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Canada. Parl. Special Joint
Comm. on Canada Pension Plan.

Special Joint Committee of
the Senate and the House
of Commons on Bill C-136
Canada Pension Plan

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Special Joint Committee of
the Senate and the House
of Commons on Bill C-136
Canada Pension Plan

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Nos.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964

SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS

Appointed to Consider and Report upon Bill C-136, An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

Joint Chairmen: Mr. A. J. P. Cameron (*High Park*) and Senator Muriel McQ. Fergusson.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

TUESDAY, DECEMBER 15, 1964.
WEDNESDAY, DECEMBER 16, 1964.

WITNESSES:

Dr. Joseph Willard, Deputy Minister of Welfare and Messrs. E. E. Clarke, Chief Actuary, Department of Insurance, Robert Bryce, Deputy Minister of Finance, J. E. E. Osborne, Technical Adviser to this Committee, Hart D. Clark, Director of Pensions and Social Insurance Division, Department of Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

21729—1

MEMBERS OF THE COMMITTEE FOR THE SENATE

Honourable Senator Muriel McQ. Fergusson, *Chairman,*

and Honourable Senators:

Blois
Boucher
Croll
Denis
Flynn
Lang
Lefrançois
McCutcheon
Smith (*Queens-Shelburne*)
Stambaugh
Thorvaldson

MEMBERS OF THE COMMITTEE FOR THE HOUSE OF COMMONS

Mr. A. J. P. Cameron M.P. (*High Park*), *Chairman*

and Messrs:

Aiken
Basford
Cantelon
Cashin
Chatterton
Côté (*Longueuil*)
Francis
Gray
Gundlock
Howe (*Wellington-Huron*)
Knowles
Laverdière
Leboe
Lloyd
Macaluso
McCutcheon
Monteith
Moreau
Munro
Perron
Rhéaume
(Mrs.) Rideout
Scott

Maxime Guitard,
Clerk of the Special Joint Committee.

Corrigendum

Issue No. 3, page 174, line 50 should read:
Mr. Sheppard: If he gets $5,000.00 a month he would.

ORDER OF REFERENCE OF THE SENATE

WEDNESDAY, November 18, 1964.

Ordered: That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to consider Bill C-136, intituled: "An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors;"

That twelve Members of the Senate be designated by the Senate at a later date to be members of the Joint Committee;

That the said Committee have power to call for persons, papers and records and to examine witnesses, to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

Attest.

J. F. MacNEILL
Clerk of the Senate

NOTE: This Order of Reference should have appeared in Issue No. 1.

21729—1½

MINUTES OF PROCEEDINGS

TUESDAY, December 15, 1964
(17)

The Special Joint Committee of the Senate and of the House of Commons on Canada Pension Plan met at 10:21 o'clock a.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Present:

Representing the Senate: Senators Boucher, Denis, Fergusson, Lang, McCutcheon, Smith (*Queens-Shelburne*), Stambaugh (7).

Representing the House of Commons: Mrs. Rideout and Messrs. Cameron (*High Park*), Cantelon, Francis, Gray, Knowles, Leboe, Lloyd, Moreau, Munro, Scott (11).

In attendance: Dr. Joseph Willard, Deputy Minister of Welfare, and Messrs. E. E. Clarke, Chief Actuary, Department of Insurance; Robert Bryce, Deputy Minister of Finance, and J. E. E. Osborne, Technical Adviser to this Committee.

The Committee resumed its consideration of the Actuarial Report dated November 6, 1964.

On motion of Mr. Lloyd, seconded by Senator McCutcheon,

Resolved,—That the documents intituled "Canadian Forces Superannuation Act" and "Royal Canadian Mounted Police Superannuation Act" appear as appendices to this morning's Minutes of Proceedings and Evidence. (*See Appendices "V" and "W" respectively*)

His examination being completed, Mr. Clarke withdrew.

Mr. Bryce, Deputy Minister of Finance, was then called and examined.

On motion of Mr. Munro, seconded by Mr. Francis,

Resolved,—That the document intituled "Comparison of Social Security Expenditures in Australia, Canada, Great Britain, New Zealand and the United States, Fiscal Years 1958-59 to 1962-63" appear as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix "X"*)

And the examination of Mr. Bryce being completed, he retired.

At 11:48 o'clock a.m. the Committee adjourned until 3:30 o'clock this afternoon.

AFTERNOON SITTING
(18)

The Special Joint Committee of the Senate and of the House of Commons on Canada Pension Plan reconvened at 3:46 o'clock this afternoon. The Joint Chairman of the Senate section, Senator Fergusson, presided.

Members present:

Representing the Senate: Senators Boucher, Denis, Fergusson, McCutcheon, Smith (*Queens-Shelburne*), Stambaugh (6).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Côté (*Longueuil*), Francis, Gray, Howe (*Wellington-Huron*), Knowles, Laverdière, Lloyd, Monteith, Moreau, Munro (15).

In attendance: The same as at this morning's sitting and Mr. Hart D. Clark, Director of Pensions and Social Insurance Division, Department of Finance.

The Committee began its consideration of the integration of the Canada Pension Plan into other pension plans.

On motion of Mr. Basford, seconded by Mr. Cantelon,

Resolved,—That the Committee cancel its meeting scheduled for this evening, December 15, 1964.

On motion of Mr. Lloyd, seconded by Senator McCutcheon,

Resolved,—That the following documents appear as appendices to this day's Minutes of Proceedings and Evidence

(a) Example of application of integration formula to the illustration contained on page 3 of the Benefit illustration sheet dated December 3, 1964. (*See appendix* Y).

(b) Examples of application of integration formula (*See appendix "Z"*).

On motion of Mr. Monteith, seconded by Mr. Cantelon,

Resolved,—That the document intituled "Private Pension Plans in Canada" appear as an appendix to today's Minutes of Proceedings and Evidence (*See appendix "AI"*).

Their examination being completed, the witnesses retired.

At 5:26 p.m. the Committee adjourned until 5:00 o'clock p.m. on Wednesday, December 16, 1964.

WEDNESDAY, December 16, 1964.
(19)

The Special Joint Committee of the Senate and of the House of Commons on Canada Pension Plan met at 5:07 o'clock p.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Senators Boucher, Croll, Denis, Fergusson, Lang, Lefrançois, McCutcheon, Smith (*Queens-Shelburne*), Stambaugh (9).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Howe (*Wellington-Huron*), Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Moreau, Munro, Scott (20).

In attendance: Dr. Joseph Willard, Deputy Minister of Welfare.

The Committee agreed unanimously to the following Corrigendum:

In Issue No. 3, page 174, line 50 should read: "Mr. Sheppard: If he gets $5,000.00 a month he would".

Then the Joint Chairman asked the Clerk of the Committee to read the Fifth Report of the Sub-committee on Agenda and Procedure as follows:

SUBCOMMITTEE ON AGENDA AND PROCEDURE

FIFTH REPORT

WEDNESDAY, December 16, 1964.

The Subcommittee on Agenda and Procedure of the Special Joint Committee on Canada Pension Plan met at 1:40 o'clock p.m. this day.

The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Senators Croll, Fergusson, McCutcheon (3).

Representing the House of Commons: Messrs. Cameron (*High Park*), Chatterton, Côté (*Longueuil*), Francis, Knowles, Monteith, Munro (7).

It was moved by Mr. Munro, seconded by Mr. Knowles,—

That the Committee reconvene on January 12, 1965 and sit the balance of that week and also all the following week, during which it should plan its future meetings.

After debate thereon, the question being put on the said motion, it was resolved, by a show of hands, in the affirmative, YEAS: 5; NAYS: 3.

Then it was moved by Senator Croll, seconded by Mr. Francis,

That the quorum be reduced from 12 to 10 members, only during the time the House recesses and provided that both Houses are represented.

The question being put on the said motion, it was resolved, by a show of hands, in the affirmative, YEAS: 5; NAYS: Nil.

Your Committee therefore recommends:

1. That the Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), be authorized to prepare a schedule of the dates on which the witnesses are to be called to appear before this Committee.
2. That the witnesses, on appearing before the Committee, make a preliminary statement summarizing the brief they have previously submitted, with the recommendations they wish to make, in order to enable the Committee to proceed to a question and answer period.
3. That the briefs to be printed as appendices to this Committee's Minutes of Proceedings and Evidence should be only those submitted by the witnesses invited to appear by the Committee.
4. That Messrs. W. M. Anderson, F.A.S., D. E. Kilgour and Dr. Robert M. Clarke, be invited to appear as witnesses.
5. That all people whose names appear on the list of prospective tive witnesses be called to appear on a specified date.
6. That a request be made to Mr. Gerald Nason, Secretary-Treasurer of the Canadian Teachers' Federation in order that only three briefs be submitted by the different teachers' Federations in Canada, namely: (*a*) one from the Canadian Teachers' Federation; (*b*) one from the Ontario Teachers' Federation and (*c*) one prepared joinntly by the Eastern and Western Teachers' Federations.

7. That the Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), be responsible for acknwoledging receipt and processing the briefs received during the recess of this Committee.

At 2:20 o'clock p.m. the Subcommittee adjourned to the call of the Chair.

(s) A. J. P. Cameron,
Joint Chairman.

The Committee agreed unanimously that the said report be corrected as follows:

The question being put on the said motion, it was resolved, by a show of hands, in the affirmative, Yeas: 8; Nays: Nil, instead of Yeas: 5; Nays: Nil.

Also paragraph 6 should read:

That request be made to Mr. Gerald Nason, Secretary-Treasurer of the Canadian Teachers' Federation in order that only four briefs instead of three briefs be submitted by the different teachers' Federations in Canada, namely: (*a*) one from the Canadian Teachers' Federation; (*b*) one from the Ontario Teachers' Federation and (*c*) one each prepared by the Eastern and Western Teachers' Federations instead of one prepared jointly by the Eastern and Western Teachers' Federations.

The Committee agreed unanimously that the report be received.

Then Mr. Gray moved, seconded by Senator Croll.

That the Fifth Report of the Subcommittee on Agenda and Procedure, be adopted as corrected.

And debate arising thereon, Senator McCutcheon moved, seconded by Mr. Monteith, that the said report be amended to read: that the Committee do not sit during the time the House recesses.

After further debate, the question being put on the said amendment, it was negatived on the following division: Yeas: Senator McCutcheon and Messrs. Aiken, Cantelon, Chatterton, Leboe, Monteith (6); Nays: Senators Boucher, Croll, Denis, Fergusson, Lang, Lefrançois, Smith (*Queens-Shelburne*), Stambaugh, Mrs. Rideout and Messrs. Basford, Cashin, Côté (*Longueuil*), Francis, Gray, Knowles, Laverdière, Lloyd, Macaluso, Moreau, Munro—(20).

Mr. Leboe moved, seconded by Mr. Chatterton,

That the Committee adjourn to the call of the Chair.

The question being put on the said motion, it was, by a show of hands, negatived, YEAS: 6; NAYS: 20.

Then Mr. Monteith moved, seconded by Mr. Chatterton, as a second amendment to the said report, that the Committee reconvene on the 25th of January, 1965.

The question being put on the said second amendment, it was, by a show of hands, negatived, YEAS: 4; NAYS: 22.

And the question being put on the main motion, it was, by a show of hands, resolved in the affirmative, YEAS: 21; NAYS: 6.

At 6:35 o'clock p.m. the Committee adjourned until January 12, 1965.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

TUESDAY, December 15, 1964.

The CHAIRMAN (*Mr. Cameron*): Senator Fergusson, Mrs. Rideout and gentlemen, we have a quorum. I will call the meeting to order.

Mr. Osborne has handed me two memoranda relating to questions asked at previous meetings, one relating to the Canadian Forces Superannuation Act and the other relating to the Royal Canadian Mounted Police Superannuation Act. I have two copies here and I would be glad to entertain a motion that they be attached as an appendix to today's proceedings.

Hon. Mr. MCCUTCHEON: I so move.

Mr. LLOYD: I second the motion.

Motion agreed to.

The CHAIRMAN (*Mr. Cameron*): Last evening Mr. Clarke completed his statement on the actuarial plan. There were a number of questions, some of which were unanswered at the time we adjourned. The meeting is now open for answers to those questions.

Have you something to say, Dr. Willard?

Dr. J. W. WILLARD (*Deputy Minister, Department of National Health and Welfare*): No, Mr. Chairman.

The CHAIRMAN (*Mr. Cameron*): Then, any questions on the actuarial report are now in order.

Hon. Mr. MCCUTCHEON: Mr. Chairman, I do not want to traverse any ground that was traversed yesterday.

The CHAIRMAN (*Mr. Cameron*): Well, I think Mr. Clarke will be able to tell you if you are doing that.

Hon. Mr. MCCUTCHEON: I was wondering if Mr. Clarke had any answers to unanswered questions and, if so, we might start off with a statement from him in that connection.

The CHAIRMAN (*Mr. Cameron*): The only unanswered question I had in mind was Mr. Aiken's, who wanted to review the report overnight. Mr. Aiken said last night he probably would have some questions to ask this morning. So far as I know, there were no other questions which were unanswered.

Hon. Mr. MCCUTCHEON: My first observation on the report, Mr. Chairman, is that it assumes a rate of increase in productivity and a rate of increase in inflation, one of which is over-optimistic and the other is something that I hesitate to admit is going to be inevitable.

I have a statement made here by William M. Mercer Limited, in which it says that cost projections are made for the year 2050, which is of a little more than academic interest to most of their readers. For instance, the earnings upon which contributions then will be—

The CHAIRMAN (*Mr. Cameron*): If I could interrupt you, Senator McCutcheon, do you think that is the way to proceed at this time. I think it would be preferable if you directed a question to the witness. Some of these matters were dealt with last evening. I think probably you should direct a question to Mr. Clarke relative to the matter you have before you, and then he will be able to give you an answer.

Hon. Mr. McCutcheon: Then I will ask the witness this to merely illustrate my suggestion, which I already have made, on the basic assumptions in the report.

On what earnings base would contributions be made in the year 2050 on the basis of your assumptions, and what would the maximum pension be?

Mr. E. E. Clarke (*Chief Actuary, Actuarial Branch, Department of Insurance*): Senator McCutcheon, we did not actually calculate those figures, but it would be just a matter of five minutes or so to prepare an answer for you. Inherently in our calculations we took account of these factors without getting the actual figures. But we can get these figures, if you so wish.

Hon. Mr. McCutcheon: Could we have those figures within the next few minutes?

Mr. Clarke: No, I am afraid not; we would have to go back to the office to prepare them.

Hon. Mr. McCutcheon: Then you could bring them in later.

Your assumptions are based on the Canada pension plan and do not include the Quebec pension plan?

Mr. Clarke: That is right.

Hon. Mr. McCutcheon: In other words, your assumptions as to the relative age groups and the growth of population and so on during the period for which the assumptions were made excluded the province of Quebec?

Mr. Clarke: Yes, we made a calculation for all of Canada—I am referring to the population projections—and Quebec separately, and simply subtracted the two populations to get the population for Canada excluding Quebec.

Hon. Mr. McCutcheon: You made a calculation excluding the province of Ontario also?

Mr. Clarke: We made population projections for Ontario. We did that along the same lines used for Quebec and for all of Canada.

Hon. Mr. McCutcheon: You made no cost assumptions though?

Mr. Clarke: No.

Hon. Mr. McCutcheon: The only cost assumptions you have now are to cover the nine provinces?

Mr. Clarke: Yes.

Hon. Mr. McCutcheon: Would it be difficult to make another set of cost assumptions if circumstances indicated that it would be appropriate?

Mr. Clarke: It would be lengthy but it would be no more difficult than for the cost estimates that we already have made. However, I do not think it would be worthwhile in that we would use substantially the same basic assumptions that we used for Canada excluding Quebec. We would use the same ultimate mortality rates and develop fertility rates along the same pattern, and so on, and we would come out with approximately the same required contribution rates for Ontario as we did for the province of Quebec or for Canada excluding the province of Quebec.

Hon. Mr. McCutcheon: Under the terms of the bill any province, subject to certain conditions, has the right to operate its own plan and from that stage the Canada pension plan becomes inoperatable in that province. Suppose I am going by what I read in the newspapers and, say, the province of Ontario decides to operate its own plan, would your estimated costs be materially different, for the then remaining eight provinces, to what they are now for the nine provinces?

Mr. Clarke: I would guess not.

Hon. Mr. McCutcheon: In other words, what you are saying is that the plan could operate, in your opinion, on substantially the same costs and with the same relative building up fund and payments out for the remaining eight provinces as it would for the nine for which you made the calculations?

Mr. CLARKE: I would say that if we made actuarial estimates for the remaining eight provinces at this time the required contribution rates would be approximately the same as those shown in the report.

Hon. Mr. McCUTCHEON: Then I will put it another way. You say the required contribution rates would be approximately the same. Are you talking at the moment about what will happen if the plan becomes effective or are you talking about a period of 20 years?

Mr. CLARKE: I am talking with respect to the estimates covering the whole period we have examined. We would use approximately the same assumptions because we have nothing better to go on than what we used for Canada excluding Quebec. Such assumptions would produce about the same contribution rates as those we have shown in the report.

Hon. Mr. McCUTCHEON: Then, to put it another way, you are saying you could start out with the same contributions and the same benefits that are now provided for and the difference, I take it, would be that at some stage in the future, and depending on whether you are using your high cost, low cost or intermediate cost, the funds that were built up would not necessarily erode at the same rate in Ontario as in Quebec, or in the other eight provinces as they do in either the province of Ontario or the province of Quebec.

Mr. CLARKE: There likely would be some differences one way or the other.

Hon. Mr. McCUTCHEON: And you feel those differences would be postponed a considerable period before they acquired the type of design to which the minister referred when she said that some 20 odd years from now this matter would have to be reviewed.

Mr. CLARKE: I would think that would be right.

Hon. Mr. McCUTCHEON: Thank you very much. You have stated:

> Even for this relatively short period, some assumptions required for the estimates relate to areas that are not readily predictable until experience develops under the plan.

I think that is a fair note to put in any study such as this. Could you have made your prediction with more accuracy over a longer period if the plan had been a pay as you go plan as was originally contemplated?

Mr. CLARKE: I would think not, senator. Our basic estimates are the pay as you go rates which we have included in the report. The financial figures, that is, the lump sum amounts are important for the short term—I mean important for the administration. For the long term the basic estimates are pay as you go contribution rates which we have included in tables 9 and 10 of the report. Actually, this actuarial valuation, if it may be called that, was designed mainly to develop pay as you go contribution rates.

Hon. Mr. McCUTCHEON: This may be oversimplifying it, but in looking at table 9, on either your high cost estimates or low cost estimates you are saying that in 1985 there will have to be an increase in contributions or some adjustment made at that time, if the funds are to be maintained.

Mr. LLOYD: Mr. Chairman, may I interrupt? I think there is a qualification. Is this not the basic cost table you are talking about, table 9?

Mr. CLARKE: It shows pay as you go contribution rates.

Mr. LLOYD: Are the earnings on the fund that are building up to 1985 reflected in this?

Mr. CLARKE: No, they are not.

Hon. Mr. McCUTCHEON: Without the funds being eroded from the point which they reach, say in 1985, in order to maintain the funds you would need contributions of 4.78 per cent and 4.26 per cent respectively.

Mr. CLARKE: According to our estimates, in order to maintain the fund from 1985 on, some increase in the contribution rate would be necessary.

Hon. Mr. McCUTCHEON: Right.

Mr. CLARKE: It might not be in 1985; the year might vary one way or the other, and likely the other.

Hon. Mr. McCUTCHEON: I am looking also at table 12. With one exception, in respect of your low cost estimates based on the 4 per cent rate of increase in average earnings, by the year 2000 the fund either will be level or will have a substantial deficit.

Mr. CLARKE: According to our estimates that is so, except for the low cost or intermediate cost estimates based on a 4 per cent rate of increase in average earnings.

Hon. Mr. McCUTCHEON: Except for that, yes. At that time, according to your high cost estimates, in order to carry on without a building up of the fund or a further deficit, it would require contributions of 6.02 per cent.

Mr. MUNRO: In what year?

Hon. Mr. McCUTCHEON: The year 2000.

Mr. CLARKE: On the assumption of a 3 per cent rate of increase in average earnings and on the basis of our high cost estimates, that is so.

Hon. Mr. McCUTCHEON: On the assumption, in your low cost estimate, it is 5.02 per cent.

Mr. CLARKE: Yes, sir.

Hon. Mr. McCUTCHEON: In table 10, where you use a 4 per cent increase in equal years, the high cost is 5.38 per cent and the low cost is 4.50 per cent.

Mr. CLARKE: Yes.

Mr. MUNRO: I would like to come back to another question that was asked by Senator McCutcheon. He asked you concerning the event that Ontario set up its own plan and I believe you said that so far as your projections are concerned, the assumptions you had are contributory on the basis of pay as you go, and as in these tables—would be approximately the same.

Mr. CLARKE: If we were to make estimates for Ontario?

Mr. McCUTCHEON: Let me put it this way. Leave Ontario out of it; let us suppose the province of British Columbia decided they would have their own pension plan, you are saying that will not affect the essential validity of these figures, other than the size of the fund as of today, using the same assumptions.

Mr. CLARKE: That is correct.

Hon. Mr. McCUTCHEON: Have you made any calculation to show what is the total cost based on covered earnings of the old age security and the proposed pension plan in respect of percentage of covered earnings?

Mr. CLARKE: No, sir.

Hon. Mr. McCUTCHEON: Could you make that calculation?

Mr. CLARKE: A question was asked last night in respect of what percentage of payroll would be needed to provide the old age security benefits, and I believe this question will be answered later this morning. Would that cover your question?

Hon. Mr. McCUTCHEON: Well, for the moment I think it would. I would like to look at the answer. What I am attempting to obtain, if I can, is some relation between the total cost of the old age security and what is proposed in the Canada pension plan. In comparing the total cost of the old age, survivor and disability benefits in the United States, we look at the contribution rates of 1.8 and 1.8 and look at the rate in the United States of a total of 6¼ or 7, or something in that order. That is not the whole comparison. I would like to have the entire comparison if I might. What are our total costs expressed as a percentage of covered payroll, compared to the United States total cost.

Mr. CLARKE: Senator McCutcheon, if the answer that is given with regard to old age security benefits this morning is not sufficient for your purposes, we will provide those figures.

Hon. Mr. MCCUTCHEON: I think as far as I am concerned, after I have had an opportunity to read Mr. Clarke's testimony, as we discussed it yesterday, he will no doubt be available for any other questions, should they arise.

The CHAIRMAN (*Mr. Cameron*): It is understood that Mr. Clarke will be available for the committee later on, if necessary. Are there any other questions of Mr. Clarke? If not, we might permit him to sit down and call our next witness. Would you mind coming forward, Mr. Bryce?

Senator Fergusson and Mrs. Rideout, we have a distinguished witness before us. Mr. Bryce, as you all know, has had a long career in the civil service in the secretariat of the privy council, and so on. I am going to ask him for the purposes of the record to give us a short resume of his career as a civil servant so that it will be available to those who read the proceedings. Would you mind doing that? I know you are a modest man, and that you will not overemphasize anything. But I think it would be nice to have it on the record.

Mr. R. B. BRYCE (*Deputy Minister, Department of Finance*): Well, Mr. Chairman, thank you. I joined the public service in the Department of Finance in 1938 in the week end of Munich, when it looked as if it was for another purpose. I served in that department until 1947 when I became secretary of the treasury board, where I remained until the end of 1953, when I became secretary of the cabinet. I remained there for some nine and one half years until the beginning of July, last year, when I returned to the Department of Finance as deputy minister. I think that caps the latest account.

The CHAIRMAN (*Mr. Cameron*): Would you mind telling us what your scholastic career has been? I would like to have that on the record, too.

Mr. BRYCE: I started out, inexplicably, as a mining engineer, and graduated in engineering in 1932. I then spent five years studying economics first at Cambridge University and then at Harvard University.

The CHAIRMAN (*Mr. Cameron*): Thank you very much. You all have the economic report before you. Will you please proceed as you have planned?

Mr. BRYCE: Well, I have submitted to the committee in mimeographed form—and it has been printed in your proceedings No. 8—a written report on the economic implications of the Canada pension plan. Having distributed it, I did not prepare any initial statement for this morning. So perhaps I might just indicate the nature of the report in brief form for those who have not recalled it this morning.

The purpose of the report is to provide a framework in which the operations of the Canada pension plan, together with the comparable Quebec plan, may be considered in the perspective of the Canadian economy as a whole. We have worked basically from actuarial figures and estimates which have been before the committee. We did not want to make a whole series of different figures, or use a whole series of different figures. Therefore, we have summed up on page 2 of the mimeographed report the actuarial estimates which we were using, and we have picked out three years for the purpose of concentrating the discussion of the economic implications. These were the initial year of contributions 1964, the year of 1985, when the plan is getting closer to maturity, where as, was pointed out this morning, it has shifted over to the point where the pension benefit payments are somewhat in excess of the contributions at the rate in the bill at the present time.

And then we have taken 1975 as an intermediate year so that members of the committee may see how the magnitudes are at that time. In order to put these into economic perspective we have made, what I call here, a projection of the major economic aggregates so that one can get some idea of the magnitudes of things like gross national product, labour income, corporation profits, consumer income, expenditures, and things of that sort.

We assumed that the relations between these magnitudes and the basic earnings data which the actuary has projected remain reasonably constant. In other words, we have not here made a wholly independent set of forecasts or projections; we have taken the actuarial figures with which you are now familiar and we have said, "Given the earnings projection on the actuary's assumptions, what does this imply in a rough and general way about the magnitude of the gross national product and its components?" These are set forth on the table on page 3.

I would like to make clear that this is not an endeavour to forecast the items at that stage but rather to project them on the same sort of assumptions which the actuary has chosen and used.

Hon. Mr. McCUTCHEON: Those assumptions would include assumptions with regard to the consumer price index?

Mr. BRYCE: Yes. We have used the actuary's high cost estimates so that we will not in any way minimize the economic effects. This was the reason for choosing those.

We then go on to speak about the framework of the analysis and the use of the national economic accounts, and the segregation of the consumer sector, the business sector and the government sector, and of the relation between them.

We speak in a general way, about the manner in which the pension plans —again assuming the Quebec plan as well as the Canada pension plan is in effect—may by expected to affect things such as savings, expenditure and such like.

The third question is called the incidence question, and it discusses a very important aspect which the actuary did not have to consider but which, in judging the economic effects of the plan, it is necessary to take into account. That is to say, we discuss whether the contributions will give rise to forward or backward shifting—in the jargon used here—of the burdens that are involved. Will they affect the wages being paid compared with what otherwise they would have been? Will they affect the prices being paid compared with what these otherwise would have been?

As you will see, we have worked out models based on various alternative extreme assumptions about this shifting process in order to indicate to the committee the range of figures that is involved depending on one or the other.

On page 7 in the draft version we speak briefly of some other problems of analysis. We then go on in section 4 to talk about the effect of the contributions upon the business sector, costs, profits and prices, and we talk about the various possibilities there.

We compare the charges being introduced here in the bill for the Canada pension plan with some of the trends and figures for government outlays on health and social welfare as a percentage of gross national product in a number of countries in 1957, and in 1962-1963. We then go on to speak in paragraph 5 about the effect of the plan V, on personal income, spending and saving, again on the various assumptions concerning shifting, and also taking into account the possibilities or probabilities of the effect of the Plan upon the adjustment of existing employee pension plans. That, of course, is something that we cannot forecast with any accuracy except in regard to our own plan where the government has made its decision that it will recommend to parliament as to how the two will be interrelated.

In section 6 we try to take into account the effects on the public sector of the economy, the government sector, noting the receipts from the contributions, the benefits paid and the loss of revenue directly arising out of the payment of contributions.

On page 13 we have a section called the "Initial Impact" in which we bring together a number of the possibilities that might be expected in the initial year, 1966, when the contributions will come into effect.

In section 7 we have a number of paragraphs on the possible effects of the plan on saving and investment.

In section 8 there is some discussion of the impact on financial intermediaries and the flow of funds through the financial system.

Then, in section 9 we take account of a number of other aspects or discuss a number of other aspects of the economic features of the plan.

Finally, on page 20 in section 10 on the conclusion I have ventured to give a few summary judgments of possibilities arising out of the more detailed account that went forth earlier.

There are appendices listed here. The first ones are the projections of the aggregates about which I spoke, related to the earnings projections of the actuaries.

Appendix B takes models of the several sectors of the economy under various assumptions about shifting of the contributions and the relative impact on saving and expenditure in each sector.

In (C) we have given some figures on increases in wages and salaries in the past. (D) gives some comparative figures on welfare and social insurance programs related to national accounts aggregates; and (E) gives some figures of new issues of direct and guaranteed bonds by provinces and municipalities which may be compared with the flow of funds that may be expected to the provinces under the plan.

I think, Mr. Chairman, that is perhaps sufficient introduction.

The CHAIRMAN (*Mr. Cameron*): Thank you very much, Mr. Bryce.

How do you wish to proceed with this, gentlemen? Do you wish to proceed by asking questions? It is a pretty heavy report to digest; I realize that. Possibly the best way to deal with it would be by question, and if anyone has anything they would like to ask I am sure Mr. Bryce would be pleased to give the answers.

Hon. Mr. SMITH: Mr. Chairman, I would like to ask Mr. Bryce a question relating to section 4 of the report in which reference is made to the addition to labour costs of any company by way of the total employer's contributions.

Am I assuming correctly that that would be a valid situation if a company which is already making a contribution to a private plan decided to shift its contribution from the private plan to this new Canada pension plan? Would that erase any addition in cost?

Mr. BRYCE: To the extent that they simply diverted—and that is the word that is used—the contributions from a private plan to the Canada pension plan, then it would not add to their costs.

Hon. Mr. SMITH: Is it also assumed that there will be pressure—perhaps that would be the proper word—from union bargaining procedures to encourage the companies to add to what they are doing to the extent of an additional 1.8 per cent?

Mr. BRYCE: We have to expect a wide variety of views, I think, on the part of the employees. I do not feel able to generalize on the views that will be taken by unions or other employee groups.

In the case of our own superannuation pension plan we found our employees quite in favour of diverting their contributions and our contributions, and adjusting the benefits correspondingly. We will be talking about this later, I understand. However, it may well be that in private industry there will be many cases where a diversion will be preferred. On the other hand, it is by no means easy to generalize here and it will depend on the nature of the plan, the nature of the bargaining position as between employees and employers, and perhaps on union policy as well.

Hon. Mr. SMITH: May I ask one other question that occurs to me?

Are the figures contained in the various appendices on what might be regarded as high cost figures?

Mr. BRYCE: Yes.

The CHAIRMAN (*Mr. Cameron*): Are there any other members of the committee who wish to ask questions?

Mr. LEBOE: Mr. Chairman, I have been wondering about the situation that might arise—and it is purely speculative—of, let us say, crop failures on the prairies over a series of years, maybe four or five years. Such a situation would have a tremendous influence on the gross national product of Canada. It has happened in countries in the past.

Is there anything in the thinking of the drafsmen of the plan that would lead to any provision for such a catastrophe?

Mr. BRYCE: Of course, crop failures and low prices for agricultural products and things of that sort would affect the income of the self-employed farmers on which their contributions are based. If those incomes are well above $5,000 a year the total of their contributions I assume would not be altered; but if their incomes are less than that, then the amount they will have to contribute in that year will depend upon the income.

Mr. LEBOE: I was thinking more of the projection and the effect on other industries that have plans at this moment and will possibly be linking up with the Canada pension plan. The over-all effect on Canada would be quite severe.

What is bothering me a little here is this. Would we in a case of that kind have the productivity to meet that amount and avoid inflation by some means or other in the case of such a disaster?

Mr. BRYCE: The more we have difficulty with crops and things like that, the more difficult it is to reach the levels of average earnings assumed by the actuary here and the levels of productivity, that is to say, the differences between the price increase factor and the earnings increase factor.

Mr. LEBOE: I do not think I have made myself clear. I was thinking of the place in which actually the pension plan is operating and where a great deal of money has been paid out because of earnings in past years. It would seem to me we would be faced with at least a certain amount of real inflationary pressures in those circumstances because of the situation. I was wondering whether or not there was any thinking along that line and any provision to adjust for that.

Mr. BRYCE: We have tried to show in the models here the effects on saving and the effects on expenditures by the various sectors of the economy under these various circumstances and assumptions. Naturally, things like variations in crops will have some effect in any particular year upon the goods available to meet the flow of expenditures, and of course on the incomes and expenditures of those producing them. But we have not tried to introduce that kind of variation here.

Mr. LEBOE: That is what I was wondering, because it would affect the cost of living index.

Hon. Mr. McCUTCHEON: Mr. Chairman, I would ask Mr. Bryce one or two questions.

I would ask him first about something which I think he has said before, but I want to make sure that I understand. He has said, I think, that this is not an independent forecast. I think I am quoting his words. He has taken the actuarial report and the actuarial assumptions, and he has projected those assumptions within the various frameworks—the public sector and the private sector and so on—to which he has referred. He has made certain basic assumptions here and there.

One of his basic assumptions is that the provinces will not immediately act like children with a bag of sugar plums put before them and get these investment plums and rapidly increase their rate of spending. Then his conclusion represents the conclusion of an economic expert, and both his assumptions and his conclusions might be questioned by other economic experts —of whom I do not profess to be one. Is that a fair statement, Dr. Bryce?

Mr. BRYCE: I think economic experts, like lawyers, differ very frequently, senator. I have no doubt that others may reach different conclusions. This is one of the things we will have to discuss.

Mr. MUNRO: Mr. Chairman, may I just follow up Senator McCutcheon's question? He says it is not independent inasmuch as Mr. Bryce has based this report on actuarial assumptions as far as the consumer price index and earnings are concerned. It should also be underlined that when you did base it on those assumptions you based it on the high cost assumptions, not the low cost assumptions.

Mr. BRYCE: Yes.

Mr. MOREAU: I wonder if Senator McCutcheon would outline which provinces would act like children with sugar plums.

Hon. Mr. McCUTCHEON: Almost any province which has suddenly a large amount of funds tends to act in that way.

Mr. LLOYD: Senator McCutcheon must also be interested in something that is not projected or commented on in this report.

What is the effect of the input of purchasing power and the expansion of spending power on the economy? I believe economists have been saying that in the years ahead, with automation and the like, the problem of distribution of purchasing power is one that will concern us very greatly. Naturally, this has not been a subject matter of your analysis because you are analysing the implications of a specific plan, but could we have comments on the viewpoints expressed, for example by Galbraith, on the subject of the problem of distribution of purchasing power in the future and the need for finding valid and good social reasons for expanding purchasing power in a scheme of this kind? This of course is of interest to everybody in Canada, not only to those who believe in social security but also to industry which is thinking of marketing its products and can only market them if purchasing power resides in the hands of people.

Economics

Mr. BRYCE: May I try to sum up a whole lot of complicated things, perhaps oversimplifying it?

If you look at page 20, and specifically at the main paragraph of the conclusion, you will see we say that in the early years of the pension plan the accumulation of reserve will probably add more to saving in the government sector of the economy than it will reduce saving in the business and consumer sectors, but this difference may be largely offset by additional expenditures that will be undertaken by a number of provinces which the funds made available to them.

The implication of that, is that it is going to increase somewhat the tendency of the economy to save and reduce its tendency to spend in the early years.

The extent to which that occurs depends on how the provinces react to this flow of assured funds available to them for borrowing. It is a very difficult question of judgment to know how in fact provinces will do that. We have tried to picture the situation of individual provinces and provinces collectively. We do not feel we can make any categorical statements. We would not like to give a public appraisal of what each provincial government is apt to do. It seems to us that they will not increase their spending by the total of the amounts, as is indicated not only here but in some of the earlier parts of the report. By and large, it would look as though in the earlier years of the plan the immediate effect will be to reduce somewhat the level of spending taking account of whatever changes in prices to be applied to that to get it into real terms.

FALSE PREMISE

Over the long term, as we say later on in that paragraph, the existence of the pension plan as it approaches maturity—and this is an approach that is very long and very slow—may in and of itself bring a modest reduction in the level of national savings than would otherwise occur. This seems likely to be small in relation to the total volume of national saving at that time.

In other words, later on, the effect of the plan and the existence of the Canada pension plan and the Quebec plan, would, of itself lead to a reduction in our tendency to save and to an increase in our tendency to spend. However, we are here looking some 20 years ahead. A great deal happens in the kind of economy we have, and we would feel that this relatively modest reduction in the level of national saving and the increase in the tendency to spend will probably be overshadowed by the other changes that are apt to take place in the economy.

Moreover, as we say earlier talking about the national saving and investment, there is a tendency toward stability in a proportion of savings which seems to survive changes in social insurance and things of that sort.

Consequently, our general conclusion is that the plan will not have a very large effect upon the balance between spending and saving.

Does that answer your question?

Mr. Leboe: Mr. Chairman, on that point does it not seem that we have an assumption—and I think it is right—that always capital investment by Canadians will be relative to savings, and it will have to be so in your calculations? In other words, you do not have accumulated savings that are lying idle; they are concentrated and reinvested in capital expansion, which becomes salaries and wages and dividends again in the cycle.

Your assumption, then, is that these will be relative regardless of where we stand in the pension plan, that one will more or less follow the other?

Mr. Bryce: Yes, the plan will have some effect on them. The savings that we make each year are reflected in the capital investment for that year. There are all sorts of channels through which this occurs and comes about. However, when you add what is consumed each year to savings, it produces total income; and when you add it to capital investment it produces total expenditure. They both add up to the same total. These two have to be equal.

I do not want to get into a long discussion on economic theory, but essentially what we save each year finds expression in what we invest in capital expenditure of one kind or another.

One has to take into account, in reckoning our savings, the fact that some people's savings may be negative. In other words, they may go into debt and spend the money; and this we talk about as "dis-saving". You have to set that off against what others save.

Mr. LEBOE: But that is in the past as well as in the future—

Mr. BRYCE: That is right.

Mr. LEBOE: —so it remains relative. One of the fears that was expressed here—perhaps not in so many words—by Senator McCutcheon was that some of the money that may be accumulated by the provinces may be spent for social services which would be in my view a detrimental policy in connection with the plan.

I am not sure, but this is what I sensed from what Senator McCutcheon was saying in connection with the question he asked. I think it is a very valid concern. I will leave it at that.

Mr. MOREAU: Mr. Bryce, would you not say that one of the implications of this plan would be, at least to some degree, to lower the costs to the provinces of providing social capital? It would seem to me there would be considerable economic implications in this. I just wonder what the degree of economic implication would be and if you could give us any idea.

Mr. BRYCE: As we say in the first paragraph in part 8, which deals with the financial system, the provinces will receive these funds at an interest rate one quarter to one half per cent below what they might normally expect to pay in the market for funds having a similar term for repayment.

Whether a reduction of one quarter or one half of one per cent in the interest rate they pay will represent a major reduction in the cost of providing social capital is an arguable point. This reduction is on figures now that are running at 5¼ and 5½ per cent.

Mr. MOREAU: Would there not be a considerable degree of difference between, say, some of the larger provinces such as Ontario and some of the smaller provinces whose costs of borrowing are somewhat higher? Would this be an average or mean figure, or what would the variation be?

Mr. BRYCE: I am sorry, I do not think I have brought the latest quote sheets with me, but the ranges would not be very great between the provinces. Those whose securities are yielding the highest would not be up as high as 6 per cent, and those whose securities are yielding the lowest would not at the moment be below. I guess, 5¼ per cent. So it is a spread, let us say, of the order of one half of one per cent or thereabouts.

Mr. MOREAU: What percentage of that provincial borrowing—and I realize this is quite a variable figure, that sometimes it is quite high and at other times it is quite low—would be borrowed on the United States market, let us say in recept experience, in the last two or three years? I wonder perhaps what implication this would have on future balance of payment problems.

Mr. BRYCE: This is not an easy question to answer. The figures on borrowing in the United States will be here in just a moment. The total borrowings are shown in our appendix here but we have not segregated from those the borrowing outside Canada.

The borrowing outside Canada is done at lower interest rates, and therefore if it is the interest rate that is going to affect the provinces and lead them to use these funds rather than funds borrowed on the market, it may be expected to have more impact on the market in Canada. On the other hand, they have to take certain risks in borrowing outside Canada—exchange rate risks—and it is hard to say how they will weigh those up in their assessment. I would have thought myself on the whole it is probably likely to have more effect on borrowing in Canada than on borrowing outside Canada, but this is not an easy judgment to make.

Mr. MOREAU: I would not have any figures on recent borrowing within the last year or two, but I recall that in 1962 and the years immediately before that there were about seven metropolitan areas in Canada which accounted for a substantial portion of the foreign borrowing. I am referring here to municipal borrowing. There were seven large metropolitan areas, the fastest growing areas in Canada, that accounted for a really extraordinary percentage of the foreign borrowing. With a province perhaps passing some of these funds on to the municipalities it occurs to me that there could be a substantial shift in borrowing on the New York market compared to the Canadian market.

Mr. BRYCE: I have some of these figures now.

I can give you figures now for the provincial direct and guaranteed bonds —which are the ones chiefly of interest to us—of the gross new issues delivered in the last three years, let us say 1961, 1962 and 1963, and I can give you the current year's partial figures later. The figures of new issues in Canadian dollars are $1,135 million in 1961; $1,187 million in 1962; and $1,062 million in 1963. That is roughly speaking $1,100 million in each of those three years.

The amounts in other currencies—and these are the gross issues—were: 1961, $30 million; 1962, $113 million; 1963, $330 million.

In the current year there has been a fairly sizeable amount of issues in other currencies: 1964, first quarter, $90 million; second quarter, $141 million; third quarter, $30 million. That makes a total this year of $261 million compared with those annual figures I gave you.

Mr. MOREAU: One could see a considerable shift from these figures in the future. I appreciate this is a rather long range view, but would you have any idea what the saving would be in the interest and fund retirement in these securities on a balance of payments problem?

Mr. BRYCE: I would hesitate to give you figures whose accuracy and importance might be misinterpreted. It is difficult to estimate this from any analysis of the way in which the provinces and municipalities might react to the availability of funds under the Canada pension plan. Secondly, we have to take into account that our total borrowing in the United States—national borrowing—depends on conditions in our capital market as a whole, and depends to some degree on our current account balance of payments as a whole. So it is a very complicated thing to try to sum up.

Mr. MOREAU: There is one other question I would like to throw out. This concerns the economic implications one might see in several provinces—or even one other province—setting up their own provincial plans. I am referring here to the problem of employers on a national basis trying to operate perhaps three or four different pension plans in Canada. It would seem to me this could post quite a problem for some of our larger industries. It might have quite an inhibiting effect. It would have quite an inhibiting effect on economic growth. Do you have any idea of the possible complications or areas of difficulties that might be met?

Mr. BRYCE: I certainly could not put any figures to it, Mr. Moreau. It would obviously be more inconvenient for employers. A lot would depend on the extent to which the benefits were transferable from one province to another. If they were not portable, then it would create a serious impediment to the movement of people, to the movement of workers between provinces. I think that is one of the real advantages of the Canada pension plan and of the nature of the arrangements that have been made with Quebec in regard to the pension plan; it will permit the movement of workers both during their working life and after retirement. This is one of the major objectives of the government in putting the plan forward in this way.

Mr. MOREAU: What about the other effect of perhaps some of the smaller provinces having very limited funds accumulated and available for social capital as compared to the sum of the larger provinces building up substantial funds? Would you not see a problem here in the economic development of some of the regions in Canada and rather an inhibitory effect on the whole as a result?

Mr. BRYCE: An inhibitory effect of having separate plans?

Mr. MOREAU: I am suggesting that there could be quite an unequal development of funds in separate plans in various regions of Canada having so-called regional or provincial plans. This might place an additional imbalance, shall we say, on economic development.

Mr. BRYCE: Presumably this would occur only if plans were of a different nature in the different provinces as compared with what we have before us.

Mr. MOREAU: Senator McCutcheon was trying to make the point the other night that there would be a difference in the accumulation of these funds, and assuming that was so—and I do not think we have had any particular evidence to show it would be so—another implication or effect of it occurred to me. I wonder if you have any idea of the possible inhibiting effects this would have on certain regions?

Mr. BRYCE: I think this would depend on how far the plans began to diverge in regard to benefits and contributions. The nature of the Canada pension plan is such that if it is divided into a whole series of provincial plans you will get a different rate of accumulation of funds for a variety of reasons, some of which were briefly alluded to the other day when I was testifying in regard to the financial clauses of the bill itself. These divergences are not really great, it seems to me, except perhaps in regard to some of the smaller provinces. I have not worked this out, but I would assume that in the case of Newfoundland or Prince Edward Island, for example, these might show up fairly quickly. The results would be a different rate of accumulation for a while. When it gets to the point at which you would want to alter the contributions or the benefits in some provinces earlier than in others, then I would suggest the issue becomes more serious because then you would, I expect—although Dr. Willard is probably a better witness on this—find some inhibition or some impediment to people moving between provinces.

The CHAIRMAN (*Mr. Cameron*): Mr. Lloyd, you have been waiting very patiently.

Mr. LLOYD: On the subject of provincial spending that was commented upon, generally speaking the provinces and municipalities in the final analysis look at the impact on their budgets of capital spending from the effect of interest and debt repayment, so that this limitation on spending with the advent of the plan will still be the same, will it not, except for the difference in interest rates which might apply to their borrowings from the Canada pension fund?

Municipalities must retire their debts, and provinces watch them very closely through their municipal affairs departments. They have to provide in their budgets for annual repayment of the capital portion, and for annual interest payments on the debts so that in the final analysis the increase in spending of provinces and municipalities—certainly by municipalities and perhaps to a lesser degree the same applies to provinces—or the inducement to spend more money will be only to the extent that there is a lower interest rate, and therefore less of an impact on their annual budget allocations. Would that not be the practical effect?

Mr. BRYCE: We tried to give considered comments on that at the bottom of page 16 in the mimeographed version of our report here, to which I referred. The interest rate is marginally lower, as I mentioned, and it may be one quarter to one half per cent lower. I would have thought that that difference in interest rate in itself would not make a good deal of difference to the willingness of provinces or even of the municipalities to borrow.

The second question which one has to ask is the assurance of the source of loanable funds of this sort, and apart from the interest rate effect, how is it going to affect provincial governments, first in regard to their spending, second, in regard to their revenue policy, and third, in regard to what they will borrow on the market? One is only guessing here with perhaps some informed opinion on how they would behave. It strikes us that it will have some effect, but that

Mr. LLOYD: My point is that comments have been made here which might give the impression that the existence of this vast amount of funds suddenly means much extravagance, if you like, on the part of provincial and municipal governments. I think you have made it clear, and I tried to bring out this point preceding these observations, that there still remains, with the coming into operation of the Canada pension plan, the practical necessity of each provincial government, and every municipal government facing the fact that they have always had to face, namely, that they must repay that debt, and service the interest cost annually.

Mr. BRYCE: Certainly.

Mr. LLOYD: And that this has a major limiting effect to offset the suggestion that there will be extravagance in this fund.

Under this plan, coming to the next point, the provinces have priority to take up the funds available through their right to borrow—

Mr. BRYCE: Yes.

Mr. LLOYD: —at certain designated times and under certain designated procedures, and if they do not take it up, these funds will become investments, in fact, of the government of Canada.

Mr. BRYCE: That is right, the government of Canada will borrow them if the provinces do not.

Mr. LLOYD: This is another governing factor on how much they take up in point of time. Officially, on this same point, perhaps not today, I would like at some time in the near future to have a comment from the finance department on your statement and on the effect of permitting the provinces to have access to these funds by some scheme, and refinancing of the investments of the government of Canada in the fund.

Mr. BRYCE: I am sorry, but I do not entirely understand.

Mr. LLOYD: The government of Canada at "X" year, 1976, may find that the provinces have not taken up their priority to borrow, and that there is $5 million available for investment in government of Canada securities, so they so invest it. Then that $5 million is locked in for the duration of the need for this fund. The government of Canada has more flexibility in the money market. Would it be possible to amend this scheme whereby the provinces could accumulate their rights to procure these funds for provincial investment purposes at a later date, should the occasion arise?

The reason I ask this question is that this might be one of the reasons that the provinces are taking a look at the funds, and saying "Look, if we do not have this right to come back later, we lose our control of the funds. Therefore we lose that little bit of additional advantage in our interest rate, for example".

Mr. BRYCE: Yes.

