Railway Act

place safeguards in it to ensure that CNR will not again come to parliament to have its deficits picked up.

An amendment will be introduced to the effect that, should the CNR experience a deficit, the matter will be referred to the Standing Committee on Transport and Communications, whereupon the committee will be charged with a show cause hearing as to whether the CNR executive officer and board of directors should be removed for incompetence.

There is one very serious area, and that is with regard to the CNR pension fund. Very serious charges have been laid by the Canadian railways employees pension branch, the national headquarters, and by the British Columbia branch which is located in Vancouver. They have done an extensive study into the CNR pension fund and the manipulation of the fund over the last number of years. The government had Dr. Noel Hall conduct a study into the pension funds of the two railroads. He came up with a number of recommendations which have been completely ignored by the government. They have taken no decisive action after this extensive and costly report.

● (2012)

In the letter addressed to me by the association under date of February 15, 1978, the national president makes some serious charges in connection with the operation of the pension fund. The letter states:

> The Railway Companies from the beginning of the present pension plans (CNR on January 1, 1935 and CPR on January 1, 1937) have avoided playing to a very large extent into the plans. Each railway company owes many hundreds of millions of dollars to the plan or plans for its employees and pensioners.

We know that last year the CNR stated it had registered a profit. I hope the pension fund is not being mismanaged with a view to showing a profit. The reason I am raising this matter tonight is so that the government can investigate these charges and have answers ready for us when the bill is under consideration in committee. The letter goes on:

> In the last 10 to 15 years both railways have invested over a period of many years more than 60 per cent of the assets for which each is a trustee in common shares, real estate and high interest rate short-term mortgages. The result of this investment policy is that today, while inflation impoverishes pensioners, inflation is enriching the railway companies in their capacity as trustees. The pension trust funds are separate and apart from the funds of CNR and CPR. Each company owes tremendously large debts to these funds.

I do not know what the railways are doing with these funds but we shall certainly require answers in committee on this subject. The letter goes on:

> As a general rule inflation increases the income and values of common shares and real estate. The interest income on short-term mortgages, in inflationary times, is exceedingly high. To pay the fixed pensions guaranteed by the Railway Companies, earnings of 4% on the trust funds are required. Earnings above the rate of 4% result in large surpluses in the pension funds. The above large surpluses apply to the trust funds for those persons on pension.
>
> The Railway Companies in their capacity as trustees are holding pension trust funds for tens of thousands of employees. Wages and salaries are increasing rapidly, mainly due to inflation. The reserves for such pensions are increasing steadily as payments are deducted from pay cheques. CNR and CP Limited do not match the employees' payments on a current basis. Instead their actuaries calculate what the liability is of the Railway Companies. Inflation plus the failure of the Railway Companies to match the payments of the employees, is causing the liabilities of the Railway Companies to escalate at a rapid rate to very large amounts.

[Mr. McKenzie.]

> The increase each year in liability for employees exceeds the decrease each year in liability in respect to those who are now pensioners, beneficiaries or survivors. Therefore, on the whole operation the Railway Companies are able to present statements showing large net increases in liability to these funds. On that basis CNR and CP Limited plead poverty and inability to increase pensions to a figure that nearly approaches the increase in the cost-of-living.
>
> In ten years or maybe sooner inflation should wipe out the liability of the Railway Companies to that part of the funds established to pay those who are now pensioners, beneficiaries and survivors. Death of those now receiving such income will also be a major factor in reducing Railway Company liabilities.

These are serious charges, Mr. Speaker. The Railway Pensioners Association is to be publicly commended for the research it has done into the handling of these large pension funds which, it claims, have been manipulated by both railway companies. The letter continues:

> The railway companies plead poverty and inability to pay any of the cost of indexing pensions, yet if inflation continues for six to ten years it should be enough to wipe out the enormous pension liabilities presently owned by CN and CP.
>
> The philosophical differences concerning the role and function on pension plans is, in our opinion, very simply as follows:
>
> The Railway Companies have since the inception of these plans in 1935 and 1937 avoided the payment of their share of pension costs as long as possible, so as to be able to benefit from inflation,—if it should ever occur. (CNR and CP Limited each accumulated hundreds of millions of dollars in debts at an interest rate of 4 per cent per annum when interest rates were higher or much higher. Today, CP Limited pays 7 per cent per annum and CNR pays 7½ per cent per annum on their pension debts, while current interest rates are very much higher).
>
> Canadian Railways Employees' Pension Association advocates that all pension plans should be fully funded from the day the plan commences. When pension plans are fully funded and when an appreciable part of the assets are invested in common shares and real estate as they are today, increased income and increased values will become available to pay an appreciable part of the costs for indexing of pensions,—or they will revert to the employer, if the employer has "generously" guaranteed a "fixed" pension and, thereby, acquired the legal but not the moral right to skim off all the benefits of inflation, while pensioners, beneficiaries and survivors suffer all the bad effects of inflation.

If the railways are not fully funding these plans as called for in the original formula, I hope the parliamentary secretary will relay through the minister what I have said tonight in order that we may be given some answers at the committee stage. If the railways, and the CNR in particular—because it is a Crown corporation—have been manipulating pension funds, it is not a matter which can be taken lightly. The association goes on to say:

> Canadian National is making tens of millions of dollars per annum because of inflation. The company wrote off $371 million in 1968. Interest on that amount should be $37 million annually. The CN is paying 7½ per cent interest on one billion dollars whereas the company should be paying 10 per cent per annum. The increases approved by the CN board of directors on March 29, 1976, amounting to $2.3 million, are truly just a few crumbs from the banquet table. This banquet for CNR has been going on for many years but pensioners who are kept in the dark really appreciate those few crumbs.

If these large amounts of money are not being handled properly, the pensioners certainly have a legitimate complaint. They go on to say in this document:

> The preposterous guarantee (of fixed pensions for life based on earnings for a fixed period of time) made by CN and CP many long years ago is the means by which those pensioners are methodically deprived of purchasing power to an increasing extent as the years go by.

The document goes on to comment on the Noel Hall report. It states: