for the period and the indexing contributions that have been made by and on behalf of pensioners.

The first two proposals to defer cost-of-living adjustment payments to age 60, and to reduce the size of the first adjustment received by public servants who retire toward the end of the year are basically designed to curb the incidence of artificial early retirements that appears to have cropped up in recent years. I think hon. members have increasingly had their attention drawn to a practice that is followed by some public servants who leave the public service with early retirement pensions, but do not leave the labour market. In my view it is a misnomer to say that such individuals have retired. And second, to plug the loophole which now allows public servants to get the best of all worlds by retiring toward the end of the year.

At present, public servants who time their retirements toward the end of the year can build up their basic pensions, and then in a matter of a few days, weeks, or months receive an adjustment on the highest possible basic pension. I am confident that most public servants will share my view that this arrangement is an unfair one.

The other changes, Mr. Speaker, are designed to firm up the financial underpinnings of the program to ensure that we are not storing up future trouble for taxpayers and public service pensioners. I want to say, Mr. Speaker, that the decision to propose that public service pensions be adjusted for changes in the cost of living on an ad hoc basis was only reached after considerable thought and soul searching on my part and that of the government.

The source of the dilemma—and that is what it is, a dilemma—centres around the responsibility the government has to both pensioners and taxpayers. On the one hand, it is the government's view that the measures that have been adopted to protect the purchasing value of public service pensions are based on a sound principle. In the government's view, it is unjust and unfair to allow the rate of inflation to determine arbitrarily the real value of pensions, and that is exactly what happens when pensions are not adjusted for changes in the cost of living.

In short, the principle of maintaining the purchasing value of pensions so that pensioners can maintain their access to the same basket of goods and services is a principle to which the government is committed, and remains committed.

The government, however, is also committed to the principle that public service pension arrangements must also be just and fair in terms of their impact on taxpayers.

These two principles are not necessarily incompatible with each other.

There are experts who feel we can count on seeing a long-term situation in which interest rates, on average, will be 3 per cent to 4 per cent ahead of the rate of inflation, and 1 per cent ahead of salary increases.

If this were to occur, and it would not be a new experience by any means, a fully indexed public service pension program could be carried by government employer contributions that would not exceed the level of those that were met by taxpayers prior to the introduction of indexation.

In recent years, of course, interest rates have not maintained a 3 per cent to 4 per cent margin over inflation and a 1 per cent margin over salary increases.

Some experts feel that this is not a temporary situation, but is a state of affairs that can be expected to prevail over the next 50 years or so. What these experts, in essence, are saying is that while interest earnings may rise in the future as a result of inflation, they will not keep pace with faster rising inflation. If that were to occur, it would mean that a fully indexed public service program while experiencing rising revenues would face indexing costs which were increasing at a faster rate. Eventually, then, something would have to give. That is, if the situation continued long enough, pension benefits would have to be cut back drastically or taxpayer payments to the program would have to be increased substantially.

● (1642)

Faced with such a gulf in the views of these two camps of experts, I think we have but two basic choices. One approach would be to adopt a "wait-and-see" attitude, that is, to wait and see who is right. The other approach would be to say "a plague on both your Houses" and then take a practical, down to earth attitude to the matter. Adopting a wait-and-see approach means that if we eventually discover that those with a bullish attitude about future interest rates are right, then there is no problem and there will be no problem.

Some hon. Members: Hear, hear!

Mr. Andras: If, on the other hand, the "bears", those who take a more pessimistic view about future interest rates, are right, the result could be a wrenching experience for future taxpayers and/or pensioners. In my view the stakes, namely, the welfare of future taxpayers and pensioners, are just too high for such a gamble. Given the current state of uncertainty and the division of expert opinion on these economic issues, the sensible thing to do, in my view, is to adopt a shorter time frame for looking at these issues. In this way, if difficulties are encountered, it will be possible to take the needed stitch in time so as to avoid a future unravelling of the whole program. At the same time, it would avoid creating a situation in which current employees and taxpayers might be required to make large sacrifices today in order to cover contingencies which may never arise.

To achieve this goal, the legislation which will be introduced will require the President of the Treasury Board to carry out a triennial review of Public Service pension arrangements with advice from the chief actuary and in consultation with representatives of interested parties. These reviews will be directed at determining, the amount of money which will become available for pension adjustments for the coming three years from, first, the interest earnings which will be realized from the pensioners' investment in the program and which are over and above the interest earnings required to finance basic pensions, and, second, from the special contributions for indexing which have been made by and on behalf of pensioners. The