Mr. LLOYD: It is very vital and an important point that there be one scheme in Canada, and I think we should take a look at in every possible way to make it acceptable to all the provinces to be part of the national scheme. That is the reason I would like to have your point of view on this aspect of the financing of the scheme.

Mr. BRYCE: We shall be glad to look at it.

Mr. LLOYD: Thank you.

Mr. BRYCE: There are some important implications which we would like to consider.

Mr. FRANCIS: At the end of section 4 there is a table showing the government expenditures on health and social welfare and so on. I wonder if there is any specific recorded material behind it? I would like to see, in a little more detail, what is classified because it is not easy to make comparisons.

The CHAIRMAN (*Mr. Cameron*): Which page is that on?

Mr. FRANCIS: This is at the end of section 4, I am sorry, dealing with No. 8 of our minutes of proceedings. I do not have the mimeographed copy here. Section 4 deals with the business sector.

Mr. BRYCE: That is on page 411 in the printed copy.

Mr. FRANCIS: It compares the expenditures of the United States, Canada, and Australia. We are happy to be in the middle of that group. A question I would like to know is just what particular expenses were included when this comparison was made.

Mr. BRYCE: Well, there is a study here which I will be glad to table. The committee might consider whether it would like to have it in the record. It gives the details of it, and in the case of Canada the things which are included are the following: old age benefits, old age security, the federal share of old age assistance, including the amount of the provincial share of old age assistance; mothers' allowances, family allowances, unemployment insurance benefits, unemployment assistance benefits, disability benefits, including blind and disabled persons allowances; workmen's compensation and cash benefits paid under it; the health services including federal-provincial and municipal generally, and the public health and medical services of the crown; medical aid and hospitalization under the workmen's compensation board; veterans' pensions and allowances; and they each include the following: income maintenance, payments to Indians, immigrants, and farmers; administration costs of the income maintenance program; federal welfare services, welfare grants, provincial welfare, and other provincial welfare services, and all municipal welfare expenditures. Dr. Willard will have something to add to it.

Dr. J. W. WILLARD (*Deputy Minister, Department of National Health and Welfare*): In this table we have included all cash benefit payments at the three levels of government in Canada, federal, provincial, and municipal, and all health expenditures and welfare expenditures at the three levels of government. Comparable data have been obtained from the other countries listed, New Zealand, the United Kingdom, Australia, and the United tSates, so that we could see where Canada stood in relation to them over the years. We have made this study for many years and have related social welfare expenditures to gross national product and to national income.

Mr. FRANCIS: Let us take for example an item such as hospital insurance in Canada where there would not be a comparable program in the United States. How would the adjustment be made in the light of that?

Dr. WILLARD: This includes expenditures under the public sector so that in the case of New Zealand and the United Kingdom where you have comprehensive public health services, those amounts would be included; whereas in the case of the United States where those services are not provided under a comparable public program, they are not included. This is one of the reasons why the United States expenditures are as low as they are relatively. The table tries to show and compare what is available within the public sector. United States data do include medical care programs, hospital and medical benefits under workmen's compensation, state temporary disability insurance benefits as well as public medical assistance plans and veterans' health and medical services.

I think your point is quite valid, where one country does not have a public program, it will have as a result a lower percentage. Another illustration would be family allowances. We have a family allowances program in Canada, but they do not have such a program in the United States; this in turn affects the percentage in Canada relative to the United States. This is a comparison of the public expenditures at the three levels of government in the case of federal states; it does not take into account expenditures in the private sector.

Mr. MUNRO: I move that this be made an appendix to the minutes for the day.

The CHAIRMAN (*Mr. Cameron*): It has been moved by Mr. Munro that the statement prepared by Mr. Bryce be included as an appendix to today's minutes.

Motion agreed to.

Mr. GRAY: Could the statements covered in this report which has just been tabled not include the latest figures from Germany and France in this matter of health and welfare? You say in the report that there are no data from those countries in recent years. What is the most recent figure you have?

Dr. WILLARD: Mr. Chairman, the Department of National Health and Welfare has maintained a continuing study of expenditures of this type for the five countries mentioned, Canada, New Zealand, the United Kingdom, Australia, and the United States. But we have not carried on comparable studies for other countries. The comparative information we have in the case of the nine other countries, comes from the International Labour Organization, and there is quite a time lag in the data shown. When you depend upon a source such as the I.L.O., which makes a study for many countries, you have to take into account the time that it takes to get the information in from each of the countries, and then to carry out the analysis, print the report and get it out. This means that even when the report is issued, quite a few years have passed. Also, we have to wait until they make another such a study. Thus we haven't as recent financial data on these other countries, and we have not kept in touch with them for this purpose.

Mr. GRAY: Perhaps Mr. Osborne might get in contact with the German embassy. Germany, as I recall it, has quite an open and oriented economy, showing the percentage of gross national product taken up in 1957. I think this would be rather interesting because of the structure of their economy, and how this works out in recent years.

Dr. WILLARD: We shall certainly try to obtain that information.

The CHAIRMAN (*Mr. Cameron*): Are there any other questions?

Mr. GRAY: Perhaps even Sweden could be included, and the question might be answered by making contact with their embassy.

Mr. J. E. OSBORNE (*Director, Research and Statistics Division, Department of National Health and Welfare*): One of the difficulties in getting precisely comparable data from these countries is defining comparable terms to include their social security expenses. We have tended to use countries whose documents are published in English, so that we can see whether we are dealing with comparable data. When you have to worry about the translation of documents, it is much harder to get precisely comparable data from each of these countries. But we shall try to get what we can for you, Mr. Gray.

The CHAIRMAN (*Mr. Cameron*): Are there any other questions which any member wishes to ask Mr. Bryce? Mr. Knowles has been very quiet.

Mr. KNOWLES: I am sleepy!

The CHAIRMAN (*Mr. Cameron*): If there are no further questions, I assume we might as well adjourn now until this afternoon when we shall commence with integration, and we shall be sitting in room 308 of the West Block at 3.30 p.m. or after the orders of the day, whichever is later. If there is no other business to be brought before the meeting, a motion to adjourn is in order.

AFTERNOON SITTING

TUESDAY, December 15, 1964.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mrs. Rideout and gentlemen, we now have a quorum.

This afternoon we are to have a discussion on integration of the Canada pension plan with other pension plans. This is a subject which I think is of very great interest to all of us.

Mr. MUNRO: Madam Chairman, I think it is the feeling of some members that we do not meet this evening. If that is the general feeling, the clerk could be so advised. I do not know whether or not most members have received notices for a meeting tonight.

The CHAIRMAN (*Hon. Mrs. Fergusson*): They all have.

Mr. MUNRO: The feeling of the committee might be canvassed and if it is not the intention to meet this evening, notices should go out cancelling the meeting.

Mr. KNOWLES: If this subject is the last subject with which we will be dealing, could we finish this afternoon?

Mr. MUNRO: I understand there is a possibility we might finish this afternoon and there would be only one more meeting, perhaps tomorrow, to decide procedure matters. I do not think it is essential that we meet tonight.

Mr. LAVERDIÈRE: I move that we not meet tonight.

Motion seconded and agreed to.

Mr. BRYCE: Madam Chairman, in speaking about the adjustment of integration of existing pension plans in relation to the Canada pension plan, perhaps I should start by emphasizing, as have others speaking on behalf of the government in recent months, that the government's proposals with regard to the Canada pension plan leave quite open the question of whether or not private plans will be adjusted to provide integration and, if so, to what extent and how it is to be done.

Indeed, as Mr. Pennell said in speaking in the House of Commons, it is questionable whether or not Parliament has jurisdiction to legislate in this regard. Those responsible for each private or other form of public pension plan are free to decide, according to their particular needs, whether and in what way modification is to be made in their plan. The bill on the Canada pension plan does not speak about the matter.

In saying this I do not want to leave the impression that we regard as minimal the problems of making the adjustment which may be considered advisable, depending on the nature of the existing plan. The information we have received indicates, as I say, that this is a subject which is being thoroughly studied by the actuaries of the insurance companies as well as pension consultants with the result that a variety of methods of integration is being proposed. The Canadian Association of Actuaries has prepared a report which describes in general terms quite a number of the methods which may be followed, depending on the nature of the existing plan and the objective to be gained as a result of the coordination or integration of it with the Canada pension plan.

Clearly, this is a very technical question and I do not feel I should take up the time of the committee unless they want to question more expert witnesses than I on a detailed technical description of how this or that type of plan might be adjusted in the light of the pertinent circumstances, whether they be over-all cost, or benefit considerations, or a combination of both.

The level of benefits and contributions under some private plans may be such that it would be quite reasonable to build the Canada pension plan on top of the private plans by adding both the contributions and benefits to the existing ones. In others it may be decided to keep the over-all benefits exactly the same, so far as possible, by reducing the benefits under the present plan by the amount of the corresponding benefit under the Canada pension plan and adjusting contributions. A variety of alternatives between these two extremes could be adopted depending on the over-all cost and benefit results that are being sought. The choice of the method of adjustment, and the division of the savings in present costs when part or all of the present contributions by employees and/or employers are diverted to the Canada pension plan, will affect the interests of the workers and their employers, and it is not the government's desire to influence these determinations.

A study of developments in the United States shows that this wide range of integration methods has been adopted although it must be recognized that the majority of private pension plans in that country have been established after the introduction of the national plan and so, in a sense, have been built around it. Of course, in saying they have been built around it, we have to take into account that many of them have had to be adjusted from time to time to take into account and integrate certain changes made in the United States plan.

Hon. Mr. McCutcheon: That is true, of course, in adjustments which the private pension plans have had to make with our flat rate pension. The United States plan has no built-in escalator.

Mr. Bryce: No.

It does not relate to average earnings which go up, and to that extent it has, but it has an earnings ceiling.

Hon. Mr. McCutcheon: But any plan relates that; it does not have a benefit until you have your wage relating index.

Mr. Bryce: A recent analysis of selected private pension plans in that country was made by the social security administration of the United States department of health, education and welfare. I have here, and will ask to be distributed now, copies of the section of this study dealing with methods of co-ordination of the old age survivors and disabled insurance benefits in the United States with the benefits under private pension plans there. This shows that some private plans are written in terms of the total retirement benefit whereby, if applied in Canada to the Canada pension plan, the private plan would simply pay the difference between the total retirement benefit which it prescribes and the benefit provided under the Canada pension plan. If this approach were followed on the introduction of the Canada pension plan, then either the existing level of benefit of the private plan could be regarded as this "total retirement benefit" or some new benefit formula would be devised for this purpose. The contribution rates would have to be adjusted as required in either case.

'INTEGRATION

This report states that most private plans in the United States provide for integration with the United States social security pension by paying lower benefits, as a percentage of earnings, on the earnings on which social security contributions are made and on which the social security pension is calculated. This is the method which is used where co-ordination or integration is required under the pension plan for locally engaged employees of the government of Canada in the United States.

That is to say, we have this feature in our own plan which we operate in the United States.

Under this approach, modifications may have to be made when the contributory earnings ceiling is increased or the benefit formula is altered. These methods are understood by both Canadian insurance companies and consulting actuaries who have studied developments in the United States.

Those operating employer-employee plans of one kind or another in Canada are already familiar with the general problems of integration in so far as they have taken into account during the past 12 years the introduction and subsequent increase of the old age security pensions, which many have done. Adjustment to the Canada pension plan is far more complicated in detail, but gives rise to certain of the same problems of procedure and general substance; but as has been pointed out it does not have the same automatic adjustment feature built into it.

The parliamentary secretary to the Minister of Finance has already explained in the House of Commons the general approach which the government proposes to recommend to Parliament when the time comes to amend the Public Service Superannuation Act for this purpose. Under this plan which covers some 175,000 employees in the federal civil service as well as employees of certain boards, commissions and corporations, the men contribute 6½ per cent and the women 5 per cent of their salaries until they have 35 years of pensionable service to their credit. The government matches these contributions each year and from time to time contributes additional amounts which are required in respect of the liabilities created by pay increases which are not covered by the ordinary matching contributions.

Subject to certain detailed conditions, pensions are calculated by multiplying the average salary over the best six years by 2 per cent for every year of service up to 35 years. In other words, the act provides a long service employee with an opportunity to secure a pension amounting to 70 per cent of the average salary over the best six years. In the light of this substantial existing plan, the government decided to apply two principles in adjusting this plan to the Canada pension plan.

The first principle is one mentioned earlier, namely, that the total contributions paid by the employee and the government should not be increased, but instead a portion of the contributions should be diverted away from the superannuation fund in each case to the Canada pension plan.

As a consequence of this diversion, it was recognized that the benefits earned under the superannuation act would have to be reduced after the Canada pension plan goes into effect.

The second principle was that this reduction in benefits would not bring the total level of benefits below the level that would have prevailed under the superannuation act before these adjustments in the case of a present civil servant who has retired in future because of age or disability. Thus the total contributions by these employees would not increase, and their total benefits would not decrease. I should emphasize that pension credits already earned on service up to the commencement of the Canada pension plan (Jan. '66) would not be affected.

So, far from decreasing the total benefits, our studies showed that the relationship between benefits, contributions and the funding under the P.S.S.A. and the C.P.P. are such that if the combined rates of current contributions for the two plans are the same as the present rates under the P.S.S.A., that is 6½ per cent for male employees and 5 per cent for female employees, then a formula could be devised whereby for our present employees the combined benefits in the great majority of cases would exceed the benefits which the present P.S.S. act provides.

As a result of these relationships, as Mr. Pennell informed the House of Commons, the Government has decided to recommend to Parliament as soon as practicable after the Canada pension plan is enacted that the P.S.S. act be amended so that the following method of co-ordination could be applied:

Firstly, the combined contribution rates under P.S.S.A. and the C.P.P. should be equal to the present contribution rates being paid under the P.S.S.A., but the contributions paid into the P.S.S. account would be reduced by the amount of the contributions diverted to be paid under the C.P.P.

That is 1.8 per cent on that band of earnings from $600 to $5,000.

It follows that the government's matching contribution into the P.S.S. account would be correspondingly reduced by the amount the Government pays into the C.P.P.

In the second place, superannuation benefits paid before age 65 to the minority of persons retiring between the ages 60 and 64 will be the same as are now paid under the P.S.S.A., that is by multiplying the average salary for the best 6 years by 2 per cent for each year of service. Our employees are entitled to retirement at 60 although the majority do not retire before 65.

Hon. Mr. McCUTCHEON: Is Mr. Bryce saying that no matter what the formula is they will be paid if they retire between 60 and 65 the same as they are now?

Mr. BRYCE: Yes, that is right, up to 65.

Hon. Mr. McCUTCHEON: Up to 65?

Mr. BRYCE: Yes. The main change is that superannuation benefits paid to persons who become eligible for pension under the Canadian pension plan at age 65 or on their subsequent retirement will be determined by the following formula:

(*a*) the portion of the superannuation based on the average salary for the best 6 years up to the earnings ceiling of the C.P.P. for each year of service after the C.P.P. commences, would be calculated at the rate of 1.3 per cent instead of 2 per cent, while

(*b*) any portion of the superannuation pensions benefit based on that part of the average salary above the relevant average earnings ceiling of the C.P.P. would be calculated at 2 per cent for each year of service as is presently payable under the P.S.S. Act.

Here it can be seen that we are following the same method as that followed by quite a number of private plans in the United States as noted in that excerpt I distributed.

The method by which the superannuation pension benefits are calculated in the case of ordinary retirement would be applied when benefits under both plans are payable in the case of a disability retirement where the disabled person was entitled to disability benefits both under the C.P.P. and the P.S.S. Act. In other words, a person becoming disabled at that time would be dealt with in the same manner as a person reaching age 65. It is also proposed that there would be no reduction in widows' and children's benefits under the superannuation act following the co-ordination of the two plans. These benefits are so different under the two plans, that we came to the conclusion that no fair basis of integrating them could be selected.

In summary then I might say that the co-ordination of the two plans will provide most present civil servants retiring on pension with at least equal and probably slightly higher over-all benefits for some years at no extra cost to them. Those who do not contribute at present will, of course, have to make additional contributions as will those who complete their 35 years of pensionable service in the future. The ordinary integration formula which I have described will probably be subject to some modification in respect of those later years of service. This feature is presently being reviewed by the Minister of Finance's advisory committee under the Public Service Superannuation Act to which Mr. Thorson referred when explaining the clause on the advisory committee on the Canada pension plan. This committee which consists of equal representation from the official and staff sides of the public service recommended to the minister the general formula which I described earlier.

In other words, the Public Service Superannuation Act should not be expected to protect the pension level of a person who, by his subsequent employment, becomes ineligible to receive the full Canada pension plan benefit which would otherwise have been payable to him at that time.

That point may be a little intricate. The essence of it is that if one of our men retires at 65 he becomes eligible, if he remains retired, for a Canada pension plan benefit. We reduce his public service pension in the manner I have described here, but if he decides instead of remaining retired to work at something else, then he will not get his Canada pension plan benefit because of the provisions of the act, but we leave his public service benefit reduced because he chooses to work rather than remain retired.

Similarly, in the case of a civil servant who left the service and chose to take a deferred annuity which would commence at the age of 60, the advisory committee felt that the adjustment formula which I described should apply at age 65 regardless of the size of the Canada pension plan benefits earned as a result of the employment which that civil servant entered after leaving the civil service.

Years ago we arranged the superannuation act in order to permit an effective portability of pension if someone were to leave the public service after a certain number of years, enabling him to obtain a deferred pension payable at age 60. This deferred pension would now be adjusted in the way I have described to take into account prospective Canada pension plan benefits accruing during the period while he worked in the public service. If his subsequent employment elsewhere altered the Canada pension plan benefits which he was, in fact, going to get we would not try to take that into account. Again, this arises out of his subsequent behaviour rather than his employment with us.

Members will recognize of course that the time to give detailed consideration to these proposals will occur when the government places a bill to amend the Public Service Superannuation Act before parliament. We have gone into the general nature of the plan at this stage in order to allay some concern that has been expressed and to answer the question which many operators of private plans and other public employers ask as to how the government proposes to adjust its own plans.

This then is the method proposed for the civil service, our largest plan. Variations of it will be devised for the other plans for which the government is responsible* and whose members will contribute under the Canada pension plan. The Government's proposals for those plans will be made known in due course; these will cover bodies like Crown companies, judges and members of parliament.

Hon. Mr. McCutcheon: How are you going to integrate the pension plan for the Senate?

Mr. Bryce: We have not yet tackled this! We have a few examples.

Mr. Moreau: Do they retire?

Mr. Bryce: We would like to hand around a couple of tables just illustrating how this thing works out. I am afraid the arithmetic is rather too intricate to describe in prose and it may be that the examples will make the thing clearer.

The Chairman (*Hon. Mrs. Fergusson*): Thank you very much, Mr. Bryce.

Dr. Francis, did you have a queestion?

Mr. Francis: Mr. Chairman, I understood Mr. Bryce to say that in the case of civil servants who leave the public service and who leave credits which will make them eligible for a deferred annuity there would be an adjustment. Would there be an adjustment in this case?

Mr. BRYCE: When they leave in future?

After the Canada pension plan has become effective they will be earning in deferred annuities amounts adjusted in the same way as others for immediate annuities.

Mr. FRANCIS: I understand.

Mr. BRYCE: That will be adjusted taking into account the benefits that they are earning under the Canada pension plan, but we will not try to follow them in later life and readjust those adjustments.

Mr. FRANCIS: There is one point I wanted to clarify, Mr. Chairman, in respect of people who have left in past years. No adjustment is contemplated?

Mr. BRYCE: No, all the benefits earned up to the commencement of the Canada pension plan would be left intact.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Aiken.

Mr. AIKEN: Mr. Bryce, has there been any communication with the railway companies in connection with the methods they are going to use, or has there been any preliminary discussion with them?

Mr. BRYCE: I think perhaps Mr. Clark has had some preliminary discussions with C.N.R. I doubt whether we have had any with C.P.R.

Mr. H. D. CLARK (*Director Pensions and Social Insurance Division, Department of Finance*): That is correct. The C.N.R. and the other agency corporations and proprietary corporations of the federal government which have their own pension plans have been in to meet us for some preliminary discussion on the method by which integration may be effected.

Mr. AIKEN: I have received—and I suppose other members have also—communications from various people in the railways who feel that railway employees who have some considerable seniority and service and who have built up a pension might lose if they have to go to the Canada pension plan. There seems to be very great fear that their contributions to the railway plan will be reduced if they go on to the Canada pension plan, and thus they will lose a considerable amount of pension. Would I be right in assuming that the railways are trying to work out a similar type of adjustment as that which Mr. Bryce has mentioned?

Mr. CLARK: Again, I can only speak in terms of Canadian National Railways. They have been working on the same general approach—at least up to date—as that on which we have been working.

Mr. AIKEN: I have just one other question.

These discussions that you have had have been strictly informal?

Mr. CLARK: That is correct.

Mr. AIKEN: In other words, Canadian National Railways, and presumably the Canadian Pacific Railway as well, will come to their own decision on their own plans.

Mr. CLARK: That is so, subject to the understanding that the Canadian National Railways plan and all amendments thereto have been approved by the governor in council over the years.

Hon. Mr. McCUTCHEON: Are those not a matter of collective bargaining?

Mr. CLARK: Undoubtedly that enters into it. I am not too familiar with these relationships in Canadian National Railways personally. Maybe there is some other person here who could answer that.

Mr. MOREAU: May I ask a supplementary question?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Moreau.

Mr. MOREAU: This fear expressed by Mr. Aiken that some of the older workers in Canadian National Railways might have would hardly be consistent with the charges by Senator McCutcheon that the greatest transfer payment in private subsidy is to the older worker under the Canada pension plan. I wonder if you can see any way they can possibly lose.

Hon. Mr. MCCUTCHEON: I am not giving evidence, Mr. Moreau; I stick by my original statement.

Mr. CLARK: If they use the approach that we have in mind it is difficult to see how they would lose.

Mr. KNOWLES: Madam Chairman, I would like to ask three or four questions to which I think I know the answers.

Hon. Mr. MCCUTCHEON: You should never ask a question unless you do know the answer.

Mr. KNOWLES: I am not asking the question because of the condition we put on the record this morning; I am asking these questions because they are questions many people have been asking, and even though they have been answered in the white paper and in speeches made in the house I think it is useful to have the answers confirmed by the officials we have before us now.

One of the questions some railway workers and others in private pension plans ask us by letter and in person is this: Is the Canada pension plan, or is the government under the aegis of the Canada pension plan, going to take over any of the funds of private pension plans?

Mr. BRYCE: The answer is no.

Mr. KNOWLES: I am right so far.

I have mentioned railway workers and now I will mention teachers because a similar question is asked by them. It is put in these terms: The Canada pension plan provides for the earliest possible retirement at age 65. There are teachers' pension plans that provide for retirement at 60 or 62. Therefore, some teachers say to us that we are going to be worse off under the Canada pension plan than we are under our present plan.

I have tried to give the answer and it has been given before, but could it not be given again?

Mr. BRYCE: Mr. Knowles, the Canada pension plan provides benefits only when they get to 65. If they cease earning before 65 that has some effect on the benefits they will get later, and it is perhaps some inducement for them to go on working.

Mr. KNOWLES: It has some effect on the benefits they get later under the Canada pension plan?

Mr. BRYCE: It has some effect on the benefits they get later under the Canada pension plan.

Mr. KNOWLES: But it may not have any effect at all on their right to retire from their normal employment at 62 and draw their pension?

Mr. BRYCE: No, we have no power or intention to interfere with that in any way.

Mr. KNOWLES: I realize I am indulging in the sin of repetition, but these are points which concern many people and since the answers are so clearcut may I continue?

Dr. WILLARD: May I add one point in reply to that question?

In the integration that may be carried out it may be similar to what we know was carried out when old age security was introduced. It is quite possible that the private pension plan, where the retirement age is 60 or 62, will provide a higher benefit prior to age 65 and thereby will provide a level benefit throughout from age 60 or age 62 on, if that type of integration is carried out.

Mr. CANTELON: May I ask a supplementary question directly on that point?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Cantelon.

Mr. CANTELON: There are some teacher plans that, in certain circumstances, enable teachers to retire before the age of 60. This I would suppose, if they retired at 58, would mean they would not have been teaching for some seven years before the Canada pension plan would come into effect and then they would not draw any pension benefits from the Canada pension plan.

Mr. BRYCE: Until the age of 65.

Mr. CANTELON: They would not have been working the five years; I wonder whether that would affect it?

Mr. BRYCE: That would naturally affect the benefits they would get under the Canada pension plan.

Mr. CANTELON: But it does not eliminate the fact that they can draw benefits?

Mr. BRYCE: Perhaps Dr. Willard can answer that better than I.

Dr. WILLARD: No, Madam Chairman, if they have contributed even for a year they will receive some benefit in relation to that year. If they have contributed longer, they will receive presumably a higher benefit.

Mr. KNOWLES: Under the head of integration, which is our subject this afternoon, it is clear that what we call integration, if it takes place at all, is a matter of the private plans making adjustments.

Mr. BRYCE: Yes, sir.

Mr. KNOWLES: If the Canada pension plan does not adjust, does not take over, does not interfere, it is a question of what adjustments the other plan may make?

Mr. BRYCE: Yes.

Mr. KNOWLES: May I ask a couple of questions on the specific topic of so-called integration with the public service superannuation fund?

In this instance I am asking questions that are asked of us not so much by those of us who are still in the public service but by those who are retired.

As a matter of fact, there are some letters coming in that suggest what I think is an unnecessary concern, but nevertheless it is there.

The concern is being expressed in this way. Does the government's announced intention or offer to integrate the Canada pension plan and the public service superannuation plan mean that any of the moneys in the public service superannuation fund are going to be taken over by the Canada pension plan?

Mr. BRYCE: No, not of the moneys that are there now. Some of the future contributions would be diverted.

Mr. KNOWLES: Any moneys that are there now and will be put there until December, 1965, will not be touched in any way, shape or form?

Mr. BRYCE: No.

Mr. KNOWLES: I am glad you are confirming the letters I have been writing about this. It is not just one letter, Madam Chairman, it is a dozen letters on this very point.

The other question that retired civil servants ask—and again I am afraid I know the answer but it does not satisfy them—is this: What is there in this plan for superannuated civil servants, those who are already retired and no longer working?

Mr. BRYCE: There is in it just the escalation of the old age security.

Mr. KNOWLES: That was a very interesting way of saying that so far as the Canada pension plan is concerned there is nothing in it for them.

Mr. BRYCE: Yes.

Hon. Mr. SMITH: Unless they take some other employment.

Mr. BRYCE: Unless they take some other employment.

Hon. Mr. SMITH: Which is quite important for them to consider.

Mr. KNOWLES: In other words, if I may pursue my point, they are in the same position as other people who might want to buy into the Canada pension plan or something of that sort. There are various categories of people who do this and I know if some of these organizations representing superannuated civil servants appear, this is a point they would want to make. They are in the position that unless they return to work there is nothing in the Canada pension plan for them. The only thing for them is the possible escalation of old age security.

Mr. GRAY: I would like to ask Mr. Bryce a question. Is there not also in it for them the fact that they may be in a position to take advantage of the age related flat rate benefit as it goes into effect?

Mr. BRYCE: Yes. I did not include that. We have thought of this as something that enables them to take the equivalent of the old age security benefit over a longer period. That option is open to them, of course.

Mr. GRAY: And that is so even if they have not and will never contribute anything to the Canada pension plan fund?

Mr. BRYCE: Yes, that is the case, certainly.

Mr. GRAY: So that people who are already retired will have this additional benefit of this legislation, if and when this legislation is passed, which is not now available to them?

Mr. BRYCE: That is right, and being able to take the old age security benefit at an earlier age.

Hon. Mr. McCUTCHEON: Let me take issue with that word "additional" in regard to benefit. This is an actuarially equal benefit. If I take it at 65 I take so much, and on the average I get just as much as if I had taken the full $75 at 70.

Mr. GRAY: May I take further issue with Senator McCutcheon? Is it not correct, Dr. Willard, that your actuarial expectation of life is shorter as the years go on and, therefore, by being able to take advantage of this provision between 65 and 70—

Hon. Mr. McCUTCHEON: As an actuary, I agree it is shorter as you go on.

Mr. KNOWLES: May I ask just two more questions?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Dr. Willard would like to say something first.

Dr. WILLARD: In reply to the questions that have been put, the benefit is graduated according to average life expectancy so that on the average the point Senator McCutcheon made is quite correct. However, as I pointed out earlier here, there could be many instances where individuals might, because of health reasons, know that in their particular case their normal life expectancy would probably not take them to age 70. Therefore, probably they would, as individuals, be better off, and in that sense it is an additional benefit.

Hon. Mr. McCUTCHEON: They select against you and if they are right they win, and if they are wrong they do not.

Mr. MOREAU: There would be considerable personal advantage. And I appreciate the actuarial equality of the payments. There may be a situation in which someone on a modest pension at 65, being able to receive the additional $61 at age 65, could then live quite adequately on the additional provisions, whereas there would be considerable hardship for that five year period otherwise.

Dr. WILLARD: That is correct. While there may not be any additional benefit on average, the pattern of income could be such that it might be helpful to many people.

Hon. Mr. MCCUTCHEON: On the average you are not expecting any significant increased charge on the old age security fund as a result? You will get an initial surge but it will then balance out.

Dr. WILLARD: Over the long run, that is true.

Mr. BRYCE: Except for interest.

Mr. LLOYD: May I move that these two schedules, which are examples of the application of the integration formula, become appendixed to the reports of these proceedings?

Mr. MUNRO: I second the motion.

Motion agreed to.

Mr. FRANCIS: I am interested in Mr. Bryce's comments of a moment ago when he said "except for interest". Will he elaborate on that? Does he imply the interest factor might change the net advantage?

Mr. BRYCE: As I understand the equivalent for the old age security pension, you take it at an earlier age. The actuarial figure is calculated without taking interest into account. If someone wants to take that factor into account he may find it advantageous to select for that reason.

Mr. FRANCIS: Then, on the basis of that, Mr. McCutcheon might be prepared to amend his earlier comment.

Hon. Mr. MCCUTCHEON: I do not think it is that serious. He would have to be as ingenious as the fellow who invests student loans.

Mr. KNOWLES: With regard to the subject that was just partly discussed, namely any extra advantages which accrued to superannuated civil servants, or to any other Canadian from the old age security portion of this plan, if those advantages impose any additional cost, that cost is paid for out of the old age security tax.

Mr. BRYCE: Yes.

Mr. KNOWLES: And not out of the Canada pension plan?

Mr. BRYCE: Yes.

Hon. Mr. MCCUTCHEON: Out of the old age security or out of the public service superannuation fund.

Mr. KNOWLES: I said if there was any additional cost from paying old age security at a lower age, or from escalating the benefit in relation to the consumer price index, this is paid out of the old age security fund?

Mr. BRYCE: Yes.

Mr. KNOWLES: I would like to ask a couple of questions in an effort to clarify my own mind. This is in respect of the detail Mr. Bryce gave us about civil servants who are employed and making their contributions. I take it the intention of the government would be that the 6.5 per cent rate in the case of male employees would be reduced to 4.7 per cent.

Mr. BRYCE: On the band of income—

Mr. KNOWLES: Is it on the band, or up to $5,000?

Mr. BRYCE: The amount of contribution payable under the Canada pension plan will be deducted from the amount payable under the Public Service Superannuation Act, so, it will be the amount payable in that band.

Mr. KNOWLES: Therefore, it is done as an absolute amount rather than as a change in the percentage rate?

Mr. BRYCE: Yes. It will be all the same to the computer and, as Mr. Clark adds, to the contributor.

Mr. KNOWLES: Would you explain again this 1.3 per cent figure that you used for the purpose of computing the pension to which a retiring civil servant is entitled?

Mr. BRYCE: On the $5,000, or on his earnings up to $5,000, once the Canada pension plan is in operation and he is contributing under the Canada pension plan and is earning benefits under the Canada pension plan, he then will be accruing benefits under the Public Service Superannuation Act on income up to $5,000 only at the rate of 1.3 per cent per annum rather than 2 per cent per annum as previously.

Mr. KNOWLES: The employee over $5,000 has a combination which has to be worked out.

Mr. BRYCE: Yes. In discussing this earlier, I was told this figure means, speaking with reasonable precision, it will alter the future benefits to a degree that actuarially balances the amount of the contribution being diverted; in other words, it does not leave the superannuation act reserves either more or less adequate than they were before. It is intended to be actuarially about neutral.

Mr. KNOWLES: So far as the employee is concerned when he retires, he is either in the same position or in a better position.

Mr. BRYCE: Almost all the present employees would be in the same position or in a better position. I say almost all, or the large majority. When you get very young employees who have Canada pension plan benefits as well as superannuation benefits which are more than 35 years off, then it is not certain they will be better off. This is why I have to qualify it to that degree.

Hon. Mr. MCCUTCHEON: Then are you underwriting the benefits? I have a calculation here which shows that employees at age 30 in 1966, under the formula, will be slightly worse off; not a great deal, a fraction of one per cent. Is it proposed that you are going to underwrite the present benefits; in other words, will the Public Service Superannuation Act underwrite the present benefit?

Mr. BRYCE: What the government has done so far is to assure the present employees that their benefits will not be less. That was one of the principles.

Hon. Mr. MCCUTCHEON: They are underwriting it.

Mr. BRYCE: They are underwritten. So far as I know the government has not yet reached any decision with regard to whether that underwriting, as you call it, would be extended to new employees in the future.

Hon. Mr. MCCUTCHEON: It is for present employees?

Mr. BRYCE: Yes.

Mr. GRAY: So that I might attempt to put this question in respect of integration in some perspective in my mind at least, there are about 1,800,000 people covered by some form of private pension plan in Canada today.

Mr. BRYCE: Including the government plans, ours and the provincial plans, it would be 1,900,000, or something in that order.

Mr. GRAY: Would there be about 400,000 in the various government plans?

Mr. BRYCE: About 400,000 including the provincial plans.

Mr. GRAY: That would be about 30 per cent of the total labour force, or less.

Mr. BRYCE: About 30 per cent.

Mr. GRAY: A little less, I think.

Mr. BRYCE: Yes.

Mr. GRAY: What is the total labour force?

Mr. A. S. RUBINOFF (*Financial Affairs and Economic Analysis, Department of Finance*): About 6.9 million in the labour force now; 6.8 or 6.9, which would be about 30 per cent.

Mr. GRAY: So, for 70 per cent of the labour force there is no problem of integration so far as private pension plans are concerned, because they do not have any.

Mr. BRYCE: That is right.

Mr. KNOWLES: They have a problem and that is why we are bringing in this act.

Mr. MUNRO: Following up on the point made by Dr. Willard earlier, I too, have been contacted on numerous occasions by teachers, especially teachers in occupations where they have plans which provide for early retirement which can be taken advantage of. They are concerned with how the Canada pension plan might prejudice their ultimate position. Is it a fair assumption to say that all of the private plans which have early retirement provisions—speaking in terms of age 58 or 60—relatively speaking would be the plans which would be fairly rich in benefits compared to other plans?

Mr. BRYCE: I hesitate to express an opinion on that simply because I do not know them well enough.

Hon. Mr. MCCUTCHEON: I have an example of that. I think it poses a real problem. If you will allow me to interrupt, I would describe it very briefly. In the case of a female employee reaching age 60 on December 31, 1966, under a pension plan providing for retirement at age 60, her average earnings rate is .96 divided by 10, and the initial amount of her Canada pension plan per annum is $129.60. If she worked to age 65 at the same salary, the initial amount of her Canada pension plan would be $753.16. So, her employer is faced with a very, very definite problem. Employers who do not have the advantage of being able to pass an act of parliament in order to integrate their pension plans are going to be presented with very serious difficulties. This is just one illustration a propos of what you brought up.

Mr. BRYCE: Do I take it, senator, that the difficulty to which you are referring is that now the employee will have a strong desire to go on working, a stronger desire than heretofore?

Hon. Mr. MCCUTCHEON: Much stronger.

Mr. BRYCE: I think that is probably general in the case of those who have provisions for early retirement.

Hon. Mr. MCCUTCHEON: I say it becomes a problem for the employer.

Mr. MUNRO: To get back to my question, I believe a study of the various provisions of the most common private pension schemes in Canada was put out by the National Trust Company back in 1960. From looking at that I more or less came to sort of a layman's opinion that the private pension plans which make provision for early retirement at age 60 or even earlier are plans which on the whole have a high contribution rate, relatively speaking, and that these plans are rich, not only in the contribution rate but also relatively speaking rich in benefits. This brings me to the point which Dr. Willard mentioned. I would think, if that assumption is correct, it would be usual to expect that any integration, or most of the integration that is to take place will take place in respect of the Canada pension plan and those plans which provide rich benefits and which have a rich contribution rate; that is where a lot of the integration will have to take place.

In the case of teachers, the contribution rate under their plan, relatively speaking, compared to the other plans is pretty rich in respect of the contribution rate only; there will be a lot of incentive, when integration takes place, to acceleraate the benefits of early retirement so that they will run even and level with the benefits under the Canada pension plan when the subscriber reaches age 65. I think this is a point Dr. Willard mentioned. If there is wide agreement on that and if that is an assumption which can be made in a valid way, it should go a long ways toward allaying the fear expressed, not only by many teachers, but also by other people who are covered under plans in which they have invested a good deal of money because of the rich contribution rates required.

Mr. CANTELON: I think there is a professional problem worrying the teachers here, because it certainly is advantageous for some of them to retire at lower ages rather than at higher ages.

Dr. WILLARD: Madam Chairman, Mr. Munro mentioned the National Trust Company study. I believe that study showed that out of the 157 plans surveyed, 140 plans specified that the normal retirement age for male employees was 65 years. In the majority of these plans the normal retirement age for female employees was found to be nearly equally distributed between 65 and 60, in the ratio of 45 per cent and 42 per cent, respectively.

Mr. MUNRO: Is it a valid assumption that most of the private plans included in that survey which provided for early retirement benefits, relatively speaking, were rich plans, so far as the contribution rates and benefits were concerned.

Dr. WILLARD: I could not say offhand, without studying the plans. However, certainly plans such as the civil service superannuation scheme and the teachers' retirement plans tend to make favourable retirement provision, and to the extent that teachers' retirement schemes do provide for an earlier age, certainly for that group I would think it might apply. However I am not too sure of the composition of the study in the terms that you have put your question.

Hon. Mr. MCCUTCHEON: A moment ago I asked about the present employee in the civil service who is age 30 or 35 years at the moment and who, in my calculation, will be a few dollars worse off. I received the answer that the present intention of the government is to underwrite that employee, he being the person presently employed. What about the case of the civil servant who reaches age 65 on December 31, 1975, after at least 35 years of service who throughout has full pensionable earnings under the forecast of the government actuary? My calculation on the average earnings over the last six years of $6,750 is that his present pension would be $4,725 and that under the new formula the pension would be $5,769, or an improvement of $1,044, nearly 25 per cent.

Mr. BRYCE: The combination of the two.

Hon. Mr. MCCUTCHEON: Yes. That comes back to the suggestion that I was not right in my windfall remarks and that that always applies to the person who needs it least. Is it the present intention that this civil servant will obtain this windfall?

Mr. BRYCE: Yes; they will get substantial pensions. This is made evident in the tables we distributed.

Hon. Mr. MCCUTCHEON: Would you mind going over the tables. Frankly, I do not know the assumption.

Mr. BRYCE: Here we have given examples of application in the integration formula for Mr. A and Mr. B, in order to identify them. There is another one, C, which ties in with an example that was given earlier in the committee when Mr. MacDonald of the office of the comptroller of the treasury appeared.

Perhaps we might take the A and B cases first; they are relatively round figures. Mr. A's final salary is $3,600 and an average salary for the best six years of $3,300; he has had 20 years service, we assume, under the Canada pension plan, and ten years service before it. This is a total service of 30 years. The 2 per cent formula under the present act would give him a pension of $1,980, both before and after age 65, or after his sixty fifth birthday. The new formula would give him after his sixty fifth birthday a reduced amount of $1,518. The Canada pension plan pension to which he would be entitled would be $825. So, the combined pension at age 65, therefore, would be the sum of that and the $1,518, amounting to $2,343. The increase in the combined pension would be $363 which is 18.3 per cent of the pension he would have received under the Public Service Superannuation Act itself.

In the case of B, it is a higher salary. The other things are comparable. You will notice the absolute gain he gets is greater, but the percentage gain is less.

Mr. MUNRO: May I make a point on that; I do not think it could be said that a person who over the last six years earns $3,600 and gets an additional 18.3 per cent in pension is getting a windfall. That average salary is substantially under the average salary in Canada.

Mr. BRYCE: The C case is a case in which the average salary of the civil servant's best six years is $6,600. The maximum Canada pension plan benefit salary is $7,000, so he is below that maximum. He is assumed to have had 19 years service under the Canada pension plan and 10 years before it, making 29 years in all. Under the present superannuation act formula he would be entitled to a pension of $3,828. Under the adjusted formula he would be entitled to $2,950, and he would be entitled to a Canada pension plan of $1,650. The combined pension he would receive would be $4,600 and the increase in this combined pension would be $772, and the percentage which that constitutes of what he would have received under the superannuation act is an increase of 20 per cent.

Hon. Mr. MCCUTCHEON: Mr. Bryce, it is not suggested that the 1.8 and 1.8 contributions will produce in this case the pensions that are outlined and visualized in the act under the actuary's report; in other words, at some stage the piper has to be paid. Some of us around here will not be around to pay the piper, but others like Mr. Munro will be around.

Mr. MUNRO: We will have your estate then, senator.

Hon. Mr. MCCUTCHEON: I will make my own arrangements about that.

In these examples is it not implied that there is going to be an increased burden on the Public Service Superannuation Act over the long term?

Mr. BRYCE: An increased diversion.

Hon. Mr. MCCUTCHEON: An increased burden on the Public Service Superannuation Act, or the employees are going to pay more on the present basis of the actuary's report as at July 17, 1964, which indicates that wages are going up 13 per cent, which is the minimum. The actuary further suggests that the combined benefit for male contributors would be 17.9 per cent instead of 13 per cent, and for female contributors 16.1 per cent instead of whatever the percentage is which I do not know. I am not trying to be critical or partisan. It seems to me it is implicit that the effect of the type of integration you are suggesting—not next year, or in the year after—in the long run must show an additional burden on the public service superannuation fund.

Mr. BRYCE: This is the advice we have had when it is applied to the present contributors. This is one reason I said we have not given the guarantee to the future contributor, because when you take that into account and look ahead 30 or 40 years, then of course the diversion presumably will be more than 3.6 per cent. While we think that the reduction from 2.0 to 1.3 will cover us for a long time, I cannot tell you how the thing looks after we have got under the substantially higher diversions. Perhaps Mr. Clark would be able to speak better on this than I.

Mr. CLARK: I cannot really add anything to what Mr. Bryce said on that. We will have to look at the possibility, perhaps, of devising a different type of benefit formula for new employees.

Hon. Mr. MCCUTCHEON: This only underlines what has been my concern all along. Mr. Bryce pointed out that the United States plan had been integrated, but of course the number of United States plans in effect when the United States social security first went into effect, relatively speaking, were few, even when compared to Canadian plans in effect today. The private employer is being presented with a very difficult problem, particularly if he is dealing with strong bargaining units. If, on the one hand, the government today can look ahead and say we have not decided what we will do about our new employees, or new employees 10 years from now, on the other hand, in respect of our present employees we are giving the best of the two worlds; they are guaranteed they will not get less than they are getting and the majority will get more. That is a very simple form of integration; but, looking ahead in the future, Mr. Bryce will agree, it may not be quite so simple.

Mr. BRYCE: The further we look into the future the more I think the problem is.

Mr. MOREAU: I think a while ago Senator McCutcheon said he was not giving testimony. Perhaps he might like to revise that statement.

Mr. MCCUTCHEON: I am willing to be cross examined on my last statement.

Mr. FRANCIS: A minute ago Mr. McCutcheon said he thought there would be an increased burden on the Public Service Superannuation Act. I could not fully understand his point of view. On the basis of what you know now, Mr. Bryce, will there be as much likelihood, with the reduction of the 2 per cent to 1.3 per cent, that there will be less of a burden than more of a burden?

Mr. BRYCE: This is an awfully complicated thing. I am not sure I have it all in my head without consulting those who are more expert than I. The 1.3 per cent reduces both the employee benefit and our liabilities for future benefits. We divert these contributions. As I said, it gives some rough balance in regard to what he can get. On the other hand, there are some incidental savings to the government, to the fund, in regard to pay increases in the future. Pay increases do not become quite so expensive under the new formula as they have been heretofore.

This is one of the by-products that helps to ease the position of the fund.

Hon. Mr. MCCUTCHEON: That is for new employees.

Mr. BRYCE: No, for existing employees. When there are pay increases for employees our existing liabilities increase. When that occurs, the effect will not be as serious under the new adjustment formula as it is at present.

With regard to what happens when the rates of contribution under the Canada pension plan and the rates therefore that will be diverted from the superannuation plan increase materially, I hesitate to express an opinion offhand because I have not looked hard enough 25 years or 30 years hence.

Mr. FRANCIS: Would it not be fair to say that on the basis of the best information we have today there is no more reason to believe it will place an increased burden on the civil service superannuation fund any more than to say it will place a decreased burden.

Mr. BRYCE: For our existing employees, yes.

Mr. KNOWLES: In other words, you have tried to hit it as dead on as you could.

Mr. BRYCE: Yes, in selecting this figure of 1.3 we have tried to hit a fair balance as between the employees and ourselves.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are there any other questions?

Mr. KNOWLES: I might have more but I will wait and see if there are any others.

The CHAIRMAN (*Hon. Mrs. Fergusson*): No one seems to be anxious to speak, Mr. Knowles.

Mr. KNOWLES: Madam Chairman, on the general question of integration or the adjusting of other plans to the Canada pension plan there is a further question I would like to put.

I have to make a statement or two to get to my question. It seems to me that the example the government is giving with respect to the adjusting of the public service superannuation to the Canada pension plan is an example of how to cope with this when you have a pretty good superannuation plan. I realize that is a bit of a tribute, but it is all right!

That is the case. Here is a plan where the contribution rates have been up to 6½ per cent and the benefits are fairly good.

Hon. Mr. MCCUTCHEON: With a substantial deficit in the fund on an actuarial basis.

Hon. Mr. SMITH: Because of salary increases.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Knowles.

Mr. KNOWLES: It is all right; I will get back in a minute.

I might as well join in the by-play and say that I am interested to know whether this plan will be given to the public service by government action on amending the act on its own initiative or whether it will be the subject of collective bargaining.

Mr. BRYCE: We expect it will be on government initiative.

Mr. MOREAU: May I ask a supplementary question?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Moreau.

Mr. KNOWLES: I suppose that is a question to ask on some later occasion, but in view of the fact that pension plans are the subject of collective bargaining on the railways and some other large employees, and if you are going into collective bargaining in public service I hope this might come into the picture as well.

Mr. MOREAU: Can you tell us at what period of time the deficit in the fund occurred in the superannuation account?

Mr. BRYCE: It has accumulated chiefly because of pay increases made in the last six or seven years.

The Minister of Finance announced last March the policy that he proposes to follow in regard to it. We received from the actuaries this year, just a few weeks ago, the necessary report on which to make those adjustments.

Mr. MOREAU: The previous ministers of finance had not provided for the salary increases.

Mr. CÔTÉ (*Longueuil*): They had no budget.

Hon. Mr. MCCUTCHEON: If we are going to get into this kind of argument, then I have a lot to say; otherwise I had intended to be quiet.

Mr. KNOWLES: I am right in the middle of a question.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, I think you should be permitted to continue.

Mr. KNOWLES: What I am suggesting is that in the case of the public service superannuation plan you have one that is fairly good, and the employees I am sure will buy an integration or an adjustment that leaves them roughly where they are.

If they are assured that at least they will be where they are or that there will be a slight improvement, that is all right.

As Mr. Gray pointed out a while ago, there are many employees—70 per cent or so—for whom there is no possibility of integration because they do not have any other plan.

I am concerned about people in other kinds of plans where the plans are not as good as the public service superannuation plan. Is the government going to give those people any kind of lead or any kind of indication of how they might integrate in ways to improve the pension position?

I would hate to think that companies across the board would look at this line the government is following and say, "All we have to do is to integrate in such a way that our employees still have the same pension benefits that they now have." Can you give any examples or any lead toward the integration that might improve those in between plans—in between the good ones and those that have no private pensions at all.

Mr. BRYCE: My understanding is that the government does not want to interfere in this process.

