect for the forty years from 1908 to 1948.

I make this plea because so far as the great majority of Canadians are concerned, it is no use to tell them they can now purchase an annuity or retirement pension of \$200 per month. They cannot afford to buy an annuity of \$100 per month; they cannot afford to buy an annuity of \$50 per month. What the people of this country really need is something to help them help themselves provide a better retirement than is proposed by the general legislation, and this help should be in the way of a reduction in the cost of annuities.

In this connection it is sometimes pointed out, and the hon. member for Hamilton West (Mrs. Fairclough) referred to it in one way and another this afternoon, that the administrative costs of government annuities are borne by the public treasury. There are some who argue, particularly those who have opposed the idea of the government being in this field, that these annuities should carry themselves. I should like to refer again to the Mercer pamphlet which I have before me, which states that the administrative costs of government annuities have approximated one per cent of the premium income, including both individual and group business. Then the pamphlet goes on to say:

When it is realized that the insurance companies allocate 7½ per cent of the premium income from group business, and a much higher percentage from individual business, for administration expenses and commissions, the low administrative costs of government annuities are obvious.

We submit then, that the administrative costs of the government annuities branch have been so commendably low that they cannot possibly be used as an argument for an increase in rates any more than the selling and administrative costs of government bonds can be used as an argument to lower their yield.

As a matter of fact with respect to government bonds, as I have already pointed out—and certainly in the case of Canada savings