Canada Pension Plan

Over the years the basic orientation has been to a wage earner, and the plan has been tied to the earnings of the participant in terms of coverage, contributions, and benefits. Furthermore, as the drop out provision has considerable exemptions, it raises further complications. There is no coverage or protection for a spouse at home if she has never worked, if she worked only for a few years or if she had to leave the labour force to care for a disabled child or parent.

This drop out clause provides a subsidy without contribution, and as such moves towards social assistance rather than the insurance intent of the CPP. Are mothers who remain at home to care for a disabled parent or child entitled to less subsidy? If there is a principle of social justice in this area, should we limit this subsidy to housewives who remain at home to care for children and then return to the work force? Certain inequities and subsidization will result.

It seems likely that there would be a transfer of benefit from low income contributors to high income contributors because the plan is not fully funded, and low income families will not likely be able to take advantage of the drop out provision. For instance, a woman who works ten years out of a possible 40 is not presently entitled to one quarter of the full possible pension. Now, however, if she was raising children for ten years and was eligible for 20 years drop out, her pension would be half of her full possible pension. She would receive double pension without any extra contributions. This subsidization may be for those mothers who work at lower average incomes because they are not likely to stay home to look after children but have to get into the labour market.

It seems that inequity could be created between those who could afford to drop out and those who could not, the more well to do being the beneficiaries. This bill seems to create inequities between and among women. These could be explained by government actuaries.

Then there is a very basic problem. What is the role of the CPP, provincial financing, and the method of funding the CPP? I understand that Quebec government actuaries claim the drop out provision will increase total pension pay-outs by 4 per cent in the next 50 years. This estimate could be erroneous if the behaviour patterns of women change after the institution of the provision and, like unemployment insurance, it seems very likely that people would take advantage of these changes.

By 1982 pay-outs from the CPP will exceed outstanding provincial loans and interest charges. If present contribution rates do not go up, the provinces will have to pay at least a portion of their annual interest on their loans. By the year 2000 all loans will be repaid, and the pension will become a pay as you go operation. This is certainly an area which needs extensive discussion. At the moment current contributors are paying for the pensions of those who are now retired, and the degree of individual subsidization will increase as the plan matures.

Currently retired persons receive an abnormally high rate of subsidy, and as modifications are made to the CPP, these will tend to be passed on to future pensioners. The CPP is underfunded at the present, so it will enventually become exhausted.

[Mr. Ritchie.]

There is also the problem of financial burden which can be placed on future generations, and there is a basic problem of the orientation of social insurance programs. In the United States social security system the situation has progressively improved. It has been extended over the past decade, but without appropriate adjustments at the contributory level. Therefore it is good to have a discussion about the role of the CPP. Is it a contributory insurance scheme? Is it an appropriate mechanism for providing something for spouses? Should we be doing it this way or some other way?

The second question relates to the orientation of the CPP, its social aspects and its insurance principle. The introduction of these amendments represents a further departure from the insurance principle.

A *Globe and Mail* article on January 21, 1977, had this to say about the CPP:

> The Canada Pension Plan is supposed to provide retired workers with security. Instead, in its present form, it could dupe them into insecurity, rob their children and reduce the ability of Canada to produce the goods and services that are needed by all Canadians.

Mr. McKeough told the Canadian Pension Conference to consider some of the dangers of the CPP and some means of correcting them. He pointed out that the CPP is only half funded by contributions. This means that those who are working are supporting those who have retired. Canada had a baby boom followed by a sharp reduction in the birth rate. There is no way that this small number of workers can support large numbers of pensioners. They may well feel it impossible to finance them. The *Globe and Mail* article went on to say the following:

> There are other problems arising from this redistribution of income. Workers, feeling that CPP will provide for their basic needs in retirement, don't save as much. Instead they spend, and the pensioners also spend their pensions. Underfunded public pension schemes create a double effect . . . resulting in lower savings (a reduction in the money available for investment in the production of jobs, goods and services) and increased consumption.

A United States study into the effects of the wholly unfunded or pay as you go U.S. social security system was made. The system was introduced in 1937, and it has lowered the rate of personal savings by 35 per cent. Because it is pure pay as you go, it accumulated no fund to replace lost savings to be available for capital investment. If, instead, the U.S. plan had been fully funded from the start and had allowed its funds to be invested in the private sector, capital accumulation in 1974 would have been 55 per cent greater than it actually was.

It may well be that the CPP is one of the causes of diminishing capital resources that we are now experiencing. This bill gives an opportunity to debate the philosophy of pensions. More and more people are taking the view that the value of private pensions is not very great. People save money for a purpose, to buy a car or a home. Similarly in years gone by people saved money so that in their old age, when they were unable to work, they could look after themselves. However, with the advent of hospital, medical and drug costs protection the necessity to save is not nearly as great.

Indeed, the every day needs and wants of the retired are much fewer than they were when they were working people