Mr. KNOWLES: I recognize it does not want to interfere, but it claims that in giving publicity to this public service plan and its integration that it is showing how it can be done.

Pardon me for arguing for half a moment. The government is showing how it can be done where one starts with a good plan, but it is not showing how it can be done in respect of inferior plans.

Mr. BRYCE: I would not, Madam Chairman, dispute that statement of fact, but the government has not desired to tell employers what they ought to do. We have been asked from many sides to say what we are proposing to do in regard to our main plan. This is why we have been putting it forward in some detail to the committee as well as to the house.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I think we are straying into a little debate.

Mr. Francis indicates that he would like to ask a question, and then Mr. Munro. Does Mr. Monteith wish to speak?

Mr. MONTEITH: No, it is all right, Madam Chairman, if this subject is not going to be continued.

Mr. FRANCIS: On this subject, Mr. Knowles has indicated that he would like to see integration brought about through collective bargaining. I would like to ask if there have not been a number of submissions from civil servants dealing with methods in which integration might be accomplished and has the government not had an opportunity of reviewing these?

Mr. BRYCE: There certainly have been discussions with representatives of employees, and I would like to ask Mr. Clark to speak about this.

Mr. KNOWLES: Mr. Francis would like to call that collective bargaining.

Mr. FRANCIS: Until we have other procedures available it is all we can do.

Mr. MUNRO: Is a pattern not developing whereby a lot of private pension schemes are presently in operation and have evolved through a process of collective bargaining? I am thinking of many of the larger companies, and some of the collective agreements that are being negotiated now and have been negotiated recently which have left an open end on a collective agreement with respect to settling what the future provisions and benefits under their private pension plan would and should be pending the finalization of the Canada pension plan. That is my first question.

Dr. WILLARD: Madam Chairman, I have no data from which I could indicate the extent to which this has been done, but I understand that in some cases, such provision has been made. It is difficult without a survey of pension plans to give an answer that would indicate how important it is.

Mr. MUNRO: Through you, Madam Chairman, may I ask Mr. Clark if he is aware that many of the private pension plans that have evolved as a result of participation by employers and employees organizations, unions and so on, through collective bargaining have adopted this type of procedure recently?

Mr. CLARK: Is this in relation to integration?

Mr. MUNRO: Yes. They have left their collective agreements open with respect to pensions with the idea in mind that they can be renegotiated and determined once the Canada pension plan becomes operative.

Mr. CLARK: Many of those which have been drawn to my attention have such a feature.

Mr. MUNRO: This gets to my next point, which is perhaps more of a statement than a question. I am aware that this is a process that is being adopted by certainly many of the larger unions and larger employers as far as their collective agreement negotiations are concerned. Once this is settled they are going to sit down and try to work out the most advantageous type of integration if necessary. I would suspect that when one looks through the National Trust Survey of Private Pension Plans again in 1965 one will see that many of these private pension plans have benefits that I think can only be regarded as so minimal that any integration would hardly be necessary.

The Canada pension plan would be almost just supplementary. If there is approximately 1.9 million—which is all of the Canadian people covered by the Canada pension plan—one would substract from that all that are covered by the private pension plans as a result of collective agreements, and one would find a very small area in which there would be any real difficulty in integration from an individual point of view.

I would think in many of these larger companies this is being left as an open end on their collective agreement, or the employees themselves are going to have some pretty competent advice on how they can be best protected through integration to avoid the problem, Madam Chairman, that Mr. Knowles was referring to where this just will not simply be a diversion of a contribution resulting from equal benefits.

Necessarily, I think that will be the result based on what is happening today in the collective bargaining area since all this public discussion came about in connection with the Canada pension plan.

Hon. Mr. MCCUTCHEON: If Mr Munro is going to give evidence on that—

The CHAIRMAN (*Hon. Mrs. Fergusson*): I was just going to say that Mr. Munro himself remarked that he was perhaps making a statement and that he was prophesying correctly. It was very interesting, but Mr. Monteith has asked to speak.

Mr. MONTEITH: No, I do not wish to speak now.

Mr. MOREAU: Mr. Bryce, would you consider it a fair statement to say that if additional provinces other than Quebec were to opt out and we were to have a proliferation of provincial or regional plans, the problem would then become very difficult indeed for those large companies who have employees in more than one province?

Mr. BRYCE: It would depend, I would say, Mr. Moreau, on whether those provincial plans had similar provisions in regard to contributions and benefits.

If they were parallel and equal, so to speak, but separately administered there would be some administrative annoyance and inconvenience and expense. I think it is when the provisions of the plans differ that you then get greater difficulties in integration.

Mr. MOREAU: If I may follow that point, Madam Chairman, in other words, the problems would be very acute—at least I would gather from your answer that they would—if the level of benefits varied in any way or the rate of contributions varied in any way from the standards we are striking in this plan.

Mr. BRYCE: Yes, to the extent they vary, that will add to the difficulties that private employers will have to meet.

Hon. Mr. MCCUTCHEON: Depending on the bargaining units. If one has 102 bargaining units—as one company I know has—most employees covered by a particular bargaining unit are in a particular province so one integrates in that plan.

Mr. MONTEITH: Are those not the terms that Mr. Bryce mentioned, those which must be comparable under this present suggestion or this present bill? If a province does opt out it must pay comparable terms and conditions to the ones you mentioned.

Mr. BRYCE: Yes. If that is the case, there should not be as much difficulty.

Mr. MONTEITH: Is it not the case under the act?

Mr. BRYCE: Yes, but I was not sure whether Mr. Moreau's question was in regard to what the situation would be if they had separate plans.

Mr. AIKEN: I would like to direct your attention to smaller groups of employees, such as perhaps employees of a board of education or a small corporation. I assume they may have some substantial difficulties in integration. I would like to ask what assistance, if any, is contemplated in respect of this type of group; will they have to go out and hire an actuary to assist them; is there going to be any assistance given to them in enacting the plan of integration?

Mr. BRYCE: Normally when an organization sets up a plan it has to obtain professional advice or do it with an insurance company or a trust company, or someone who is able to carry out the operation for them. Similarly, when they review it, as normally is the case I suppose from one five year period to another, usually they obtain advice. I would assume they would go to the people to whom they have looked for advice in the past. When the provinces asked to discuss their problems with us we entered into discussion with them with regard to what we were doing, why, and what the problems were which we encountered. This applied to a number of provincial agencies. We have not offered to meet with all sorts of public bodies, of whom there would be scores or hundreds, because really we are not equipped to offer them that kind of detailed assistance.

Mr. AIKEN: Then I assume it will be a matter which the provinces will have to take up within their jurisdiction with respect to private pension plans. Is that a fact?

Mr. BRYCE: Well, we have assumed that most of this would be done voluntarily or as a result of collective bargaining between bodies or organizations concerned, with the assistance or advice they would get from those to whom they look for advice, whether they be a consulting firm, a trust company, or an insurance company with whom they have their plans arranged. I would assume that would be normal.

Mr. AIKEN: It would be up to the individual firm, right down to the smallest unit, to look after its own integration?

Mr. BRYCE: Yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are there any other questions?

Hon. Mr. MCCUTCHEON: I would move we adjourn.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Just a moment, please.

Dr. WILLARD: Madam Chairman, I have a paper for the committee on private pension plans in Canada. It might be useful to have this document appended to the proceedings. It gives a description of the private pension plans in Canada today and was prepared by Mr. H. Weitz of the Dominion Bureau of Statistics and formerly of the Department of Labour.

Agreed.

Hon. Mr. McCUTCHEON: On that point, I withdraw my motion to adjourn. Mr. Bryce made a detailed statement. Will it be included in the Minutes of Proceedings and Evidence today?

Mr. BRYCE: I read it and varied it a little as I read it; it is in the record.

The CHAIRMAN (*Hon. Mrs. Fergusson*): If there is nothing more we can discuss on this matter of integration, I think tomorrow we might have a meeting of the steering committee in this room at 4.30 p.m. and then a meeting of the main committee at 5 p.m. to consider the recommendations of the steering committee. Would that be agreeable?

Mr. KNOWLES: Could the steering committee meet in the centre block?

Mr. CAMERON (*High Park*): It is a matter of room.

Mr. KNOWLES: What time?

The CHAIRMAN (*Hon. Mrs. Fergusson*): I suggest 4.30 p.m. for the steering committee meeting, and 5.30 p.m. for the main committee meeting, if agreeable.

Hon. Mr. SMITH (*Queens-Shelburne*): We are not meeting according to the previous notice tomorrow at 3.30 p.m.?

The CHAIRMAN (*Hon. Mrs. Fergusson*): No.

Mr. CAMERON (*High Park*): I might explain for the benefit of those who came in late that we are not having a meeting tonight and a notice will be sent out to that effect. The suggestion about tomorrow is predicated on the assumption that we have dealt with the actuarial report, the economic report, and the integration suggestions. Therefore, the government officials will not be before us on those three matters again until they may be called back later. We have completed our study as planned; that is, the clause by clause study of the bill and these three items I have mentioned.

The idea of the meeting tomorrow is that the steering committee will plan the future course of action for the committee, and then submit it to the main committee for its consideration and final decision. Apart from that, I think we are through with our activities until we start having briefs presented and representations made to the committee.

Hon. Mr. STAMBAUGH: There is no meeting tomorrow?

Mr. CAMERON (*High Park*): There will be a meeting at 4.30 p.m. of the steering committee and 5 p.m. of the main committee, if agreeable. The main committee will consider the recommendations made by the steering committee, and decide whether or not to accept or amend them as the members see fit.

Hon. Mr. STAMBAUGH: Will the meeting be here?

Mr. CAMERON (*High Park*): I thought we would hold it here, because the arrangements have been made. It is a convenient spot.

Mr. MONTEITH: There is one suggestion I would like to make. I presume the steering committee will wrestle with the idea of sitting during the recess when the house is not sitting. I think we should have a real honest opinion from all members of the committee in respect of whether or not each member would be present during the recess. I can visualize that there would be a number who would not be present. I do not wish to suggest any decision on this today, but I think we should have a poll of everybody on the committee so that we will know whether or not they will be present. In other words, we will have a lot more quorum trouble than we had today.

The CHAIRMAN (*Hon. Mrs. Ferguson*): You do not mean a poll of those who are here now?

Mr. MONTEITH: No. I think it will have to be done by the clerk, or by somebody polling every member of the committee.

Mr. CÔTÉ (*Longueuil*): Would it be possible for the steering committee to meet a little earlier?

Mr. KNOWLES: Why not meet at 1.30 p.m. in Mr. Cameron's office?

Mr. MUNRO: And have a meeting of the main committee at two o'clock.

Mr. CAMERON (*High Park*): One thirty. What about the main committee?

Mr. MUNRO: Two o'clock.

The CHAIRMAN (*Hon. Mrs. Fergusson*): At what hour would you like the main committee to meet?

Mr. KNOWLES: My suggestion would be one thirty for the steering committee in the centre block, perhaps in Mr. Cameron's office.

Hon. Mr. MCCUTCHEON: And five o'clock here for the main committee.

Mr. CÔTÉ (*Longueuil*): Why five o'clock? Why not 3.30 p.m.?

Mr. CAMERON (*High Park*): My idea would be 1.30 p.m. in my office for the steering committee.

The CHAIRMAN (*Hon. Mrs. Fergusson*): What about the main meeting?

Mr. CAMERON (*High Park*): Five o'clock.

The CHAIRMAN (*Hon. Mrs. Fergusson*): The meeting is adjourned.

The following appendices are referred to at the meeting of December 15.

APPENDIX "V"

Canadian Forces Superannuation Act

Coverage

The Act applies to all those members who were contributing under Part V of the Defence Services Pension Act upon the coming into the force of the Canadian Forces Superannuation Act, all others under the Defence Services Pension Act who elected at that time to come under the Canadian Forces Superannuation Act, and all those who enrol in the regular forces except officers who are appointed temporarily or for a fixed term.

Contributions

While serving, members are required to contribute 6 per cent of their pay and allowances by monthly pay deductions. For the purpose of making such contributions and computing benefits: pay includes service pay of rank, group and progressive pay; allowances are set forth in section 6 of Canadian Forces Superannuation Regulations.

Benefits

Details of the benefits payable under the Act upon retirement or death are shown in the following table. In this table,

"annuity" means an annual amount, calculated on the basis of 1/50 of the contributor's average annual pay and allowances during his best consecutive six-year period of pensionable service for each year, not exceeding 35 years in all, of his service in the regular forces and his elected prior service, which becomes payable to a contributor immediately upon his becoming entitled to such a benefit.

"cash termination allowance" means an amount calculated on the basis of one month's pay and allowances at the rate applicable to the contributor at the date of his release for each year of service in the regular forces and of elected prior service, and

"return of contributions" means a return of the amount paid by the contributor into the Superannuation Account and any amount paid by him into another account which is transferred to this Account, without interest.

Reason for retirement as certified by the Service Pension Board	Service in the regular forces (See explanatory note)	Benefits
Having reached retirement age and released for any reason other than disability or misconduct	(a) 3 years or less.............	(a) return of contributions
	(b) more than 3 years, but less than 10 years	(b) (i) return of contributions or (ii) cash termination allowance, whichever is the greater
	(c) 10 or more years..........	(c) annuity
Having become disabled (any condition rendering the contributor mentally or physically unfit to perform his duties as a member of the forces)	(a) less than 10 years.........	(a) (i) return of contributions, or (ii) cash termination allowance, whichever is the greater
	(b) 10 years or more..........	(b) annuity

Reason for retirement as certified by the Service Pension Board	Service in the regular forces (See explanatory note)	Benefits
To promote economy or efficiency NOT having reached retirement age	(a) 3 years or less.............	(a) return of contributions
	(b) more than 3 years but less than 10 years	(b) (i) return of contributions, or (ii) cash termination allowance, whichever is the greater, but only if Treasury Board approves the greater benefit
	(c) 10 or more years but less than 20 years, and who was not a member of the regular forces on 1 June 1944 but served on active service during the war that commenced on 10 September 1939 in any of His Majesty's forces wherever raised, became a member of the regular forces before 1949 and has served continuously therein since so becoming a member	(c) annuity
	(d) 10 or more years but less than 20 years and retirement is due to a reduction in the total number of members of the forces, except where (c) above applies	(d) annuity reduced until age 65 by 5% for each full year not exceeding 6 years by which the period of the contributor's service in the forces is less than 20 years
	(e) 10 or more years but less than 20 years for cases other than (c) or (d) above	(e) (i) subject to Treasury Board approval, annuity reduced until age 65 by one-third, or (ii) subject to Treasury Board approval, an annuity reduced until age 65 by 5% for each full year not exceeding 6 years by which the period of the contributor's service in the forces is less than 20 years, or (iii) if Treasury Board does not approve an annuity reduced as in (i) or (ii) above, the contributor shall be deemed to have been compulsorily released for inefficiency (see benefit under "inefficiency" below)
	(f) 20 or more years..........	(f) annuity
Inefficiency in the performance of duties, NOT having reached retirement age	(a) less than 10 years.........	(a) return of contributions
	(b) 10 or more years..........	(b) (i) annuity reduced by one-half to age 65 and thereafter reduced by one-third, or (ii) In the discretion of Treasury Board, the whole or any part of an annuity reduced* until age 65 by 5% for each full year not exceeding 6 years by which the period of the contributor's service in the forces is less than 20 years but in no case shall the amount of the annuity be less than the annuity referred to in (i) above, and only if a recommendation has been made by the Minister that it is in the public interest by reason of good and faithful service rendered by the contributor before the time his inefficiency becomes manifest that he be paid that benefit

*See footnote on next page

Reason for retirement as certified by the Service Pension Board	Service in the regular forces (See explanatory note)	Benefits
Misconduct....................	(a) less than 10 years.........	(a) return of contributions
	(b) 10 or more years and having reached retirement age	(b) (i) return of contributions, or (ii) in the discretion of the Treasury Board, the whole or any part of an annuity (See NOTE below)
	(c) 10 or more years, not having reached retirement age.	(c) (i) return of contributions, or (ii) in the discretion of the Treasury Board, the whole or any part of an annuity reduced* until age 65 by 5% for each full year not exceeding 6 years by which the period of service in the forces is less than 20 years (See NOTE below).

NOTE: The benefit set forth in either (b)(ii) or (c)(ii) will only apply if a recommendation has been made by the Minister that it is in the public interest by reason of good and faithful service rendered before the time of misconduct that an annuity be paid; but in no case shall the capitalized value of the annuity referred to be less than the return of contributions.

Reason for retirement as certified by the Service Pension Board	Service in the regular forces (See explanatory note)	Benefits
Voluntary, NOT having reached retirement age. (Officers only)	(a) less than 10 years.........	(a) return of contributions.
	(b) 10 or more years but less than 25 years	(b) (i) return of contributions, or (ii) In the discretion of Treasury Board, annuity reduced for life by 5% for each full year by which the contributor's age at date of his retirement is less than the retirement age applicable to his rank, but only if a recommendation has been made by the Minister that the contributor's retirement from the forces was in the public interest and that it is in the public interest that he be paid that annuity
	(c) 25 or more years..........	(c) annuity reduced for life by 5% for each full year by which the contributor's age at the time of his retirement is less than the retirement age applicable to his rank.
Voluntary, NOT having reached retirement age for his rank. (Other than officers)	(a) less than 10 years.........	(a) return of contributions.
	(b) 10 or more years but less than 20 years	(b) (i) return of contributions, or (ii) in the discretion of Treasury Board, annuity reduced for life by 5% for each full year by which the contributor's age at date of his retirement is less than the retirement age applicable to his rank, but only if a recommendation has been made by the Minister that the contributor's retirement from the forces was in the public interest and that it is in the public interest that he be paid that annuity.
	(c) 20 or more years but less than 25 years	(c) annuity reduced for life by 5% for each full year by which the period of the contributor's service in the forces is less than 25 years.
	(d) 25 or more years	(d) annuity

* No reduction applies in the case of a contributor who was not a member of the regular forces on 1 June 1944 but who served on active service during the war that commenced on 10 September 1939 in any of His Majesty's forces wherever raised and who became a member of the regular forces before 1949 and who has served continuously therein since so becoming a member.

Reason for retirement as certified by the Service Pension Board	Service in the regular forces (See explanatory note)	Benefits
Death of a contributor while a member of the forces.	(a) less than 10 years.........	(a) (i) if surviving widow, or child under 18 years of age, widow and children entitled jointly to return of contributions or cash termination allowance, whichever is the greater, (ii) if no surviving widow, or child under 18 years of age, the return of contributions is paid to the estate.
	(b) 10 or more years..........	(b) (i) surviving widow receives an annual allowance equal to the basic allowance ("Basic Allowance" means an amount equal to 1% of the average annual pay received by the contributor during his best consecutive 6 year period of pensionable service multiplied by the number of years of pensionable service, not exceeding 35 years). (ii) each surviving child receives an annual allowance equal to one-fifth of the basic allowance until reaching 18 years of age, but the total to the children shall not exceed four-fifth of the basic allowance; if no widow or the widow dies, each such child receives two-fifths of the basic allowance, but the total to the children shall not exceed eight-fifths of the basic allowance. (iii) if no surviving widow, or child under 18 years of age, the return of contributions is paid to the estate.
Death of a contributor after ceasing to be a member of the forces.	(a) less than 10 years.........	(a) the return of contributions or cash termination allowance, if not previously paid, is normally paid to the estate of he deceased
	(b) 10 or more years..........	(b) (i) surviving widow, and children under 18 years of age, receive annual allowance referred to in (b)(i) and (ii) immediately above (ii) if no surviving widow, or child under 18 years of age, the applicable residue of the return of contributions, is paid to the estate of the deceased.

EXPLANATORY NOTE

"Service in the forces" means service in the regular forces of the Canadian Forces.

Where retirement is by reason of disability or death the following elected service shall be included in computing the length of service in the forces:

any period of service on active service during time of war in the naval, army or air forces of Her Majesty raised by Canada

any period of service in the Canadian Army Special Force (Korea)

any continuous period of full-time service of six months or more in the naval, army or air forces of Her Majesty raised by Canada, other than the forces, in a theatre of active operations as defined by Canadian Forces Superannuation Regulations service as described in CFSA 5 that the contributor was entitled to count for pension purposes under the Public Service Superannuation Act or the RCMP Superannuation Act.

Where retirement is to promote economy or efficiency under CFSA 10(3) (c) (ii), the types of elected service referred to above shall be included in computing the length of service in the forces.

APPENDIX "W"

ROYAL CANADIAN MOUNTED POLICE SUPERANNUATION ACT

Coverage

The Act applies to all those members who were contributing under Part V of the Royal Canadian Mounted Police Act upon the coming into force of the Royal Canadian Mounted Police Superannuation Act, all others under the Royal Canadian Mounted Police Act at that time who elected to come under the Royal Canadian Mounted Police Superannuation Act and all those who enrol in the Force.

Contributions

While serving, members are required to contribute by monthly pay deductions 6% of their pay in the case of male contributors and 5% of their pay in the case of female contributors. For the purpose of making such contributions and computing benefits pay means the pay of the substantive rank being held by the contributor, not including the pay of acting rank or extra pay for staff or similar appointments, together with such allowances by way of compensation or otherwise as are prescribed by the regulations.

Benefits

Details of the benefits payable under the Act upon retirement or death are shown in the following table. In this table,

"annuity" means an annual amount calculated on the basis of 1/50 of the contributor's average annual pay during his best consecutive six-year period of pensionable service for each year, not exceeding 35 years in all, of his service in the Force and his elected prior service,

"immediate annuity" means an annuity that becomes payable to a contributor immediately upon his becoming entitled to such a benefit and "deferred annuity" means an annuity that becomes payable to a contributor when he reaches 60 years of age,

"Cash termination allowance" means an amount calculated on the basis of one month's pay and allowances at the rate applicable to the contributor at the date of his release for each year of service in the Force and of elected prior service,

"return of contributions" means a return of the amount paid by the contributor into the Superannuation Account and any amount paid by him into another account which is transferred to this Account, without interest, and

"service in the Force" includes any period of service as a special constable before the coming into force of this Act, or any period of service as a member of a provincial or municipal police force that is so prescribed by regulation.

Reason for Retirement	Service in the Force	Benefits
Having reached retirement age and released for any reason other than disability or misconduct	(a) less than 10 years	(a) (i) return of contributions, or (ii) cash termination allowance, whichever is the greater
	(b) 10 or more years	(b) immediate annuity
Having become disabled (any condition rendering the contributor mentally or physically unfit to perform his duties as a member of the Force)	(a) less than 10 years*	(a) (i) return of contributions, or (ii) cash termination allowance, whichever is the greater
	(b) 10 years or more*	(b) immediate annuity
To promote economy or efficiency NOT having reached retirement age	(a) less than 10 years	(a) return of contributions
	(b) 10 or more years but less than 20 years, and whose retirement is due to a reduction in the total number of members of the Force	(b) (i) return of contributions, (ii) deferred annuity, or (iii) immediate annuity reduced until age 65 by 5% for each full year, not exceeding 6 years, by which the period of service in the Force is less than 20 years; at his option
	(c) 10 or more years but less than 20 years, except where (b) above applies	(c) (i) return of contributions, (ii) deferred annuity, or (iii) subject to Treasury Board approval, immediate annuity reduced until age 65 by 5% for each full year, not exceeding 6 years, by which the period of service in the Force is less than 20 years; at his option
	(d) 20 or more years	(d) immediate annuity
Having reached retirement age and released for misconduct	(a) less than 10 years	(a) return of contributions
	(b) 10 or more years	(b) (i) return of contributions, or (ii) in the discretion of the Treasury Board, the whole or any part of an immediate annuity, except that in no case shall the capitalized value of the annuity be less than the return of contributions.
NOT having reached retirement age and released for misconduct	(a) less than 10 years	(a) return of contributions
	(b) 10 or more years	(b) (i) return of contributions, (ii) deferred annuity, or (iii) in the discretion of the Treasury Board, the whole or any part of an immediate annuity reduced until age 65 by 5% for each full year, not exceeding 6 years, by which the period of service in the Force is less than 20 years, except that in no case shall the capitalized value of the annuity be less than the return of contributions.
For a reason other than disability, misconduct or to promote economy or efficiency, not having reached retirement age	(a) less than 10 years	(a) return of contributions
	(b) 10 or more years but less than 20 years—officer	(b) return of contributions
	(c) 10 or more years but less than 20 years—other rank	(c) (i) return of contributions, or (ii) deferr d annuity at his option
	(d) 20 or more years but less than 35 years—officer	(d) (i) return of contributions, (ii) deferred annuity, or (iii) actuarial equivalent of deferred annuity (not payable before age 50) at his option

* For the purpose of this section only, years of service means years of pensionable service rather than years of service in the Force.

Reason for Retirement	Service in the Force	Benefits
	(e) 35 or more years—officer ..	(e) immediate annuity
	(f) 20 or more years but less than 25 years—other rank	(f) 75% of an immediate annuity plus 5% of the immediate annuity for each full year of service in excess of 20.
	(g) 25 or more years—other rank	(g) immediate annuity.
Death of a contributor while a member of the Force	(a) less than 10 years.........	(a) (i) if surviving widow, or child under 18 years of age, widow and children entitled jointly to return of contributions or cash termination allowance, whichever is the greater,
		(ii) if no surviving widow, or child under 18 years of age, the return of contributions is paid to the estate
	(b) 10 or more years.........	(b) (i) surviving widow receives an annual allowance equal to the basic allowance ("Basic Allowance" means an amount equal of 1% of the average annual pay received by the contributor during his best consecutive 6 year period of pensionable service multiplied by the number of years of pensionable service, not exceeding 35 years.)
		(ii) each surviving child receives an annual allowance equal to one-fifth of the basic allowance until reaching 18 years of age, but the total to the children shall not exceed four-fifths of the basic allowance; if no widow or the widow dies, each such child receives two-fifths of the basic allowance, but the total to the children shall not exceed eight-fifths of the basic allowance.
		(iii) if no surviving widow, or child under 18 year of age, the return of contributions is paid to the estate
Death of a contributor after ceasing to be a member of the Force	(a) less than 10 years.........	(a) the return of contributions or cash termination allowance, if not previously paid, is normally paid to the estate of the deceased
	(b) 10 or more years..........	(b) (i) surviving widow, and children under 18 years of age, receive annual allowance referred to in (b)(i) and (ii) immediately above
		(ii) if no surviving widow, or child under 18 years of age, the applicable residue of the return of contributions, is paid to the estate of the deceased

APPENDIX "X"

Comparison of Social Security Expenditures in Australia, Canada, Great Britain, New Zealand and the United States, Fiscal Years 1958-59 to 1962-63

Introduction

This memorandum compares expenditures on social security in five English-speaking countries for the five most recent years.

Included in the concept of social security are old age benefits, survivors benefits, family allowances, unemployment benefits, disability benefits, workmen's compensation, maternity benefits and veterans benefits. The term also included public medical and hospital care, public health services, welfare services and certain veteran services, together with the administrative cost of all these programs.

Housing programs, education, and price support programs are not included. Superannuation or pension benefits for government employees are excluded because they are made by the government in its capacity as employer rather than its capacity as government.

The study is confined to government expenditures. This raises the question of what should be included as "government" expenditures. For example, in Canada, workmen's compensation, while not a direct expenditure of the provincial governments, is regulated by provincial law. The compulsory nature of the program and the close government supervision make it essential, however, that workmen's compensation be included as a government program. In Australia and New Zealand, legislation requires employers to provide for, in case of industrial injury to their employees, somewhat the same type of benefit as in Canada; in Australia a large portion of the workmen's compensation program is handled on an insurance basis by private insurance companies.

Social Insurance Funds

The long practice of the Department of National Health and Welfare, which corresponds to that of the Department of Health, Education, and Welfare in the United States, and with that found in the Monthly Digest of Statistics in Great Britain has been to show the benefit payments from social insurance funds. This means that, in Canada, there are included the unemployment insurance benefit payments. In the United States the benefit payments from the old age and survivors and disability insurance trust funds are shown; and in Great Britain the benefit payments from the national insurance fund are given. Government contributions to social insurance funds are excluded from the study.

Trends in Social Security Expenditures

When social security expenditures are measured in relation to gross national product, Canada occupies the middle position of the five countries under consideration. This is illustrated in Table 1, which recapitulates from the appendices the percentage of gross national product being devoted to government programs of social security. When the percentages in relation to net national income are used then trends are essentially the same.

In the period under review it will be noted that the percentages for Canada have been increasing somewhat more rapidly than for the other countries and that Canada was, until 1962-63, approaching the percentage applicable to Great Britain. One of the main reasons for the fact that the United States is in the lowest position is that it has no program of family allowances. While Australia has a program of family allowances, it has no other income maintenance program under which benefits are payable either on a universal basis or on a social insurance basis. Other benefits in Australia are related to either a test of means or a test of need.

TABLE 1—GOVERNMENT EXPENDITURE ON HEALTH AND SOCIAL WELFARE AS PER CENT OF GROSS NATIONAL PRODUCT AT MARKET PRICES, SELECTED COUNTRIES, 1958-59 TO 1962-63

Country	1958-59	1959-60	1960-61	1961-62	1962-63
United States	6.3	6.3	7.0	7.0	7.0
Australia	7.5	7.4	7.7	8.4	8.2
Canada	8.4	8.5	9.2	9.6	9.4
United Kingdom	9.8	10.0	10.0	10.2	10.5
New Zealand	11.2	12.3	12.4	12.5	12.1

Classification of Expenditures

Government expenditures of social security in each country have been divided into 10 major categories as shown in the Appendices. This division was attempted in order to indicate separately the sums of money that are being devoted to old age income maintenance programs. In view of the different types of program in the five countries, the varied accounting procedures, and the limitations of the data available, the classification of programs has not proven to be completely satisfactory. The footnotes to the attached tables identify the benefits that have been included under each major category. Widow's pensions in Australia, New Zealand and the U. K. include, for example, certain benefits which are not unlike Canadian mother's allowances. In the interests of comparability mother's allowances in Canada and similar benefits in the United States have been included in the category "survivors benefits".

Outlays made under any one type of program vary considerably from country to country. This is best illustrated by Table 2 which sets out for the fiscal year 1962-63 the percentage of social security expenditures going to the different types of program in each country. Aside from the fact that these percentages may reflect government policy, they also reflect other variables, for example, demographic factors such as the percentage of the population that is aged or the percentage in the younger age groups. The obvious factor reflected in the magnitude of unemployment benefits is the degree of unemployment.

TABLE 2—PERCENTAGE DISTRIBUTION OF SOCIAL SECURITY EXPENDITURES, BY TYPE OF BENEFIT, SELECTED COUNTRIES, 1962-63

Type of Benefit	United States	Australia	Canada	United Kingdom	New Zealand
I Old Age Benefits	35.1	26.8	21.0	32.2	28.5
II Survivors Benefits	9.0	2.4	1.0	2.9	2.6
III Family Allowances	—	10.5	13.7	5.0	21.5
IV Unemployment Benefits	8.5	1.7	14.9	3.4	0.1
V Disability Benefits	5.5	4.9	1.2	6.9	2.2
VI Workmen's Compensation	2.7	5.4	2.5	2.3	1.8
VII Maternity Benefits	—	0.6	—	0.9	1.1
VIII Health Services	18.8	32.0	32.0	32.9	31.9
IX Veterans Pensions and Allowances	9.9	13.6	6.8	3.4	8.1
X Other	10.5	2.1	6.9	10.1	2.2
Total	100.0	100.0	100.0	100.0	100.0

Expenditures on Old Age Income Maintenance Programs

One method of comparing government programs for old age income maintenance is to relate the expenditures on old age benefits and benefits to aged survivors to gross national product as is done in Table 3.

TABLE 3—OLD AGE AND AGED SURVIVORS BENEFITS AS PER CENT OF GROSS NATIONAL PRODUCT AT MARKET PRICES, SELECTED COUNTRIES, 1958-59 TO 1962-63

Country	1958–59	1959–60	1960–61	1961–62	1962–63
New Zealand[a]	3.2	3.7	3.8	3.7	3.6
United Kingdom[b]	3.1	3.2	3.1	3.3	3.4
United States[c]	2.3	2.4	2.6	2.7	2.7
Australia[d]	2.0	2.1	2.1	2.4	2.3
Canada[e]	1.9	1.8	1.8	1.8	2.0

[a] Expenditures comprise universal superannuation benefits, age benefits, and estimated benefits to aged widows.

[b] Expenditures comprise National Insurance Act retirement pensions including pensions to widows age 60 and over, national assistance for old persons, and non-contributory old age pensions.

[c] Expenditures comprise under OASDI benefits to retired workers, benefits to aged wives of beneficiaries and a small number cf young wives; old age assistance including some vendor medical payments, and all benefits under railroad retirement program.

[d] Expenditures comprise age benefits, state relief of aged indigents, and estimated benefits to aged widows.

[e] Expenditures comprise old age security benefits and old age assistance payments.

During the period under review Canadian old age income maintenance benefits consistently equalled a smaller per cent of gross national product than did comparable outlays in the other four countries. The introduction of Canada Pension Plan benefits would not appear to alter this relative position. According to page 15 of the Actuarial Report of November 1964, estimated expenditures under that plan will be in 1967 and 1975, respectively, $14.2 million and $388.4 million. These sums represent, 0.03 per cent and 0.4 per cent of estimated gross national product of $53 billion in 1967 and $88 billion in 1975. If the 1962-63 percentage of 2.0 is increased by 0.4 to take into account the Canada Pension Plan, the resulting 2.4 per cent of gross national product for income maintenance for the aged would still be less than the comparable figure for three of the four other countries.

Programs developed for the provision of old age income maintenance are by no means consistent throughout the five countries. In New Zealand, for example, there is a universal flat rate program beginning at age 65 for both men and women and a means test program for men and women age 60 to 64. In Canada there exist essentially the same two programs, except that the universal program commences at age 70 and the means test program at age 65. At the other extreme is the one Australian program under which benefits are available under a means test to men at age 65 and women at age 60.

In an intermediate position betweeen universal program and a needs test program are the United States and the United Kingdom. In the United States, old age insurance benefits are available to both men and women as early as age 62 and in addition there is a federal-state program of old age assistance for men and women, which is on a needs test basis, beginning at age 65. In the United Kingdom retirement pensions under the national insurance program are available at age 65 for men and at age 60 for women. In addition these benefits can be supplemented by national assistance which is available under a test of need to anyone in the country irrespective of his age.

APPENDIX I

GOVERNMENT EXPENDITURE ON HEALTH AND SOCIAL WELFARE, UNITED STATES, FISCAL YEARS 1958-59 TO 1962-63

Item	Fiscal Year				
	1958-59	1959-60	1960-61	1961-62	1962-63
Government Expenditures on Health and Social Welfare:					
Amount ($ millions)	29,531	30,998	35,095	37,664	39,757
Per Cent of National Income	7.6	7.6	8.4	8.5	8.6
Per Cent of GNP	6.3	6.3	7.0	7.0	7.0
National Income ($ millions)	387,025	408,750	415,625	441,776	464,751
G.N.P. ($ millions)	466,900	494,250	504,625	539,150	568,350

SOURCES: Attached Table and *Survey of Current Business*, October 1961, September 1962, September 1963 and January 1964.

Research and Statistics Division,
Department of National Health and Walfare,
April, 1964.

APPENDIX II

UNITED STATES—SOCIAL SECURITY EXPENDITURES, BY TYPE OF BENEFIT, FISCAL YEARS 1958-59 TO 1962-63

($ millions)

	Type of Benefit	1958-59	1959-60	1960-61	1961-62	1962-63[a]
I	Old Age Benefits[b]	9,802	10,820	11,732	12,887	13,936
II	Survivors Benefits[c]	3,005	3,442	3,760	4,487	4,859
III	Family Allowances	—	—	—	—	—
IV	Unemployment Benefits[d]	3,931	3,045	4,513	4,023	3,397
V	Disability Benefits[e]	1,056	1,307	1,546	1,919	2,180
VI	Workmen's Compensation[f]	833	891	948	1,011	1,070
VII	Maternity Benefits	—	—	—	—	—
VIII	Health Services[g]	5,411	5,768	6,377	6,843	7,469
IX	Veteran's Pensions and Allowances	3,326	3,426	3,690	3,775	3,948
X	Other[g]	2,167	2,299	2,529	2,719	2,898
XI	Total	29,531	30,998	35,095	37,664	39,757

[a] Preliminary figures.

[b] Comprises OASDI benefits to retired workers, benefits to aged wives or dependent husbands of old age beneficiaries or their young wives if caring for child beneficiary; old age assistance including vendor medical payments, and all railroad retirement benefits.

[c] Comprises under DASDI benefits paid to aged widows and aged widowers, benefits paid to widows (or dependent divorced wives) of deceased workers caring for child beneficiaries, and benefits paid to children of deceased workers; and public assistance to families with dependent children.

[d] Comprises employment service, unemployment insurance benefits, and railroad unemployment insurance benefits.

[e] Comprises OASDI benefits paid to disabled workers and children and spouses of disability beneficiaries; and railroad and state temporary disability insurance benefits, and aid to the blind and permanently and totally disabled, including vendor medical payments.

[f] Cash benefits.

[g] Comprises health and medical programs, hospital and medical benefits under workmen's compensation and state temporary disability insurance, public medical assistance for the aged, veterans health and medical services.

[h] Comprises under OASDI benefits to children of old age beneficiaries and lump sum death payments; welfare services, and general assistance.

PRINCIPAL SOURCE: U.S. *Social Security Bulletin, November 1962* and *1963*.

APPENDIX III

GOVERNMENT EXPENDITURES ON HEALTH AND SOCIAL WELFARE AUSTRALIA, FISCAL YEARS 1958-59 TO 1962-63

Item	Fiscal Year				
	1958-59	1959-60	1960-61	1961-62	1962-63
Government Expenditures on Health and Social Welfare:					
Amount (£ millions)	468	508	560	610	643
Per Cent of National Income	9.2	9.0	9.5	10.3	10.1
Per Cent of GNP	7.5	7.4	7.7	8.4	8.2
National Income (£ millions)	5,065	5,621	5,887	5,926	6,389
G.N.P. (£ millions)	6,225	6,894	7,252	7,299	7,866

SOURCES: Attached Table and *National Income and Expenditure, 1962-63.*

Research and Statistics Division,
Department of National Health and Welfare,
April, 1964.

APPENDIX IV

AUSTRALIA—SOCIAL SECURITY EXPENDITURES, BY TYPE OF BENEFIT, FISCAL YEARS 1958-59 TO 1962-63

(£000's)

	Type of Benefit	1958-59	1959-60	1960-61	1961-62	1962-63
I	Old Age Benefits[b]	120,024	137,476	147,302	166,568	172,591[a]
II	Survivors Pensions[c]	10,777	12,137	13,468	15,094[a]	15,677[a]
III	Family Allowances	67,540	62,532	74,303	66,378	67,710
IV	Unemployment Benefits	5,959	4,505	4,469	12,637	10,651
V	Disability Benefits[d]	21,012	22,096	24,306	28,782[a]	31,628[a]
VI	Workmen's Compensation[e]	27,391	29,154	31,871	34,000[a]	35,000[a]
VII	Maternity Benefits	3,599	3,652	3,898	3,908	3,781
VIII	Health Services[f]	140,662	159,923	174,332	192,862[a]	205,088[a]
IX	Veterans Pensions and Allowances	60,609	65,321	73,874	77,171	87,404
X	Other[g]	10,189	11,318	11,865	12,956[a]	13,583[a]
XI	Total	467,762	508,114	559,688	610,356	643,113

[a] Partially or wholly estimated.

[b] Comprises age benefits and state relief of aged indigents. Age benefits separated from combined age and invalidity expenditures on a pro-rata basis.

[c] Comprises benefits paid to aged widows, widows with dependent children, needy widows, women who have been deserted, and women whose husbands have been imprisoned or declared insane.

[d] Comprises invalid, sickness, special benefits, state expenditures re. miner's phthisis. Invalidity pensions separated from combined old age and invalidity expenditures on a pro-rata basis.

[e] Comprises cash benefits and hospital and medical care.

[f] Includes hospital, medical and pharmaceutical benefits, Commonwealth and state public health outlays, and health administration expenditures.

[g] Comprises funeral benefits, rehabilitation and administration expenses of the Commonwealth Social Services Department and the Repatriation Department.

PRINCIPAL SOURCE: Australia, *Quarterly Summary of Australian Statistics, June 1963.*

APPENDIX V

GOVERNMENT EXPENDITURES ON HEALTH AND SOCIAL WELFARE
CANADA, FISCAL YEARS 1958-59 TO 1962-63

Item	Fiscal Year				
	1958–59	1959–60	1960–61	1961–62	1962–63
Government Expenditure on Health and Social Welfare:					
Amount ($millions)	2,821	3,023	3,355	3,668	3,868
Per Cent of National Income	11.1	11.3	12.2	12.7	12.5
Per Cent of GNP	8.4	8.5	9.2	9.6	9.4
National Income ($millions)	25,423	26,782	27,506	28,839	31,023
GNP ($millions)	33,418	35,455	36,341	38,044	40,939

SOURCES: Attached table and D.B.S. *National Accounts, Income and Expenditure, Fourth Quarter and Preliminary Annual 1962* and *Third Quarter, 1963.*

Research and Statistics Division,
Department of National Health and Welfare,
April, 1964.

APPENDIX VI

CANADA—SOCIAL SECURITY EXPENDITURES, BY TYPE OF BENEFIT
FISCAL YEARS 1958-59 TO 1962-63
($ 000's)

	Type of Benefit	1958–59	1959–60	1960–61	1961–62	1962–63[a]
I	Old Age Benefits[b]	619,690	635,585	653,727	686,730	810,740
II	Survivors[c]	38,779	39,839	37,944	37,840	39,951
III	Family Allowances	474,787	491,214	506,192	520,781	531,566
IV	Unemployment Benefits[d]	527,027	480,766	604,016	620,379	575,091
V	Disability Benefits[e]	36,310	37,698	38,321	38,375	45,777
VI	Workmen's Compensation[f]	80,028	85,236	91,616	93,771	97,300
VII	Maternity Benefits	—	—	—	—	—
VIII	Health Services[g]	623,524	818,867	933,753	1,110,015	1,237,503
IX	Veterans Pensions and Allowances	210,481	212,236	214,710	258,896	263,653
X	Other[h]	210,716	221,833	274,336	301,337	266,903
XI	Total	2,821,342	3,023,274	3,354,615	3,668,124	3,868,484

[a] Provincial and municipal data of a preliminary nature.

[b] Comprises old age security benefits, federal share of old age assistance and an equal amount as provincial share of old age assistance.

[c] Mothers allowances.

[d] Comprises unemployment insurance benefits, federal share of unemployment assistance and provincial aid to unemployed employables and unemployables less provincial share of disability allowances.

[e] Comprises blind and disabled persons allowances.

[f] Cash benefits.

[g] Comprises federal provincial and municipal general and public health and medical services and grants, medical aid and hospitalization under the workmen's compensation board.

[h] Comprises income maintenance payments to Indians, immigrants and farmers, administration cost of income maintenance programs, federal welfare services and welfare grants, provincial child welfare and other provincial welfare services and all municipal welfare expenditures.

PRINCIPAL SOURCES: *Public Accounts* of Canada and D.B.S. Financial Statistics of Provincial and Municipal Governments.

APPENDIX VII

GOVERNMENT EXPENDITURES ON HEALTH AND SOCIAL WELFARE, UNITED KINGDOM, FISCAL YEARS 1958-59 TO 1962-63

Item	Fiscal Year				
	1958-59	1959-60	1960-61	1961-62	1962-63
Government Expenditures on Health and Social Welfare:					
Amount (£ millions)	2,254	2,390	2,534	2,755	2,950
Per Cent of National Income	12.2	12.4	12.4	12.6	13.0
Per Cent of GNP	9.8	10.0	10.0	10.2	10.5
National Income (£ millions) calendar year	18,427	19,254	20,486	21,869	22,631
GNP (£millions) calendar year	22,912	23,976	25,375	27,057	28,184

SOURCE: Attached table and U.K. *Annual Abstract of Statistics, 1963.*

Research and Statistics Division,
Department of National Health and Welfare,
April, 1964

APPENDIX VIII

UNITED KINGDOM—SOCIAL SECURITY EXPENDITURES BY TYPE OF BENEFIT, FISCAL YEARS 1958-59 TO 1962-63

(£ millions)

	Type of Benefit	1958-59	1959-60	1960-61	1961-62	1962-63[a]
I	Old Age Pensions and Assistance[b]	708.8	762.9	797.7	899.7	948.5
II	Survivors Benefits[c]	59.0	63.0	67.2	82.1	85.9
III	Family Allowances	135.4	137.1	141.0	144.5	146.6
IV	Unemployment Benefits and Assistance[d]	72.5	69.1	56.8	63.6	100.4
V	Disability Benefits and Assistance[e]	161.4	163.0	172.1	191.7	202.7
VI	Workmen's Compensation	52.1	55.8	56.9	66.3	68.7
VII	Maternity Benefits	20.2	20.6	21.3	25.3	26.5
VIII	Health Services[f]	727.4	785.7	878.5	907.8	970.3
IX	Veterans Pensions and Allowances	99.2	98.3	94.5	101.6	100.5
X	Other[g]	218.3	234.9	247.7	272.6	299.5
XI	Total	2,254.3	2,390.4	2,533.7	2,755.2	2,949.6

[a] Estimates of a preliminary nature.

[b] Comprises retirement pensions, national assistance for old persons and non-contributory old age pensions.

[c] Comprises National Insurance benefits for aged and needy widows and widows with children.

[d] Comprises National Insurance unemployment benefits and national assistance to unemployed persons.

[e] Comprises sickness benefits under National Insurance and national assistance to sick persons.

[f] Comprises hospital and medical services and administration of expenses of the National Health Service and of local authorities.

[g] Principally welfare funds, National Insurance administration, other National Assistance payments, National Assistance services and administration.

PRINCIPAL SOURCES: U.K. *Monthly Digest of Statistics, May 1963* and U.K. *Annual Abstract of Statistics, 1963.*

APPENDIX IX

GOVERNMENT EXPENDITURES ON HEALTH AND SOCIAL WELFARE, NEW ZEALAND, FISCAL YEARS 1958-59 TO 1962-63

Item	Fiscal Year				
	1958-59	1959-60	1960-61	1961-62	1963-63
Government Expenditures on Health and Social Welfare:					
Amount (£ millions)	128	150	162	169	174
Per Cent of National Income	13.3	14.5	14.5	14.6	14.0
Per Cent of GNP	11.2	12.3	12.4	12.5	12.1
National Income (£ millions)	961.7	1,037.4	1,116.0	1,154.8	1,240.4
G.N.P. (£ millions)	1,135.3	1,217.0	1,304.6	1,352.2	1,443.8

SOURCES: Attached Table and New Zealand *Monthly Abstract of Statistics, January, 1964.*

Research and Statistics Division,
Department of National Health and Welfare,
April, 1964.

APPENDIX X

NEW ZEALAND—SOCIAL SECURITY EXPENDITURES BY TYPE OF BENEFIT, FISCAL YEARS 1958-59 TO 1962-63

(£ 000's)

	Type of Benefit	1958-59	1959-60	1960-61	1961-62	1962-63
I	Old Age Benefits[a]	35,046	42,751	47,123	48,007	49,626
II	Survivors Benefits[b]	3,686	3,955	4,243	4,399	4,592
III	Family Allowances	25,995	35,672	37,841	39,202	37,453
IV	Unemployment Benefits	112	190	93	80	163
V	Disability Benefits[c]	3,379	3,837	3,821	3,896	3,831
VI	Workmen's Compensation[d]	2,998	3,208	3,024	3,100	3,087
VII	Maternity Benefits	1,542	1,562	1,672	1,755	1,858
VIII	Health Services[e]	40,773	43,869	47,746	51,129	55,623
IX	Veterans Pensions and Allowances	10,962	11,576	12,330	13,767	14,171
X	Other[f]	3,209	3,561	3,845	3,817	3,852
XI	Total	127,702	150,181	161,738	169,152	174,256

[a] Comprises universal superannuation benefits and age benefits.

[b] Comprises benefits to aged widows, widows with dependent children, women who have been deserted, women whose husbands have been imprisoned or are in a mental hospital, and orphans benefits.

[c] Comprises benefits to blind persons or persons permanently unfit to work, and sickness benefits paid to persons temporarily unfit for work through illness or accident.

