

The report of the Royal Commission on the Taxation of Annuities and Family Corporations (1945), referring to the Government Annuities Act, says: "The object of this legislation was stated to be the promotion of habits of thrift and to afford an opportunity for people to provide for their old age at the lowest possible cost and with the greatest possible security. The measure was not designed to furnish annuities for wealthy people but was intended only as an incentive to the person of small means." This intention quite evidently was related to the desirability of minimizing old age assistance problems but this object has been achieved only to a very limited degree. Most individual purchases of government annuities are made by people of the well-to-do class who presumably will not need assistance in old age, and who do not need subsidized annuity rates now, but who nevertheless recognize a bargain and are quite willing to take advantage of it.

The member companies of this Association are firm believers in our free enterprise system and are opposed to any unnecessary encroachment of government in fields of endeavour already satisfactorily served by private business. They think it only reasonable that people who desire to supplement their universal old age benefits by the practice of individual thrift should do so by purchasing annuities or insurance policies from one of the many life insurance companies or by using other savings institutions. It is accordingly submitted that the government should now discontinue the sale of annuities on a voluntary basis.

### III

If the government does continue in the annuity business, there is certainly no justification for using a subsidized system of the present or proposed type. It is not a proper function of government to subsidize a small part of the population at the expense of the general taxpayer, especially when many members of that part are better able to take care of themselves than is the average Canadian.

If Bill 23 is enacted, a man desiring to purchase an ordinary life annuity of \$200 per month at age 65 must at existing rates pay a single premium of \$27,960 if the contract is purchased as an immediate annuity, or must make annual payments sufficient to accumulate to this sum if the contract is purchased on the deferred annuity basis. In neither case can it be seriously argued that such a purchaser is a person of modest means who requires government assistance to provide for his old age. Indeed, if this man were to invest such a sum of money in the government's own bonds, he would receive less favourable terms than he could obtain by buying any other Canadian bonds.

Company annuity rates are currently from 5% to 15% higher than government rates, partly due to more active merchandising and servicing and partly due to subsidy. The people of Canada, with few exceptions, are unaware of the actual reasons for this rate differential and erroneously conclude that the companies are either making excessive profits or operating inefficiently. This is grossly unfair to the companies because, despite their efficiency of operation, they derive little or no profit from their annuity business due to the long-term trends in interest, mortality and price levels.

It has always been the practice of the government to bear the costs of administering the Government Annuities Act. These costs are currently reported to be approximately \$800,000 per annum, but this covers only some of the direct expenses, such as salaries, agents' commissions, advertising, office supplies, etc., and none of the indirect expenses. If all expenses, direct and indirect, were taken into account, the true administrative costs