[d] Comprises both cash benefits and hospital and medical benefits.

[e] Comprises hospital, medical and pharmaceutical benefits, expenditures for public hospitals, and health administration.

[f] Comprises supplementary assistance to needy persons, emergency benefits, child welfare, and administration expenditures of the Social Security Department.

PRINCIPAL SOURCE: New Zealand, *Budget 1963.*

APPENDIX "Y"

EXAMPLE OF APPLICATION OF INTEGRATION FORMULA TO THE ILLUSTRATION CONTAINED ON PAGE 3 OF THE BENEFIT ILLUSTRATION SHEET DATED DECEMBER 3, 1964

	Mr. C
(1) Public Service Superannuation Act average salary (best 6 years)	6,600
(2) Maximum CPP benefit salary (average last 3 Y.M.P.E's)	7,000
(3) Service after inception of C.P.P.	19
(4) Service before inception of C.P.P.	10
(5) Total service (line 3 plus line 4)	29
(6) 2% formula benefit under present Act[a]	3,828
(7) 1.3% formula benefit[b]	2,950
(8) C.P.P. pension[c]	1,650
(9) Combined pension (line 7 plus line 8)	4,600
(10) Increase in combined pension over 2% formula benefit (line 9 minus line 6)	772
(11) Line 10 expressed as a percentage of line 6	20.2

(a) The benefit under this formula is—total years of service × 2% × average salary.
For Mr. C: 29 yrs. × 2% × $6,600 = $3,828 p.a.

(b) The benefit under this formula is—
years of service before inception of C.P.P. × 2% × average salary *plus* years of service after inception of C.P.P. × 1.3% × average salary not exceeding the maximum C.P.P. benefit salary *plus* years of service after inception of C.P.P. × 2% × average salary in excess of maximum C.P.P. benefit salary.
For Mr. C: 10 yrs. × 2% × $6,600 + 19 yrs. × 1.3% × $6,600 = $2,950 p.a.

(c) The maximum C.P.P. benefit in the year of retirement is 25% of the average of the Y.M.P.E. in the year of retirement and the Y.M.P.E's for the previous 2 years. Mr. C's Public Service Superannuation Act benefit salary is 6600/7000 of the maximum C.P.P. benefit salary. Hence Mr. C's C.P.P. benefit is assumed to be 6600/7000 of 25% of 7000 or $1,650 p.a. (The actual C.P.P. benefit in this example is $1,621.92 p.a., knowing the full details of the contributor's employment history under the C.P.P.)

APPENDIX "Z"

EXAMPLES OF APPLICATION OF INTEGRATION FORMULA

	Mr. A	Mr. B
(1) Final salary	3,600	6,000
(2) Average salary (best 6 years)	3,300	5,500
(3) Service after inception of C.P.P.	20	20
(4) Service before inception of C.P.P.	10	10
(5) Total service (line 3 plus line 4)	30	30
(6) 2% formula benefit under present Act[(a)]		
—from ages 60 to 64 inclusive	1,980	3,300
—after age 64	1,980	3,300
(7) 1.3% formula benefit[(b)]		
—from ages 60 to 64 inclusive	1,980	3,300
—after age 64	1,518	2,600
(8) C.P.P. pension at age 65[(c)]	825	1,250
(9) Combined pension at age 65 (line 7 plus line 8)	2,343	3,850
(10) Increase in combined pension over 2% formula benefit (line 9 minus line 6)	363	550
(11) Line 10 expressed as a percentage of line 6	18.3	16.7

(a) The benefit under this formula is — total years of service × 2% × average salary.

For Mr. A: 30 yrs × 2% × \$3,300 = \$1,980 p.a.
For Mr. B: 30 yrs × 2% × \$5,500 = \$3,300 p.a.

(b) The benefit under this formula is—

from ages 60 to 64: total years of service × 2% × average salary after age 64: years of service before inception of C.P.P. × 2% × average salary *plus* years of service after inception of C.P.P. × 1.3% × average salary not exceeding the C.P.P. maximum *plus* years of service after inception of C.P.P. × 2% × average salary in excess of C.P.P. maximum.

For Mr. A:

from ages 60 to 64: 30 yrs × 2% × \$3,300 = \$1,980 p.a.
after age 64: 10 yrs × 2% × \$3,300 +
20 yrs × 1.3% × \$3,300 = \$1,518 p.a.

For Mr. B:

from ages 60 to 64: 30 yrs × 2% × \$5,500 = \$3,300 p.a.
after age 64: 10 yrs × 2% × \$5,500 +
20 yrs × 1.3% × \$5,000 (assumed C.P.P. maximum) + 20 yrs × 2% × \$500 = \$2,600 p.a.

(c) The C.P.P. Benefit is 25% of an average salary (which is assumed to be the average of the best 6 years in this example) not exceeding the C.P.P. maximum (which is assumed to be \$5,000 in this example). The C.P.P. benefits payable in these examples would be less if contributions under the C.P.P. were discontinued before the contributor's 65th birthday due, for instance, to retirement from the Public Service without subsequent employment.

For Mr. A: 25% \$3,300 = \$825 p.a.
For Mr. B: 25% × \$5,000 = \$1,250 p.a.

APPENDIX A1

PRIVATE PENSION PLANS IN CANADA

Introduction

Private pension plans in Canada have a comparatively short history. One of the earliest plans was introduced in 1870 for Federal Civil Servants. Four years later the Grand Trunk Railway inaugurated a plan for their employees. Although records are scanty for this early period in the history of private pension plans in Canada, it is known that the oldest plans were introduced mainly by government, railroad and financial institutions.

Interest in old age security in Canada increased gradually after the turn of the century. This widening interest was manifested fairly early with the introduction in 1908 of the Annuities Act marking the beginning of federal legislation in the field. This Act was designed to assist Canadians to make private provision for their old age through the offices of the Government Annuities Branch.

The growth in the number of pension plans was comparatively slow until 1940, when wartime conditions provided impetus for expansion. Production demands during World War II tended to focus employer attention on personnel problems. Labour was at a premium, and in order to meet heavy production schedules, management employed every possible means to encourage higher productivity. Furthermore, this labour shortage, coupled with a wage ceiling, led employers to place greater emphasis on working conditions and improved benefits to attract and hold their work force. Pensions therefore became one of the vehicles for providing an earnings supplement while at the same time holding the line on wages.

The number of pension plans continued to grow at this accelerated pace during the post-war period. Expanded industrialization in Canada over the past two decades brought with it changes in the economy which tended to create a wider interest in pension planning. Increased concentration of ownership and the resultant growth in the number of larger firms provided an instrument through which pension funds could be accumulated. Furthermore, the ever-expanding numbers of wage-earners in the economy tended to focus greater attention on the problems of workers laid off because of age and created wider interest in and concern for improved security for older workers.

From the employers' viewpoint there was a need for a systematic retirement policy. Pension plans permitted impartial retirement of workers who reached a selected age, and relieved the employer of the moral responsibility for retaining older employees whose industrial efficiency may have been impaired by age. Introduction of pension plans by employers also was probably influenced by federal legislation that made contributions to approved pension funds deductible for income tax purposes. Employees' interest in their future security has been reflected in the increasing frequency with which pension provisions have been among the more active issues in collective bargaining. This wider interest in all forms of social security created a climate of opinion favourable for the growth of pension programmes.

In response to this increased interest in pension plans, by November 1960, there were nearly 9,000 private pension plans in existence in Canada covering almost 2 million workers.[1] These plans were found in firms of all sizes. A total of 230 pension plans claimed a membership of 1,000 or more workers; 55 of these plans had memberships of 5,000 or more people. But pensions were not

[1] Pension Plans, Non-Financial Statistics, 1960, DBS Cat. No. 74-505.

confined to the larger employers, since the survey found that over 5,000 plans were established by firms each with a membership of less than 15 employees.

The wide range in size of establishments, together with a diversity of factors peculiar to individual establishments, created many divergent requirements to be considered in the design of these pension plans. Plans appropriate for small firms may be quite inadequate for large firms. The unit costs of some benefits could conceivably be prohibitive for small firms whereas in large firms these costs, when shared by greater numbers, can be provided at appreciably lower rates. In other instances, firms engaged in seasonal activities, e.g., construction, may have difficulty designing a plan since the work force tends to vary sharply in size due to seasonal factors. These difficulties would not apply to firms with low labour turnover rates and comparatively stable work forces.

This review will be confined to the main features of pension plans which will be discussed under the following headings:

(1) Basic categories of plans
(2) Contributions
(3) Coverage
(4) Types of Benefits
(5) Eligibility for Benefits.
(6) Vesting
(7) Pension Benefit Levels
(8) Integration with Federal Old Age Security Benefits

Basic Categories of Plans

Broadly speaking, pension plans can be divided into two main categories—underwritten plans and trusteed plans. In the former type, contributions are transferred to an underwriter, usually an insurance company, or the Government Annuities Branch of the Federal Department of Labour, which guarantees to pay whatever benefits have been bought in accordance with terms of the plan. Administration is generally in the hands of the underwriter. Although this type of plan is rather rigid in its requirements, it offers the greatest security to both employer and employee and therefore tends to be favoured by the smaller companies. The vast majority, about 86 per cent, of the private pension plans are the underwritten type but they cover less than 40 per cent of the 2 million workers participating in private plans.

Under a trusteed plan contributions are put into a trust fund established by the employer and administered by him or by a trust company. The annual contributions are deposited with the trustee, who holds all monies until an employee's retirement at which time a pension may either be paid from the fund directly or purchased outright from an insurance company or the Annuities Branch.

The trusteed type of plan, managed by individual trustees, has certain limitations. All risks, such as exceptional longevity among beneficiaries, must be borne by the fund instead of being merged in a larger pool of risks carried by the Annuities Branch or by insurance companies. The fund may be protected from the risk of longevity if it is used to buy annuities for employees as they retire. However, some uncertainties remain due to variations in the mortality rate of participants prior to retirement, or in the labour turnover rate. Therefore this type of plan is best suited to larger companies with work forces large enough to create funds that can easily absorb these risks.

Although only 14 per cent of all private pension plans are of the trusteed type, according to a D.B.S. survey these covered 1.1 million workers, some 60 per cent of all workers covered by private plans. Furthermore the total assets held by trusteed plans were nearly $4,600 million in 1963 compared with the

$2,200 million of pension plan assets held by insurance companies and the Government Annuities Branch.

Over the past few years a wider market for trusteed pension plans has been created through the development of plans more suitable for smaller employers. This has been done through the expedient of the "pooled" or "classified" funds which combine contributions of a number of unrelated employers into a central fund managed by a corporate trustee. This type of plan opens the way for smaller companies to combine their assets and participate in the diversity, security and yield previously available only to much larger concerns. The success of this development may be measured by the increased number of trusteed arrangements with firms having fewer than 50 employees. Trusteed plans for these small employers rose from 132 in 1957 to 568 in 1962 according to latest figures available.[2]

Contributions

Pension plans may be classified as either "Contributory" or "non-contributory" depending on the source of contributions to the fund. In the former type both the employer and employee contribute for the employee's ultimate benefit, whereas in the non-contributory plan the employer bears the entire burden of cost. Non-contributory plans have certain advantages for the employer in that they are more economical to administer since the employer is likely to have more control of its management. On the other hand, contributory plans have the advantage of making employees conscious of the costs of their pensions. Also from labour's viewpoint, this type of plan increases the financial independence of the employee and is likely to provide him with a larger pension and greater vested rights in the fund.

The contributory type of pension plans predominate in Canada. Out of a total of nearly 9,000 plans surveyed by D.B.S. in 1960 all but approximately 600 were the contributory type. These contributory pensions, at that time, had a total active membership of 1.5 million participants whereas 0.4 million participants were recorded in the non-contributory plans.[3]

The contribution rates for employees who participate in these contributory plans vary widely according to the benefits provided. A survey of pension plans[4] showed that employee contributions ranged from 3½ per cent to 7½ per cent of annual earnings. The most common rate was 5 per cent of earnings, found in nearly three-quarters of the contributory plans and was the rate paid by more than ⅓ of the 1.5 million workers who participated in these plans. About 25 per cent of the participants were in plans that called for a 6 per cent contribution and less than 10 per cent of the participants paid 4 per cent of their income. At the bottom end of the scale, relatively few, some 91,000 members paid 3½ per cent or less into their pension funds.

One of the usual determinants of the rate of pension an individual will ultimately receive is the number of years of contributions made by him or on his behalf after the start of the plan. Credit for years of service prior to the commencement of the plan is of particular concern to workers who are already close to retirement age when the plan is first introduced. Since private pension plans in Canada are of relatively recent origin this provision is a significant one. Over 40 per cent of private pension plans provide for purchase of past service benefits.

Past service benefits are usually financed solely by the employer. If the plan is registered for income tax purposes, the Department of National Revenue requires the past service liability to be liquidated systematically. It may be paid by a lump sum payment or by instalments over a pre-determined period.

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[2] "Trusteed Pension Plans, Financial Statistics 1957, and Trusteed Pension Plans, Financial Statistics, 1962," D.B.S. Cat. No. 74-201.

[3] "Pension Plans, Non-Financial Statistics, 1960" op. cit. p. 10.

[4] Ibid. p. 12.

Coverage

The subject of coverage gives rise to such questions as: "which employees are permitted to join the plan?" "under what circumstances are they excluded from membership?" "what conditions, if any, must be fulfilled before membership in a plan is accepted?".

In non-contributory plans employees are included at the discretion of the employer. The question of which employees have options to join the plan therefore applies primarily to contributory plans since the participating employee must make contributions. Participation in contributory plans is usually optional for employees of the firm at the time the plan is inaugurated. However, for new employees membership may be either voluntary or compulsory and can vary according to sex. The table below shows the distribution of the various combinations of voluntary and compulsory membership provisions found in contributory pension plans in Canada.

ADMISSION TO MEMBERSHIP OF NEW EMPLOYEES

Combination		No. of Contributory Plans	Percentage
Male	Female		
Compulsory	Compulsory	*1,959*	*23.6*
Voluntary	Voluntary	*5,644*	*68.0*
Compulsory	Voluntary	251	3.0
Compulsory	Not eligible	111	1.3
Voluntary	Compulsory	1	—
Voluntary	Not eligible	269	3.3
Not eligible(5)	Compulsory	9	0.1
Not eligible(5)	Voluntary	23	0.3
Not eligible(6)	Not eligible(6)	33	0.4
Total		8,300	100.0

(5) Membership in plan is confined to females or is closed to new males.
(6) Membership in plan is not available to new employees.

SOURCE: "Pension Plans, Non-Financial Statistics, 1960" Op. Cit. p. 34.

Some pension plans do not impose any restrictions on employees to prevent their participation but allow them to become members upon joining the firm. In other plans, however, eligibility is subject to either the completion of a designated period of service, or the attainment of a stated minimum age, or a combination of the two. In a 1960 survey[7] it was found that of the nearly 2 million people participating in pension plans, 45 per cent were in plans that set no restrictions on memberships. Another 16 per cent were members of plans that based eligibility on the completion of a designated period of service; for a further 9 per cent elegibility for participation was subject to the completion of a period of service and/or the attainment of a minimum age. The years of service required for eligibility rarely exceed 5 years, and for over half of the members subject to this condition the service requirement was one year.

Minimum age as a factor for eligibility was found in slightly over half of the nearly 9,000 pension plans in force during 1960, and in most cases certain service requirements were included as well. Very few of these plans set the age limit beyond age 30 and in the majority of plans the limits were 25 years of age or less—with some variations according to sex.

An additional restriction found in a number of plans was a maximum age limit beyond which participation was prohibited. In a few plans this was the only restriction to membership. However, for approximately 3,000 pension plans

[7] "Pension Plans, Non-Financial Statistics, 1960" Op. Cit.

eligibility was subject to a maximum age provision combined with either years of service, or minimum age, or a combination of both. The net effect of this maximum age provision is that it tends to discriminate against older workers and to limit their opportunities for employment.

A fairly common restriction to membership found in many pension plans is the specific exclusion of female employees. This restriction was reflected in the findings of a survey which showed that in establishments where plans existed, nearly three-quarters of the male employees were active participants, whereas only slightly more than half of the female employees were members. Generally speaking most of the difference may be attributable to the limitations on women's participation common in non-contributory plans. In addition however, as can be seen from the table above, membership was closed to female employees in some 380 contributory plans as well. Furthermore, where participation in a pension plan was voluntary the incidence of women who elected not to join was relatively high. Consequently the same survey showed that 30 per cent of the women in establishments with contributory plans were either permanently ineligible to participate or, where membership was voluntary, elected not to join.

Types of Benefits

Every pension plan contains a formula by which the rate of pension for each participant is accurately determined. There is a wide variety in formulae used, although the majority show a general similarity. The two main types of pension plans are the "money purchase" and "unit benefit". The "money purchase" formula defines both employee and employer contributions as a percentage of salaries; the amount of pension is determined by the amount of annuity such contributions will buy. A "unit benefit" formula defines the amount of pension, and the contributions are determined by the cost of providing this amount of pension, although the employee's contribution, if any, is usually a fixed percentage of his earnings.

The following variations of the unit benefit plan are designed to relate pension benefits to earnings:

(1) *Final earnings*—a percentage of the member's earnings at the time he retires, for each year of service.

(2) *Average final earnings*—a percentage of average earnings during a designated number of years immediately prior to retirement, for each year of service.

(3) *Average best earnings*—a percentage of average earnings during a designated period of best earnings, for each year of service.

(4) *Average earnings* (career average)—a percentage of average earnings over the entire period of a member's participation in the plan, for each year of service.

Private pension plans incorporate the following adaptations of either the unit benefit or money purchase type of plan:

(1) *Profit sharing pension plan*—a money purchase type of plan. The employer allocates a percentage of profits to the plan, or a nominal percentage of the total payroll of the members of the plan if the employer is operating without a profit. The member may be required to contribute a stated percentage of his earnings.

(2) *Composite plan*—a combination of a unit benefit type and a money purchase type of plan. The employer purchases a pension of the unit benefit type and the member contributes a stated percentage of his earnings which purchases an additional pension of the money purchase type.

(3) *Flat amount type of plan*—the amount of pension is either a fixed dollar amount, or the unit of pension is a fixed dollar amount for each year of service.

Of the private pension plans in force in Canada in 1960 over 60 per cent were of the money purchase type. However, these were concentrated largely among the smaller companies since they covered only 13 per cent of the nearly 2 million workers participating in private plans. On the other hand nearly 75 per cent of the members in private pension plans were covered by unit benefit plans.

Of the nearly 2800 unit benefit plans recorded in 1960 nearly 2400 were designed to provide benefits calculated on the basis of average earnings; a total of 415 plans provided benefits calculated on the basis of earnings attained during the final years before retirement. Final earnings plans are designed to provide a built-in correction factor to offset any future decline in the purchasing power of the dollar up to the time of retirement. Consequently, the accurate assessment of the future costs for these plans depends upon the precision with which the actuaries predict future experience.

Eligibility for Benefits

The primary criteria for eligibility for benefits from a pension plan is the attainment of a given retirement age. The most common retirement age in pension plans operative in Canada was found to be 65 for men and 60 for women. The sex differential in retirement ages has been the subject of a great deal of discussion. There is some doubt as to whether a lower retirement age for women is justified since women on the average outlive men. This age differential, in part, may stem from the unfounded prejudice that women are incapable of gainful activity beyond a certain age which is lower for them than for men. In recent years, however, there are indications that the traditional five-year differential between male and female retirement ages is disappearing.

Comprehensive data regarding retirement provisions in pension plans are not available. An indication of the general practice in this regard may be found in a private survey conducted by the National Trust Company Limited.[9] This survey was limited to 157 plans which were selected in such a manner as to provide "a sample of the pension plans of large Canadian employers, stratified by industry and location; but not biased towards any particular formula or financing method".[10]

The National Trust Company Limited study showed that out of the 157 plans surveyed, 140 plans specified that the normal retirement age for male employees was 65 years. In the majority of these plans the normal retirement age for female employees was found to be nearly equally distributed between ages 65 and 60 in the ratio of 45 per cent and 42 per cent respectively.

Most plans allow forearlier retirement on reduced pensions in the event of disability or other special circumstances. Many plans also have provisions for the extension of employment beyond the normal retirement age, but this is subject to mutual agreement between the employer and the employee.

Vesting

An important feature of any pension from the point of view of the employee, is the *vesting policy*. Vesting provisions establish the legal right of the employee who terminates his service prior to retirement to all or a portion of the contributions made on his behalf by the employer. The employer's contributions to most pension funds in Canada are irrevocable.

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[9] "A Study of Canadian Pension Plans" second edition—fall 1961, National Trust Company Limited, Toronto.

[10] Ibid. P. 2.

Most private pension plans in Canada have some form of vesting provision although the extent to which employees are given legal claim to the employer's contributions varies widely from plan to plan. Vesting rights are normally subject to certain limitations which usually consist of one or more of the following:

(*a*) Years of service with the employer which includes service prior to becoming a member of the plan;

(*b*) Years of participation in the plan;

(*c*) Age of the employee when termination of employment takes place.

One of the reasons for the preponderance of pension plans with vesting is the Department of National Revenue income tax requirement which established certain standards of protection for workers in regard to vesting of the employer's contributions. For example, until fairly recently, plans registered for income tax exemption were required to provide absolute vesting of employer future service contributions at age 50, subject to a minimum period not exceeding 20 years of service or participation. Exceptions to this requirement were sometimes made under certain circumstances. In negotiated pension plans, for example, the Income Tax Division would accept a collective agreement as evidence that the plan was mutually acceptable to workers and management, even without vesting, if it otherwise met desirable standards.

Although very few pension plans have no vesting rights whatsoever, they cover 30 per cent of the 2 million members of private pension plans in Canada. At the other end of the scale immediate vesting applies to less than 5 per cent of the members. Between these two extremes delayed vesting based on years of service is available for nearly $\frac{2}{3}$ of the members. For about $\frac{2}{5}$ of these members the right to the employer's contribution is not complete until the individual has 20 years of continuous service. One half of these members are not subject to graduated vesting and therefore they do not acquire any vested rights until they have completed the full 20 years of employment. In some plans the vesting of the employer's contribution is available only if the employee leaves his own contributions in the plan. However, almost half of the plans with vesting provisions permit a cash refund of employee's contributions providing the employee waives his vested right to the employer's contributions.

Pension Formulas

Information regarding benefit formulas in existing pension plans is not generally available. However, an indication of the benefits normally provided may be obtained from the National Trust Company Limited study mentioned earlier. Of the 157 plans studied in this survey slightly more than one half calculated benefits on the basis of career average earnings, and more than one fifth of the plans based benefits on final average earnings. In the career average earnings plans, 37 per cent provided benefits of $1\frac{1}{2}$ per cent of earnings, per year of service; in another 31 per cent, benefits were 2 per cent of earnings; and $1\frac{3}{4}$ per cent was found in a further 12 per cent of the plans. The survey also found that 23 per cent of the final average earnings plans provided pension benefits based on 2 per cent of earnings for each year of service. Benefits of 1 per cent and $1\frac{1}{2}$ per cent of earnings each accounted for 17 per cent of this type of pension plan. In the "flat amount" benefit plans, which represented nearly 12 per cent of the plans surveyed, the most common rate was $2.50 per month per year of service. Of the money purchase plans, which represented less than one-tenth of the plans studied, 40 per cent called for a payment of 5 per cent of earnings by the employee which was matched by the employer, with the pension being determined by whatever the accumulated contributions would purchase.[11]

[11] Op. Cit. p. 40.

Integration with Federal Old Age Security Benefits

Many private pension plans have an enabling clause which permits adjustment or modification of benefits to make allowance for Old Age Security benefits. This process of modification or adjustment is generally referred to as "the integration" with the federal Old Age Security benefits.

In 1952 when the federal Old Age Security Act was introduced companies who elected to integrate did so in three principal ways. Retiring employees were given the option of integration which took the form of a "stepped" or "notched" adjusted pension. Under this form the benefit payments were increased from the date of retirement until age 70 and reduced thereafter by the amount of the old age security pension. Thus the individual received a uniform monthly benefit throughout his retirement period. This type of integration is widely used where employees retire before age 70; some plans do not grant this option in the event of early retirement due to ill health. The adjustment is usually made on the basis of actuarial equivalence.

The second method of integration used an automatic reduction in benefits at age 70 equal to the Old Age Security payment. This process usually provided for corresponding benefit reductions as the government old age benefits increased. Pensioners under this plan do not profit from governmental increases in universal payments; the entire gain accrues to the employer since the amount paid out of the pension fund is correspondingly reduced. Finally the third principal method of integration was to reduce the benefits payable by part of the old age security benefits at age 70.

There are no statistics available to show the incidence of integration in existing pension plans in Canada. An indication of the extent to which this practice prevails can be inferred from a limited survey conducted by the federal Department of Labour in 1960.[12] It was found that of the 1.5 million people employed in surveyed establishments with pension plans, 40 per cent were in establishments with plans that made provisions for integration of their benefits with the Old Age Security benefits. The survey did not indicate how many of these people were members of pension plans nor did it examine the types of integration employed.

Summary

As outlined above, private pension plans in Canada have experienced considerable growth and development over the past decade or so in response to a variety of economic and social factors. The private pension plans currently in force were developed to meet a multiplicity of requirements and were designed in accordance with the particular needs of individual employers. The result has been the creation of a body of pension plans that provides a measure of security in old age for the working population.

The main limitation of private pension plans is their restricted coverage. A high proportion of the labour force is not covered and even where pension plans are available coverage tends to be limited. In a survey conducted by the federal Department of Labour it was found that only about 70 per cent of the employees in establishments with pension plans actually were pension plan members.[13] Some indication of the reasons for non-participation in pension plans, where available, was revealed by an earlier survey conducted by the Dominion Bureau of Statistics. This survey showed that in establishments with pensions, as many as 14 per cent of the employees were temporarily ineligible

[12] "Working Conditions in Canadian Industry, 1960" Economics and Research Branch, Department of Labour, Canada.

[13] "Working Conditions in Canadian Industry, 1963" Economics and Research Branch, Department of Labour, Ottawa.

for membership, 7 per cent were permanently ineligible, while a further 11 per cent who were eligible, elected to stay out of the available plan.[14]

Generally speaking, the proportion of female membership in pension plans is lower than for men. This may be due to a number of factors. Some plans specifically exclude women employees while others make membership optional for women. In a study by the Women's Bureau of the Federal Department of Labour[15] it was pointed out that young women expecting to work only until marriage, frequently are indifferent to pensions. They prefer to avoid the deduction for this purpose so as to retain a higher level of present income. Similarly, married women also tend to elect against a plan, particularly if their husbands belong to an adequate scheme.

In addition to the restricted coverage of private pension plans vesting provisions tend to be limited. Of the nearly 2 million people in Canada who are covered by pension plans less than 5 per cent were entitled to immediate full vesting of the employer's contributions if they left before retirement. As was pointed out above, 30 per cent of the members would receive none of the employer's contribution if they changed jobs before retirement. Nearly one-half of the remaining employees were required to stay under the same plan for 20 years or more in order to get all of their employer's contributions.

Unemployment Insurance and Pensions Section
Labour Division
Dominion Bureau of Statistics

[14] "Pension Plans, Non-Financial Statistics, 1960" Op. Cit.

[15] "Women's Bureau Bulletin" Number 1, November 1961, Women's Bureau, Department of Labour, Ottawa.

EVIDENCE

WEDNESDAY, December 16, 1964.

The CHAIRMAN (*Mr. Cameron*): Mrs. Fergusson, Mrs. Rideout and gentlemen, we have a quorum and I will now call the meeting to order

The first item of business is a correction of the minutes and proceedings, number 3, on Wednesday, December 2, 1964.

At page 174 Mr. Monteith put the following question:

> For argument's sake, are you going to bring it down to a point at which you might take it all off the first month?

Mr. Sheppard's answer reads:

> If he gets $5,000 a year he would.

The correction required is that the word "year" in the answer should be changed to the word "month".

Is there any objection to that change being made?

Some hon. MEMBERS: No.

The CHAIRMAN (*Mr. Cameron*): Your steering committee met today at 1.30 p.m. and I now have the fifth report of this committee, which I would like the clerk of our committee to read.

The CLERK OF THE COMMITTEE:

(*See Minutes of Proceedings of this afternoon's sitting.*)

Hon. Mr. CROLL: Mr. Chairman, I think there is a mistake in that report in respect of the reference to the teachers; there was one for the western provinces and one for the eastern provinces in addition to the other two briefs.

The CHAIRMAN (*Mr. Cameron*): That was my understanding of it.

Mr. CANTELON: That would be a fair way to do it.

Mr. MONTEITH: This was Ontario, the parent, and one from the east and one from the west.

Mr. BASFORD: Do we understand that Ontario is neither in the east nor in the west?

Mr. MONTEITH: That is right.

Mr. LLOYD: It never has been.

The CHAIRMAN (*Mr. Cameron*): Then it should be changed to read four briefs, one from the Canadian Teachers' Federation, one from the Ontario Teachers' Federation, one from the eastern Teachers' Federation and one from the western Teachers' Federation.

Mr. MONTEITH: Was it not the understanding that whoever is secretary-treasurer of the Canadian Teachers' Association was to develop a brief representing western views and just one from the east? In other words, if the provinces wished, they could go together or decide which should present the brief.

The CHAIRMAN (*Mr. Cameron*): That was my understanding.

Would someone move the report be received and tabled?

Mr. MUNRO: I so move.

Mr. KNOWLES: Mr. Chairman, I think there is one other error, unless I am incorrect in my understanding, and I can be corrected if I am wrong.

I thought the vote on the second proposition, namely that of the quorum, was unanimous.

An hon. MEMBER: It was.

Mr. KNOWLES: It reads five for and nil against. I thought it was unanimous. The first vote was five yeas and three nays, and the second vote was unanimous.

The CHAIRMAN (*Mr. Cameron*): I thought possibly the clerk had not seen some of the hands that went up.

Mr. MUNRO: Mr. Chatterton was registered as a nay on the first vote.

Mr. KNOWLES: There were no nays or abstentions on the second vote.

The CHAIRMAN (*Mr. Cameron*): It has been moved and seconded that the report be received and tabled, and it is now open for discussion.

Mr. CHATTERTON: Mr. Chairman, I want to voice an objection. I was unable to stay throughout the whole meeting of the steering committee. But as I say, I want to voice an objection to that section of the steering committee report which mentions that we meet on January 12.

In the first place, Mr. Chairman, we have had no indication as yet from the government when it is going to recess. I know the government is unable to control the date of recess, but I think the government should be able to give us an indication of how long the recess will be. Now, so far as I am concerned, the decision we make in respect of when we sit during the recess depends to a large extent on the time that the recess will occur. Certainly, if there was a lengthy recess I would be prepared to come back in, say, the last two or three weeks of the recess. But, whether it will be eight weeks, six weeks or four weeks duration we do not know.

Secondly, Mr. Chairman, I am unable to understand the hurry with regard to this. I know the government is trying to get the committee's proceedings through so that it can prorogue when the government thinks it is necessary to do so. But, I do not think an important matter such as this, which is one of the most important pieces of legislation that has come before parliament in many years, should be rushed through. For one thing, we have made reasonable progress. We first sat on November 24, I believe it was, and since that time we have had 18 meetings, which is an average of one meeting per working day which, I believe, could be considered reasonable progress.

I think we have made very good progress in going through the clause by clause study of the bill. Therefore, Mr. Chairman, I oppose this motion of the steering committee. As I say, I would not mind sitting a little later in the recess if we knew there was going to be a fairly long recess. As you know, the motion is that we reconvene on January 12. I, for one, have two engagements to attend public meetings which are not of a political nature. These meetings are going to be held on January 21 and January 22, in my case, it takes me a day to travel to British Columbia and a day to come back. As we all know, many other members do not have this same problem. I think it is an imposition, in the first place, for us to sit during the recess but, as I say, I am prepared to do so provided we have a fairly long recess and come back toward the end of it. I think such a procedure also would give more time for the people of Canada to digest and consider this piece of legislation. As I said, it is important legislation and should not be rushed through. There seems to be a suspicion that the government is trying to rush it through before the people realize the shortcomings of the plan.

Mr. MUNRO: Mr. Chairman, this was discussed in the steering committee. The government did give a commitment that the house would not prorogue or that the session would not end until this pension plan was back before the house.

Hon. Mr. McCutcheon: The usual kind of commitment the government makes.

Mr. Lloyd: I think the hon. gentleman should confine his observations about the government to the other place.

Mr. Munro: I think the suggestion that this whole matter is being rushed is a little unfair. Even if we meet on January 12, that is approximately a month from now, I would suggest that we might proceed with the meetings suggested by the steering committee for the first week and a half and proceed with dispatch so far as the briefs are concerned and in that week and a half do as much business as we can. Perhaps in that week and a half it will be possible to take certain time off; we do not know. The way the minutes of the steering committee read, we will take a recess and return for sittings of a week and a half; then we will see whether or not we should sit again. I do not see how this can be interpreted as rushing things.

I think the argument that the government has not given any clear indication in respect of whether or not there will be a recess is rather specious. If the government calls no recess at all, then the steering committee will have to meet again and make other arrangements. These decisions of the steering committee are based on the premise that there will be a recess, and if there is not, we will, of course, have to change our plans. I think all of us will agree there is a likelihood that there will be a recess and that it will stretch throughout January. Because this is important legislation, as Mr. Chatterton has indicated, there is all the more reason we should be prepared to sit at least a week and a half during the recess period in January to consider the briefs.

I have canvassed all the Liberal members and senators. They seem to be in agreement that this is not too onerous a schedule. I cannot see why there is objection to a commitment at this stage for a little over a week and a half of sittings.

Hon. Mr. McCutcheon: The report is not before us.

The Chairman (*Mr. Cameron*): The report is before us.

Hon. Mr. McCutcheon: What is the motion?

Mr. Munro: That the steering committee report be endorsed.

The Chairman (*Mr. Cameron*): The report is received and later on we will decide what we should do in connection with the report. The report is now received and is being discussed.

Mr. Moreau: I fail to understand Mr. Chatterton's argument. On the one hand, he is complaining we are rushing it through, and then he is suggesting we delay the committee's proceedings. His suggestion would compress the time of the committee, and we then would be placed in the position where we would have to rush.

Mr. Chatterton: Why?

Mr. Moreau: You are suggesting we delay hearing these briefs. I would suggest that the sooner we start, the more time we can take. Surely, if we are going to start this plan on January 1, 1966, the more time we can give employers and other groups who will have to adjust their payroll plans and prepare for this, the better. Inevitably there will be a lot of work entailed.

Mr. Gray: Mr. Chairman, I would like formally to move that this report be adopted, if this has not been done already?

Hon. Mr. Croll: I second the motion.

Hon. Mr. McCutcheon: I would like to make an amendment.

Mr. Gray: On a question of order, may I say that I think Senator McCutcheon is obliged, like any other member of this committee, to follow the ordinary rules of order. I think he should wait until he is acknowledged by the Chair. I would suggest that he wait until the member who is speaking has finished before he interrupts, and I am prepared to accord him the same privilege, as I am sure is any other member of the committee. I would also suggest that his *sotto voce* interventions are worth more than some of his oral ones.

Mr. AIKEN: The *sotto voce* did not come from my friend, but rather from another member.

The CHAIRMAN (*Mr. Cameron*): Let us proceed in a regular way.

Mr. MONTEITH: Let us go on in the Christmas spirit.

Mr. GRAY: My remarks are made from the point of view of harmony. I am sure we can continue the harmony we have had through the rest of the hearings of the committee. I would suggest the report of the steering committee is a reasonable one. I think we are better off to start our further hearings on January 12, and see how we get along. Then, if it should not be necessary to sit, we could adjourn our sittings and come back when required.

I do not think there is any suggestion implied in this report that we are rushing our hearings. I think all of us are prepared to take all the time reasonably necessary to consider the matter of hearing briefs, and so on. As Mr. Moreau suggested, I believe that business firms will be interested in making plans in respect of payroll deductions, if this plan is to become law. I believe the provinces themselves and the people of Canada generally expect us to proceed in a relatively expeditious manner with this plan which is before us, even though they wish us to give all the necessary consideration to the matter.

In the house this matter had second reading limited to three days by consent of all parties, and I might mention at this time that Mr. Monteith, I gather speaking for the Conservative party in the house, said:

> There are no ifs and buts, let me make it abundantly clear. We want a comprehensive contributory pension plan brought in at the earliest possible opportunity.

I think I am quoting him accurately on that point. I, therefore, suggest, carrying out Mr. Monteith's admonition that we express both the Christmas spirit and the spirit implied in his statement made in the house, that we adopt this report.

The CHAIRMAN (*Mr. Cameron*): Was someone going to move an amendment?

Hon. Mr. MCCUTCHEON: Mr. Chairman, I am very indebted to Mr. Gray for his advice to me. I always am receptive to advice and I learn something new every day, but up to date today I have not learned much that is new. I was very interested in his prediction with regard to what parliament is going to do. I can remember in connection with the first edition of this bill—we now are dealing with the third—that when it was brought in it was going to be in force on January 1 next, just a couple of weeks away. It was through no fault of any member of my party that legislation was not proceeded with. I could refer members of the committee to the order paper in which regularly the government lists its achievements; one of the achievements is that they withdrew Bill No. C-75. Whether or not that is an achievement, it is the way it is listed on the order paper.

That was the second edition. Now we are on the third edition. I see no reason why we should have this pressure put on us. It was July 18, as I recall it, when the first bill was introduced.

The CHAIRMAN (*Mr. Cameron*): I take it that you are going to move an amendment?

Hon. Mr. McCUTCHEON: Yes, I am, but I would like to say why I feel an amendment is appropriate. It is not the fault of any member of my party that the first bill was not proceeded with, or the second bill. I am not going to speculate on why they were not proceeded with, although I could make some very interesting speculations.

I, therefore, move that the report of the steering committee be amended to read—and my motion is seconded by Mr. Monteith—that the committee do not sit during the recess.

The CHAIRMAN (*Mr. Cameron*): Do you mean that we do not sit in January?

Hon. Mr. McCUTCHEON: I mean that we do not sit during the recess. I do not know what that means. We might sit on January 2.

The CHAIRMAN (*Mr. Cameron*): Is your motion not entirely negative?

Hon. Mr. McCUTCHEON: I do not think so.

Mr. AIKEN: There are three portions to the motion, and the senator is amending one portion of it.

The CHAIRMAN (*Mr. Cameron*): Is there any discussion?

Mr. KNOWLES: It seems to me that whether we speak to Senator McCutcheon's amendment or to the main motion, we are speaking to the same proposition. I would like to make it clear—and I am sure this will not be a surprise to anyone—that I think we should sit during the recess and try to cope with the problems of this legislation. I think it should be obvious to all of us—and there does not need to be any rancor or ill will about it—that although we are technically discussing a matter of procedure, nevertheless in all our minds there is the question of where we stand on the issue itself. My view, quite frankly, is based on the belief that this legislation, either in its present form or with such amendments as may be made to it, should be got through at this session of parliament.

Many months ago I personally got a commitment from the then house leader, the Minister of Justice, in the House of Commons, that this session would not be prorogued until the house had had a chance to deal with this legislation at all of the stages of the legislative process. I think that when the House of Commons gave second reading to this bill and referred it to the committee, it expected the committee to do their job.

Now, what are the ways to do it? One way of course, would be to let the government go back on that commitment and prorogue the house and bring it again at another session. I think that would be just about fatal. As to what Senator McCutcheon has said about the first, second, or third versions, I do not think that a fourth one would get very far. I think if we have another interruption, with the provinces getting at it again, and the insurance companies getting at it again, and all the rest of it, one thing is certain, it is not going to get through.

Many people already are going to lose a year's benefit because of delay, and it would not take much more delay of that kind to cost another year. I think as a House of Commons we have an obligation, if we favour the legislation, to see it through at this session. After we get back into the house, and deal with third reading, should the house decide to reject the bill, that is one thing, But I do not think it should fall by the way just because we fail to deal with it.

I am, therefore, completely opposed to any suggestion that this bill die with this session in its present stage, and be started again at another session.

The other ways to deal with it are just two, I think. One would be that we wait until the recess is over and the house is back again, still in this session, if that seems to be the government's plan, and then hold our meetings, and hear delegations and deal with the bill. But I think that would be tempting Parkinson's law in the extreme. If the house was still sitting while we were sitting, we would take time, and things would drag on in the house, and this session would drag on, and it would be a long time before the next session was started.

In think in terms of dealing with parliamentary business in a decent and responsible way, we have to take some time out of the recess to deal with it. I think if we are going to deal with it during the recess we should get at it as early in the recess as is reasonable. Any time we take from the recess is inconvenient. After we have been here for 10 months, we all would like to take two months away from here. So any time is going to be inconvenient, but I think we should do it as early as we can in the recess, so that we are not crowded.

If we come back two weeks before the date fixed for the resumption of the session, and we have not finished our work when the house meets, and we have not got it through, then we are dragging out that session. I think, since this is such an important piece of legislation, we should give it our best attention and hold our meetings at a time when the house is not sitting.

I would like to have longer than January 12 away from here, and I think that is reasonable. Nevertheless I feel that Senator McCutcheon's amendment should be turned down. I suggest that we accept this motion and do so in good spirit and good faith realizing that it is our obligation as a committee to examine this bill and to be ready to report it back to the House of Commons when it meets again after the recess. I think we will do that job better if we meet in such time that we can do the job, and have the house recess for a few weeks when we are not around here at all. Therefore, I am opposed to Senator McCutcheon's amendment, and I support the main motion.

The CHAIRMAN (*Mr. Cameron*): Now Mr. Monteith.

Mr. MONTEITH: I am in favour of this amendment for probably different reasons to those which have been expressed. I really believe that we need a holiday. I am very serious when I say this. It is fine for parliamentarians to talk about holidays, but it does not get a great deal of public support. However, I really believe that for the good of the bill, and for the good of parliament, we should be out of here for a period of time.

There was a very good editorial in this morning's Montreal *Gazette*, written by a certain parliamentarian in Britain concerning the operation of parliament, and it went on to point out that parliament does not operate at its highest without a holiday. I am quite convinced we would be able mentally to apply ourselves to this bill if it were held off and we were given a chance to get away from here and to get to our constituencies. The Senate need not worry about that, but some of us should. I think we should get away from the atmosphere, the tension and so on, and the long hours.

I used to be in business and I thought I worked pretty hard, but I have found that I never worked so hard in my life as I have in recent years down here.

Let us remember, Mr. Chairman, that this is a completely different type of venture we are entering into. I understand from Mr. Knowles that he sat on a committee during wartime when the wartime expenditures committee, and maybe others, sat when the house was not in session. However, I have been here for eleven years and I have not had that experience, and I have not known of any committee which has sat while the house was not in session. I think it is a completely different move. I am not suggesting that it should not be done entirely, but owing to the excessive length of this session I think it is completely facetious of us to think that we can come back here on January 12 and give our best to this matter.

We all know that the actual Christmas week is not a holiday. As a consequence, we will enter into our holiday maybe around the second or the third day of January, or what might be considered a holiday, and if this proposal is approved we will get back here on January 12. I believe there is some merit in what Mr. Knowles said concerning getting on with the job and getting it done earlier rather than being under pressure. I can see some merit in that, and I think perhaps Senator McCutcheon might be willing to amend his amendment to such a degree that we might come back somewhat before the recess ends, but I do not believe we are using our heads if we say we should try to come back here on January 12.

There is another thing, Mr. Chairman. I asked you if you would take a poll of everybody, every individual member of the committee, both from the House of Commons and from the Senate, to see whether or not they would be in attendance if we were to come back here, for argument's sake, on January 12. I have counted the heads present and I think there are 28 or 29 here, which is a pretty good representation out of the 36. I think we are probably all here now, and a personal poll might not have to be taken to satisfy my curiosity. I cannot believe that you will have any reasonable representation in this committee if you reconvene on January 12.

Mr. LLOYD: Mr. Chairman, I know the circumstances are unusual, but I see this as a job of work which all of us have been willing to undertake. We had the opportunity of getting off the committee if we wished to do so, or of not getting on it to start with. I am quite sure we were not forced to come on this committee. I for one feel that this very complex question requires concentration of thought, action and study, and collaboration in the committee. I think you can get that to a far greater degree when the house is not sitting, because then you do not have the conflict with other committees. We will be at a very critical period when we begin to hear and learn of the opinions of people who are criticizing the proposal. I think we want to give our undivided attention to that kind of criticism, and we want to be able to identify all of it, where it comes from and why it is put forward, as well as the merits of it.

In the defence committee I found when we got away from the House of Commons and went overseas for 14 days there was tremendous concentration and a high degree of co-operation, and there was not a partisan view expressed. They really went to work; and it was an excellent committee.

Finally, may I say why I want to see us getting on with this discussion in the recess. The staff have done an excellent job. The civil servants have greatly impressed me with the manner in which they have been prepared to discharge their duties on a committee dealing with such an intricate and complex question; and their briefings have been excellent.

I think we should bear this in mind. Perhaps we are trying to imagine that this is going to be a lot more difficult than it really will be. It may be difficult when it comes to getting matters through the House of Commons or the Senate, but I may say that it is not going to involve as much time as some migh believe to fully comprehend the matter before us. After all, that is our job. Our job is to get through it quickly and make a recommendation to the house.

I am opposed to the amendment to defer any future meetings. The sooner we get on with it the sooner we will finish it, and the better we will be discharging our responsibilities as members of parliament.

Mr. BASFORD: I would like to say briefly that the defeat of this amendment and the acceptance of the steering committee's report would allow you to make arrangements with interested groups, who want to present briefs and make representations, for definite time for their appearances.

Senator McCutcheon mentioned earlier something about the commitments of this government. The Prime Minister made a commitment which I am sure was agreed to by him and all members of all parties. That was that this bill would receive the greatest possible public and parliamentary scrutiny by a committee, and if that scrutiny is to be given we owe it to these groups, to the insurance companies, the trade unions, the employer and employee groups here and now, today, to be able to give to them a definite date for their appearance so they can prepare the best possible presentation they can give to this committee. I think we owe it to the president of the Great West Life to be able to tell him tomorrow that he is scheduled to appear before this committee on such and such a date so he can best prepare his presentation to this committee.

Mr. Leboe: I would like to ask a question, Mr. Chairman, and I do this because I am replacing Dr. Marcoux on this committee.

First of all, I would like to know before I pass any remarks about what has been put before us whether there has been any suggestion by the committee or any regulation set up by the committee concerning briefs. Has it been said that they must be in a week, ten days or two weeks ahead of time so they can be studied by the individual members? This procedure was followed in the committee which was discussing the Columbia River treaty, and it worked out very well because we had the briefs at least a week ahead of time and we were able to study the briefs so the witnesses did not have to read them when they came before the committee.

The Chairman (*Mr. Cameron*): The steering committee sent out a letter to a group of organizations who had appeared before. The letter informed them that if they wanted to submit briefs they should let us know by a certain date if possible, and it told them of the number of briefs we would require if they did indicate they wanted to submit a brief. It also asked them to have their briefs in, if at all possible, by December 31. That was not a final or cut-off date. The committee also reserved the right at a later time to fix a cut-off date for the reception of briefs. That has not yet been done.

Mr. Leboe: I feel very strongly that if we had these briefs submitted to us for study at an early date it would mean that we would not have to meet here to listen to individuals giving testimony and reading long prepared briefs. We would avoid having to hold meetings during the time that the house is in recess.

I am absolutely opposed to having meetings during the recess. Although I live right here in the city of Ottawa, there are members from the far east and the far west. Those people who live in the proximity of the capital city will have an advantage over those whose homes are long distances away from Ottawa.

Furthermore, we have been in session now for approximately ten months. I do not think it is right or just that we should even consider the sitting of this committee during the time of the recess. If we have these briefs before us we will be able to study them in our own homes. If individuals want to come down to Ottawa and sit in their offices and study the briefs, that is their prerogative, but it takes nothing to mail them to the members' homes so they can read them and be prepared to discuss them when they are put before the committee.

I am opposed to any move at all to have the committee sitting during the time in which the house is in recess.

The Chairman (*Mr. Cameron*): I would like to call your attention to the second recommendation of the steering committee. It is that the witnesses who appear before the committee should make a preliminary statement summarizing the brief they have previously submitted, with recommendations they wish to make, in order to enable the committee to proceed to question and answer period. That was based on the premise that each member of the committee would be supplied with a copy of the briefs as they became available so you would have prior opportunity to read them.

To that extent, we do meet part of your problem, Mr. Leboe.

Mr. LEBOE: I think this will answer the problem. I think this is the important part. I know this cannot be done, but as I said to the hon. member for Winnipeg North Centre, if we had a situation in which those people who voted yea to the adoption of the report were fined $100 when they did not appear before this committee it might make a difference to the way in which they would vote.

An hon. MEMBER: Question.

Mr. CHATTERTON: It is becoming more and more obvious to me than ever before that the whole schedule of proposed sittings of this committee is geared to the desire or necessity of the government to prorogue. I think this is the wrong approach to such an important matter as the Canada pension plan, and I object strongly to this pressure being put on us by government members to sit during the recess. The government's desire to arrive at a time for proroguing should not be a determining factor in this respect.

Mr. Basford implies that if we do not sit on January 12, we thereby will be denying an opportunity to the President of the Great West Life Insurance Company to present evidence. Nothing could be further from the truth. As I said before, the more time we allow these companies to present their briefs the more this plan will be discussed across the country.

The CHAIRMAN (*Mr. Cameroon*): It is my function to intervene in any debate which is taking place. We now have had contrary views expressed, and I think Mr. Aiken would like to enter the discussion at this stage. I do not think it would be unreasonable to suggest that after he makes his statement that there would be no further discussion, unless someone else, of course, wishes to talk to it.

Mr. AIKEN: Mr. Chairman, one point has not been raised and I would like to speak to it at this time.

I agree with Mr. Lloyd that there is some advantage in the committee sitting while they are not otherwise distracted but, at the same time, I think we do owe a duty to our constituents—and, in this connection, I am referring to the members of the house. In any case, I think it is our duty to be in our ridings at least occasionally. Considering the time that we have had to do this in the last 10 months I do not think we are doing a very good job along these lines.

But, suppose, the committee did sit during the recess from January 12 onward; then I ask myself what happens. Presumably, we then report, except we do not have anyone to report to. I do not know what we do then. As I said, presumably we report to someone before the house sits, but I do not know who that is. However, suppose we do find someone to report to? At this point may I ask my friends if they can tell me where I am mistaken in my contention? I see Mr. Moreau shaking his head.

Mr. MOREAU: Naturally we report when the house comes back.

Mr. CHATTERTON: But, when?

Mr. MOREAU: Whenever it comes back.

Mr. CHATTERTON: When is that going to be?

Mr. BASFORD: The minutes of the steering committee meeting indicate that we will sit one and a half weeks to hear the briefs, and then the committee will reconsider its position at the end of that time. I repeat, at the end of that time. There will be no business to report at that time.

Mr. AIKEN: As I understand it, the house will recess, to be called back. The only time I recall it was in 1956, when—

The CHAIRMAN (*Mr. Cameron*): If I may interject, Mr. Aiken, before you develop that argument is not this principle involved? The Joint Chairman from the house and Mrs. Fergusson, Joint Chairman from the Senate, at the appropriate time will submit, file or table the report in the house. This is provided for in the routine proceedings.

Mr. CHATTERTON: When will it be?

The CHAIRMAN (*Mr. Cameron*): As soon as the recess is over.

Mr. AIKEN: Mr. Chairman, I have not completed developing my argument.

The CHAIRMAN (*Mr. Cameron*): Is that not the answer, Mr. Aiken, or do you not consider it to be so?

Mr. AIKEN: My assumption is that the house will recess to sometime in February, if that is the case, and the day before the new session is called into being the old one will be prorogued. What is the procedure then?

Mr. KNOWLES: We will meet in February and it will still be this session.

Mr. CHATTERTON: Who says so?

Mr. KNOWLES: The commitment made by the government in the house is that we will meet and continue in session long enough for the house to decide this bill in the committee of the whole. Then, subject to what happens, the bill will be sent to the Senate and the House of Commons will continue in session on other business. It could prorogue later.

Mr. AIKEN: If this is the case I do not understand how we are going to do it because the Senate has not considered this bill at all. Surely they have the right to consider it on second reading and to give it final passage. How is it going to do this?

The CHAIRMAN (*Mr. Cameron*): Is the same argument applicable? This report goes to the house and then it comes under the government, which has control of the order paper. And, it will come on for third reading. It is at second reading, and one of the main considerations of this committee is to have available for the members of the house all the information that is necessary for them to give proper and due consideration to it on third reading clause by clause, principle and everything else.

Mr. KNOWLES: It goes to the committee of the whole first.

Mr. AIKEN: At what point does the new session start?

Mr. CHATTERTON: Could it be the end of February?

Mr. KNOWLES: February or March.

Mr. MACALUSO: We may not be finished with the work when the new session starts.

Mr. AIKEN: Well, we do not know what is going to happen and I am just trying to find out what the members think is going to happen.

Mr. MUNRO: I thought it was explained when the steering committee met this morning that these recommendations were based on the premise that the government would be adjourning and that this would be an adjournment such as we have every night, but instead of adjourning until the next day we are adjourning perhaps for a month, or six or eight weeks. So, this session is still operative and carrying on.

As Mr. Knowles pointed out very aptly this morning it is no different in a technical sense, in accordance with the rules, than having certain committees sitting in the morning when parliament meets only in the afternoon.

Mr. MONTEITH: Mr. Chairman, I would like to take issue with that.

Mr. AIKEN: Mr. Chairman, may I finish my point. I would like to know what happens after we come back? Where is the division point between the second session of the 26th parliament and the 3rd session of the 26th parliament?

Mr. FRANCIS: We do not have to know the answer to that question.

Mr. KNOWLES: It is a fair question. Mr. Chairman, I wonder if I could try to say what I think will happen.

I think we will meet sometime in February; it will be the 215th day, or whatever it happens to be, this session; we will go into committee of the whole on this bill, and when we finish it and finish third reading, if we do, subject to the right of the house to pass or not to pass it, then the bill will be sent to the Senate, and the House of Commons will continue in session on other things. The government may by that time say that while this bill is over in the Senate we will deal with other things. And, when this bill has been finally passed and given royal assent, then the government will be keeping its commitment of July 29 to give parliament the chance to see this thing through all its legislative processes and so on. Then, at that point the government is free to prorogue this session which, I assume, will be in March, perhaps late in March, and then the next day, if it wishes, or the same day, it could start a new one. Now, if it appears to Mr. Aiken that I am arguing this point may I say that I am only trying to describe what, in my opinion, will happen. I think this is the only way the government can carry out its commitment that it would give parliament a chance to see this legislation through all its legislative processes during this session.

Mr. AIKEN: Then I do not see how we are saving any time. My understanding of the problem was that we had to get our committee report in before a stated date. Apparently this is not the case; the session is going on and on.

Mr. MOREAU: My only comment in that respect, Mr. Chairman, is that surely it would be desirable to have the committee's report ready when parliament meets so that we could proceed immediately to the consideration of clause by clause study in committee of the whole. Surely this is the whole object of the steering committee's recommendation. It is merely to put this committee in a position where it could make a report to the house immediately.

Mr. AIKEN: I do not see how the government is going to go through the procedure of calling a new session of parliament, of delivering a speech from the throne and sending out the neecssary notices. I anyone has any idea when this session is going to end and the next one is going to start I would be pleased to know about it.

Mr. GRAY: As Mr. Knowles said, I think that Mr. Aiken's question is a valid one and I think that the point that is being missed is that it is not intended, so far as we are aware, that the present session is going to be prorogued before this committee makes its report.

Mr. AIKEN: I do not think it is possible to do this. I do not think it is possible to come back and sit for an indefinite period of time and when the house is finished with this bill and the Senate has finished with it, whenever that may be—

Mr. MACALUSO: Why not?

Mr. AIKEN: Because there is a certain amount of formality to calling a new session of parliament, but surely it has to be published in the Canada *Gazette*; members have to be notified. If we have no idea when this session is going to end, how can we do this? This never has been done before.

Mr. KNOWLES: May I tell Mr. Aiken from experience that we did this several times during the war years. The session adjourned and we stood in adjournment for a certain period of time, and on one occasion we were called back to deal with a certain issue. Then, again, we came back on the day on which we adjourned. In most cases we met, just got prorogued, and the house went over to the Senate where the prorogation was read and we were prorogued to the next day. That was all the formality that was needed. There was no problem of protocol or technicality. In fact, that is the way Mr. King used to do it—prorogue one day and start the next. Mr. St. Laurent went further; he prorogued in the morning and started a new session in the afternoon.

Mr. AIKEN: But this was to a stated date. What is the stated date here? As I understand it the new session does not start until this bill has completely gone through the house and the Senate. Then, when the bill has received royal assent, I assume we will prorogue. We will not know today whether the bill is going to go through the Senate tomorrow or a week from tomorrow. How is the government or anybody going to give notice?

The CHAIRMAN (*Mr. Cameron*): I have listened very patiently, but I think your argument is out of order.

Mr. AIKEN: It is not out of order. I want some answers.

Mr. CASHIN: What do you mean by notice, and how much notice is needed? Be specific and do not speak in generalities.

Mr. AIKEN: I would like Mr. Cashin to know that what he and the other members of the committee have been talking about are generalities. What date; is there going to be a date set at which we are to come back?

Mr. KNOWLES: There probably will be a date set. There will be a motion, when the house rises on December 22, or on some such date, that it will stand adjourned until Wednesday or Monday the fourth day of February, or some such date, and we will come back on that date. We will not know—Mr. Aiken is quite right—how long this session is going to continue. We will deal with our business and then at some point there will be the usual sort of negotiation in respect of how long we are going to be in this session, and there will be an agreement that we will terminate the session and start a new one. At that time I think there will be a mutual desire on both sides of the house. In all fairness, we do need to know the date to which this adjournment takes place—as I say some date probably in February—but we do not need to know whether it is in February or in March that the session is going to end, and the new session is going to start. All the notice that is needed legally is that the Governor General tell us.

The CHAIRMAN (*Mr. Cameron*): The motion is that we do not sit during the recess. We are not talking about any new session of parliament.

Mr. KNOWLES: We are sitting right now while the house is not in session.

Mr. LEBOE: Possibly I could help the situation by suggesting to the committee that we adjourn this meeting today and meet immediately at the call of the Chair after we receive notice of what we are going to do in so far as a recess is concerned; then we would have something to look at. Today we are working in the dark. If we have some information from the government letting us know what the recess will be, then we could come back to deal with this matter.

The CHAIRMAN (*Mr. Cameron*): At the present time we have an amendment to the main motion. I do not think we could entertain an amendment to the amendment.

Mr. LEBOE: I think we should have a motion to adjourn the meeting until such time as we have the information in respect of the recess.

The CHAIRMAN (*Mr. Cameron*): If you wish to make such a motion you may, and I will put it to the meeting.

Mr. LEBOE: I move that we adjourn until we find out how long the recess will be and then meet at the call of the Chair.

Some hon. MEMBERS: Question, question.

The CHAIRMAN (*Mr. Cameron*): All those in favour of the motion that we adjourn until we receive information about the recess?

All those opposed?

Motion negatived.

The CHAIRMAN (*Mr. Cameron*): We now are ready to deal with the amendment to the main motion to the effect that we do not sit during the recess. All those in favour of the motion as proposed by Senator McCutcheon that we do not sit during the recess?

All those opposed?

Motion negatived.

Mr. CANTELON: Before we proceed to the main motion, may I ask a question?

The CHAIRMAN (*Mr. Cameron*): Yes.

Mr. CANTELON: Do we have any idea how many briefs will be presented?

Mr. LEBOE: I would like to request that we have a recorded vote.

The CHAIRMAN (*Mr. Cameron*): To both motions?

Mr. KNOWLES: Would Mr. Leboe settle for a recorded vote on the main motion?

Mr. LEBOE: No. I would like the recorded vote on this motion.

The CHAIRMAN (*Mr. Cameron*): On your motion?

Mr. LEBOE: No; on the amendment.

(Whereupon the Committee Clerk proceeded to poll the members.)

Mr. CHATTERTON: The reason I voted for the amendment opposing our sitting during recess is that we have had no indication from the government when prorogation will be, or of the duration of the recess.

The CHAIRMAN (*Mr. Cameron*): Do you want the results of the recount?

Mr. CANTELON: Do we have any indication of how many briefs we shall have presented to us when we reassemble?

The CHAIRMAN (*Mr. Cameron*): The clerk may be able to tell us.

The CLERK OF THE COMMITTEE: We expect 27 briefs as of December 14, and 20 personal representations to be made before the committee.

Mr. CANTELON: Do we expect that there will be any more?

The CHAIRMAN (*Mr. Cameron*): There may be more, yes, but you should bear in mind the explanation that 27 and 20 does not mean in every case a brief and a presentation; it does not mean a separate presentation, or a separate brief.

Mr. CANTELON: I wondered if the date of January 12 was the best one. I wondered if it might be advisable to push it back a week, in order to put it a little closer to the opening of the session so that those of us who have to come down would not spend so much time away from home. I would not suggest it if I did not think there would be enough time to finish the work we have to do. But if we did not meet, let us say, until February 19, it seems to me that we might make it a week later and still have adequate time to handle all this business.

Mr. MUNRO: In all fairness, when the steering committee suggested that we meet during this two week period, it was thought we might, following it, decide what we would do then. The steering committee has left it up in the air. We may decide to go away for a time, or we may decide to go on with the third stage. That is why I feel that it is essential that we start on January 12.

Mr. MONTEITH: I accept the verdict of the committee, but I still think we are being completely impractical when we suggest that we come back on January 12. Therefore I am going to move an amendment to the effect that we do not reconvene until January 25.

Mr. CHATTERTON: I second the motion.

The CHAIRMAN (*Mr. Cameron*): It has been moved by Mr. Monteith and seconded by Mr. Chatterton that we do not reconvene until January 25.

Mr. AIKEN: I appreciate all the applause I am getting.

Hon. Mr. SMITH: Every time you enter into a discussion, it creates controversy.

The CHAIRMAN (*Mr. Cameron*): Let us try to maintain order in the committee. Mr. Aiken has the floor.

Mr. GRAY: Let us have more of that Christmas spirit!

Mr. AIKEN: Before the motion is put, I have said this before, and I repeat it now. I think the motion we are presenting is out of order because no recess has been set by the government or by the house, and we are talking about something which does not exist. I think the motion is out of order, so I shall abstain on the present question.

Mr. MUNRO: Before we call the vote, Mr. Monteith mentioned that he is very concerned. I think he has some justifiable claim to be concerned about sitting so soon, since members have been sitting already for 10 months. And I think this should be kept in mind.

Mr. MONTEITH: I would like to say that I think the staff needs a little respite in the matter as well.

Mr. MUNRO: There is some validity in both of your points, but I think the staff would be the first ones to say, as far as this bill is concerned, if we have any desire to see it through and implemented, that the very staff we are all concerned about are the ones who have indicated that they have to have some notice, and that they have to have several months leeway after royal assent in order to get all the complicated machinery necessary to administer this act. So there is always that risk and consideration which must be dealt with at all times. I would say that it is a consideration which must be dealt with in any complicated legislation, and to say that it could be dealt with in three or four months is not being realistic. I think it casts the moral onus on us as a committee to get on with our report and get it back to the house.

Mr. CHATTERTON: I think that argument has no validity at all.

The CHAIRMAN (*Mr. Cameron*): What is your point of order?

Mr. CHATTERTON: No, I am speaking about the amendment. It is my contention that on an important matter such as this the staff must have all the time necessary in which to prepare the procedures. I was opposed to sitting during the reces at all, but now that we are prepared to make compromises, I would assume that we would have a fairly long recess. If we have to meet on the 25th, the matter of two weeks would not make any difference with the staff by way of preparing procedures.

Mr. CANTELON: I am going to have to be a lot tougher if I am going to finish what I started to say. I intend to make some sort of motion like Mr. Monteith's, and I want to ask another question.

The CHAIRMAN (*Mr. Cameron*): Mr. Monteith made a motion and it has been seconded. Do you wish to make another one?

Mr. CANTELON: No. I want to finish what I started to say.

Mr. MONTEITH: I must admit that I was discourteous, and I apologize.

Mr. CANTELON: Have we had any indication whether any of these people who wish to present briefs desire to have any more time? Are we not rushing this a great deal in getting these briefs ready?

The CHAIRMAN (*Mr. Cameron*): We understand that they will be available.

Mr. KNOWLES: I have word from one organization who asked for another week, when they heard that December 31 was to be the deadline.

Mr. CANTELON: This would give indication that some of them are being squeezed. I wonder if it would not be advisable to push it back a little while in order to give them a chance to get their briefs in, and for us to have a chance to study them, because I very much dislike sitting here ignorantly listening to what is being said without first having a chance to read up on it and to know something about it.

Mr. MUNRO: There have been approximately 20 to 24 briefs. I think people were asked to submit briefs and to indicate whether they wanted to make an appearance. I have had no objection to having their briefs in by December 31 except in one or two cases when the Chairman gave them the leeway they required.

Hon. Mr. McCUTCHEON: There are people who are not writing to you until tomorrow.

Mr. MUNRO: I am talking about the first briefs.

Mr. CANTELON: I do know that the Canadian Teachers' Federation and other teachers organizations are going to have some difficulty, particularly the eastern group, in getting together and preparing their briefs, and also the western group in getting together and preparing their briefs, particularly since it is tied up with their provincial governments.

The CHAIRMAN (*Mr. Cameron*): They have made the suggestion, Mr. Cantelon, that they would like to have until the end of January to prepare their briefs. That is why we are going to go ahead, if the motion carries. The idea behind it is that we deal with what is available and get those briefs on the record so that they will be there. Is there any further discussion on Mr. Monteith's amendment?

An hon. MEMBER: Question.

The CHAIRMAN (*Mr. Cameron*): The motion as amended by Mr. Monteith is that the committee shall not reconvene until January 25, 1965.

Will all those in favour of the amendment please signify. Opposed?

Motion as amended negatived.

The main motion is that the report of the steering committee be adopted. That will mean that the committee will reconvene on January 12, 1965.

Will all those in favour please indicate. Opposed?

Motion agreed to.

Mr. MONTEITH: Do I understand now that you will present this report to the House of Commons tomorrow?

The CHAIRMAN (*Mr. Cameron*): Yes.

Mr. MONTEITH: And it is debatable?

An hon. MEMBER: Certainly.

The CHAIRMAN (*Mr. Cameron*): The report I will submit to the House of Commons tomorrow will simply relate to the fact that the quorum will be reduced from 12 to 10 members. So far as we are concerned, we do not have to ask the house for the privilege to sit during the recess.

Mr. KNOWLES: Mr. Chairman, the point about which we have had the most argument does not go to the House of Commons at all.

The CHAIRMAN (*Mr. Cameron*): That is what I was telling Mr. Monteith.

Mr. KNOWLES: The only thing that goes to the house is the part of the report concerning the quorum.

Mr. MONTEITH: I do not know.

The CHAIRMAN (*Mr. Cameron*): If it is debatable we will probably have to have a quorum of 12.

Mr. KNOWLES: We no more have to ask the approval of the house to sit on January 12 than we had to ask the approval of the house to sit this afternoon.

Mr. AIKEN: Is the motion not to be brought up for approval?

Mr. MACALUSO: It is a steering committee report.

Mr. AIKEN: But does not the quorum have to go before the house?

The CHAIRMAN (*Mr. Cameron*): Yes.

Mr. AIKEN: Then the whole motion has to go before the house.

Mr. KNOWLES: No, the only matter that has to go before the house is the reduction of the quorum to 10.

The CHAIRMAN (*Mr. Cameron*): Dr. Willard wishes to say something to the committee before the adjournment.

Dr. J. W. WILLARD (*Deputy Minister, Department of National Health and Welfare*): There is a matter about which I must seek the direction of the committee.

The steering committee asked me if I would get in touch with Mr. Robert Myers, the chief actuary of the United States old age and survivors' insurance program. Mr. Myers indicated that he personally would be willing to come but that he would have to clear the matter with his superiors. I have not yet heard from him, but I expect I will hear from him tomorrow or next week. Mr. Myers will be in Ottawa on January 13 and January 14, and he wondered whether it would be possible for him to appear before the committee either before or after those days.

Hon. Mr. CROLL: That is for the Chairman to decide.

Dr. WILLARD: Well, you can see why I did not raise this matter until after you had decided on the quorum!

Mr. KNOWLES: You are a wise civil servant!

Mr. BASFORD: I move that the Chairman be authorized in this respect.

Hon. Mr. CROLL: He has the authority.

The CHAIRMAN (*Mr. Cameron*): Mr. Myers is not on the list of individuals to be heard by the committee, and that is why I had to ask the approval of the committee that he be heard and also that we try to make a date around that time.

Mr. KNOWLES: I second the motion that he be heard and that permission be given to the Chairman to include this.

Hon. Mr. MCCUTCHEON: I am going to make no further motions, but it would be a matter of great personal convenience to me if Mr. Myers could be heard on January 14. As I explained to the steering committee, I will be in the maritimes for the first three days of that week.

The CHAIRMAN (*Mr. Cameron*): There is a motion before the committee that the Chairman be authorized to make all the necessary arrangements. This motion is put forward by Mr. Basford and is seconded by Mr. Knowles.

Will all those in favour of the motion please signify. Opposed?

Motion agreed to.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964-65

SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS

Appointed to Consider and Report upon Bill C-136, An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

Joint Chairmen: Senator Muriel McQ. Fergusson and Mr. A. J. P. Cameron (*High Park*)

MINUTES OF PROCEEDINGS AND EVIDENCE

(Meetings held during the adjournment of the Senate and of the House of Commons, as of January 12, 1965)

No. 12

TUESDAY, JANUARY 12, 1965

WITNESSES:

Messrs. J. E. E. Osborne, Technical Adviser to this Committee, S. M. Thompson, F.S.A. (*Retired*) and from *The Canadian Life Insurance Officers Association,* Messrs. H. L. Sharpe, B. T. Holmes, M. K. Kenny, J. L. Clare, D. E. Kilgour, G. R. Berry, G. E. Brown, J. M. Linnell, J. W. Popkin, J. A. Tuck, F. C. Dimock, R. A. Nix.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

21731—1

MEMBERS OF THE COMMITTEE FOR THE SENATE

Honourable Senator Muriel McQ. Fergusson, *Chairman,*
and Honourable Senators:

Blois
Boucher
Croll
Denis
Flynn
[1] Lang
Lefrançois
McCutcheon
Smith (*Queens-Shelburne*)
Stambaugh
Thorvaldson

MEMBERS OF THE COMMITTEE FOR THE HOUSE OF COMMONS

Mr. A. J. P. Cameron, M.P. (*High Park*), *Chairman,*
and Messrs.

Aiken
Basford
Cantelon
Cashin
Chatterton
Côté (*Longueuil*)
Francis
Gray
Gundlock
Howe (*Wellington-Huron*)
Knowles
Laverdière
Leboe
Lloyd
Macaluso
[2] McCutcheon
Monteith
[3] Moreau
Munro
Perron
Rhéaume
(Mrs.) Rideout
[4] Scott

Maxime Guitard,
Clerk of the Special Joint Committee.

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[1] Senator Smith (*Kamloops*) replaced Senator Lang on December 17, 1964.
[2] Mr. Enns replaced Mr. McCutcheon, on December 18, 1964.
[3] Mr. Morison replaced Mr. Moreau, on December 18, 1964.
[4] Mr. Prittie replaced Mr. Scott, on December 18, 1964.

ORDER OF REFERENCE
(The Senate)

THURSDAY, December 17, 1964.

With leave of the Senate,

The Honourable Senator Beaubien (*Provencher*) moved, seconded by the Honourable Senator Taylor (*Norfolk*):

That the name of the Honourable Senator Smith (*Kamloops*) be substituted for that of the Honourable Senator Lang on the Joint Committee appointed to consider Bill C-136, intituled: "An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors"; and

That a Message be sent to the House of Commons to inform that House accordingly.

The question being put on the motion, it was—

Resolved in the affirmative.

Attest.

J. F. MacNEILL,
Clerk of the Senate.

ORDERS OF REFERENCE
(The House of Commons)

FRIDAY, December 18, 1964.

Ordered,—That the names of Messrs. Morison, Enns and Prittie be substituted for those of Messrs. McCutcheon, Scott and Moreau on the Joint Committee on the Canada Pension Plan.

THURSDAY, December 17, 1964.

Ordered,—That the quorum of the Joint Committee on the Canada Pension Plan be further reduced to 10 Members, only for the time during which the House of Commons shall recess, provided that both Houses are represented.

Attest.

LEON-J. RAYMOND,
The Clerk of the House.

21731—1½

REPORT TO THE SENATE

THURSDAY, December 17, 1964.

The Honourable Senator Fergusson, from the Joint Committee of the Senate and House of Commons appointed to consider Bill C-136, intituled: "An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors", presented the second report of the aforementioned Joint Committee, as follows:—

WEDNESDAY, December 16, 1964.

The Joint Committee of the Senate and House of Commons appointed to consider Bill C-136, intituled: "An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors", makes its second Report, as follows:

Your Committee recommends that its quorum be reduced to ten (10) members for the time during which the Senate shall recess, provided that both Houses are represented.

All which is respectfully submitted.

MURIEL McQ. FERGUSSON,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Fergusson moved, seconded by the Honourable Senator Leonard, that the report be adopted now.

The question being put on the motion, it was—
Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

(Concurred in on Wednesday, December 17, 1964.)

REPORT TO THE HOUSE

THURSDAY, December 17, 1964.

The Special Joint Committee of the Senate and of the House of Commons on Canada Pension Plan has the honour to present the following as its

SECOND REPORT

Your Committee recommends that its quorum be further reduced to 10 members only for the time during which the House of Commons shall recess, provided that both Houses are represented.

Respectfully submitted,

A. J. P. CAMERON,
Chairman.

(Concurred in on December 17, 1964.)

(Meetings held during adjournment of the House)

MINUTES OF PROCEEDINGS

TUESDAY, January 12, 1965
(20)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan met at 2:35 o'clock p.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Croll, Denis, Fergusson, Lefrançois, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh (8).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Gundlock, Howe (*Wellington-Huron*), Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro, Perron, Prittie, Rhéaume (23).

In attendance: Mr. H. L. Sharpe, President and Managing Director of the Northern Life Assurance Company of Canada, of London, Ontario, and President of the Canadian Life Insurance Officers Association; Mr. M. K. Kenny, President of the Excelsior Life Insurance Company, Toronto, and First Vice-President of the Association; Mr. B. T. Holmes, Vice-President and Chief Actuary of the Confederation Life Association, Toronto, and Chairman of Association's Old Age Security Committee; Mr. D. E. Kilgour, President of the Great-West Life Assurance Company, Winnipeg; Mr. G. R. Berry, Vice-President and General Manager of the Metropolitan Life Insurance Company, Ottawa; Mr. G. E. Brown, Senior Vice-President of the Sun Life Assurance Company of Canada, Montreal; Mr. J. M. Linnell, Group Manager of the Standard Life Assurance Company, Montreal; Mr. J. W. Popkin, Economist, Sun Life Assurance Company of Canada, Montreal; Mr. J. L. Clare, Assistant Group Actuary, Confederation Life Association, Toronto, Mr. J. A. Tuck, Q.C., Managing Director and General Counsel, the Canadian Life Insurance Officers Association; Mr. Frank C. Dimock, of Toronto, Actuary, Secretary of the C.L.I.O. Association, and Mr. R. A. Nix, Actuary, C.L.I.O.A.

Also in attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee.

The Joint Chairman opened the meeting.

The Committee agreed to have printed as an appendix to this day's Minutes of Proceedings and Evidence, a document intituled "Replies to questions raised during the morning session, December 15, 1964, of the Special Joint Committee on the Canada Pension Plan". (*See Appendix A2*)

Mr. B. T. Holmes was asked by the Chairman to make a statement before being questioned.

Then it was agreed by the Committee that the letter and the brief submitted by the Canadian Life Insurance Officers Association be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix A3*)

The Committee decided that the following books, tabled by the witnesses, become part of the records of the Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan, namely: "A Lesson in French—Inflation", by Melchior Palyi; and "International Financial Statistics, December 1964 International Monetary Fund".

The Committee agreed unanimously that Mr. Robert A. Nix's brief be filed with the Committee.

And the examination of the witnesses continuing, at 5:15 o'clock p.m. the Committee adjourned until 8:00 o'clock p.m. this evening.

EVENING SITTING

(21)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan reconvened at 8:07 o'clock p.m. this evening. The Joint Chairman of the Senate section, Senator Fergusson, presided.

Members present:

Representing the Senate: Honourable Senators Croll, Denis, Fergusson, Lefrançois, Smith (*Kamloops*) (5).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Howe (*Wellington-Huron*), Knowles, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro, Prittie, Rhéaume (20).

In attendance: The same as at this afternoon's sitting, and Mr. S. M. Thompson, retired, of Toronto.

The Joint Chairman invited Mr. Thompson to make a preliminary statement before being questioned.

The Committee agreed that Mr. Thompson's brief be printed in its entirety as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix A4*)

The examination of the witness being completed, the Joint Chairman thanked Mr. Thompson who retired.

The witnesses from the Canadian Life Insurance Officers Association were then recalled and questioned.

The examination of the witnesses continuing, at 10:20 o'clock p.m. the Committee adjourned until 10:00 o'clock a.m. on Wednesday, January 13, 1965.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

TUESDAY, January 12, 1965.

The CHAIRMAN (*Mr. Cameron*): Ladies and gentlemen, we have a quorum.

I understand Mr. Aiken wishes to speak to the committee for a minute or so.

Mr. AIKEN: Mr. Chairman, I had written a letter to the Joint Chairmen when the original schedule was put out. At that time it seemed that the number of meetings scheduled for some very important organizations did not leave sufficient time for proper hearing of the briefs and that we were not being fair either to those appearing or to the members of the committee. However, in the meantime there has been a rescheduling and I understand also the steering committee this morning has made some arrangements which will relieve the situation, certainly for today and tomorrow because some briefs are not being presented which originally had been scheduled.

Therefore, at the moment I merely wish to let this matter stand and see how we get along.

The CHAIRMAN (*Mr. Cameron*): Thank you, Mr. Aiken.

Mr. Osborne has handed to me replies to questions raised during the morning session on December 15, 1964. I do not need to read this. Is it the wish of the committee that this be filed as an appendix to today's Minutes of Proceedings and Evidence?

Agreed.

The CHAIRMAN (*Mr. Cameron*): Ladies and gentlemen, I have the pleasure of introducing the representatives of the Canadian Life Insurance Officers Association. I am not going to introduce these gentlemen, but I will first of all call on Mr. Sharpe, who is the president and managing director of the Northern Life Assurance Company of Canada, London, Ontario, and president of the Canadian Life Insurance Officers Association. He will not only introduce himself, but also those who will be here with him.

Mr. H. L. SHARPE (*President, The Canadian Life Insurance Officers Association*): Mr. Chairman, hon. members and hon. senators, I propose to introduce the members of our delegation and then turn the discussion over to the chairman of our old age security committee, Mr. B. T. Holmes. Before I do so, however, I would like to say that we appreciate very much the opportunity of making the submission to this committee and also being here today.

I now propose to read the names of the individuals who are with me today. At my left is Mr. B. T. Holmes, vice president and chief actuary, Confederation Life Association, Toronto, and chairman of our association's old age security committee. On my right is Mr. D. E. Kilgour, president, The Great-West Life Assurance Company, Winnipeg. Next to him is Mr. G. R. Berry, vice president and general manager, Metropolitan Life Insurance Company, Ottawa. Next to him is Mr. G. E. Brown, senior vice president, Sun Life Assurance Company of Canada, Montreal; Mr. J. M. Linnell, group manager, The Standard Life Assurance Company, Montreal; Mr. M. K. Kenny, president, The Excelsior Life Insurance Company, Toronto and first vice president of the Canadian Life Insurance Officers Association; Mr. J. L. Clare, assistant group actuary, Confederation Life Association, Toronto; Mr. J. A. Tuck, Q.C., managing director and general counsel, The Canadian Life Insurance Officers Association; Mr. F. C. Dimock, secretary of the Canadian Life Insurance Officers Association, and, lastly, Mr. R. A. Nix, actuary of the Canadian Life Insurance Officers Association.

That is our delegation, Mr. Chairman.

The CHAIRMAN (*Mr. Cameron*): Thank you very much.

We will now have the pleasure of hearing from Mr. Holmes.

Mr. B. T. HOLMES (*Chairman of Old Age Security Committee, The Canadian Life Insurance Officers Association*): Thank you, Mr. Chairman and ladies and gentlemen of the committee.

We have been following the work of your committee with a great deal of interest and attention as you have made your way through the complexities of Bill No. C-136 with the very able help of experts from the civil service.

Our association last appeared before a committee of this description in 1950 when we appeared before the King-Lesage committee, and at that time we strongly supported contributory old age pensions. The type of contributory old age pensions we supported were along lines very close to those which the King-Lesage committee finally recommended to the government of the day, which the government of the day recommended to parliament and which parliament passed in the form of old age security.

We feel our appearance today would be more profitable to you if we do not attempt to deal with the detailed clauses of Bill No. C-136, although we are in your hands in this respect. We feel it would be more profitable if we present to you certain general concerns which we have about the Canada pension plan proposal in general in contrast to the old age security approach to the problem which we have been using in Canada in the past 12 years.

We hope it will be possible to devote most of our approach to discussion of these basic premises and the reasons we think an alternative approach to welfare during old age, welfare for widows, and welfare for the disabled would be better than the Canada pension plan approach.

You have asked that we summarize our brief today. In our brief, in section II, there is a summary. With your permission I would like to read that and then refer very briefly to section VII which does contain an indication of the course we would have preferred Canada to follow. So, reading section II, the summary is as follows:

7. The life insurance companies contend that the proposed Canada Pension plan is a poorly designed welfare measure. They believe that adjustments in, and additions to, the present old age security program would meet the needs of Canadians more satisfactorily and more economically.

8. The essential differences between the old age security program and the proposed Canada pension plan are:

(*a*) When the old age security program was introduced everyone age 70 and over received benefits. The Canada pension plan would provide nothing for today's aged.

(*b*) Old age security provides benefits for everyone reaching a stated age. The Canada pension plan benefits would be based on earnings and Canadian not in employment and those with low earnings would receive nothing.

(*c*) Old age security benefits are the same for everyone. The Canada pension plan benefits would rise with earnings and thus provide the most for those least in need.

(*d*) Old Age Security creates bonuses for the needy in that the special taxes they pay to support age security are less in value than the benefits they draw. The Canada pension plan would provide the largest bonuses to those with the highest pensionable earnings.

These differences arise from the basic misconception that an earnings-related plan can be the most satisfactory welfare measure for Canada. It cannot be. Such a plan cannot be universal and its benefits cannot be geared to the needs of the aged because these needs are normally greater for those persons whose earnings were the least during their working years.

9. The Canada Pension Plan approach compares unfavourably with the old age security approach in a number of other respects:

(*a*) The cost of this year's old age security benefits can be, and is, paid for from this year's taxes. Canadians and their government know exactly where they stand and are not leaving deficits for succeeding generations. The Canada pension plan financing would involve a pushing forward of costs from generation to generation.

(*b*) The structure of old age security is clear and simple and the effect of proposed increases in benefits or adjustments of the commencement age are readily discernible. The Canada pension plan's proposed structure is very complicated and would be bound to become unstable. Pressures to use the fund to fill in the gaps in the plan's cover would certainly develop. If these succeeded, the fund would have to be rescued by an increase in the payroll tax.

We feel that is certain to develop.

(*c*) The administration of old age security is simple. In contrast, the administrative problems for the Canada pension plan would be substantial.

(*d*) Integration of old age security and private pension plans is straightforward. Integration of the Canada pension plan and many of the private plans would be complicated.

10. Among the economic implications of the Canada pension plan, one of the most serious is the precedent that would be set by the indexing of benefits. Surely the adoption of this principle would be an open admission that inflation may not be controllable.

I think you will note from our later discussion of this that we are not at all opposed to the condition of the aged being brought up to date with the current situation in the economy. We just feel that formal indexing does add to the fires of inflation.

11. Finally, the addition of the Canada pension plan to old age security would result in nearly one-half of the population having little incentive to supplement by private saving the retirement income to be provided by their government. This would be a large scale surrender of individual initiative and responsibility.

Now we do develop these points in sections III to VI and in the appendices to our brief. We try to stress the places where our concern about the Canada pension plan approach is the greatest. Finally, in section VII we have put forward our view as to another practical course. We do not pretend that this is the only practical other course. We feel under some obligation to suggest a practical alternative to you, and we put forward a practical alternative which appears to us to be the best way to meet the situation at the present time.

This practical alternative that we recommend to you is of importance to all. We prefer it, because it is universal and uniform in its application to all Canadians. We have included the cost estimate for it which shows it to be considerably less costly than the Canada pension plan, but we have simply placed it before you to illustrate what we think would be a practical alternative to the Canada pension plan approach which we feel has the cause within it for very great concern. Thank you, Mr. Chairman.

The CHAIRMAN (*Mr. Cameron*): Thank you, Mr. Holmes. As members of the committee know, it has been agreed that when a witness is called or presents a brief at our request, that his brief will be appended to the day's proceedings as a part thereof. So I take it that it is now in order that we instruct that this brief be added, along with the letter from Mr. Sharpe addressed to the members of the committee, and that they be filed and appended to today's minutes as part of our proceedings. Is that agreed?

Agreed.

Mr. SHARPE: I owe your committee an apology owing to the fact that I failed to introduce Mr. J. W. Popkin, economist of the Sun Life Assurance Company.

The CHAIRMAN (*Mr. Cameron*): Thank you very much. You may proceed in any way you desire in dealing with the matter, before we enter into questions. I think you said that some others might wish to make statements to the committee. Is that right?

Mr. HOLMES: Unless they wish to add to the statement we have made, we are in your hands. Some others of the delegation may wish to add some remarks.

Mr. D. E. KILGOUR (*President, The Great-West Life Assurance Company, Winnipeg*): Mr. Chairman, the key to the association's submission is stated in the summary where we say that in our judgment the Canada pension plan is a poorly designed welfare measure, and then the brief undertakes to document that view.

I think this proposition is very vividly illustrated. If those of you which have the brief before you would kindly turn to page 15 you will see a profile of old people in Canada in 1976, which is 11 years hence. You will observe that in 1976—when there will be 1,880,000 Canadians aged 65 or over—two thirds of retired persons will not be drawing one cent from the Canada pension plan, and in fact 32 per cent of those retired people will be getting an average benefit of just $45 a month. There will be aproximately one and one-half per cent of the retired population who will be getting a benefit of the order of $119 per month. In our view this would be an untenable position for a Canadian parliament to accept, that 67 per cent of our old people would be receiving nothing from this massive welfare measure which draws $600 million a year from the Canadian taxpayers.

Therefore, if I might add to what Mr. Holmes has said, we have tried to make to this a thoughtful and well documented judgment of the Canada pension plan, and after careful examination of the plan we do not think it does the job. Perhaps if members of the committee would care to query or question or challenge any of the premises with which we have tried to document this brief in arriving at this judgment, that might be the most helpful thing which could be done this afternoon.

The CHAIRMAN (*Mr. Cameron*): What we propose to do is to allow members of the committee to question Mr. Holmes and other members of the delegation, on matters arising out of the brief and submissions that have been made, and we shall proceed in this way, when we recognize the members and they put their hands up. In order that there will be a fair division of time, we would ask each one not to spend more than from three to five minutes on his questions, and then to pass on to the next person, and then there will be a second round, and if necessary a third round. I shall ask the clerk to keep a record of it. I see that Mr. Aiken is the first one who wishes to ask a question.

Mr. AIKEN: Mr. Chairman, I have several questions, but I shall go into just one of them at the moment and take the others in turn. In the introduction to the summary the association describes the Canada pension plan as a welfare measure. Now, up until this moment, I had not understood the Canada pension plan to be a welfare measure at all. I had understood it to be a contributory plan, and that it was not intended as a welfare measure. I wonder if one of the witnesses could explain in what way it is felt that the plan is a welfare measure? In other words, is it the feature of early maturity in transition, and the fact that it would give more benefits to one than to another? Or is it in the indexing or in the survival disability benefits, or along what lines is this classified as a welfare measure?

Mr. HOLMES: In reply to Mr. Aiken I think that perhaps some of the delegation might read to the committee a certain statement in regard to it, which made us feel that the people of Canada were being led to understand that there is a welfare objective behind this proposal, and what they understand, of course, is quite important. Frankly we do not think that Canada should look at itself as simply a large insurance company. Tender has a much bigger responsibility than that. But if the proposed plan were purely an annuity or an insurance measure, we feel that the same principle would apply as in insurance generally, or in the annuities branch of the dominion government; that is, the moneys paid in by a particular employee or by his employer on his behalf would be allotted to provide benefits for him. Now, there would be insurance elements in such a private arrangement, but nevertheless the money for any particular man would go to him and to his beneficiaries. The moment that the so-called Canada "pension" plan, as it does, introduces things like early maturity, or more for the married than for the single man although the contributions are to be the same, and the indexing of benefits, then it does move away from any resemblance to a private plan. The minute that these elements are introduced into something which Canada does, we feel it is most important that any redirection of resources should be not for those who are relatively better off but rather for those who are relatively worse off. We do not think any government plan ever has been, and we do not think it should be, fully operated on the business principle. That is because people do not regard their government as a great big insurance company. If government intervenes directly in a situation we think that some welfare redirection is expected by the people of Canada. This, together, I think, with certain statements made with regard to the Canada pension plan, is the reason that we regard it as a welfare measure.

I think, Mr. Kilgour, you might like to make some comment.

Mr. D. E. KILGOUR: We know it is a very complex measure but the official summary and explanation of the bill presented at the first reading very clearly implied that it is a broad welfare measure, and I will quote.

> The general effect of this complex bill is to provide for a nation-wide system of social insurance which will establish a basic level of security for all Canadians, whatever their individual circumstances, whatever moves they make, and whatever economic changes occur.

To me this promises welfare to all Canadians.

Mr. AIKEN: May I ask one supplementary question before I leave? Would it be fair to say that this plan, if it is a welfare measure, is not the type of welfare we have become accustomed to as a measure that assists the poor and needy at the expense of the well-off?

Mr. HOLMES: Perhaps it may be that something such as "social insurance" should be substituted for "welfare" in our brief. We have debated this point. We feel that the great bulk of the welfare measures in Canada, including old age security, are given to the people generally as of right. They are a community project. There is no stigma whatever attached to receipt of benefits. It is Canada's way of solving certain practical problems.

If the word "welfare" implies helping solely the needy or down and out, I am sorry; we do not mean that.

Mr. AIKEN: You do not feel that is the effect of this plan at all?

Mr. HOLMES: We do not feel that the Canada pension plan has much welfare effect in the narrow sense of the word. We feel the community of Canada, as other organizations in Canada, is trying as a group to meet certain problems as it moves ahead in its busy life, and we want to find out what is the best way of doing certain things together.

Hon. Mr. CROLL: Mr. Chairman, may I put a question to Mr. Kilgour?

The CHAIRMAN (*Mr. Cameron*): I have first on my list Mr. Munro, Mr. Francis, Mr. Rhéaume, Mr. Prittie and Mr. Lloyd. I now have you on my list, Senator Croll, and now Mr. Knowles.

Mr. MUNRO: I would like to ask Mr. Holmes a question referring to the summary he was reading which appears on page two under (*b*) dealing with old age security:

> Old age security provides benefits for everyone reaching a stated age. The Canada pension plan benefits would be based on earnings and Canadians not in employment and those with low earnings would receive nothing.

Mr. HOLMES: That is right.

Mr. MUNRO: In that paragraph are you taking into consideration the fact that you must be assuming that all these Canadians to whom you are referring will never during all their working lives earn more than the basic exemption of $600?

Mr. HOLMES: I do not think we are assuming that, Mr. Munro. People who earn more than the basic exemption of $600 in any year, of course, do come into the plan to the extent that their earnings exceed $600 in that year. There are Canadians who will never share the benefits in any way. There are other Canadians with small incomes who will share in a very small way. It is the fact that the benefits are based on earnings that we are trying to bring out in this subparagraph (*b*).

Mr. MUNRO: May I follow that on, Mr. Chairman?

Surely at some period many of these Canadians would earn over $600 a year and, based on that contention, which I would think is logical, I would think this is a pretty wide sweeping paragraph.

I would also like if I may, Mr. Chairman, to comment on (*c*). That paragraph states:

> Old age security benefits are the same for everyone. The Canada pension plan benefits would rise with earnings and thus provide the most for those least in need.

I note in appendix I of the same submission, which appears on page 29, it is indicated by the columns dealing with expected retirement income from government at age 65 and the totals for the Canadian pension plan and the old age security, that the low income man—an income of $1,200—will receive, a pension actually of 127 per cent, or 27 per cent, I assume, over what he made prior to retirement. Those percentages drop steadily as one goes down the column to $5,000 for which we see the total of 49 per cent.

I wonder how Mr. Holmes reconciles that with his statement that this benefits those least in need.

Mr. HOLMES: Yes, Mr. Chairman, if you will look at that page you will see that the low paid man is obtaining the bulk of his support from the old age security plan, the plan that we favour. We are pointing out that individuals who are off the income scale here are not receiving any help from the Canada pension plan at all. That is the point we are making.

Mr. MUNRO: If Mr. Holmes does regard this plan as a welfare measure, does he think it reasonable to completely divorce it from all the other welfare measures there are now in the country? I would suggest it is not reasonable and it is perfect justification for taking into consideration the old age security plan, which I would think was taken into consideration by the people who designed the Canada pension plan.

I wonder if you have any comment to make?

Mr. HOLMES: Obviously we go along with you in this feeling because we think what we should be doing is improving and revising the old age security, which involves taking the present old age security provision very much into consideration in any change. If you drop down below the $1,200 level another $600, of course you come to a place at which the Canada pension plan does nothing.

Mr. MUNRO: In other words, Mr. Chairman, may I take it as the conclusion of Mr. Holmes that when he looks at his own figures on appendix I he prefers to come to his conclusion in (c) based on the Canada pension plan alone and to completely divorce it from any consideration of the old age security? I would suggest that is the manner in which you have justified the conclusion you have come to in (c).

Mr. KILGOUR: May I make one comment on that? There are two points which can be brought out. First, it is said that the lower income groups will receive nothing from the Canada pension plan. I think this flows from the fact that there are at least two million in our labour force not paying personal income tax. There may be very many of those who in fact earn more than $600 a year. If I recall the figures, there are 177,000 farms in Canada in which the gross income is less than $2,500, and many of these farmers have families to support. They probably have earnings in excess of $600 a year but whether they have books and whether they have records of income and expenditure on which they can in fact and will in fact file a tax return and pay 3.6 per cent of their income over $600 is I think a highly debatable question. Many of them would not have the resources to pay the tax and would not in fact put in tax returns because they are not now taxable. Many of the same income group have worked for a number of employers. Undoubtedly that group embraces the poorest 25 per cent or 30 per cent in Canada. They will not get any significant benefits from the Canada pension plan. This I think is the premise for saying that those most in need get little or nothing from the plan.

Mr. MUNRO: Mr. Chairman, if I may comment on that to Mr. Kilgour I would say that I think if the plan has the rich benefits that are referred to throughout the brief there would be considerable encouragement to those not keeping books, and who are earning over $600, to start keeping books so they can participate in these rich benefits. Is that not a fair assumption?

Mr. AIKEN: I know a number of farmers who will not do so.

Mr. KILGOUR: There are only three provinces in Canada which are today attempting to collect hospitalization premiums, and this is an immediate benefit with highly subsidized premiums. The other provinces did not try to collect premiums from the majority of their population. There are only three trying to collect premiums today, and in this case they are modest premiums and known to be highly subsidized and the benefits are of a kind very likely to be used in the near future. A pension benefit 30 years hence may not seem an incentive for sending in money you cannot very well afford to get along without.

Mr. FRANCIS: I have a number of questions, and first I would like to ask a question relating to the obvious preference for the old age security approach, which I believe is expressed in the brief if I have interpreted it correctly.

This statement is made in paragraph 9:

> (*a*) The cost of this year's old age security benefits can be, and is, paid for from this year's taxes. Canadians and their government know exactly where they stand and are not leaving deficits for succeeding generations. The Canada pension plan financing would involve a pushing forward of costs from generation to generation.

I made some inquiries of the old age security fund for a period of 12 years. Of those 12 years there was a surplus in two and in every other year there was a deficit. I found a situation which substantially on face value needed some explanation. I wonder if Mr. Holmes would like to comment.

Mr. HOLMES: Yes. I do not think there has been any year in the 12 or 13 years during which Canada has been operating the old age security in which the government has not known quite clearly a year or two years ahead almost exactly what the bill would be for old age security. We can forecast what it is likely to be many years ahead.

Mr. FRANCIS: Excuse me, did I understand the witness to say that we could forecast the bill for many years ahead?

Mr. HOLMES: For old age security.

Mr. FRANCIS: Well, with all due respect—

Mr. HOLMES: The deficits which have occurred in old age security we would regard as quite modest in amount. Parliament, on a number of occasions in the last 10 or 12 years, in its wisdom has decided to increase the benefit during a year and to leave the charge or the contribution rate unchanged. But, I am quite sure that anyone who asked could have been told what was needed in the way of contributions to cover the cost of the old age security benefits during the coming year or years. If you look at the amount by which there has been a variation from the tax intake in old age security and, let us say, compare that situation with the Canada pension plan's possible increase in contribution at an unknown time 20 or 30 years from now, I do not think they are of the same dimension at all.

Mr. FRANCIS: It would appear that if you projected both programs for the same time period ahead, there would be a greater degree of variation in yields from the old age security tax 20 years ahead. I do not see how anyone could project the yield for 20 years on the formula of gross income tax, sales tax and personal income contributed to old age security. If you set up a similar type of projection for the Canada pension plan I would find it hard to accept that there would be a greater margin of unpredictability in the Canada pension plan. I would like your comments on this.

Mr. HOLMES: Well, you are speaking of the way the contributions are collected. I might say on this point that when we appeared before the King-Lesage committee a number of ways of collecting the contributions for old age security were considered. One of them was a payroll tax, which you are now proposing in the Canada pension plan. We expressed no preference with regard to the actual method to be used in obtaining contributions for the contributory old age security plan. The government of that day and, in its wisdom, saw fit to adopt three methods of collecting contributions. The collections did tend to go up and down to some extent with good times and bad times, but the actual cost of the old age security benefits is fairly predictable.

Mr. MONTEITH: Does the Minister of Finance not undertake to project a few years ahead in respect of old age security?

The CHAIRMAN (*Mr. Cameron*): I am not answering that question because I do not know the answer to it.

Mr. MONTEITH: I assume he does.

Mr. HOLMES: We Canadians will contribute $900 million through the three taxes. This total of contributions goes up and down, but the cost of benefits is fairly predictable.

Mr. FRANCIS: You feel that any comparison with the Canada pension plan ignores the collection side and that the difficulty of the plan is the unpredictability of the benefits.

Mr. HOLMES: It is the design of the benefits that concerns us, not their size.

Mr. FRANCIS: You are not concerned about possible pressures brought about through legislative amendments or changes on the old age security side which would have considerable effect on the benefits of the Canada pension plan.

Mr. HOLMES: I think it is only fair to give the remainder of the delegation an opportunity to add to what I say in this regard. We do feel that the method which has been used since 1952 in considering changes, improvements, and so on, in old age security benefits, could be improved upon. We are very pleased this committee has been called together on this problem. We wish there had been some similar committee to which the dominion bureau of statistics, the government actuary and so on could have been regularly reporting with regard to what should be done with the benefits in the old age security plan between 1952 and now.

The CHAIRMAN (*Mr. Cameron*): You are next, Mr. Rhéaume.

Mr. RHÉAUME: Mr. Chairman, I want to direct my questions to Mr. Holmes and Mr. Kilgour, and I am concerned now with questions solely referring to the principle of the legislation.

I want to read the sentence in respect of what the principle should be and then ask Mr. Holmes and Mr. Kilgour how, in their opinion, Bill No. C-136 meets these criteria. The sentence reads as follows: "The purpose of the government's proposed legislation is to ensure that as soon as possible in a fair and practical way all Canadians will be able to retire in security and with dignity". In your opinion, is the proposed legislation a fair way? In your opinion, does it meet this requirement? Is it fair?

Mr. HOLMES: Well, I think our answer to your question, Mr. Chairman and Mr. Rhéaume, is clear; we are concerned that the Canada pension plan, shall we say, is doing a great deal for some of us personally in a time when it is doing very little for the 30 per cent of Canadians, shall we say the older Canadians, who are not in urban areas but who are out in the rural areas. They start off with a lower income when working and this income drops by a greater percentage when they retire than in the case of Canadians in urban areas. For this reason the proposed new plan does not make sense to us. When we look at our relatives or a number of our business associates we find that old age security seems to be doing a reasonable job. It is giving money as of right to the people who are in the greatest need of that money. In contrast, the Canada pension plan seems to be directing money to types of people like ourselves, and this is not just a peculiarity; it seems to be a principle of the plan.

Mr. RHÉAUME: Would the short answer be: no, it is not a fair way?

Mr. KILGOUR: That is right.

Mr. RHÉAUME: In your opinion and in the opinion of your group is it a practical way? I am concerned with the two words, "fair", and "practical". Is it a practical way of meeting the needs of Canadians, in your opinion?

Mr. HOLMES: In our opinion, the answer is no.

Mr. RHÉAUME: Would it meet the needs of any Canadians on the basis of your chart, that 67 per cent get nothing out of the Canada pension plan itself?

Mr. HOLMES: In our opinion, no.

Mr. RHÉAUME: Would it allow security and dignity, in your opinion, to all Canadians?

Mr. HOLMES: Not to all Canadians, in our opinion.

The CHAIRMAN (*Mr. Cameron*): Have you a question, Mr. Croll?

Hon. Mr. CROLL: Could Mr. Rhéaume then give me any reasons for voting for this measure in the House of Commons?

Mr. RHÉAUME: I would be very happy to explain that on a question of privilege.

Hon. Mr. CROLL: Perhaps some other time.

The CHAIRMAN (*Mr. Cameron*): Have you any questions, Senator Croll?

Hon. Mr. CROLL: No, I will wait until later.

The CHAIRMAN (*Mr. Cameron*): Will you proceed, Mr. Prittie.

Mr. PRITTIE: Mr. Chairman, the submission lays great stress upon the old age security approach, and I must confess I agree with that approach to a certain extent. And, there are some recommendations on page 25 with which I agree. But, it seems to me there is one basic weakness to the old age security approach, where the pension applies to everyone regardless of contributions, and the same amounts apply to everyone. Apparently, the very reason for the Canada pension plan is that we have lacked a national portable pension plan, which is not being provided by the old age security approach and, apparently, it was not coming from other sources, if you like, such as the private insurance industry. And, I suppose everyone is familiar with the personal tragedies which occur to people who either are tied to their jobs and cannot leave after a certain date or through circumstances of industrial change are out of a job and cannot get on to another one. Even if you have a good old age security approach, for example, with the age of 65 as suggested, and $75 a month, which is very much to my liking, theis does not get over the basic problem of the lack of portability which exists in Canada at the present time. Other suggestions do not seem to be forthcoming to remedy this lack, hence the introduction of a national portable plan.

I have a further question but I would like your opinion on this first.

Mr. HOLMES: Mr. Chairman, I would like the delegation to supplement what I am going to say.

First of all, we do like the idea of portability in private pensions and anything that we can do to co-operate with governments or with business in Canada to increase portability we certainly would wish to do so. I do call your attention to the point that in our view old age security is contributory and we think that it was presented to the country as contributory. Perhaps there could be a question as to how the contributions should be collected. And, secondly it is portable; old age security does follow a person through good times and through bad times and whatever we do with it it is completely portable in Canada.

What we cannot see, of course, is this. Canadians generally are working hard and providing for their own individual situations, and not necessarily through the life insurance companies. There are many different ways of providing for old age. The statistics we can find—and we do wish that this committee would look at these and other statistics—indicate to us that the harder up a Canadian is during his working years, the harder up he would be during his retirement, and that as a whole the Canadians who are better off, who are working at higher incomes by one means or another, buying farms, houses and so on, go into retirement not as well off as they wish but better off than those individuals who have struggled all through life on lower incomes. We really do not think that Canada should focus on the problem of those people who, statistics show, are meeting their income needs in old age better than others.

I do not know whether I have given you the answer. We favour portability. We say old age security is portable.

Mr. PRITTIE: Yes, but my main point is that we have before us a national portable contributory plan because this does not exist in the country at the present time. As far as I know there is no means in Canada for providing a portable pension plan for the person who may be aged anywhere from 45 to 55 and who very often loses his employment because the industry is shut down. Of course he receives his contribution back, but we have no plan whereby he can continue in a contributory plan after the age of 75. Does a provision exist at the present time to handle that type of situation? I am suggesting this is the reason why a national government pension plan has been introduced.

Mr. KILGOUR: I would like to say a word on this point. We would certainly be in complete agreement with the fact that there has been a shortage of portable pension plans in Canada. This is one of the points which Ontario has been trying to resolve through their portable pension legislation. This association appeared before them and advocated a private portable pension plan. We thoroughly recognized the hardships brought about by a pension plan under which a man loses all his rights if he is let out or laid off. This is something that can be worked upon jointly over many years, and employers will increasingly liberalize their plans to make them portable. In Ontario they would have had to do it but the approach was changed when this legislation was proposed.

The fact does remain that a great block of less fortunate Canadians today are not permanently employed by good employers who have pension plans. They are out on the economic fringes of this wide-flung country. It is also a fact that the Canada pension plan will cover twice all the people today who are in private pension plans. It scoops them all in through the payroll tax. I am quite willing to recognize the best intentions of the authors of this plan, but unfortunately this plan is going to add its benefits on top of the plans now covering all those who are regularly employed by good employers who have pension plans, and is going to continue to miss many people who do not work for good, solid employers who are able to provide permanent employment and pension plans. We therefore come back to re-examination of the fact that the objective of portable pensions will not be realized for many people who do not work for employers with pension plans or people who do not have regular employment. This fringe will never be included.

Mr. PRITTIE: I will have to agree with Mr. Kilgour on this last point. There is a large group of people who are not well covered. The plans for portability have not been worked out. It is true that Ontario has been making some steps in that direction, but it may be a long time before this becomes a reality in Canada.

The last question I wish to ask deals with item 11 on page 4. It reads as follows:

> Finally, the addition of the Canada pension plan to old age security would result in nearly one half of the population having little incentive to supplement by private saving the retirement income to be provided by their government. This would be a large scale surrender of individual initiative and responsibility.

Turned out to be wrong

It seems to me that for the people who are employed and are having payroll deductions made for private plans at the present time it would make very little difference who is providing the pension. There is a fixed per cent which is coming out of his income for that pension. I would suggest that for a large majority of Canadian wage earners this is the only saving they have in addition to whatever property they own.

The CHAIRMAN (*Mr. Cameron*): Is that a question?

Mr. PRITTIE: My second question concerns this last sentence: "This would be a large scale surrender of individual initiative and responsibility". I wonder about that because a large majority of Canadian wage earners do not make their own provision for their pension plans; it is part of the job, something that goes with the job.

Mr. HOLMES: I would agree with the questioner on this. This does involve a transfer. That is why we gave you the table, that was referred to earlier, showing that for many families in Canada this, together with the old age security, would seem to supply all that they would desire during their old age, and they would not have much incentive to set about doing much else for themselves. I think, as you say, that people in a small business have some feeling of individual initiative as far as their company's pension plan is concerned, but when you are one of a thousand, you are one of a thousand. There are also individuals who are outside of business. I am sure that with them the feeling of "participation" is much greater.

I think we all agree that a transfer of savings from the private to the government sector would result from the proposed plan. Whether the individual in a group of a thousand feels any more individual initiative than in a group of 18 million, I do not know.

Mr. PRITTIE: May I just finish up by suggesting that those persons who are in the executive income level or who have their own businesses and who wish to make extra provision for their retirement will not be satisfied with income received from old age security and the Canada pension plan, and they will be able to make this extra provision. It seems to me many people would like a higher income than these two plans would provide.

Mr. HOLMES: I think this is true. These people are in the 30 or 40 per cent which are not referred to in Appendix I. First of all, there is a group that is down below the scale in the test; then there is a large group who are not really left with much incentive to save; and then there are people in the higher income group with incentive to save.

Mr. KILGOUR: I could add something to that point. There is also the very important fact that a great many people in Canada belong to very good pension plans. For instance the civil service has a very generous pension plan which provides, I think, 70 per cent of the final six years' salary. Many private industries have equally generous pension plans. If, on top of this, one has old age security—whether one's pension will be $3,000, $6,000 or $7,000—then in fact one is going to have such a high percentage of one's income when one retires that one will be far better off than during the years when one was raising one's family, trying to put children through school and university, and so on. So that for many people in responsible walks of life the incentive to save more than for the combination of the pension plan and old age security will be very largely removed.

Mr. LLOYD: I have a couple of questions for Mr. Kilgour, Mr. Chairman. He made a point of drawing our attention to the fundamental conclusion of this submission, that this is a poorly designed welfare measure. Mr. Kilgour, you made reference to farmers and to their level of income. Do I take it that in judging this scheme you are judging it from the past events in our economy, or have you judged it in the light of what seems increasingly clear will come about in the future? Do you judge it in the light of future events, or entirely from the past factors in our economy?

Mr. KILGOUR: I should think that any of judgments probably represent a bit of a blend. If one thinks of an area in which there is a large number of self-employed people and of farmers, according to the evidence given before this committee some time ago, then one realizes that in the Atlantic provinces they contribute 3 per cent of the contributions to the old age security plan and they draw out 10 per cent of its benefits. This surely illustrates how little an earning's rebated benefit affects these people; there are not enough payroll earnings or taxable earnings down there. Under this proposed type of plan they would presumably pay in 3 per cent and get out 3 per cent of the benefits. The 10 per cent comes in because there are many old people and they each get $75 a month even if they did not have a sufficient income to contribute much on the way along.

We may get an increasingly industrialized society in Canada, but in many parts of the country it is not clear how fast this will come about. There are many self-employed people and many people working for a variety of employers. I would suspect that very few farmers who are today on small land holdings or doing mixed farming are likely to show much income. Movement from farms may rise dramatically in the next decade, but I would like to leave that opinion to some agricultural expert.

Mr. LLOYD: Could you supply the committee with the number of earners on payroll earnings as distinct from self-employed farm earnings in the Atlantic provinces?

Mr. KILGOUR: I personally have not done such an analysis for the Atlantic provinces.

Mr. LLOYD: Were your conclusions based on such an analysis?

Mr. KILGOUR: In relation to the old age security, yes.

Mr. LLOYD: In relation to the illustration you chose of the Atlantic provinces?

Mr. KILGOUR: Yes.

Mr. LLOYD: You do have those statistics?

Mr. KILGOUR: I have that figure.

Mr. LLOYD: You could supply the statistics from which you draw your conclusions?

Mr. G. E. BROWN (*Senior Vice-President, Sun Life Assurance Company of Canada, Montreal*): If I might interrupt, I might draw to Mr. Lloyd's attention that the government of Nova Scotia in submitting a brief to the Senate committee on aging on October 15, 1954, among other things, said:

> The Canada pension plan may seem to offer a solution for these problems. Unfortunately, the advantages of the plan have been exaggerated and many of the disadvantages have been overlooked.

Then they go on:

> We have no conclusive statistics regarding the number of persons resident in Nova Scotia earning less than $600 per year, but it is our impression from all the information at hand that their numbers are very considerable. We must anticipate, therefore, that large numbers of our aged population will not qualify for inclusion in the Canada pension plan.

Mr. LLOYD: Is this the basis of Mr. Kilgour's conclusions?

Mr. KILGOUR: I can tell you that in Canada there are some two million Canadians in the work force who do not pay income tax.

Mr. LLOYD: By virtue of the fact that they are exempt from taxation because of the bracket?

Mr. KILGOUR: Because they make no returns.

Mr. LLOYD: Just a minute now.

Mr. KILGOUR: I mean because they do not feel required to make returns.

Mr. LLOYD: I am using the same information which I presume the other gentleman who rose used to supply the information which apparently Mr.

Kilgour did not have. You made an assertion and based it upon what is supposed to be a very careful mathematical study of statistics.

Mr. KILGOUR: May I give one analysis I have studied? I said that I did not study the Atlantic provinces. I know that in Manitoba 47.4 per cent of the workers and heads of families can be reached by payroll deduction, which means about 53 per cent have to be reached by some other means.

Mr. LLOYD: Was this 47 per cent based on the fact that so many tax returns are being filed?

Mr. KILGOUR: No.

Mr. LLOYD: In referring to the Canada pension plan as a welfare measure, are you referring to it as such because of the fact that the actuarial liability is not fully funded from the contribution; is that one of your reasons for calling it a welfare measure?

Mr. KILGOUR: No. I think the points in using the expression welfare or social insurance scheme is that our objection primarily lies in the fact that the bottom segment of people will not be drawing benefits and that it is loaded for those at the top. It is an inequitable redistribution of taxes because it is not going to the right people, and funding or non-funding is not nearly as pertinent, in my judgment, as what the plan does for people.

Mr. LLOYD: You are perfectly satisfied that the government should decide to use its taxing powers to maintain the fluidity of the liability at any time they consider to be satisfactory.

Mr. HOLMES: Might I comment on that?

Mr. LLOYD: I presented a question to Mr. Kilgour.

Mr. KILGOUR: In reply to the question, I would say I would regard where the money goes as a far more serious criticism of the plan than how the money is raised or whether it is funded or non-funded.

Mr. LLOYD: In your diagnosis of it as a so-called welfare measure, there was no implication that it is bad because it happened to be a government measure using the general credit of the nation to meet an obligation by taxation.

Mr. KILGOUR: No; but there is a section of the brief which does touch on the method of financing it.

Mr. LLOYD: Earlier I started by asking if you had drawn your conclusions by the events of the future, and I mentioned that you had referred to farmers. Well, the conventional wisdom that we read about from economists all points to the ever increasing proportion of our population which must find its earnings in the servicing and secondary manufacturing sector of our economy in increasing numbers. Have you taken this into account when you were drawing your conclusion? You have referred to farmers; you picked on an obvious area of difficulty in reaching a workable pension plan. What about the increasing volume of people who would benefit under this plan; have you taken future events into account when you have drawn your conclusions, or are you basing all your conclusions on past historic facts of our economy?

Mr. KILGOUR: I think our objections to the plan would be equally valid if there were 100 per cent of the people in Canada on payrolls.

Mr. LLOYD: In other words, to the extent that this plan does reach those of low income, or those who do not presently report in this manner, it is open to criticism.

Mr. KILGOUR: And gives most to the top and least to the bottom.

Mr. LLOYD: On that point, private pension plans all are related to earnings, are they not; private pension plans are all related to earnings?

Mr. KILGOUR: In the main, yes.

An hon. MEMBER: No, no.

Mr. LLOYD: In the main, are they related to earnings?

Mr. J. A. TUCK, Q.C. (*Managing Director and General Counsel, The Canadian Life Insurance Officers Association*): There are a few plans, sir—

Mr. LLOYD: What percentage of private plans is related to earnings?

Mr. KILGOUR: A very high percentage.

Mr. LLOYD: I think we must accept this as a fact. Surely there is no challenge of the fact that a high percentage is related to earnings.

Mr. KILGOUR: Agreed, sir.

Mr. LLOYD: Bearing that in mind, on page 2 in (d) of your summary you say:

> The Canada pension plan would provide the largest bonuses to those with the highest pensionable earnings.

Is this really not a little bit of semantics; could you not eliminate the word "bonuses" and simply say the Canada pension plan, as is the case with private pension plans, would provide the largest benefits to those with the highest pensionable earnings.

Mr. KILGOUR: No; on the contrary, private pension plans are arrived at by a precise formula. If one has double the income of another, he or his employer contributes double as much. On the other hand, the Canada pension plan gives a minority of people very great bonuses in the order of $10,000 apiece, and I think my own is over that; it is more than I could possibly pay in. Some dear old lady living in a room on Smith street gets nothing. This is not what a private employer does. He takes all his employees by and large and tries to treat them with equity; so much for a year's service in relation to a year's salary. Any plan slanted in favour of high salaried people usually is frowned upon and a few years ago was not allowed by the income tax department. Normally, private pension plans are as equitable as the employer and his employees can devise.

Mr. LLOYD: I will pass for the moment. I am satisfied from what Mr. Kilgour has said that at least the objectives of the Canada pension plan were to relate the benefits to earnings; there is no question about that.

Mr. G. R. BERRY (*Vice-President and General Manager, Metropolitan Life Insurance Company, Ottawa*): But they made one very large difference; they did not collect enough money to pay the benefits.

Mr. LLOYD: This comes back to my original submission in respect of the conclusion that it is a poorly designed welfare measure. I gathered from the witness that it is poorly designed because it is not funded.

Mr. KILGOUR: No.

Mr. BERRY: No.

Mr. LLOYD: You are speaking about the value of a pension at a certain age.

Mr. BERRY: You are confusing the fund, which is one thing, which meets the liabilities of the plan as a whole and what I, as an individual, pay for the benefit I am going to receive. If I take my own case, I am one of the persons in the lucky age group. If I pay something in the order of $900, I will draw a benefit worth about $12,000, but the man who earns less than $5,000 a year receives a bonus, a windfall—call it what you like—which progressively goes down as his earnings go down. This is the weakness of the plan.

Mr. AIKEN: May I ask a supplementary question—

Mr. CASHIN: That statement you made is wrong. You have not taken into account that the person contributing at the bottom contributes a lower percentage to begin with anyway.

Mr. BERRY: But he doesn't pay it all.

Mr. CASHIN: But you were relating both of them to the ten year period.

Mr. BERRY: This is true, but why should you, in a program which is supposed to take care of people who are aged, give a bonus or a windfall of twice as much to the person higher up in the income scale? This has never been done to my knowledge in any other welfare program in this country.

Mr. LLOYD: This is the windfall which derives from instituting the plan, is it not?

Mr. BERRY: Yes.

Mr. LLOYD: Your remarks really apply to the fact that in starting a plan, those who begin to get its benefits at an earlier age, compared with privately funded plans, have not in fact paid in as much.

Mr. BERRY: This is true under the old age security program.

Mr. LLOYD: Yes.

Mr. BERRY: But under the old age security program because it is a flat benefit, you do not benefit those persons earning more than those who are earning less.

Mr. LLOYD: Do you not in some degree in instituting a new plan, when you have taken into account the formula of establishing the past service benefits?

Mr. BERRY: But there again you have a closed group.

Mr. LLOYD: A closed group, naming the beneficiaries of the fund, and the same principle applies regardless of the size of the group.

Mr. BERRY: No, because a small group works out a program to its own needs, and they in fact are paying it all.

Mr. AIKEN: My question relates to my original line of questioning: is it not a fact that in this interim period there will be an element of collecting from a large number of poor in order to give to the well off? Would that be a fair statement?

Hon. Mr. CROLL: No.

Mr. FRANCIS: You do not collect from them.

Mr. KILGOUR: You have a lot of young people entering the labour force, for example young women, who will work from three to ten years, and they pay a tax on annual earnings above $600. Then they get married, and all the pension benefit which comes to them at the age of 65 you could stick in your eye; it would be about $5 a month.

The CHAIRMAN (*Mr. Cameron*): We are still on round one. Mr. Knowles.

Mr. KNOWLES: I would like to make a comment or two on one of the subjects which has been discussed, and also this opens up one question which I do not think has been referred to as yet. I still think that there is room for a good deal of thinking on both sides here today about the use of the word "welfare". Both Mr. Holmes and Mr. Kilgour used it as applied, and tried to redefine what they mean. Mr. Kilgour read from the submission made by the minister to support his contention that it was a welfare program, but he could not find the word "welfare" in the paragraph he was quoting. I think there is more than just a semantic difference here. Perhaps it is a matter of definition. What we are concerned about in this whole program about the old age security and the Canada pension plan is to try to move it as quickly as we can to an arrangement whereby Canadians will get pensions as a matter of right. Many of us have felt that there has been too much of the welfare approach in the sense that it involves means testing and that kind of thing.

I have listened to the discussion this afternoon and it seems to me that there is a good deal of that approach in the position taken by the delegation this afternoon. I would like them to look a little more closely at our plan, as one that seeks to put pensions on the basis whereby Canadians get them as of right. To support the contention of those who argue that we cannot look at the Canada pension plan alone, you do have to look at the combination of pensions which people will draw both from old age security and from the Canada pension plan once the matter gets going.

I would like also to put in the footnote which has been referred to very often that there is a $5,000 ceiling in the plan at the present time. It is true that there is an arrangement for it to be escalated, but it is not the scheme which commits those in the higher brackets to get more, simply because they are in the higher brackets. I have a new question I want to put to our friends and perhaps to the Winnipeger—since I know Mr. Kilgour's company used to be located in Winnipeg North Centre but it moved out a while ago. I am impressed by this interest on the part of Mr. Kilgour and his colleagues here today in old age security. Like Senator Croll and Senator Smith, I was a member of the King-Lesage committee. It may be that my memory has slipped, but I do not recall this enthusiasm for the old age security program that the life insurance people seem to have at the present time. I notice now that you are terribly concerned that there is nothing in this for certain groups of people including those now over 70, and there is nothing in the Canada pension plan for them. So you can see from the recommendations under section VII on page 25 of your brief that there is an alternative to the Canada pension plan although you have made a great deal of the fact that we do not provide anything in the Canada pension plan for those over 70 years, and you do not provide a cent for those over 70. Your alternative is merely a proposal for an increase in the pension which people would have between the ages of 60 and 70; the woman of 60, if a wife, and the husband a little over, a man of 75, will get a pension of $125; and for those 70 and over the maximum is still $75 for one, and $150 for the two.

Now if you are going to chide us for not providing benefits for those 70 year old people, do not chide me because the members of the committee know what I think about it. I think we should be raising that amount. But how can you offer this as an acceptable alternative, namely a plan that leaves old age security for those 70 years of age and over still at $75 a month? If you are concerned about all those people, and I think you are talking about the various people that there are—there are statements which have to be clarified. Mr. Holmes said that Canadians generally are working to provide for their own old age, and Mr. Kilgour said that the great majority are outside of the various pension plans. But is it not a fact that under the Canada pension plan and the old age security arrangements, we will be able to pay something whereby within a few years people over 70 will be getting a lot more than $75 a month which is now the case, whereas under your recommendation in section VII the maximum is still $75 at the age of 70 and over?

Mr. HOLMES: I shall try to deal with this systematically. First of all, regarding "welfare", we recognize there are two parts to it. There is the part where you are dealing with people on the basis of the specific need of a few, and there is the part where you are dealing more broadly under a scheme of social security. We will be happy to have you substitute social security wherever we have used the word "welfare". We do not favour a second plan of welfare or social security for retirement. We favour a universal and uniform plan wherever the need is very widespread in the community.

We feel that old age security is payable as of right. We as individuals shall accept our own old age security payments wherever or whenever we retire, because we feel we are on exactly the same level as other Canadians from the Yukon right down to Newfoundland. We will reluctantly accept the bonuses the Canada pension plan would pay to us because we happen to be 55 or 60 years of age and earning over $5,000 a year, when our own sources of business have looked at the problem and have made provision for us and we have been able to make supplementary provision for ourselves.

There seems to be some doubt about our position before the King-Lesage committee ten years ago. Perhaps you would let me go into ancient history. This is the brief we presented on May 18, 1953, before the King-Lesage committee:

> The association believes that the alternative which it proposes will remove these defects of the present (assistance) system. It therefore recommends that a federal old age security plan be established in Canada subject to any necessary constitutional amendments, and that the benefits should
>
> (1) be payable to all elder Canadians without a means test but subject to a reasonable residence qualification;
>
> (2) commence at a specified age which, because the benefits will be payable to all, should probably be age 70;
>
> (3) be fixed at a level which can be financed without placing an undue burden on Canada's present and future productive capacity;
>
> (4) be paid in the same amount to all;
>
> (5) be subject to partial recovery through income tax in the case of recipients having significant income from other sources;

That includes us as individuals.

> (6) be financed in full on a "pay-as-you-go" basis by an old age benefit contribution payable by residents of Canada on a basis as broad and equitable as possible.

Then the submission goes on to the particulars.

We do agree with the questioner that one must look at the two plans together, the old age security plan and the Canada pension plan, and we say we wish we were revising the old age security plan. Surely this indicates that we think the problem should be looked at as a single problem.

However, we do not think one can overlook the fact that what you are proposing to do at the present time is in addition to the old age security. If you do this, you are not paying attention to many people who are left out of old age security or you are saying there is no further need in that area at the present time. From the chart here you will see that we feel that even 10 years hence we are left with the problem because what is proposed would then be doing something for only a third of the population.

You do ask the specific question whether we propose doing anything for people now over age 70. If you look at page 27, paragraphs 68 and 69, you will see that we do indicate doing something. We feel it needs more study and that you need more information from the dominion bureau of statistics and elsewhere on exactly where are the large areas of need. We do not propose that there should be means tests or needs tests particularly here; we simply suggest that you should obtain reports to find out where among the people of 70 and over there is widespread additional need. Then we go back to our old suggestion that they should be paid as of right.

> There is another type of adjustment the association has considered but has not explored fully.

The reason we have not explored it fully is that we do not have enough information from the dominion bureau of statistics.

> It would involve stepping up the flat benefit by attained age e.g., raising the $75 at age 70 to $80 at age 75, $85 at age 80, $90 at age 85 and so on. In the case of a great many older Canadians it is apparent that not only do their resources decline with increasing age but their living expenses rise. The decline in resources often results from the necessity to consume capital to augment income. The increase in expenses frequently results from illness or special care.

69. Some information indicating that incomes decline with age has recently been developed by the dominion bureau of statistics. More information is still needed, however, to determine the best pattern for an age adjustment (see Appendix 2). The association recommends that this be obtained because if it supports the views herein expressed an important improvement could be made in old age security at a relatively modest cost. For instance, the current cost of the adjustment described in paragraph 68 would be less than $60 million a year.

I do call attention to one thing through you, Mr. Chairman. We do say that Canada always has to balance what it would very much like to do for its old people as of right with the situation of its working population at any particular moment. We do not think that there is any better place to go to to get advice on the way in which social security benefits should be directed than the dominion bureau of statistics, the civil service in general, the government actuaries and so on. We surely opened the door in our brief. We are not sure enough about the areas of need to make too definite a suggestion, however.

Mr. Knowles: Mr. Chairman, may I make this comment, namely that the proposals set out in paragraph 68 are, in Mr. Holmes's own words, just tentative. I am referring to the proposals defined as matters being explored. Even in that, you do not propose any increase for those who are now aged 70, for those between 70 and 75; you leave them at $75 a month?

Mr. Holmes: Yes.

Mr. Knowles: You allegedly criticize us for not doing anything in this group, and you are taking words out of my mouth there because I think this is a fault and we should be doing something about this old age security plan, but I regret very much that you have not proposed as part of your alternative that something be done now to improve this position, especially when you come here and chide us for not doing it.

Mr. Holmes: You recollect, Mr. Chairman, we said we made this illustration to show there was a concrete practical alternative. I pointed out also that somebody—and we appear to be some of the people who have to do this—has to call attention to the other side of the question. How much are the working people of Canada prepared to do in this field? That is the only reason we raise this question. We have called attention to it. We have only suggested that this is a practical alternative. We would not expect for a minute that this committee would just say, "Oh, that is fine, let us do that." We feel that basic information on needs is actually available to you from the dominion bureau of statistics and other sources and should be studied.

Mr. Kilgour: Mr. Knowles included me in his question, and there are a couple of points I would like to make.

Perhaps one of the reasons we are so impressed with the Old Age Security Act is that we see its workings. Old age security has been a tremendous help to people who were pensioned many years ago. It has been a tremendous help to people who get to the age of 70 and who, for one reason or another, and not necessarily due to any fault of their own, are without resources. There is no question that this is the greatest thing that has happened to our old people.

I personally feel very strongly that the Canada pension plan changes old age security and comes well nigh close to destroying it. People are going to be able to take $51 a month at the age of 65. When you look at chart 2 you will see that 67 per cent of the retired people would be getting nothing from the Canada pension plan, and I venture to suggest there will be an important number of those people who will only be getting $51 a month because when they reach the age of 65 they are old, they are tired or they are poor, and they will take the $51 a month then rather than $75 a month five years hence.

So almost certainly we have detracted from the true strength of the old age security for the poorest segment in our community by giving them this option to take $51 a month at age 65, and then they are stuck with it for life.

Mr. Côté (*Longueuil*): No, it is going to be increased every year.

Mr. Francis: I would like to ask Mr. Kilgour a question.

Do you envisage old age assistance ceasing between 65 and 70? Would those in poor circumstances not still be able to supplement up to $75?

Mr. Kilgour: Through welfare assistance.

Mr. Francis: But surely one should look at the total package.

Mr. Kilgour: Again, it is not as of right and, again, it is subject to the business of a means test and so on. I think a great many people will grab the $51 a month and will not want to go down and apply for needs-tested welfare.

Hon. Mr. Croll: Have you any idea how many people live between 65 and 70 and whether those between 70 and 75 will gain or lose by it?

Mr. Kilgour: I have not.

Hon. Mr. Croll: Who can?

Mr. Kilgour: One can generalize. Certainly a great many people will say "I'll take it now." There will be a great deal of cutting down from the $75 to $51.

The second point, Mr. Chairman, that Mr. Knowles brought up was why there was no increase or why we did not strongly recommend an increase. I think Mr. Holmes gave a good answer. We did not feel it was our task to say how much Canadians wanted to spend. However, I do believe there is considerable room for the view—and this may not be shared by my associates—that we could do much more if we were to raise old age incomes for people who do not already have ample incomes. The new act suggests that people have to turn in income tax returns down to $600 a year. Possibly old age security could be raised to $100 a month for everyone whose income is not that high. We have 200,000 old people in Canada who are taxable. I for one do not feel every benefit needed by one group has necessarily to be passed on to all Canadians.

Mr. Knowles: May I ask Mr. Kilgour one more question?

I welcome what you have said about the boon that old age security is to our people today compared to what was the case 25 years ago. I am sure Mr. Kilgour will agree that if the pension were still the $20 that it was 25 years ago or even the $40 it was 15 years ago he would not be able to say that. The only possibility of old age pensions continuing to be a boon to older Canadians rests upon their going up still more considerably. In other words, it has to be $75 today as opposed to $40, 15 years ago and it will have to be $150 not many years hence. Does Mr. Kilgour see the possibility of the old age security plan, which they support so strongly, being raised to figures of that kind without contributory schemes such as those involved in the Canada pension plan?

Mr. Kilgour: I would only reply to that that I would hope Canada and the Canadian parliament would from time to time always be prepared to reappraise the circumstances of our old and unfortunate people at any stage and to create benefits that are favorable and useful at the time they make the decision. I think this is a much happier prospect than hinging pensions to cost of living indexes.

Mr. Knowles: You would hinge it to an increase at every election, would you?

Mr. Kilgour: No, I would hope—

Mr. Knowles: That is what has happened.

Mr. KILGOUR: Again, I would hope there could be some realistic survey every two or three years of the true situation and the needs of our old people, and that we would try to meet them thoughtfully rather than having a bidding process. However, that is purely a personal opinion.

Mr. HOLMES: May I make an addition?

The dominion bureau of statistics has obtained figures in the past year, although we concede more should be obtained. They compare the income being received at the time of the last census by the working population on an average by province, by definite areas of Canada, with the income, including the old age security being received by the older people. We think reports of this sort could be a basis for a regular adjustment of the situation.

There is one other thing I would like to point out which does give us concern, and it is partly why we call the attention of the committee to the question whether people of age 85 to 90 are not in fact in greater need than people of 70.

In respect of the Canada pension plan we have said that we are concerned because we and people like us are going on very liberal pensions at a time when two out of three Canadians will be subsisting on old age security 10 or 11 years from now. If you raise old age security for them, of course, this being a universal plan, you will also raise old age security for us. You must remember we then will be the young old people. We are only using ourselves as guinea pigs to try to explain the situation as we see it. We will be the young old people and we will be the first Canada pension plan recipients of large amounts. We will be 65 or 70. But, the people who are then aged 90 still will be existing on roughly the current level of old age security. So, we are proposing that at any particular time the aged population who are still very close to retirement will be receiving a considerably larger income than the aged population who are in the 80 to 90 age bracket. Yet, any information that we can find from the dominion bureau of statistics indicates that if there is any difference in treatment, it should be the other way.

The CHAIRMAN (*Mr. Cameron*): Are you finished, Mr. Knowles?

Mr. KNOWLES: Yes, for now.

Hon. Mr. CROLL: Following what you just said, Mr. Holmes, I had three points I was going to make. However, Mr. Knowles took care of my first question in respect of social and welfare measures. I might also say that he looked after the other one. But, I have thought one up while you were speaking. Of course, you are well aware of the bill which we have before us, and the commitment of the bill in principle, Mr. Holmes.

Mr. HOLMES: Yes.

Hon. Mr. CROLL: And, I do not think you will disagree with me when I refer to the fact that $5,000 in today's world is a modest salary rather than a very high one. Up to $5,000 is what the plan has in mind. Therefore, the comparison really is between people receiving a modest salary and those receiving a low wage or salary, whatever it may be.

Mr. HOLMES: Do you wish me to reply?

Hon. Mr. CROLL: No; wait until I finish. I am laying the premise for you.

Mr. HOLMES: Yes.

Hon. Mr. CROLL: And, from what you have said I think it is also true that the better paid workers under the plan make some contribution to the pension of those who are not so well paid. Now, I am sure you want to be helpful to us. You know we have a pension plan to bring in. Can you tell me how under any circumstances we can start a pension plan of the kind which is committed by this bill without a windfall to some people who come immediately within the compass of the plan.

Mr. HOLMES: First, in respect of the point regarding modest salary, $5,000 is in some respects a modest salary. I believe that the average pay though is around $4,000 a year, and that probably means that one half of our Canadians are receiving less than $4,000. I agree a fairly large number of us are receiving $5,000 and over. Once again, the statistics that we have seem to indicate that the people who have been hardest up—say, the group which ranges from, shall we say, $1,500 up to $5,000 of earnings—during their working years, drop off more in income when they retire than the people who are better off. And, because high earners are better off when working, they do start to make some provision for themselves as well. You asked whether there is any way of getting away from this question of windfalls to the higher paid. Well, of course, there is in respect of old age security.

Hon. Mr. CROLL: No, no. Just answer the question. You cannot lay down the ground rules. I said, committed to the plan under this bill. We have a bill before us. We are not going back 10 or 12 years, at which time there was no bill before us. We were talking in generalities then, if you remember. Of course, I do not remember. But, that was another matter entirely. As I say, we are now committed to a bill, and I asked for your comments within the compass of this bill.

Mr. HOLMES: The windfalls or bonuses arose from two factors. The first is the fact that the benefits are directly related to earnings. There is some lowering of the contribution rate for the lower paid person, but the benefit goes up with income up to $5,000. In respect of our American friends, the benefit drops relatively as the income moves up. That is the one factor in the Canada pension plan. Of course, the other factor is the early maturity factor. Under the old age security plan there is, of course, immediate maturity. It is not a 10 year maturity at all; it is immediate maturity. But, that immediate maturity is applied on a uniform basis to everyone in Canada, including people who already are retired. I think it is reasonable to call your attention to the fact—and I think I am correct in what I am going to say—that in England, where something a bit like this proposed plan was considered two or three years ago, there is no early maturity in the income related plan.

Mr. KILGOUR: Mr. Chairman, Senator Croll asked if one had a suggestion as to how, out of the framework of this bill, one could remove the objections. I think the burden of our brief is that as a social measure for all Canadians this bill is like an aircraft that will not fly; you will have to design a new one.

Hon. Mr. CROLL: You can bet that it is not only going to fly but it is going to fly at a rapid rate of speed.

Mr. MONTEITH: Are you going to use closure?

Hon. Mr. CROLL: Mr. Holmes, although I could be wrong I thought I heard you say that under the American security plan there was a drop of benefits at a certain stage.

Mr. HOLMES: In relation to income.

Hon. Mr. CROLL: Do you remember at what stage?

Mr. HOLMES: In respect of the American scheme which, of course, is their only scheme, it is fair to say that as the pay goes up the pension in relation to the pay is less.

Hon. Mr. CROLL: Are you referring to dollars?

Mr. HOLMES: Yes.

Mr. RHÉAUME: Mr. Chairman, on a point of privilege, I think you should instruct the members of the committee to take Senator Croll's remarks facetiously because, otherwise, I, for one, do not intend to partake of such a ritual.

The CHAIRMAN (*Mr. Cameron*): Mr. Rhéaume, the Senator is expressing his own personal opinion. Are you through, Senator Croll?

Hon. Mr. CROLL: Yes.

The CHAIRMAN (*Mr. Cameron*): On the first round I still have Mr. Basford, Mr. Gray, Mrs. Rideout, Mr. Cashin, Mr. Monteith, Mr. Cantelon, Mr. Côté, Mr. Leboe and Mr. Macaluso.

Would you proceed, Mr. Basford.

Mr. BASFORD: Mr. Chairman, I would like to refer to paragraph 10 of the summary, which refers to the indexing of the pension benefits. It says:

> Surely the adoption of this principle would be an open admission that inflation may not be controllable.

I would like to refer you now to appendix F of proceedings number 4 of this committee on Thursday, December 3, 1964, which shows if we look back in the history of the consumer price index that the pension index as provided for in the bill has consistently trailed the consumer price index. I would also like to refer you to what Dr. Willard said on pages 206 to 208, which disagrees with your paragraph 10. I would ask you to refute the evidence we already have had in this committee.

Mr. HOLMES: Could you give me the page again?

Mr. BASFORD: Page 206.

Mr. HOLMES: I think we have some information that might be of interest to the committee in this area. As you have been advised, there are a certain number of countries that have experimented with a pension index. I think it will be obvious to you that all pension indexes based on price indexing must lag the price increases. You must have a price index showing higher prices before you can calculate what you are going to do about pensions as a result. I think our economist, Mr. Popkin has some information on what sort of inflation has been occurring in some of these countries that have experimented in this area. In 1964 a survey of pension plans was made by the department of health, education and welfare in the United States. I think there are 12 countries that have put in pension indexing. These 12 countries are listed. In addition to the group that you have been given I believe that Ecuador and Uruguay have tried some form of pension indexing. You will remember from your report that Chile abandoned its indexing provisions in 1957—this is worth inquiring into. We notice that Iceland withdrew from the club in 1964. The international monetary fund published a supplement at the end of last year showing what has been happening to the cost of living in these countries and in Canada. This is the information which I would like Mr. Popkin to summarize for you. Perhaps we could give you a copy. We certainly think you will want it checked or you will want a report made on it by others.

Mr. POPKIN (*Economist, Sun Life Assurance Company of Canada, Montreal*): I would like to preface my remarks by saying that we are against the principle of the government introducing indexing, not only specifically for the pension plan but for any type of obligation. In other words, we think it is a bad principle for the government of Canada to introduce it. Countries that have introduced it have usually had trouble with it sooner or later. The most important example of this was France which introduced the widest spread system of escalation of any country in the world. Up to 1957, at the time of the last devaluation, they had had the wildest continuous inflation of any organized industrial country in the world, except for Germany during the war period. Following the eleventh devaluation of the franc in 1958 they abandoned all types of escalation. I understand that some types have crept back in since then. As you know, the position of France has been very strong; France has made great progress since that time.

The trouble with indexing is that once you start the principle there is no logical place at which to stop. Already in Sweden, where they have indexed the pensions, a government committee has recommended the indexing of government bonds. Why should it be logical to say you cannot index government bonds if you are willing to index pensions? I agree that some of the reasons that have been introduced here in the committee for indexing pensions are that it takes the upward adjustments out of politics. I do not think the 2 per cent limit that you put on the cost of living is taken out of politics. If price rises exceeded 2 per cent, you would have immediate pressures to raise the 2 per cent ceiling. Already in the last 12 months we have had a 1.9 increase in the cost of living index in Canada. There could be an acceleration.

I would like to point out that we are not expecting inflation of any significant proportions in Canada; this is not our argument. We are just suggesting that this plan is a long term plan and there are other ways of adjusting pensions upwards without getting into the morass of indexing which, I think, has very bad side effects. Indexing can be taken as an official seal of approval by the government that inflation is a way of life. Whether the limit just happens to be 2 per cent I think is quite irrelevant; it could be 4 per cent two years from now.

Mr. MUNRO: Could I interject a question at this time? I understand that indexing will occur after the inflation you are talking about has already happened, and in that sense it is not contributing to inflation at all.

Mr. POPKIN: You say that indexing is not an engine of inflation. We do not say that either, but we say that indexing does create in people the expectation of a continuous rise in prices. Once people know protection against a 2 per cent rise is there, they might expect additional protection. In other words, there is no limit to peoples' expectations. To protect one's self against inflation does create inflationary conditions.

Mr. LLOYD: The vast number of people referred to earlier who would not be covered by pensions are those who have not been filing tax returns, farmers and the like. They will think all these things out and calculate the effects of inflation, will they not?

Mr. POPKIN: I think there are enough historical examples of the slippery paths of indexing to make us pause a long while before we choose this particular method of upgrading our pensions.

Mr. CANTELON: Mr. Chairman, on a question of privilege, are these interjections to be allowed while the witness is answering a question? It would be better if we allowed him to proceed.

Mr. POPKIN: It does not upset me if it does not upset the Chairman.

The CHAIRMAN (*Mr. Cameron*): We know you are not upset but we want to keep proper order.

Mr. GUNDLOCK: Let us hear the answer.

Mr. POPKIN: I would like to proceed and read out the experience with increases in the cost of living index of countries which at present do have indexing systems as compared to the Canadian experience. These are annual rates of increase between 1958 and 1964: Netherlands increased 2.7 per cent; Sweden, 3.1 per cent; Denmark, 3.9 per cent.

Mr. CHATTERTON: Are those per annum figures?

Mr. POPKIN: Yes, they are per annum figures over the period 1958-1964; France, 4.5 per cent; Finland, 4.5 per cent; Israel, 5.1 per cent; Iceland, 8.6 per cent; Chile, 28 per cent; Uruguay, 28 per cent.

There are other examples that could be brought in here, but it is interesting to note that every country that has found it necessary to upgrade pensions with indexing has had a greater course of price increase than has Canada or the United States.

At this point I would like to say that the basic comparison you should keep in mind is not the comparison between Canada and the European countries but between Canada and the United States. The United States has not yet introduced indexing in their pension scheme.

Mr. BASFORD: I take it from your answer that the indexing of pension benefits is not the cause of inflationary trends.

Mr. POPKIN: What I said was that the introduction of the principle of indexing in any type of government obligation does lead to inflationary pressures because of the continuous expectation of people, and their actions in trying to protect themselves against inflationary pressures.

Mr. BASFORD: The appendix to which I referred you indicates that the pension index would always follow the consumer price index.

Mr. POPKIN: You are quite right.

Mr. BASFORD: You have not convinced me it is a cause of inflationary trends.

The CHAIRMAN (*Mr. Cameron*): This is a question of opinion.

Mr. BASFORD: I would ask: How does the peoples' expectation cause inflationary trend?

Mr. KILGOUR: I should like to add one more point which I think may be pertinent at this time. There is not much doubt that in any country that has ever seen inflation there eventually comes about a widspread determination to avoid it. Anyone who has lived in Germany or France realizes the habits that inflation induces. If you generate in a large proportion of your population a feeling that this will not hurt them, that ther pension will go up even if wages outrun productivity, then, I respectfully suggest, you are creating a feeling that inflation is unimportant; that a person is protected against it even if his neighbour is not, and it would lessen considerably the determination in all parts of the country to join together in trying to keep a stable dollar.

Our view would be that it would be helpful if this committee could have comments on this very tricky economic problem from the Bank of Canada and the chairman of the economic council, because these problems are clearly tied in with the economic future of the country and the most professional opinion should be consulted.

Mr. BASFORD: Surely the people are entitled to some expectation in a political democracy that when the cost of living goes up parliament would protect them against it.

The CHAIRMAN (*Mr. Cameron*): I will allow the question but I think the witness is expressing his opinion for the benefit of the committee and members of the committee may have different views. We do not want to get into an argument with the witness.

Mr. BASFORD: I do not want to get into an argument, but I raised a question and I have not yet received an answer.

The CHAIRMAN (*Mr. Cameron*): Mr. Popkin, do you want to answer the question?

Mr. HOLMES: We will submit these figures to the committee. On this question we wish the committee to look at the figures which indicate that the countries which have been reported as using indexing have shown pretty high rates of inflation. We do not think you have really had a report on the implications of indexing in these volumes, nor an indication from economists of the Bank of Canada or the economic council as to how they feel on this. We do not expect you necessarily to accept our views.

The CHAIRMAN (*Mr. Cameron*): Would it be in order to suggest we file this as an appendix?

Mr. BASFORD: Could we please have the figures in respect of consumer price indices of countries that are not indexed?

Mr. HOLMES: It is the international monetary fund to which we suggest you refer, your own advisers.

Mr. LLOYD: On the question of procedure, I have no objection to these figures being included. I subscribe to your observation about interjections; but I asked for the opportunity to ask a supplementary question. All I ask the witnesses to do is that when they make a general assertion they give us to the maximum of their capability the supporting evidence which supports their conclusions. I am satisfied that every member of this committee will be mindful of the assistance we can obtain from economic experts in the Department of Finance; but I think the important thing is that when each witness makes a general assertion he substantiates that general assertion by specific evidence in respect of why he draws the conclusion.

Hon. Mr. CROLL: Mr. Chairman, I think the witness is on a little dangerous ground. I will give him an opportunity to correct himself if he would like to. I have had the opportunity of reading some of the briefs which have been filed. I see by looking at the brief of the Canadian Labour Congress, which has done some research on this matter of indexing, that they do not agree with you entirely. Appendix A is in great conflict with you; I think you should look at it and make sure. Both of you cannot be right.

Mr. POPKIN: I would like to file with the committee a booklet by a very eminent economist, Melchior Palyi, entitled "A Lesson in French Inflation". It is fully documented. It is the French history from 1914 to 1958 when they abandoned indexing. I am not suggesting their problems arose entirely from indexing; I am just saying that indexing has often become an accompaniment to problems of an inflationary nature.

Mr. KNOWLES: May I ask a supplementary question? When the witnesses express opposition to indexing, are they referring, so far as the Canada pension plan is concerned, only to increases in the pension after it is put in pay, or are they referring also to the escalation of the basis of the pension up to the time of retirement?

Mr. POPKIN: This particular discussion is mainly in respect of using the consumer price index for indexing the benefits. There are other objections to use of indexing in this particular pension plan.

Mr. KNOWLES: I will put my question another way. I realize you are opposed to increasing the pension by the cost of living index after the pension is put in pay. Are you opposed to the formula under which the wage rate is used to upgrade the basis of the pension at the time it is computed?

Mr. HOLMES: Yes. May I take this up? We are opposed to both. I think we tried to indicate in our brief to this committee that we feel the position of the older people should be given constant study and reports made on their income in relation to the income of the working force. The basic question we should be asking the dominion bureau of statistics is this: Are we keeping the incomes of our retired people at, say, 60 per cent or 50 percent of the incomes of the average of our working force, cutting out, let us say, very high incomes from that measure? This would certainly keep to the fore the problem of the old people so far as prices or wage levels, or productivity are concerned; and, so far as the social security plan is concerned, it would spread the effect of increased efficiency as well as the effect of inflation right through the entire older population on an even basis.

Might we also submit the basis for the figures which Mr. Popkin has given. The actual reference is the international financial statistics published by the international monetary fund, I think a month ago. We will submit this to the committee. We are quite satisfied you will not take our word for it. We respectfully suggest that you obtain reports from the Bank of Canada, or from whoever you wish on these points.

The CHAIRMAN (*Mr. Cameron*): The previous witness has filed with the committee a booklet entitled "A Lesson in French Inflation". Mr. Holmes now has filed international financial statistics, which is a very voluminous document. What is the wish of the committee in respect of these documents?

Hon. Mr. CROLL: When we are preparing a library for reference purposes, these documents could be included.

Mr. CHATTERTON: May I make a motion that a copy of each of these documents be made available to every member of the committee?

Mr. KNOWLES: That will do something about inflation.

The CHAIRMAN (*Mr. Cameron*): Would you undertake to give us copies?

Mr. BERRY: I am afraid I do not know where these came from.

Mr. KNOWLES: Might I suggest that our people study these and report back to us whether or not it would be advisable for us to have copies.

Hon. Mr. CROLL: If these are a part of our library, if a member wishes to examine these, he has an opportunity to do so.

Mr. BERRY: In respect of indexing, indexing again helps those who have the largest income. The $5,000 a year man can get $179 at age 65 from a combination of the Canada pension plan and the old age security. If the cost of living goes up 10 per cent, he receives another $17.90 a month. The little fellow on a pension of $50 gets $5 a month. This tends to compound the inequity.

I think we would contend what most private employers contend; that is, that they must try to cope with inflation, if it comes, in the most sensible way they can; but they cannot write the book for 20 years ahead with an inviolate formula.

The CHAIRMAN (*Mr. Cameron*): Mr. Gray?

Mr. BASFORD: Mr. Chairman, I was not finished.

The CHAIRMAN (*Mr. Cameron*): I am sorry.

Mr. BASFORD: I would like to ask some questions merely to clarify my own thinking. Is the purport of your brief that as of now a pension of $75 a month is adequate for someone at age 70?

Mr. HOLMES: We have made no submission to that effect at all. We have outlined to the committee a revision of old age security which we think would be more appropriate at the present time than adoption of the Canada pension plan. We have pointed out that our suggestion would cost about two thirds of the cost of the Canada pension plan. We have felt that the parliament of Canada with its adviser is in a better position than anyone else to balance on the one hand what are the needs of the old people as a group in Canada and what the working force of Canada is prepared to supply towards those needs. We are not in a position to form an opinion on that.

Mr. BASFORD: As Mr. Knowles has pointed out, in paragraph 62 and onward, you make no recommendation in respect of changing the existing $75 a month at age 70. I can only assume that your association with its great interest in the well-being of our elderly population must consider that adequate.

Mr. MONTEITH: Mr. Chairman, I object to this line of questioning.

Mr. GRAY: Do you not agree they are in favour of the old people?

Mr. MONTEITH: Certainly; we all are in favour of the old people.

Mr. BASFORD: I have drawn conclusions from the recommendations and I want to know whether or not my conclusions are correct.

Mr. G. E. BROWN: We have not tried to point out the amount that should be paid; that should be determined by the parliament of Canada.

We were trying to point out the areas in which the old age security plan as we see it today was deficient. In 1950 Mr. Holmes said that we suggested at that time that the old age benefits should be determined and become a right by age, rather than by the application of a means test, as had been the case before. This was a great step forward. The government of Canada, in introducing this bill which you have before you, has said that it is administratively possible to determine whether an individual under the age of 70 is or is not in the labour market. If he is in fact retired having attained the age of 65 we say then that his full old age security benefits should be available to him at that time because we know in our experience that there are many people who in fact retire under the age of 70 and have sought to level out their income from the date that they retired through the rest of their life by integrating their pension with old age security. In this way they have a higher private pension from the date they retire to the age of 70 and a lower private pension thereafter. This as we see it is the first deficiency in the old age security plan at it now stands.

The second was that it was dealing with individuals as individuals. It was ignoring the family. We know that it is not an abnormal situation in Canada to have a wife who is a year, or two years, or a few years younger than the husband. In such a families where the husband has retired, at that time would the family income from old age security is only $75 a month from the time he reaches 70 until the wife herself should reach the age of 70. In other words, here again there was a necessity of breaching the gap between the date of retirement and the attainment of the age of 70 of both spouses.

We in our recommendations—and I would draw this to your attention again—have suggested that where the individual man retires having attained the age of 65, and has a wife who is also under the age of 70, but over the age of 60, they be allowed a family income of $125 a month until she reaches the age of 70 and qualifies for her $75 a month by right.

If you decide in the parliament of Canada that this $75 should be something greater, than our recommendation would still stand, that the family income would be one and two thirds of (a); (a) being the income which you have determined for the individual until he is 70. That is what we have attempted to point out, and we have not been trying to discuss absolute amounts. We have been trying to make a suggestion that we felt would help to fill some of the deficiencies in the old age security plan as we have seen it in operation. Thank you.

The CHAIRMAN (*Mr. Cameron*): Thank you, sir. Does that answer your question, Mr. Basford?

Mr. BASFORD: Not really. I still presume there have been recommendations that $75 a month is still considered by the association to be adequate.

The CHAIRMAN (*Mr. Cameron*): Well, in view of what the last witness has said,—now, Mr. Gray.

Mr. GRAY: I would like to turn to something a little different for the moment. At page 4, in paragraph 11, you say:

> 11. Finally, the addition of the Canada pension plan to old age security would result in nearly one-half of the population having little incentive to supplement by private saving the retirement income to be provided by their government. This would be a large scale surrender of individual initiative and responsibility.

I gather that it applies to this: if the Canada pension plan as proposed in the bill before us comes into effect, the incentive would not be there for one half of the population to invest its savings in private insurance and pension schemes. Is that not basically what you are driving at?

Mr. HOLMES: Yes, do you want me to answer at some length?

Mr. GRAY: Do you agree?

Mr. HOLMES: That is right.

Mr. GRAY: Perhaps you could explain the statement made by Mr. Sharpe in the *Finnacial Times* of June 4, 1964, from which I read as follows:

> Fears that the Canada pension plan will hit private pension schemes were discounted last week by the newly elected president of the Canadian Life Insurance Officers Association, Mr. H. L. Sharpe.
>
> He said he was confident that the national pension plan would in fact bring more business to the nation's insurance companies.
>
> "State schemes tend to make people more pension conscious. That was certainly the less experience in the United States back in the 1930's when they launched their plan. That scheme sparked off one of the biggest insurance booms in American history," said Mr. Sharpe.
>
> He added that the government pension plan would give people a basis on which to build a better income for their old age.
>
> "Nobody will be satisfied by the amount offered by the state scheme. They will want to supplement it by a private insurance plan."

Is that not somewhat contradictory? Perhaps it would be more fair to ask Mr. Sharpe to comment.

Mr. SHARPE: I do not think it is necessarily contradictory. The reference relates primarily to insurance. I think the record has been that since the introduction of the social security scheme the life insurance business has boomed. At least this is the case in the early stages.

Mr. GRAY: Are you suggesting or are you in agreement that life insurance is a very important form of savings?

Mr. SHARPE: Yes, I would agree with you. But I do not see any contradiction about it. I think the introduction of a social security scheme would add to the sale of life insurance. I do not think it would hurt the sale of life insurance.

Mr. GRAY: It would hurt the formation of savings represented by life insurance, would it not?

Mr. KILGOUR: Mr. Sharpe's views in this respect are in reference to the Canada pension plan. Our business is going well, but it does not affect our critical analysis of this bill as a pension scheme for Canadians.

Mr. HOLMES: I think fully to understand our position the committee should keep in mind three points. First, no matter what kind o fsocial security plan, Canada pension plan, or old age security plan that the parliament of Canada adopts, I think you can count on it that the life insurance business with their field staffs will be endeavouring to persuade individuals and businesses to make additional provision for old age no matter what the plan, and that we persuade people to do this, and frankly our services are available to them for that purpose. Second, as Mr. Sharpe has said, a well-designed moderate plan of providing pension, we agree whole-heartedly, will encourage people to make additional provision. That was certainly true of old age security in Canada, and it has been true of old age security in the United States up to the present time. And third, and this is equally true experience, if the government program of providing a pension is too ambitious or if it is poorly designed, I can cite you instances of its discouraging additional family provision. In many cases the plan has ended it.

There are characteristics of the government plan which would seem to do this. We would cite the provision of very large benefits to many who are in a position to save for themselves. We think that would happen to some extent here.

Secondly if the administration and complexity is so great that private industry finds it too costly to attempt anything more, and if the plan changes steadily so that it is very difficult for a private pension plan to integrate with it, and to keep on living with it because of the constantly changing benefits, we do say to you that all these elements give us concern. We feel these elements are in this bill. But I think if the Canada pension plan is adopted without a dot or tittle of change in it, you can assume that we will be doing our very best to persuade people to provide for retirement at the age of 45, 50, or 55, but we may not be as successful.

Last May there was an international congress of actuaries in London when pension problems were discussed by representatives from ten different countries, and I read to you a very brief sentence.

Mr. GRAY: This is all very interesting, but what has it to do with my question?

Mr. CHATTERTON: Let us hear it.

Mr. HOLMES: I think it does. We have to persuade people to buy life insurance and annuities, and we have also to tell you honestly whether the particular proposal is helpful or hindering to us.

Mr. GRAY: Again I would draw Mr. Sharpe's attention to this article in the *Financial Times*. He could have been misquoted, but he seems to be referring specifically in the text to the Canada pension plan.

It seems to me to be a contradiction in terms for you on the one hand to say that the Canada pension plan will reduce the incentive to save and, on the other hand to say there will be a lot more insurance, which is a form of saving.

Mr. CHATTERTON: Mr. Holmes was going to read from the report.

Mr. AIKEN: Just because Mr. Gray does not like the answer that is surely no reason to stop it.

The CHAIRMAN: (*Mr. Cameron*): Mr. Holmes wanted to quote.

Mr. HOLMES: That is right.

Mr. Sharp of London, England, summarizes the situation from this point of view. He was talking about papers on the public pension plans of ten countries: Canada, France, Denmark, Germany, Great Britain, Netherlands, Norway, Sweden, Switzerland and the United States. They fall into three main groups, he said; those in which the state has taken over the greater part of the pension provisions, either directly or indirectly, Denmark, Germany, Norway and Sweden—and I think you can add Belgium to those; those where the individual employer still plays an important part, Canada, Great Britain, Switzerland and the United States; and France and Holland, where industry-wide schemes have been agreed between employers and unions. We do know of cases where the private pension business has been helped, but we know of other cases where the government has completely taken over the provision of pensions.

Mr. GRAY: What you have just said is only relevant in comparable schemes, is it not, and is not the scheme most comparable to this the United States social security system?

Mr. HOLMES: We have suggested to you that we are going beyond the levels of United States social security scheme.

Mr. GRAY: Yes, but I am speaking of the general structure.

Mr. HOLMES: I would have thought the proposal was closest to Sweden, but perhaps I am wrong.

Mr. GRAY: Would you say the United States social security system administration is more complex than that which is proposed for this system? I am sorry, I should put it the other way around. Do you suggest the proposed system of administration for the Canada pension plan is more complex than the administration for the United States social security system?

Mr. HOLMES: This is something we felt we could not very well benefit from. I have read the evidence on this. You did receive an answer from the department of revenue there indicating, I think, that they did not have the problem that is involved in the administration here. Perhaps I am wrong. I cannot compare the complexity of the two. I can see that the administration of this plan will be quite complex.

Mr. GRAY: The reason I ask is that it is my understanding that the United States social security system calls for administration that is certainly more complex than our existing old age security system.

Mr. HOLMES: Yes, for the old age security system that is so, without question. Your cost figures show this. Our old age security system is one of the most efficient and inexpensive ways of providing old age security in the world. Dr. Willard showed one figure. He showed the figure of one quarter per cent of the contribution, and another higher estimate was given by Dr. Clark who said it may be two fifths per cent. This plan is 2.8 per cent of the contributions.

Mr. GRAY: I gather that the relatively more complex—that is, more complex than the old age security—approach of the United States social security system has not hampered the increase of savings through insurance. That is right, is it not?

Mr. HOLMES: The insurance has grown. When the old age security system was put into effect in 1935 there was very little provision for pensions. Insurance has grown up in the United States, encouraged by social security. Of course, there is no indexing in the United States social security. There have not been continual changes.

Mr. CHATTERTON: Some of us—I for one—anticipating that we would close by 4.30 or 5.00 have made other plans.

The CHAIRMAN (*Mr. Cameron*): That is a matter I was going to bring up when Mr. Gray had finished his questions.

Mr. GRAY: I would like to have the right to finish. I do not intend to take any longer than other members have taken.

Mr. CÔTÉ: May I ask a supplementary question?

The CHAIRMAN (*Mr. Cameron*): Mr. Gray has not yet finished.

Mr. GRAY: You referred a moment ago to indexing. I am just curious whether or not indexing, being somehow a possible psychological spur to inflation, means that your association regards it as an appropriate anti-inflationary measure to hold down the income of retired aged people.

Mr. HOLMES: Do you wish me to answer?

Mr. GRAY: Yes.

Mr. HOLMES: No, I thought I made it clear that this did not enter into the picture at all. We do favour a continual and steady study of the incomes of old people in the light of inflation, of the growth in productivity, and also in the light of what they have been able to do for themselves, setting the levels in the light of those facts. I think our reasons for recommending against indexing are three in number. We do think it is tied in with inflation. We do think it complicates the plan and makes it difficult for private plans to live with it. We do think it is tied in with the fact that parliament 20 years from now will have to increase the tax without at the same time declaring an increase in benefits. All three of those things about the plan we think are bad.

Mr. GRAY: I do not know if this question was asked in this way. You produced for us a series of what I might call parallel facts, countries' rates of inflation and countries which also have indexing. What percentage of the inflationary situation in each of these countries to which you have referred would you suggest is linked directly with the index?

Mr. HOLMES: We can make no comment on that point. On that point we think your best advice would come from your own economists and the Bank of Canada. We are just calling your attention to two facts side by side and our feeling that it does add to the inflationary problem.

Mr. GRAY: It is just your feeling?

Mr. HOLMES: It is our judgment; let us put it that way.

Mr. GRAY: You cannot present to us any statistical information?

Mr. AIKEN: He did.

Mr. CÔTÉ (*Longueuil*): May I ask a supplementary question?

The CHAIRMAN (*Mr. Cameron*): Mr. Côté.

Mr. CÔTÉ (*Longueuil*): Mr. Holmes said they might have been in favour of the plan if it had not been so complicated, or something to that effect. Did you say that before? Did you say that after commenting on Mr. Sharpe's statement?

Mr. HOLMES: What I said was that a plan which was very complicated made it more difficult for businesses to supply supplementary pensions.

Mr. FRANCIS: That is a fair statement.

Mr. GRAY: I want to ask one last question if I may. On page 24 of your brief there is a series of criticisms of the economic report. I would like to draw your attention to criticism (c) in which you say that the report does not discuss the effect of the reduction on Canada's ability to repatriate ownership of foreign-owned enterprises.

You say:

> Funds for this purpose originate mainly through the accumulation of personal savings rather than from business saving or from governments.

It is not a fact that the funds of the companies you represent have been steadily increasing at the same time as the rate of foreign ownership of industry in this country has been increasing?

Mr. HOLMES: Yes. There is no relation between these two things. I can assure you, Mr. Chairman, that all assets and all increases in assets of the life insurance companies have been invested in Canada. I do not really see the relationship.

Mr. GRAY: Maybe it is something like the relationship between the indexing and the inflation!

Mr. KILGOUR: I can comment on that. I can say that $600 million a year will be taken out of the income of Canadians. Some portion of that—and none of us can with accuracy say what—would have been invested in Canadian enterprise. One can argue and debate whether a tenth or a third or a quarter would have been invested in Canadian enterprise, but certainly a new tax load of $600 million a year is going to increase by some degree the amount of money people are saving.

Hon. Mr. CROLL: It is 3.4 per cent. What does it amount to in total?

Mr. KILGOUR: It amounts to $600 million a year.

Hon. Mr. CROLL: The total percentage of the total invested?

Mr. HOLMES: It is reported as 22 per cent of the personal savings, and what we are pointing out to you is that the personal savings, rather than business savings, are the main source you must look to toward repatriation of outside enterprise. Business saving, for instance, within foreign-owned enterprise in Canada simply increases the foreign investment in Canada, I would say.

Mr. GRAY: If I may return to my point, let me first of all ask what percentage of the assets of insurance companies in Canada are presently invested in Canadian equity stocks?

Mr. HOLMES: In the neighbourhood of 5 per cent, I believe. I think, though, we should supply you with the total percentages, and I do not have them here. We can supply them to you. There is a very large additional investment in industry in Canada in the form of debentures. The truth is that it is difficult to obtain equities in Canada which are eligible under the Canadian and British Insurance Companies Act. I think the common experience has been that the few, shall we say, subsidiaries that have put stock on the market in the last year or so have ben oversubscribed to quite a considerable extent by the Canadian life insurance companies, and we have only received a small part of what we have applied for. Another major area in which our money is invested is in houses. Nearly half of company assets in Canada is invested in houses in Canada. And, if we invest in houses we have not the money to invest in equities.

Mr. MONTEITH: Mr. Chairman, this is a new subject; do you not think we should discuss adjournment?

Mr. GRAY: Mr. Chairman, I will be only a few minutes.

Mr. MONTEITH: You can wait with the rest of us.

Mr. GRAY: Then I will reserve my right to put questions when we resume.

The CHAIRMAN (*Mr. Cameron*): Your right is reserved.

Mr. Nix, who also is associated with this group, I believe, has something to say.

Mr. R. A. NIX (*Actuary, The Canadian Life Insurance Officers Association*): Mr. Chairman, I spoke with Mr. Munro and requested permission merely to file my brief.

The CHAIRMAN (*Mr. Cameron*): Then we will have Mr. Thompson and your group come back later on this evening.

We do have a free morning tomorrow. We anticipated a delegation coming but they will not be here.

Mr. TUCK: Mr. Chairman, we are in your hands. We would prefer to come this evening.

The CHAIRMAN (*Mr. Cameron*): I think, in fairness to Mr. Thompson, who was scheduled, we should hear him first. But, I think we will have a considerable portion of time in which to proceed with your group, and if we do not finish by a reasonable time tonight perhaps you could come back tomorrow morning at 10 o'clock. Would that be agreeable?

Mr. TUCK: Yes, but I had hoped we could get on this evening.

Mr. MUNRO: Will the Canadian Life Insurance Officers Association be coming back tonight?

The CHAIRMAN (*Mr. Cameron*): Yes, along with Mr. Thompson.

Mr. MONTEITH: Mr. Chairman, was it not your suggestion that we hear Mr. Thompson at 8 o'clock and then the Canadian Life Insurance Officers Association?

The CHAIRMAN (*Mr. Cameron*): Yes.

EVENING SITTING

TUESDAY January 12, 1965

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mrs. Rideout and gentlemen, we have a quorum and we will start our meeting now.

Our schedule of witnesses provides for the hearing of Mr. Thompson. He comes from Toronto. He has been retired for three years, but before his retirement and for many years as vice-president and treasurer he has been closely associated with one of Canada's largest life insurance companies. He will speak tonight as a private individual, but this background gives him special knowledge on the subject.

Mr. Thompson, you may know of the procedure that we are following in this committee that when briefs and material such as yours are submitted, they are circulated to all the members of the committee who then have an opportunity to read them. For this reason it is not considered necessary for the witness to read his brief. The witness is merely asked to give a summary of what is in his brief, to bring out the special points, and then be prepared to answer questions by the committee on the statements made.

Perhaps I should say that this material which has been submitted by Mr. Thompson has been sent around. The steering committee recommended that it should be incorporated in the minutes of today's meeting. Is that agreeable to everyone? I believe it is agreed.

Mr. Thompson, will you present your brief?

Mr. S. M. THOMPSON: Madam Chairman, Mrs. Rideout and gentlemen, as events keep cropping up so fast you may probably find that my presentation practically contains last night's paper. Fifteen minutes ago, as I dictated to my wife the last part of this brief, she exhaustedly said, "Well, that is that". It may therefore sound a little bit disordered, but it is documented as well as I could do it.

Madam Chairman, while it is true that until my retirement three years ago I had been the chief financial officer, that was my career. I want to identify myself. I believe my credentials entitle me to speak for the man in overalls and blue shirt. My father was a school teacher in Millbank, Perth county. I grew up in a rural environment. From the age of six all my holidays were spent on a farm. By the age of 15 I was fairly competent in farming. At the age of 16 I worked for hire for strangers. In 1920, after the war, and with nostalgic memories of many men and friends, I picked up my blanket and my grub and embarked on this old colonists' car. I went on one of those famous annual harvester's excursions to the west.

I think it is pertinent at this point to remark that some of the finest labouring men in Canada were on those trains. I had two buddies: One was from Quebec. He worked in a shoe factory, and he went west for six weeks—it was a $10 return ticket to Winnipeg and half a cent a mile thereafter. He left his job, which paid him $3.50 a day, for six weeks. The going wages of a competent farm labourer at this time were $6.50 less keep. He did not aspire to become an entrepreneur, but he was a very solid citizen. My other pal was a farmer —many of these boys were farmers. This chap came from the clay belt. He was a three seasonal type: In the winter he cut pulpwood, in the short season which they have in the clay belt he farmed, and then he boarded the train and made these wages. He established himself as a small farmer and steadily plowed that money into his business. That is why, ten years later, we lived in a house, about half a mile from the great railway marshalling yards at Dundas street.

Those boys were criss-crossing this country, seeking work which was not obtainable. They would live in those yards because we were one mile distant from the railway police who were there to meet them. In those days these people would understandably shunt from spot to spot because the railroads were full, the bivouacs under the railway bridges were full, and many of these people came into our house. I always sat down and talked to them. I identified myself with them because you are dealing here with human material. Gradually they became more and more desperate. That is why I say I identified myself with the overall and blue shirt people.

I think my credentials are satisfactory from the age of six to the age of 23.

I also had a very short sojourn in the war in France, but there my buddies were tinsmiths, boilermakers, and so on, because I was what is called colloquially a mutineer.

The first thing I want to do is to read you the first page of a letter to Mr. Guitard. This letter is dated December the 18. The first and basic submission was sent on the 28th. You had 45 days. I worked Mr. Edison's hours because, after having spent eight solid weeks last summer on the first actuarial report, this one cost us phenomenal work. Later events also caught up with me.

> Further to my submission to this committee, and in support of certain of my assertions therein, I am forwarding under separate cover certain documents or exhibits plus certain material in this letter, which I am duplicating, and 36 copies of it are also going forward under separate cover.
>
> At the outset I must reemphasize that in my submission I speak as a private citizen—I repeat as a private citizen and independent of any connection with the life insurance business—that the brief was prepared without their help and the contents unkown to them—until it was in your hands.
>
> However, I have spent 38 years in the employ of a fine life insurance company, the second largest Canadian life insurance company, for which I always have had, and will always continue to have, a deep affection.
>
> However, a few years ago Canadian Life Insurance Companies petitioned, and my company was opposed to it, the only Canadian company that was opposed to it, for an extension of their powers to enter the field previously rightly reserved to the trust companies, and in so doing asked and received the right to issue variable annuities and administer "segregated" funds—both being "inflation hedged savings" formula benefits.
>
> As in the case of Mr. Eckart of the Metropolitan Life who lost to the then President Shanks of the Prudential Life, my president lost to the others, and he had the very weighty and awesome responsibility because he sought, as I did, to decide what we would do in the face of the competitive positions that existed within our business. He decided that it was competitively necessary for our agents' arsenal to have this sinister "missile" in their kit, so sorrowfully and at the cost of a lifelong friendship we parted.
>
> I think I have made my point that I am independent.

I will further enlarge on this. This is why I left. It is typical of many hundreds of letters I have had and of thousands of discussions.

This letter is from Doctor V. Johnson, who is a neighbour of mine. His position is executive director of the College of General Practice of Canada.

> I have your enclosure on the Canada pension plan and I hardly know what to say about it. You state that our organization is staffed with career men and women who work in the money field.

I might say at this point that this is promotional material on my part because each one of these that I sent out—not having had any support, I might say, from the financial papers and the radio, in fact obstruction in certain instances—I said "It costs you a dollar. If you are with me, circulate this among your colleagues, among your staff and your clients." I sent it to this chap. He is in the educational business.

> This is not quite 100 per cent true. We use money to live on, but that is about all. This organization is 100 per cent educational, and we leave medical economics to the parent body of the Canadian Medical Association. When you talk about inflation and the cause of it you are in a field which confuses me. As we get older and I hope more mature we think we acquire a lot more wisdom about most things, but this, as far as I am concerned, does not apply to money and how it is controlled. When we consult bankers we find that even they do not agree, but I will agree with you that inflation is a very serious matter.
>
> Here I would like to say without criticizims anybody that I have felt that insurance companies have cheated me out of a lot of money over the last 30 years.
>
> I wasn't able to set aside much money annually when I was practising, but what I did set aside I put in life insurance and look how it has been devalued. It is one of the poorest places you could invest money. You can imagine how that hits me. I was the fellow who was supposed to earn the interest rate. The insurance company allowed nothing for inflation. Of course, you cannot tell if there is going to be inflation or not, but they could have made allowance in their premiums if they wanted to.

God forbid. He is right.

> But they did not so. One man standing up and roaring about 1955 could have stopped this thing. It is stopped today, as you will know, because of the price of sterling.

Do you know what inflation means to me? It means a story of a man who had recently been discharged from the Imperial army—this was back in 1920. His pockets were full of money. He was restless. He and a pal went to Austria, Germany and France and lived it up—wine, women and song. The women were not the tarts of Piccadilly; they could have been your wife or your daughter. After they had sold all their things that were marketable they had only one more commodity to market. That is what inflation is.

I want to read this piece.

Bill No. C-136, which has had its second reading, is the legislation which will implement the third and final version of the Canada pension plan, which version is fundamentally different in character and detail from the first version which was a pay as you go plan. The first version, during the transitory period of ten years, accumulated a relatively small contingency fund; the present version, together with the Quebec plan, will build up during the transitory period—10 years—a gigantic and almost incomprehensible fund, of $7\frac{1}{2}$ billion, all in the hands of the provinces, their municipalities and their bureaucracies.

It is not too far short of being one half of the total net debt of the government of Canada in 100 years of existence, including two world wars. That is the amount of money you will put in the hands of the provinces, bureaucracies, and municipalities.

Because these plans are compulsory on all employees, company president and office boy alike and their employer, with individuals and company equally liable under the law for non-compliance, the political, social, and economic implications stagger my imagination. Having voluntarily renounced a happy corporation association because of the inflationary aspects of this latest plan or plans, I am deadly in earnest in telling you that if I still had employee status, that I would find a legal method of preventing my company from making an obligatory deduction from any salary in defiance of this monstruous interference in my private rights as a citizen. If this be treason, then I salute George Washington!

In this last legal court of appeal, and I am glad to have this opportunity to appear in this chamber, an opportunity denied one James Coyne, but granted by the upper house—I salute the Senate—I speak for all Canadians, for all ethnic groups, in warning them not to permit this gamble.

Since England lost the 13 colonies, there were dreams of a nation. For, over 100 years ago men dreamed dreams, and then the founding fathers took a fantastic financial gamble to achieve the birth of a nation, by pledging their word, that in some fashion two shiny bands of steel would link two oceans. A handful of provinces, each at times with its own currency, or other approved currencies, Mexican silver dollars—the lot—their own postage but with some common custom agreements, undertook the gamble.

Today, in terms of money, this is the biggest financial gamble since confederation—$7½ billion is close to one half the net debt of the nation, after two world wars! And to what end—social security.

I would like to tell you what social security means to me. Right now there are three competitors in an olympic race—the United Kingdom, the United States and Canada; they all are in sort of an olympic race. Our friends to the south have given up temporarily. Our social operations are so far ahead of them, but we are dead even with the sterling people. If you pass this, we have won the thing; we will get a gold medal out of it; but you should see the bronze medal which has two sides; the other side of it has blood on it. The front side is as shiny as is our pride in our demonstrable concern for the unfortunates in our midst. But, the reverse is ominously dark. It even has some blood on it—that of a member of my family, a dedicated social worker in the field of retarded children. Many a night, because of a pregnant child of 12 to 16 years of age, she visited the homes. In too many cases, she found a home completely devoid of concern, in some the out and out ignorant but sly exploiters, living high on welfare agencies, unemployment insurance, and of low mentality, breeding like rabbits. She cracked, as do many in this business—at the complete futility of it all.

In the outports of the Newfoundland coast, they tell me that during the fishing season and while the fish are still running, the young men crewing with their fathers, knock off and stay ashore, to the utter bewilderment of the older men. So the youth explains this crazy "I'm allright Jack" world. He says: "Don't be stupid, dad. I've had it for this year. From now on the government cuts in. This way I make more money moonlighting—unemployment insurance, and who around here is going to inform—and they—the government—have a billion dollars. Get hep, I'm ahead, and you better be too. We don't like scabs and blacklegs in this village queering the pitch". So the old man stays ashore, spends more time with his elderly friends and his rum bottle, snarls at his wife who having no binding ties to this new and unaccustomed "hell", goes to St. John's where domestic help is scarce. The old man is unsalvageable, but the boy too finds life too boring so he goes to St. John's or more likely to the big lights in Montreal, and finds ample scope for his idle time in the many avenues open to him—narcotics, petty thieving which progressively becomes less petty—so the department of health and welfare, provincial and federal have a whole multiplicity of new cases and more and more costly financing to do.

But I was and am a staunch supporter of unemployment insurance.

I am thinking of these boys travelling on the tops of those cars. I identified myself with them.

Dr. Victor Johnston, who devotes a large part of his effort to youth delinquency says the youth of today is fundamentally as good as it ever was. So I asked, why so much hooliganism, senseless beating up of old people, crazy "chicken" daring car driving, and a 10 per cent increase in Metro's auto fatalities in 1964, narcotic addiction in teenagers, marijuana in the high schools, pregnancy of highschool girls—well, I think it goes back to birth. The squalling new born and the oldster demand one thing in common through life. Recognition. Failing it at home—a good home so-called, because father is too busy in the rat race of business, mother too socially preoccupied, junior as I did, goes to the poolroom. Affluent parents add fuel to the situation with overlarge allowances. There you have it. Impress the gang. Demand attention by becoming antisocial, if necessary. We did it ourselves. We were going to paint all the streets red, and then something inside us, which is a conscience, said we are hurting Bill White and the rest of them. The only distinction between you and I and an ape is a thing called conscience, and the church calls it the Holy Ghost.

So we have the other side. My neighbour in contrast, is an understanding colonel. His junior, aged 15, wants to get a car. Dad says O.K. Mother says her car needs a new clutch. So that summer I see that my neighbours are quite absorbed and they get the car running in the driveway because, unconsciously, he and they have a new aim in life, to drive a car as it were as if they were masterbuilders and that they were going to be triple "A" drivers. The other day he was walking on air, getting his driver's test, and as I came up in the taxi, I got a rundown on the magnificent things the automobile does for these youths, how they can cut driving casualities on the road, and about all the things that these people accomplish who are dealing with delinquent children. It costs you nothing in this upside down society. We pass collectively this personal basic principle along to somebody else. That should give a good chance to the Y.M.C.A., which played a big part in my life, really to function.

Simply to lavish the expenditure of money on social services is merely collectively to pass along your guilt to some individual area. Early one morning after a two hour bull session with my daughter, who is an expert on home behavior, I was terribly distressed. Why should the Mafia who were of no account in Sicily at all, and who were shining shoes before the Volstead act in the United States, get their tentacles in to the point of eight years, and suddenly it came to me that I was responsible. I had seen it and not recognized it away back in 1930.

I travelled in 1930 all through the United States, when the sole and only subject of social intercourse was the bootlegger. But each night, along the Erie and Ontario shores on the Canadian side our customs officers perfectly legally cleared immense cargoes of whisky to such unlikely destinations as Cuba, the Far East, and South America. But now there is such a thing as an area of dominion-provincial regulations. Let us enact a law whereby you cannot have a craft unless it be seaworthy. Why not put a little bit of common sense into it. We were dealing with a friendly country which almost brought them to the brink of ruin, because I knew Chicago at that time. But now, how many years ago was it? Thirty, and last year was 1964, making it 34 years ago. The thing has come home to roost. In the year of Canada's humiliation, namely, 1964, in December thereof, the Mafia was in charge or close to it. Unless the next man in this country cleans out the Augean stables of Canadian politics, the two major parties of this country, there is no hope left for democracy. Many people have laughed when I said this. I might have been caught in the cross fire of machine guns on LaSalle Avenue, but mostly they operate on the south side. Do not laugh at them.

I remember when they had those big funerals. I have seen them. There would be the boys with the striped pants and the top hats linking arms with the local politicians and elected judges. Who were they following? A man who was shot three days before by their very own henchmen. You know what was said three or four nights ago by the R.C.M.P., that you might very well end up at the bottom of the river. Do not laugh at this. This is serious. It has a hell of a lot to do with the pension fund and with social security. Now I want to read you two letters.

The CHAIRMAN (*Hon. Mrs. Fergusson*): This is all very interesting, and I am sure we have learned a great deal from your presentation, but do you not think that you are straying from the subject referred to this committee?

Mr. THOMPSON: Thank you. On the other hand I am not straying. I am talking about the Holy Grail of social security upon which you have advocated the passage of this bill. You can invoke closure on me, but I suggest that you first take a poll.

The CHAIRMAN (*Hon. Mrs. Fergusson*): No, I do not think it is necessary. You may continue.

Mr. THOMPSON: I have exactly 25 minutes and I shall disappear from here forever, but I shall be working with my friends outside. Do I have my day in court or not?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Oh, yes, certainly.

Mr. THOMPSON: Because if not, I shall come to the pertinent point. But I would like to finish in order. I have put in dozens of hours in preparation.

The CHAIRMAN (*Hon. Mrs. Fergusson*): We realize that you have worked very hard on this.

Mr. THOMPSON: I have read myself out of this business in the three most glorious years in the business, and I have fought for this country at 17 years of age. Do I have my day in court, such as was denied to my friend Jimmie Coyne?

The CHAIRMAN (*Hon. Mrs. Fergusson*): I did not intend to stop you, I just thought you were straying a little from the point. But you may continue.

Mr. THOMPSON: I speak as a prisoner in the dock and as my own lawyer, but if necessary I shall bow to you. But I think it would be a fatal mistake if you stopped me.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I have told you what I thought. You may continue.

Mr. THOMPSON: Thank you. This is from a very old friend. It says: Thank you for sending me a copy of your pension scheme. It took me two or three readings to digest it. My congratulations to you on your efforts. It is indeed concise, interesting, informative and extremely well thought out. It is written by an F.S.A. It outlines the facts I have never heard of before. This government of ours works in wondrous ways, whether it be for the benefit of the taxpayer or otherwise; but the ultimate result is the same, in our having to pay for the astounding results eventually. With all apologies to the younger generation I think it will take some planning to put it into workable shape if ever. The question is: Will it work: If this Canada pension plan comes into effect, I guess it will be a case of going along with it on its careless way.

This is a letter from my old employer, one of the victims of the governor of the Bank of Canada's handling of inflation control between the years 1947 and 1951. I think it is pertinent. It reads as follows:

> I have been taking your "Pension Cake" out of the cupboard at intervals and looking it over, peeking at the filling between the layers

and admiring the skill with which it is turned out—and it gives me a queer feeling of remote unreality about the whole problem—of course I am not in any danger of being 'over-pensioned' what to do with my income is as simple as taking it in and paying it out, so I could be out there on a private satellite I am so detached!

But what of Billie and her husband and their three children—is something being set up with such evident determination by all those people who "knew not Joseph" down there at Ottawa, which will be a delusion and a snare? Miss LaMarsh looked so pleased at all the others admiring the baby in today's cartoon in the *Globe and Mail!* Even little pigs are so cute looking when they are young—and they make it possible for some people to live high on the hog—later—(thinking of those cases you cite—and you getting $720 per annum for the next 37 years, assuming that you live to be 100—and you know better than most people that hardly anyone dies at 100—so goodness knows how much longer you go—and all at a cost of $480!)

I would like now to read about the great debate. This bears an imprint in Hebrew of the famous Bank of Israel. It is not a public document except for those who attended the Tokyo meeting. I think you will find it in Mr. Rasminsky's office and in the office of the Minister of Finance. This document records the greatest debate in all history in the financial world, because never before have we debated the question whether inflation is commensurate—whether group inflation is compatible with sustained economic growth. It is 57 pages long and I have no intention to inflict it on you. I would not think of it. I want to give you the highlights of this debate. For the affirmative there were some of the greatest people in the world, supposedly. There was Douglas Dillon for the affirmative. The man who is the head of the World Bank, the head of the IFC, the head of the other associated one—the tops as it were—supported him. I think I can remember those who were on the other side. Opposed to them were the common market people. There was Pierre Schweizer for one; the head of the Bank of France opposed. With that Gallic clarity of thought he demolished the argument. It went on and on, and while that was going on—just think of the context in which this was proceeding—the plaintiffs had lost $8 billion the year before in money taken out of the United States. That is what Dillon stood for. This was what I call total irresponsibility in handling of fiscal policy with great inflation at home and causing the greatest embarrassment in the world community. So this was number one.

Canada did not participate in this debate because, whatever you say about the United States, we are two and a half times as profitable, so it was just too much to put them on.

This meeting took place in September. In August there was a gradual run developing on sterling, so the International Monetary Fund put up $1½ billion. It kept on going smartly all this time. I must say there were a couple of other poor people speaking on both sides, the poor people who wanted a stable dollar so their bills of lading could be honoured. They were afraid of being swindled. Then you had the same countries saying "for goodness sake don't cut us off from government aid."

The prime mover of this thing, Dillon, just put in a little bit of blackmail right off the bat. He said, "Don't worry about the United States; we can stop this business"—what do you call it when you are short foreign-wise?

Hon. Mr. CROLL: Balance of payments.

Mr. THOMPSON: Yes, the balance of payments; thank you very much. You know, I am getting just a little weary after all this heavy going.

Anyway, these fellows made a motion, as it were, and they said, "Now, you fellows who insist on having this chronic balance"—I am talking, you know, of the good things, balanced budgets plus—"for goodness sake don't stop the progress of the world, just feed this back to us." Who are they saying this to? They are saying it to the commonwealth countries who, first of all, have set an example to the world in regard to expansion of trade; and, secondly, they have all suffered in two wars more than any of us. There has not been a bomb dropped on this continent yet that I know of. These people have gone through two inflations. The German fellow had pleaded with Mr. McCloy when the Marshall plan was available saying, "For goodness sake give us a sound mark. Help us to get a sound mark." These are the renegades. Whenever you are in trouble and your conscience hurts you, look around for a goat. Sure enough, *Punch* has a great cartoon of the poor little fellow down there, the culprit, and here, of course, de Gaulle and the others as if they are sinners.

Can you pervert truth to that degree? That is enough of that.

I want to read some correspondence with the Prime Minister. This first letter is written on February 23 to the hon. Lester Bowles Pearson. I quote:

> Prior to retirement, I was Vice-President and Treasurer of the Manufacturers Life Insurance Company—

Mr. MUNRO: Madam Chairman, may I interrupt? I do not mean any disrespect to Mr. Thompson at all but I think it was clearly set out in the letters from the clerk to all those wishing to present briefs that we should have their briefs and all their submissions. I am sure we have all read what Mr. Thompson had to say, and it is all going to be in the record. On that basis, we asked all the witnesses if they would be kind enough just to summarize their remarks in order that the committee would have an opportunity to ask questions.

Even a brief the size of the brief of the Canadian Life Insurance Officers' Association earlier on today was presented without taking much time, and they were good enough to make themselves available to answer the committee's questions. They did not take nearly as long to present their brief—and they are a whole association—as this witness is taking to present his.

Mr. THOMPSON: I am just covering their ground, of course!

Mr. MUNRO: I mean no disrespect whatsoever to Mr. Thompson, but I think he should have to subject himself to the rules by which all the others have indicated their willingness to abide.

Hon. Mr. CROLL: Mr. Thompson said a few moments ago that he would take 20 minutes. He said he would be finished at nine o'clock. I think we ought to listen to his presentation until nine o'clock.

Mr. THOMPSON: Yes, and I can write my recommendations.

Now I will speed up and continue to read from the letter to the Rt. Hon. Lester Bowles Pearson:

> In the press of February 21 you are reported to have "told the house that only about 30 per cent of Canadians enjoyed the benefits of private pension plans", although in August 1962 the Canadian Life Insurance Officers' Association stated that at that time, 2 million Canadian employees were so covered which, related to Canada's current work force of 4,650,000 indicates a 43 per cent coverage.
>
> You are further quoted as saying: "The urgent social need surely is to provide for the other 70 per cent, to provide in a responsible way for the 70 per cent who are not now covered".
>
> Facts contradict this statement as set out in my analysis of the Canada pension plan sent to you, your Minister of Finance and your Minister of Commerce, under the caption "Pension Cake".
>
> As stated therein, there has been an immense improvement in the lot of the helpless aged since 1952, the date of the passage of our present old age security legislation.

> Prior to that date, one out of every two persons aged 70 or more required and received "means-tested" government assistance—the bitter fruits of inflation.

Which again was due to our own Bank of Canada's governor at that time not being apt enough at his job.

> But thanks to OAS and benefits by "right" in increasing amounts, by 1962 less than one out of ten needed additional assistance in this age group. Today with benefits at the $75 monthly level, presumably this ratio has shrunken still further. Having in mind that there will always be needed some special assistance for the more unfortunate, nevertheless I am sure that most would now agree that OAS is now fulfilling its 1952 stated objective, viz. to place such a floor under private savings, that they together with OAS would give the most adequate security for the greatest possible number of Canadians.

To show how apt this statement is, you heard Mr. Holmes this afternoon say that life insurance companies did support the old age security scheme, and they did on the basis of this pledge; it was never designed to say that so much a month was adequate. It was a case of so much plus private savings would give the greatest benefit to the greatest number of people.

> Already old age security in Canada gives greater dollar benefits on the average than does social security in the U.S.A. By "right" all persons in Canada aged 70 or more, receive $75 per month as pension for life, and in the case of husband and wife both qualifying, $150—while in the U.S.A. $68 and $102 respectively, but means-tested at ages 65 and 72 at which latter age payments become a matter of "right". These were the average payments under SS in 1962.
>
> In my submission to the royal commission on taxation, I drew attention to the fact that the proposed "contributions" under the Canada pension plan were taxes, taxes on the work force and employers in favour of pensioners. I estimated that CPP would immediately increase such taxes by ½ billion dollars annually.
>
> But currently all such welfare taxes paid in Canada take 13 per cent of disposable income as against 7 per cent in the U.S.A. Therefore, in this segment of taxes, our costs are nearly double those of the U.S.A., a very sobering thought for a country vitally dependent on foreign trade—and in an exceedingly vulnerable position on "balance of payments".
>
> The Canada pension plan is fraught with great danger. I therefore plead with you to show the high degree of statesmanship which won world wide recognition, by holding public hearings on this subject similar to those held prior to the enactment of OAS. In the actuarial field alone, Canada has some of the most knowledgeable experts in the world on this subject. To refuse them a hearing is folly.
>
> Equally important is the fact that the enactment of a universal wage-related plan, is of paramount importance to the provinces. Harmonious relationships with them in this, and indeed all other spheres, must be maintained. We simply must not "balkanize" ourselves. Premier Robarts similarly pleads.

I made a mistake in that letter and followed it up by a letter which corrected the arithmetic:

> My apologies to you. In my letter to you yesterday I mis-stated Canada's present working force at 4,650,000 instead of 6,350,000, the latter figure being that used in my paper criticizing the Canada pension

> plan of which you have a copy. Consequently your statement that "only about 30 per cent of Canadians enjoyed the benefits of private pension plans" is correct.
>
> But I had intended to point out that group pension plans are only one of many ways in which the working force, employees and self-employed are currently providing for their old age.
>
> They own individual deferred annuities, individual permanent-type life insurance policies, bonds, stocks, real-estate, and in the case of the self-employed, doctors and dentists own their practices, small businesses and farms by other self-employed.
>
> There is no way of knowing whether these savings plus old age security will be sufficient, but present evidence is that they are, when we consider that less than 10 per cent of the helpless old aged, viz 70 or over, need supplementary assistance.

The Rt. Hon. Lester Bowles Pearson writes me on March 3, 1964, saying:

> Thank you for your letter of February 23 and 24, giving me your views on the Canada pension plan.
>
> After the introduction of the pension plan legislation in parliament, it will be fully studied by a parliamentary committee. The present legislation includes revisions of the original federal proposals, which were made following consultation with the provinces. These proposals will be fully studied by a parliamentary committee. The committee will have full power to hear the advice of interested organizations and to make any recommendations, of principle as well as of detail, concerning the pension plan, including, indeed, the recommendation, if it so wished, that the plan as proposed should be fundamentally revised. Such an inquiry provides full opportunity for the hearing of expert opinions, in addition of course to the expert opinion that has gone into the framing of the government's proposals.
>
> I am confident that by the time the final decision is made, this matter will have received the especially intensive and prolonged public discussion that its importance merits. I appreciate your concern for the public interest in this respect.

That is followed by a telegram. I quote:

> On March 3 this year your letter concluded "I am confident that by the time the final decision is made (on the Canada pension plan) this matter will have received the especially intensive and prolonged discussion that its importance merits." Todays newsbroadcast says public hearings joint committee commence January 12 terminate January 22. Eleven days for the public to voice their objections if any to the biggest financial proposition that Canada has ever faced. Are you going to permit the monumental mistake of invoking closure on those citizens who may not share your views on the beneficence of this legislation. As a pure guess I would estimate at the very minimum thirty days of twelve hour hearings.

And that was signed by S. M. Thompson.

Miss LaMarsh will not have time to read her voluminous promises. I bow to your closure.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you very much Mr. Thompson.

Mr. THOMPSON: I am not through yet, but if you say I am through—

The CHAIRMAN (*Hon. Mrs. Fergusson*): It was you who suggested 25 minutes.

Mr. THOMPSON: Does one have to be bound by what is one's estimate?

I will read Miss LaMarsh's wire and I will read one letter to Premier Bennett.

Hon. Mr. CROLL: It is up to the Chairman.

Mr. LLOYD: Mr. Chairman, perhaps it may not be the popular thing to do but I must insist that the witness has not dealt at all with the subject matter. He has been very entertaining. I have enjoyed hearing him. But, Mr. Chairman, there is no relevancy to the subject matter except a broad dissertation against inflation. I understand what he is getting at.

Hon. Mr. CROLL: Madam Chairman, the witness has asked to read three wires and a letter and is then prepared to conclude. Why should we not allow him to do this?

Mr. LLOYD: But, surely our tolerances reach a breaking point.

Mr. MONTEITH: Madam Chairman, the witness still has five minutes according to his first estimate of 25 minutes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I ruled he could continue.

Mr. THOMPSON: Well, you stop me if you think I am going too far.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I hope you will bring yourself back to the point.

Mr. THOMPSON: Madam Chairman, it will be very much to the point.

I want to finish up this closure business. This is a wire from Miss LaMarsh, which reads:

> Reurtel concerning Canada pension plan there has been no suggestion to my knowledge that public hearing of joint committee will terminate January 22nd. As you know Canada pension plan was outlined in white paper early in August it has been debated in House of Commons on first and second readings joint committee has met for several weeks receiving evidence and exclamatory information including actuarial report and economic analysis more than six hundred pages of evidence and information now in minutes of proceeding. Joint committee agreed to meet January twelfth to January twenty second to begin consideration of briefs and representation. This period will only permit part of the briefs to be presented. Presumably the committee will hear remaining briefs at future dates to be determined by the committee. After all public hearing are concluded committee plans to return to further detailed consideration of the proposed legislation. Hope this clarifies the question raised.

The next thing I want to refer to is a letter under date of December 14, 1964 addressed to Premier Bennett of British Columbia, which reads as follows:

> Premier Bennett:
>
> For 25 years I was chief financial officer with Canada's second largest life insurance company—and retired 3 years early because I would not compromise and accept the proposition that "creeping inflation" was compatible with sustained economic growth. I am presenting a brief to the joint committee on the Canada pension plan, where unless I am debarred, will give me an opportunity to warn the 6,350,000 members of Canada's work force, the mortal peril to them of the heavily funded CPP which money will be in your hands and those of other provincial bureaucracies to use without restraint in any direction you may favour.
>
> Thank you for your frank and revealing statement, page 15, *Globe and Mail*, December 14; "Premier W. A. C. Bennett of British Columbia made it clear his province would not follow Ontario and Quebec out of

the federal plan. We believe, says he, in co-operative federalism and we intend to co-operate with the federal government in the pension plan" he said.

Why wouldn't you? You are the man who believes in decentralized monetary control, but just how we Canadians remain a nation under these circumstances is beyond me. You are the man who arrogantly challenges the Senate of Canada to report negatively on your application for a provincial bank under the charter of the Bank Act.

Judy LaMarsh warned us all 15 months ago that a funded plan—a funded "forced savings" federally or provincially administered government plan would lead to a fascist state. Do you deny this. I expect an answer—So far, no medium of communications has dared to print my views supporting or denying this my personal view and that of Miss LaMarsh.

But, unless I am debarred, I will have an opportunity of expressing these views when I speak to my submission before the special joint committee on the Canada pension plan, so in fairness to you, I make my position clear now—as indeed I intend to do to each province—by sending copy of this letter to all provincial premiers—for all are open to the same charge—excepting your application for a provincial bank.

Yours truly,

(Sgd) S.M. Thompson, F.S.A.

May I say at this point that there has been only one premier who replied, and it was a very friendly reply. I will not read it because I am not allowed to do so. But, the person in question is Premier Lesage. Not one other premier has replied.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you very much, Mr. Thompson. I would like to say at this time that I take very strong exception to your use of the word closure. Neither I nor any members of this committee suggested such a thing, nor have we brought up such a word. But, several members, as well as myself, have tried to bring to your attention the fact that you were straying from the subject matter.

Mr. THOMPSON: I was referring to the 11 days; it had nothing to do with tonight.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I thought you were referring to tonight.

Mr. THOMPSON: No, the 11-day period. What is your schedule?

Hon. Mr. CROLL: We have a very full one.

Mr. THOMPSON: Once you finish on January 23 or January 24 is that the end?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Not necessarily. If we have more briefs to hear we will continue to hear them.

Mr. THOMPSON: I am very pleased to hear that. I will withdraw all remarks in respect of closure.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you very much. Now, at this point our witnesses usually subject themselves to questions.

Mr. THOMPSON: Go ahead.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are there any questions that the committee members would like to address to this witness? I believe there are none. Thank you very much, Mr. Thompson. We appreciate that you have done a great deal of work, and we are tremendously interested in this matter.

Mr. THOMPSON: What I wanted is for my grandchildren not to have to pay my pension.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I believe it was understood that if some time was left after this presentation we would continue with questioning the Canadan Life Insurance Association. Mr. Sharp and Mr. Holmes, would you please approach this table.

Mr. HOLMES: Madam Chairman, Mr. Kilgour was not able to complete his answer to a question. Could he speak on this matter at present?

Mr. CHATTERTON: Madam Chairman, on a point of procedure, I understand that if we do not finish tonight with these gentlemen we will have another chance tomorrow. Is that correct?

The CHAIRMAN (*Hon. Mrs. Fergusson*): If that is what the committee would like and if the witnesses are able to come tomorrow.

Mr. CAMERON (*High Park*): I have spoken to the delegation and they told me they will be here tomorrow morning if we require them.

Mr. MUNRO: It is very good of them.

Mr. KILGOUR: May I speak to this point now? This afternoon I was caught off guard in being unable to answer a question put by Mr. Lloyd concerning facts in relation to a statement I made about the Atlantic provinces. I have since found the information. It appears on page 380 of the proceedings of this committee. It is a statement made by Dr. Willard, and I quote:

> A second point I wish to make is that the impact of both the age reduced flat rate and earnings related benefit must be considered together in assessing the effect on assistance in any area. The flat rate benefit does have important redistribution effects for the Atlantic provinces. For instance, in 1962-63, old age security tax revenues in those four provinces amounted to about 3 per cent of the revenue collected, while old age security payments represented about 10.7 per cent of the total payment throughout Canada.

I am glad to be able to document the source of my statement.

Mr. LLOYD: Thank you, Mr. Kilgour.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I think Mr. Gray had not finished with his questions.

Mr. GRAY: Madam Chairman, I believe that when we adjourned I was asking the witness what percentage of the assets of insurance companies in Canada are invested in Canadian industry.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I did not hear your question, Mr. Gray.

Mr. GRAY: I said that I believe at the time we adjourned I had been asking Mr. Holmes what percentage of the assets of Canadian life insurance companies are invested in the common shares of the Canadian industry.

Mr. HOLMES: I had answered this question to some extent. I offered to get more precise figures if the committee wished. I do not know whether some of the other members of the delegation would like to supplement my answer. I gave an approximate answer and offered to get exact figures. This is my recollection.

Mr. GRAY: I see your colleague is anxious to say something.

Mr. TUCK: I thought I might refer the committee to rather detailed information on the common stock investments of the life insurance companies which was given by the superintendent of insurance to the standing committee on banking and commerce in connection with Bill No. C-123. This is the bill which has been reported out of that committee and awaits consideration back in the house. I believe he gave quite detailed information, and I know that in that bill there are some provisions that the Minister of Finance hopes will operate to increase the ownership of equities by life insurance companies. The changes in the legislation relate to both the eligibility tests for common shares, it broadens them considerably, and also to the basis of valuation of common shares in the annual statements of the companies to the superintendent of insurance.

I think the only other point I wish to make on the rough 5 per cent figure of the current investments in the companies in equities is that this is based on book values; market values are greater.

Mr. GRAY: Would you agree that even at market value it would not be equal to the amount which insurance companies are presently eligible to invest in common shares under the existing law?

Mr. TUCK: In some companies, sir, the market value is up to the present limit.

Mr. GRAY: But in many it is not.

Mr. TUCK: In some it is not.

Mr. GRAY: So that while the percentage of ownership of the secondary industry in Canada has been going up, the life insurance companies have not even used their rights under the present law to counter that trend by buying equity shares of Canadian companies.

Mr. TUCK: Mr. Holmes has explained why the companies have not put larger amounts in common shares than they have done up to now, and I do not think I have anything to add to that.

Mr. GRAY: So that actually, taking into account the changes in the legislation to which you have referred and which have recently been considered by the banking and commerce committee, it may very well be that in spite of the Canada pension plan the ability of life insurance companies at least to invest in equity shares of Canadian companies will increase and possibly not decrease as was suggested in this implied criticism of the contents of the economic report.

Mr. TUCK: The ability of companies to invest depends on what money they have coming in.

Mr. GRAY: Do you disagree, sir, with Mr. Sharpe with respect to the quotation I gave from the *Financial Times* about what will happen if the Canadian pension plan comes into effect?

Mr. TUCK: I think that if the Canada pension plan comes into effect, it will result in a downward trend in our pensions business.

Mr. GRAY: You do not agree with Mr. Sharpe?

Mr. TUCK: Mr. Sharpe has explained that he was speaking of our life insurance business. My answer to your question relates to pensions.

Mr. GRAY: Did that happen in the United States?

Mr. TUCK: Mr. Holmes explained that in the United States the act was passed in 1935, and there were too few private plans at that time to have an impact. I do not think the analogy is correct. If you look at Sweden you will find there was quite a dip in the growth of assets of the life insurance companies.

Mr. GRAY: Is it true that percentagewise there are not so many private pension plans here because over 70 per cent of our work force are not covered by private plans?

Mr. TUCK: We do not think the 70 per cent figure gives the whole story I think one of our group has information on that.

Mr. HOLMES: I wonder if Mr. Linnel could speak on this. We realize this 70 per cent figure comes up in discussions of the situation. We think the committee should look at the problem, and this is an area where we feel you should secure more information.

Mr. J. M. LINNELL (*Group Manager, The Standard Life Assurance Company, Montreal*): Madam Chairman, gentlemen, the 30 per cent applies to the work force in Canada, which includes the unemployed as well as the employed, the self-employed, the unpaid family workers, farm workers, and the like. It does not only apply to employees paid by wage or salary. I do not think you should expect the self-employed to be included in employers' pension plans. You cannot include the unemployed, you cannot include the unpaid family workers. If therfore you correct the figure of the work force to the figure of employees, you get a much lower denominator, and I think you would find that for employees in paid employment the figure is at least 50 per cent, and not 30 per cent.

Mr. GRAY: In other words you are wiping out all these other groups, the self-employed, the unemployed, and people working at home.

Mr. LINNELL: I am not wiping them out; I say the figure of 30 per cent is not a relevant figure.

Mr. KNOWLES: Do they not get old also?

Mr. GRAY: Do these people not need support?

Mr. LINNELL: Yes, but in criticism of private pension plans—which I think is the criticism here—I do not think you can include the unemployed and the self-employed in employee pension plans.

Mr. HOLMES: We certainly do not. There is nothing which is reported as a pension plan on a single self-employed man. He may have an annuity or a pension with us, but he is not reported in a pension plan.

Mr. GRAY: Does this percentage not refer to the labour force?

Mr. LINNELL: Yes. According to the bureau of statistics the labour force includes, as I said, the unemployed and the self-employed and all other persons who are able to work.

Mr. GRAY: This is very interesting because I believe earlier this afternoon another of your colleagues was saying how much he liked the operations of the bureau of statistics and their definitions. However, you do not agree with their definition of the labour force.

Mr. LINNELL: They define the labour force and I think that the definition is used by many countries. It is an agreed definition of what is a labour force. However, that is not exactly the same thing as employed persons.

Mr. GRAY: No, but when I referred to the 30 per cent I was referring to the labour force. We are in agreement on that, I believe.

Mr. LINNELL: Yes.

Mr. HOLMES: I would suggest that in looking at this question whether it is a higher figure than we think it is, the committee should bear in mind that a very large proportion of this labour force to which you are referring, which numbers somewhere around 6,800,000 or in that neighbourhood, is at the present time under 30 years of age. It is quite true that the Canada pension plan is proposing to bring in people at 18 years of age. We find that the young ladies which some pension plans bring in do not get very enthusiastic about pension plans until perhaps they are 30 years of age. There is a very large fraction of this labour force about which you are worried which is in the lower age groups. It is quite true that a much smaller proportion of the people of younger ages are voluntarily in the pension plans. I would suggest that what your committee really needs, so as to size up this problem, is to find out what proportion of the employed labour force—that is the employees of the employers—between the ages of 45 and 65 is not covered by a pension plan and looking forward to a pension. This information has never been obtained and yet it is a very important piece of information.

Mr. GRAY: Are you suggesting that in firms who have plans offered by your company you permit people under 30 years of age not to be included?

Mr. HOLMES: The individual employer determines the role of his own plan, and we will supply him with the service of a pension plan. Speaking of one firm, our own firm, the pension plan does go down to any age, 15 or 17, but this is not true by any means of all plans. The young ladies in our pension plan treat their pension plan during those early years more in the light of a savings fund, under the present situation, than a pension plan. I think that—

Mr. GRAY: But they participate?

Mr. HOLMES: Yes, but they take their money out when they marry, as most do. I am not quite certain how happy they will be about the money going in to the proposed plan for, let us say, five or seven years to provide a very small death benefit or, if they remember to apply, a small pension 40 years later.

However, all I am saying is that the committee in sizing up this situation needs to remember certain factors about this labour force of 6,800,000 odd.

Mr. GRAY: Would you then suggest it would logically follow that young ladies and people under 30 should not have to contribute to the old age security fund?

Mr. HOLMES: The old age security pension?

Mr. GRAY: You say that to look at the labour force you should include people under 30; should you not include them in figuring out what the labour force is?

Mr. KILGOUR: May I comment?

Mr. GRAY: I would like to finish my question. I would have been interested, on an earlier occasion, to hear what Mr. Sharpe had to say when he referred to his article, but you were kind enough to interrupt.

Mr. CHATTERTON: On a point of privilege; surely if another member of the delegation wishes to reply to a question or make a comment, he should be allowed to do so.

Mr. GRAY: But I had not finished putting my question. Once I finish I am not too concerned which of the witnesses before us answers, but I merely wanted the opportunity to complete my question.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Will you complete your question and one of the members of the delegation will answer you?

Mr. GRAY: You were suggesting a very interesting proposition; that is, that in determining the number of people who are properly covered by existing plans, and so on, it was not useful for us to look at young people under 30.

Mr. HOLMES: No. I was saying that the area you should look at primarily if you are testing the question of to what extent the private pension is meeting the problem of additional income in old age security, the critical area is the years, let us say, from 40 to 45. I was simply explaining certain facts about the labour force as was Mr. Linnell. However, in respect of whether people at age 18 should be brought in to pension plans, our own firm obviously thinks they should. Other firms do not agree. Surely the important question is, in respect of people from age 35 to age 65 as they approach retirement, is a serious effort made by industry to provide an additional pension for them? That is all I was saying.

Mr. GRAY: Would you consider it advantageous to give these people under age 45 opportunity to contribute to a pension plan to build up retirement benefits?

Mr. KILGOUR: I would like to comment on the two points that were made. There was some inference that we contend that young women do not like contributing to old age security. You invited that question; you said you feel young people should not contribute to old age security.

Mr. GRAY: No. I said it appeared to me from what Mr. Holmes said it would follow that you should also argue that people under 30 should not contribute to old age security, because they really are not interested in pensions at that early age.

Mr. KILGOUR: Young women who enter the working force contribute and then upon attaining age 70 are entitled to $75 a month if they never work again; but during their working years they have contributed to this old age security which they, themselves, will enjoy. If you turn to young women today under the Canada pension plan, they are an unhappily treated group. If you take a young woman who begins work at age 20 and works for five years—and she might be considered typical—if she does not again enter the labour market her benefit at age 65 under the Canada pension plan will be $6.17 a month, if she earns $2,400 a year during those five years. If that same money were invested in Canadian government annuities she would have had a pension of $16.34 a month, or nearly three times as much. You might take a case of someone who works longer, a woman who begins at age 20 and works for ten years earning an average of $3,000 per annum, and who withdraws from the labour force, marries and has a family. At age 65 she will be entitled to $15.43 a month. Had the money been invested in government annuities she would have had $40 a month.

I think you can very fairly say that the young woman who plans on working for a few years like that is going to fare very badly under the Canada pension plan. Under social security, whether she works or raises a family, she would get $75 a month. Under this she will almost invariably get less than if she had been permitted to direct her own money for her own savings.

Mr. GRAY: The $6.17 you mentioned still will be in addition to the $75 under the present old age security system?

Mr. KILGOUR: True, if she contributed to both.

Mr. GRAY: But she has to.

Mr. KILGOUR: True; in the one instance she gets a substantial benefit and in the other a picayune benefit.

Mr. GRAY: If this plan goes into effect, she will get $75 plus $6.19. If it does not go into effect, she would get only the $75?

Mr. KILGOUR: Which do you think she would prefer? I think she would like the treatment under old age security better than that under the Canada pension plan.

Mr. LLOYD: I have a supplementary question.

Mr. GRAY: I want to ask one more question. Am I correct in suggesting that if she bought a Canadian government annuity with this money she would be better off than in a private insurance company program?

Mr. KILGOUR: Unfortunately this is not so. Many companies sell at lower rates than Canadian governement annuities.

Mr. LLOYD: In making your calculations, what investment did you make? Was it 3.6 per cent?

Mr. KILGOUR: Yes.

Mr. LLOYD: In the case of a private insurance company, where there is no vesting until after ten years, what happens to the employer's portion of the stenographer's salary.

Mr. KILGOUR: In some plans it reverts to the employer.

Mr. LLOYD: It is lost to the stenographer.

Mr. KILGOUR: Yes, but in this case she would still end up ahead.

Mr. LLOYD: I am trying to show there are various facets to these calculations that should be seen in their totality.

Mr. KILGOUR: Thank you.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I have a list of people who had asked to speak this afternoon when Mr. Cameron was in the chair. The next is Mrs. Rideout.

Mrs. RIDEOUT: Thank you, Madam Chairman. My question refers back to the summary. Why would the pension structure become unstable simply because it is very complicated, as suggested in 9 (*b*)? Does the association recommend pay as you go financing to prevent the pressures on the use of the fund?

Mr. HOLMES: I am sorry; would you mind repeating your first question?

Mrs. RIDEOUT: Why would the pension structure become unstable simply because it is very complicated?

Mr. HOLMES: I think the complication does add to this problem. It becomes unstable, I would say, for two other reasons. We have presented to you the picture of the situation among old people ten years from now. We feel there will be an enormous pressure and that adoption of the plan unamended will lead to what amounts to a third plan to cover this situation that we have presented to you in Chart 2. Another source of instability in the plan does come a little later or may come at that time when additional benefits have to be considered for the people who have been left out in paying the cost. In the plan itself as you realize, and as the actuary has reported, between 20 and 30 years from now, government will have to find additional money without increasing benefits.

We frankly think that this is a very difficult operation to carry out, and that the government will have to increase its promises as it asks for increased taxes. We feel concerned about the complications of the plan, because the ordinary man on the street does not understand what it is that lies between the money which he pays in, or the young lady and the money that she pays in, and with what comes out. We feel that it is like a sausage machine, as there does not seem to be any clear, simple relation that the ordinary person can understand. We therefore feel that a plan which is not understood, that does show clearly these gaps in its benefit structure, and that suddenly demands increased contributions without any increased benefits at the same time, will be a very difficult plan to maintain.

Mrs. RIDEOUT: Does your association recommend pay as you go financing to relieve pressure?

Mr. HOLMES: I hope the committee realizes that essentially the fundamental thing we feel that is unhappy in the plan is the design of benefits. We feel this design is at the root of the trouble; you just start and only give benefits to the people who have contributed under this additional plan, and you also give them a short maturity period. We do not think this should be done. If it is done, you are faced with two alternatives: The cost on the pay as you go basis can increase next year, or the year after that and the one after that, without any increase in the promise or benefits. The alternative, which you are facing in this situation, is the 3.6 per cent which hold the contribution rate steady for 20 to 25 years and you postpone the problem of increasing contributions without at the same time increasing benefits for 25 years. Either alternative is unattractive. But we feel, as you know, that a benefit design more in the character of old age security with a pay as you go financing would produce a stable plan.

Mrs. RIDEOUT: Thank you very much.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Cashin, do you have a question?

Mr. CASHIN: Yes, I do. It concerns this business which was disturbing me this afternoon on section VIII, when Mr. Lloyd was questioning you people. Was it established, when he questioned you on section VIII, (*d*), when you used the word "bonus" that this was a typographical error, or is this the word you intended to use?

Mr. HOLMES: No, we have used this word, and we have used the word windfall for the same feature. We have to use some word to cover it. We have regard to the benefit emerging, particularly in connection with the ten year maturity period with in, let us say, an amount of $104 or $104 escalated over ten years. The person's contribution, with the contribution of his employer will only have provided for just about 1/10th of it.

Mr. CASHIN: That is the only point. You certainly do not make it clear in your brief. It is difficult for me to ask some of these questions because you ride one horse when it suits you in one direction and another one in another direction, and I find it a little like "Alice in Wonderland", when it comes to the question of bonuses.

The definition of "bonus" does not seem to take in the ordinary use of the word, notwithstanding ten years of maturity. The plan will be in operation for "X" number of years thereafter. As I read it there, and as I understood the questioning this afternoon, you seem to be saying that the benefits are larger as your income rises, and by your confusion of the welfare measure, and your definition of welfare measure you have given a definite impression that this plan favours people in the higher income bracket as opposed to people in the lower income bracket.

Mr. HOLMES: Your last statement does represent our view. But with regard to "bonus", madam Chairman, I think Mr. Cashin's point is well taken. If you will look at page 12 you will see that we do submit what we mean by "bonus". Another word used for it is windfall. We are not happy over either word. But at the bottom of page 12 there is an explanation given, and I fully agree with Mr. Cashin, of course. Page 12 was written before the summary on page 2, and we wrote the summary on page 2 on the assumption that page 12 had been read.

Mr. CASHIN: I am going to make a statement to you and give you an illustration and ask for your comments on it. My comment would be that in the Canada pension plan, if you take the definition of bonus in relation to some of the earnings and profits, this is a bonus for those with the least pensionable earnings. And I cite an illustration, taking this in toto, of the man who makes $1,200 a year. He will retire, and in his retirement he will have $1,200 a year as a pension, and the man, in other words, in his retirement, will receive exactly the same income that he received during his working years; whereas the man at the top of the scale with $5,000 will receive $179 per month multiplied by 12, which is the lowest percentage of his $5,000. His pension in relation to the income that he earned during his working years will be less than the pension paid to the man who earned $1,200.

Mr. HOLMES: Well, I imagine from the figures you are quoting to me that you are including in the $1,200 for your man the old age security payment?

Mr. CASHIN: I most certainly am. That is part of the program.

Mr. HOLMES: I do not think we can forget that we have this old age security plan, and that we have to ask ourselves in regard to it whether it fully meets the requirements of those groups which we have mentioned to you. The Canada pension plan, the additional plan, would do nothing for many of them, and little for the rest.

Mr. CASHIN: I would make this statement to you and ask for your comment, and I would make it this way: in your case I think you have been guilty of what you suggest. I have been guilty of combining both; one is the insurance program and the other is the transfer payment in the welfare sense. I think what we are interested in as far as the worker is concerned is the amount of pension that that man is going to get. You have suggested the $1,200 pension that the man is going to get. You have suggested the $1,200 pension as inadequately treating the man with the lower income under this plan. He only earns—I am thinking particularly of fishermen, self-employed people, or people in the Atlantic provinces who only earn, let us say, $1,200 a year. They retire on $1,200 a year and the problem to them, since we are so very interested in social security, is not what the benefits are going to be in their retirement years, but what is going to be done for them to make them productive in their working years. You have really confused the control, and I find it difficult to understand why it has been done, but as far as anybody who is concerned with poverty and development of those years, you have confused—for what reasons I do not know—security and old age with the whole problem of poverty. These people make $1,200 a year and they will retire on $1,200 a year. Are you suggesting that we give them $2,000?

Mr. BERRY: I think we are going down a peculiar road. We have an existing program which does certain things for all Canadian providing a benefit which the government of Canada in its wisdom has decided they should have. I think that when you add something to it, you cannot mix the two together in order to discuss what you have done by the addition.

Mr. CASHIN: You mixed them together.

Mr. BERRY: No, I did not mix them together. I have not said anything yet. I tried this afternoon, when talking to Mr. Lloyd, and I would like to try again tonight; you have a program for Canadians now which does certain things. It does them very well. We think the things which need to be done for the aged can be done better by operating through the mechanism you have already established. But I do not think you can disguise the effect of the Canada pension plan by merging it into the other. You have established a program, and if you put this new plan into being, under which the benefits are not fully paid for, because the benefits are not fully paid for, the greatest bonuses, windfalls, or what have you, must go to the man who makes the most money. It is just as simple as that. You cannot disguise that effect by looking at the percentage of the combined totals. The Canadian today has old age security given to him as a matter of right. And if you turn around and do something to it, you are film-flamming him if you try to tell him that by putting the two together it looks different than it looked to him before. The matter at the moment is the additional benefit which you are giving to him, and, as we pointed out, the subsidy, the unpaid benefit, or whatever you want to call it rises with the earnings and the result is that you are directing money to the people who need it the least.

Mr. CASHIN: With all due respect I must ask you if you have read the white paper on the Canada pension plan, because it is quite well spelled out, and there is an example given which uses the low income man whose rate of contribution is 6.7 per cent, and that man, with the little bit that he contributes, pays less for the benefit that he earns. Your statement about a windfall is therefore grossly inaccurate.

Mr. BERRY: That is not so. The effect of the $600 exemption is put in the rate for the windfall.

Mr. CASHIN: You are now talking about what?

Mr. BERRY: It will continue indefinitely but it is most evident in the ten year period.

The CHAIRMAN (*Hon. Mrs. Fergusson*): There are some supplementary questions. Have you finished?

Mr. CASHIN: I will pass for the supplementary question.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Munro.

Mr. MUNRO: The supplementary question I wish to ask is reated to paragraph 30 to which, I think, Mr. Holmes referred. It starts off by, for instance, endeavouring to show that the largest of these unpaid for benefits are directed to the persons with the highest incomes. For instance, in the second decade of the plan a bonus of $115 would be paid each month to a retired person whose earnings were at the maximum level, and $59 to a person whose earnings have been half the maximum.

When you talk about the bonus, I assume using that example, Mr. Holmes, you are talking about it in dollar terms. When you talked about it in percentage terms the person making half the maximum and getting $59 is actually getting over 50 per cent; it is over 50 per cent of the $115 in percentage?

Mr. HOLMES: Yes.

Mr. BERRY: But percentage simply obliterates the fact that in actual dollars you have given more to the higher earnings man than to the lower.

Mr. MUNRO: It is attractive to you apparently when you are talking dollars. The percentages also, I think, should be considered. That is my only point.

Then it goes on to say that there is no bonus to a person whose earnings rate had been $50 a month or less. He could go on and say "and no bonus to a person whose earnings had been $50 a month or less all his working life." That is what you mean.

Mr. HOLMES: No. I mean in the next ten years. We are talking about people who are 55. We are talking in the second decade of the plan of people retiring in 1975.

Mr. MUNRO: Then should it not read "no bonus to a person whose earnings have been $50 a month or less"—approximately $12 a week—"for ten years of his working life", or say his working life from 55 to 65? I think we can judge the likelihood of that eventuality and qualify that remark in view of that.

Mr. HOLMES: May I ask you to look at the actuarial report. There is a group of people who are reported as not being in the working force for one reason or another, people not at work from 55 to 65.

Mr. MUNRO: But in the example you are the one who is talking about earnings. You say there is no bonus to a person whose earnings—and therefore these people presumably are in the working force—have been $50 a month or less. I say that must be qualified to say "no bonus to a person whose earnings rate had been $50 or less for each year in the ten year transition period, 55 to 65, and "bonus" there should be qualified in that light.

I also point out in talking about the bonus relation in paragraph 30—and you give a schedule at the top of page 26—you recommend an option under the Canada pension plan and then you show your proposal, and in your proposal you are showing or including the old age security.

Mr. HOLMES: This is just old age security, that is quite clear. The man who is out of work, the man who is getting nothing, let us say throughout the ten years, the man who is only able to take on odd jobs and averaging $25 a month throughout the ten years is in the same position as the executive.

Mr. MUNRO: You agree in your recommendation of $125 that you are basing it on a change from the present old age security of $75.

Mr. HOLMES: That is right.

Mr. MUNRO: And yet in paragraph 30 you are talking about bonuses.

Mr. HOLMES: That is right.

Mr. MUNRO: You again choose to ignore the weighting effect of old age security which would vastly improve the percentages as far as the lower income brackets are concerned.

Mr. HOLMES: The percentage, but the actual bonus on the flat rate plan is greater for low revenues.

Mr. MUNRO: There is one final point, Madam Chairman, and I would reiterate what Mr. Cashin was talking about.

Again in paragraph 30 when you are talking about bonuses, you make no reference at all to anything a man who is drawing half the maximum gains from the exemption of $600. Obviously if the $600 is exempted for a man only making $2,500 a year he is going to pay much less. He is going to get a real benefit from that exemption, a benefit far greater in extent than a man making $5,000, which is certainly a factor qualifying your reference.

Mr. HOLMES: I cannot locate it.

Mr. MUNRO: Paragraph 30 is the one to which you referred yourself, comparing a man earning the maximum earnings with the man making $2,500 a year, which is half. You make no reference at all to the gain a man has at $2,500 through the exemption clause.

Mr. HOLMES: You mean the $600 exemption? That is the reason why $59 is slightly over half of $115.

Mr. MUNRO: What I am saying is that you are not reflecting this in establishing that his contribution rate for what he gets will be considerably reduced and he will get the maximum benefit of that exemption as compared with the man who is making the maximum earnings.

Mr. HOLMES: I am sorry, we have taken that into the calculation. If there was not the $600 reduction, as you say, the second man would have half the $115. He gets a benefit there of that slightly smaller contribution.

Mr. MUNRO: Madam Chairman, I will not press this, but in all fairness you do say the man making $2,500 gets $59 a month and you point out how he seems to be prejudiced through this bonus system as compared to the man making the maximum earnings.

All I am saying is that the should certainly be qualified by the exemption clause, which means that this man at $2,500 is paying far less in contributions and is getting far more benefit from the exemption clause than the man making $5,000. I think it should be referred to here for accuracy.

Mr. HOLMES: Madam Chairman, may I refer the hon. member to page 38 where we show exactly how the $115 and the $59 are calculated. This shows that the $59 man has been charged with a payroll tax of only $1,195 and the man with double the income has been charged with a payroll tax of $2,736.

Mr. MUNRO: I see the clauses you are reading but you are the one who was trying to establish the definition of the bonus based on clause 30. I think it should be based on the qualification referred to.

Mr. BERRY: I think we are at what is the crux or the very heart of the fault of the Canada pension plan. I have tried twice to say what it means. I would like to try a third time.

If you have a plan under which you direct the community resources to the people who only have need, then you direct those resources to those people so that they are in direct proportion to need. This brings you into the very difficult problem, Mr. Knowles, of means tests, and this has been a problem on which plans have foundered in the past.

In the old age security program there is no effort to decide whether the community funds are decided directly according to need, but nobody gets more than anybody else. As you go up the income scale the amount of the community resources which go to the individual are reduced because he is paying them back to the government in income tax. That is a second approach But in the Canada pension plan there is an approach which—and I do not pretend to be great expert on welfare plans—I think has no parallel in Canada, a program which is deliberately designed so that the funds of the community flow in inverse proportion to the need of the individual. You merely obscure this, sir; you say that this $600 exemption offsets this. It does not. It makes some small allowance. But the fact remains that in the first ten years and as far as we can see into the foreseeable future there will be, call them what you like, bonuses, windfalls, unpaid benefits. They will increases with the earnings of the individual up to the ceiling in the plan.

Percentages again may obscure it, but the fact remains that in actual dollars you are taking the money of the community and giving more to the man making $5,000 a year than to the man making $4,000 a year or to the man making $3,000 a year or to the man making $2,000 a year. It is as simple as that, and it is the very heart of the fault of the program.

Mr. CHATTERTON: Can a man in need live better on a $1 bonus or a percentage bonus?

Mr. BERRY: I think the question comes back to how many dollars he has, sir.

Mr. MUNRO: Without this plan you will not have percentage or dollars.

Mr. BERRY: This is not so.

Mr. HOLMES: I think we have told you we want you to consider the alternative of improving or amending the old age security.

Mr. BROWN: Madam Chairman, might I add an answer to Mr. Munro's comment. He made a statement referring to the numbers of people who might be under $50 a month at one time but might not continue to be under $50 a month during the 10 year transitory period of the Canada pension plan.

I am quoting from the census of Canada, 1961, bulletin number SX-2, catalogue number 98-516. This bulletin refers to the total population 15 years and over on June 1, 1961, and the figure in respect of this was 12,046,000 odd. The estimated number of individuals for whom figures in this report are published is 10,101,000. The difference is due to 1,298,000 persons living in rural farm households and 645,000 odd in collective households, institutions, and a few farms in urban centres which are excluded from the sample.

On page 4 it shows under the heading of total income of non-farm population, 15 years of age and over, by size of income, sex, age and marital status, without income, 2,789,335 people, and with income under $500, 877,533. Then, turning over to page 6, we find in the group for ages 55 to 64, 273,274 without income, and 98,181 with an income of under $500.

Mr. MUNRO: What age is that for?

Mr. BROWN: This is ages 55 to 64.

Mr. MUNRO: When was this?

Mr. BROWN: This is in the 1961 census.

Mr. MUNRO: Those are the figures revealed when the census taker went around.

Mr. BROWN: These were the figures published by the government of Canada in respect of the population of Canada.

Mr. MUNRO: My only objection was with clause 30, which says: "no bonus to a person whose earnings rate had been $50 a month or less." Would you be prepared to have it say: No bonus to a person whose earnings rate had been $50 a month or less continuously throughout the whole 10 year transitional period.

Mr. BROWN: That does not alter the principle that the small windfall goes to the person with small earnings and the large windfall goes to the person with large earnings, and that is taken from the community. This is upside down, and I think your experts will tell you that.

Mr. MUNRO: If I might reply to that comment, you are pointing to your definition of bonus, which I think already has been considerably qualified. But, you must remember, there is more to the Canada pension plan than the transitional period. Are you, in fact, arguing now that we should do away with the transitional period of 10 years? I would like to have your answer to that on the record.

Mr. KILGOUR: The transitional period, Mr. Munro, is only a minor factor in the whole thing. The fact is that bonuses are going to accrue increasingly to people at the top of the scale.

Mr. MUNRO: But your examples of the worst bonuses were picked out of the transitional period.

Mr. KILGOUR: You will find that the bonus continues with the escalation clause to favour those people at the top.

Mr. MUNRO: I was looking at clause 30, which Mr. Holmes said was his definition of the word "bonus".

Mr. KILGOUR: There is one point that relates to the bonus which people are getting at the bottom of this scale compared to those at the top of the scale. The Canada pension plan is supposed to apply to people who have an awful lot of problems in life, a gentleman who earns $100 a month, say, a fisherman who may have two or three children. It is highly unlikely that he is going to be able to save up at the end of the year enough to send a cheque for $21.68 to the federal government. If he can raise a family with $100 a month, then by claiming to raise his combined pension to $100 a month at age 65 we are being cynical; we are giving him more when some major responsibilities are gone than he had during the time when he had his expensive years in life, acquiring all his possessions and raising a family.

One of our points was that while this plan designedly goes down low and a man can qualify for a benefit under $600 a year, in fact, he will not. A great majority of these people may not have the knowledge to prepare a tax return. And, in the main, these large payments under the Canada pension plan will go to the employee and to the sophisticated and to those who already are making tax returns. The spread between the high and low income group is greater than the figures. We inevitably will find that the people at the real bottom, those earning, say, $600, $700, $800 or $1,000 a year, in fact, will get nothing under the Canada pension plan.

The CHAIRMAN (*Mrs. Fergusson*): There are two members who wish to ask supplementary questions, Mr. Francis and Mr. Lloyd.

Mr. KNOWLES: Can we call it 10 o'clock, Madam Chairman.

Mr. FRANCIS: On the question of bonus, I would like to make an analogy for the purpose of understanding or clarifying the point which was made. When a private plan is adopted by an employer is it not frequently the case that the employer makes the past service contributions? And, do the people who benefit in respect of these past service contributions receive something comparable to what is called a bonus? Is the same thing true in respect of a private plan and a public plan in this respect?

Mr. BERRY: In respect of a private plan past service contributions are made on the basis of their earnings, but I do not think this analogy between a private and public plan holds any water.

Mr. FRANCIS: Whether you institute a social insurance program or a private plan at the initial stage, you have the same kind of a problem; there are certain people who will draw benefits at the end of your transitional period, and there will be payments made in respect of them which cannot be calculated on an individual basis. They may not live to enjoy them but as a class they have a very actuarial expectancy. It seems to me that the same problem holds in both cases. The bonus had two features. You later refer to the bonus in respect of indexing of earnings. There seems to be two causes for the origin of the concept. The bonus comes from the transitional phase at the beginning and the higher earnings and cost of the indexing of earnings at the later phase. Is this not correct?

Mr. BERRY: I find myself somewhat confused because this is an approach to a public plan which, in my knowledge, has never been contemplated in Canada. The whole idea of public programs should be to even out the inequities that exist in society.

Mr. FRANCIS: With all due respect I do not quite agree with you. This is a social insurance program and its purpose is portable pensions which are built up to supplement old age security. This is its basic purpose, as I understand it, but because of the transitional phase this does give rise to those benefits.

Mr. BERRY: But, they will go on forever.

Mr. FRANCIS: Then, what is the origin of the bonuses as you describe them after the transitional period has passed?

Mr. BERRY: The contributions during the lifetime of the worker, because of the escalator privileges, will never amount to sufficient to pay for the benefits he receives.

Mr. FRANCIS: If the escalator phases did not work, would there be no bonuses after the transitional period?

Mr. BERRY: Not to the same extent.

Mr. FRANCIS: But would there be?

Mr. BERRY: I cannot answer that.

Mr. FRANCIS: I am trying to understand your concept, and I must confess it is very difficult to understand it.

Mr. KILGOUR: May I say a word at this point which might clarify the issue? Most private employers in setting up plans set up past service benefits, but very frequently they are somewhat less than future service benefits because neither the employer nor the employee has been contributing. I would say it is entirely uncommon to set up past service benefits identical to future service benefits.

Mr. FRANCIS: No, but there is something of an increment in respect of that employee which comes as a windfall.

Mr. KILGOUR: And the employer regards his moral liability as being identical. These people have worked for him during their lives, or the part of their lives to which he has regard, and he is going to try to produce equitable treatment for each year they have been in his service. He gets presented with the total bill, and if he can swallow it he pays it off in ten years time, and in effect those people will have been treated entirely equitably. On the other hand, there is the escalator clause in the proposed public plan which means that these higher bonuses or windfalls for the higher salaried people will go on forever.

Mr. FRANCIS: Only because of the escalation features after the transitional period.

Mr. KILGOUR: I think I would be correct in saying that when the plan matures, if the benefit is not going to be changed, it could settle down to become an equitable plan if everybody stayed in the labour force.

Mr. LLOYD: Mr. Chairman, I kind of like what Mr. Berry was trying to get at. I think you are trying to say, Mr. Berry, and I want to put it on the record to see if I got the message from you correctly, that in the government proposal the pension plan shall be designed on the basis that those enjoying the benefits will really derive them from the taxation of those still working, that is really what it is.

Mr. BERRY: Or who may never get the benefit at all, which I think is even more important.

Mr. LLOYD: If you start such a plan and you say it shall not come into full payment of the beneficiary, say, for a generation, then most likely there would be no windfalls or bonuses as you describe them here.

Mr. BERRY: They would be minimal.

Mr. LLOYD: But the fact that we want to start the plan at an earlier date means that those people who reach the age of 65 or 70 ten years from now will be paying less taxes for their ultimate benefit than would be the case of those who pay for a generation.

Mr. BERRY: It is such a large difference that this is not a very good way to put it to say that I am going to get a $12,000 benefit by paying $900 in taxes. It seems to me it does not quite give the right impression when you say "I pay less taxes than somebody else".

Mr. LLOYD: You did agree—to take your own illustration—that in the next ten years so many members on your staff have such and such incomes. Let us assume they average 55 years of age now, and let us say each of them is liable to pay 1.8 per cent of $5,000, less the $600, which brings it to whatever the figure is, $79, a year. Let us say they pay this $79 for ten years. They will have paid in $790. They are then entitled to 25 per cent for those escalations of $5,000, or $1,250. Let us say that there is a group of 45 year olds, not 55 year olds. They will be paying in double that amount of contribution or tax, whichever you care to call it, before they reach their right to receive the same proportion of benefits for their life expectancy. The issue really is that you are giving benefit to those who come in at an earlier date; you are giving them the opportunity to get in with paying less $79 a year for the number of years you let them in. Is that not correct?

Mr. BERRY: No, sir. I am half way along to getting you to see what I am talking about. Let us take two groups of 10 people who are working at the present time, all of them 55 years of age: One group is making $5,000 or more, and one group is making $2,500. The first group will pay their $79.20 for 10 years. They will pay $792 a year and will get $1,250 for life the bulk of which comes from taxation, some of which is raised from people who are never going to have the benefit.

Mr. LLOYD: Let us not get into the details.

Mr. BERRY: This is very important.

Mr. LLOYD: Keep to your simple illustration; do not add these other side issues.

Mr. BERRY: I have these 10 people who are going to get $1,250 a year by paying $792. They have all made $5,000 a year or more. My other 10 people made $2,500 a year. They are going to pay in $396.25, and they are going to get $625 a year. You have therefore given the biggest bonus to the people who, because they had the higher earnings, should not need it as much as the people who had the lower earnings.

Mr. LLOYD: Do you not apply this principle in private pension plans?

Mr. BERRY: In private pension plans we do not have windfalls.

Mr. LLOYD: It is their own savings.

Mr. BERRY: Each person or his employer pays for his own benefit. I think this is the principal confusion, Mr. Lloyd.

Mr. LLOYD: I think we brought it out that there are two different philosophies in the approach to this problem. When you get into illustrations and you capitalize the benefits you tend to distort the two pictures.

Mr. BERRY: No, sir. In a private pension plan there is a direct relationship between the contribution and the benefit. In a public pension plan there is no such relationship, and therefore in one case the fact that I may receive a larger pension than the man who earns less than I is a horse of a different colour. I have paid for my benefit. However, in the public pension plan such as you are contemplating, because of the fact that there are large portions of the benefits which are not paid for by the individuals, you are giving free money and you are giving it to the wrong people.

Mr. LLOYD: When we started the old age pension, Mr. Berry, in your terminology the people who first came to enjoy the benefits at that date received a bonus.

Mr. BERRY: They all received the same thing. This is the important point.

Mr. CASHIN: They receive the same thing here also.

Mr. BERRY: You are missing what I think is the whole point. In the one case you have done your best to be equitable because you have given an even windfall or bonus to each individual. As a matter of fact it was a decreasing windfall with increasing income because of the effect of the income tax. In this case you are going to do entirely the opposite. You are going to increase the windfall with increasing income. It is completely wrong for this kind of program.

Mr. LLOYD: Whether it is wrong or not is the problem of this committee. All we are doing here is to identify your argument. Very clearly you believe that under the publicly financed system the benefits of the plan are paid out of collections of tax revenues. All you have to do is to examine page 19 of the *Financial Post* and there you have the graph. After so many years it dips down below the line and then you will be in a position where you are in fact paying as you go.

Mr. BERRY: Yes, eventually, unless you change the contribution.

Mr. LLOYD: So that for all practical purposes the Canada pension plan is in the long run, but not in the transitional period, a pay as you go plan. The benefits will be paid from tax revenue designed to finance it.

Mr. MONTEITH: What is the date of the *Financial Post?*

Mr. LLOYD: January 9.

Mr. BERRY: I am afraid we keep sliding from one concept to another.

Mr. Lloyd: That is exactly right. My point is made. You have agreed with that in your criticism of this plan.

Mr. Berry: You did not let me answer. You said that we come into a pay as you go program. I say that is true, but there is still no relation between the contribution and the benefit because the contribution is not coming from the people who are receiving the benefit.

Mr. Lloyd: There is no question about it.

Mr. Monteith: Madam Chairman, we will all be able to think more clearly tomorrow.

Mr. Cashin: I have a question left for tomorrow.

The Chairman (*Hon. Mrs. Fergusson*): We will adjourn until tomorrow at 10 o'clock.

APPENDIX A2

REPLIES TO QUESTIONS RAISED DURING THE MORNING SESSION, DECEMBER 15, 1964, OF THE JOINT COMMITTEE ON THE CANADA PENSION PLAN

1. *Question:* Can recent data on government expenditures on health and social welfare in Germany, France and Sweden be added to the report "Comparison of Social Security Expenditures in Australia, Canada, Great Britain, New Zealand and the United States, Fiscal Years 1958-59 to 1962-63", which was included as Appendix "X", on pages 604 to 611, in the proceedings of this Committee? The most recent data for these countries contained in the report on The Economic Implications of the Canada Pension Plan (Appendix "S", page 410) were for the year 1957.

Answer: One of the main difficulties in developing data of this nature for foreign countries is the problem of defining uniformly for purposes of comparison the concept of "social security expenditures". This problem is accentuated when it is necessary to rely on the translation of rather technical terms, and when the required documents are themselves difficult to obtain.

A publication of the International Labour Office entitled "The Cost of Social Security, 1958-1960", which has been released only recently, uses a definition of social security expenditures which is reasonably close to that used in the report included as Appendix "X". The figures in the following table have been taken from this ILO study, and indicate the relative percentages of Gross National Product spent on health and social welfare in Germany, France, Sweden and other countries in 1958, 1959 and 1960. For purposes of comparison, the figures given in Appendix "X" are shown in brackets.

Social Security Expenditures as Per Cent of Gross National Product at Market Prices, 1958 to 1960, Selected Countries

Country	1958	1959	1960
Germany	17.3	16.7	16.1
France	14.0	14.1	13.9
Italy	12.6	13.0	12.7
Sweden	12.4	12.5	12.4
New Zealand*	11.2	11.9(11.2)	13.0(12.3)
United Kingdom*	9.9	10.8(9.8)	11.0(10.0)
Canada*	7.8	8.5(8.4)	8.9(8.5)
Australia*	7.7	7.6(7.5)	7.9(7.4)
United States*	5.9	6.5(6.3)	6.3(6.3)

* Data relate to fiscal year ending in the calendar year set out in the heading.

Sources: International Labour Office, *The Cost of Social Security 1958 to 1960,* Geneva, 1964.

Department of National Health and Welfare, Research and Statistics Division.

2. *Question:* On what earnings base would contributions be made in the year 2050 on the basis of your assumptions and what would the maximum pension be?

Answer: Contributory Earnings Limits and Maximum Pension in 2050

	Assumed Rate of Increase in Average Earnings	
	3% per annum	4% per annum
Contributory Earnings Upper Limit	$ 51,700	$ 106,708
Contributory Earnings Lower Limit	6,204	12,805
Maximum annual amount of pension	12,552	25,664

Note that the amounts of the earnings limits are not in even hundreds of dollars as required by the terms of Bill C-136. However, they are in accordance with the assumptions used for the actuarial estimates as requested.

APPENDIX A3

THE CANADIAN LIFE INSURANCE OFFICERS ASSOCIATION

Office of the President

DECEMBER 31, 1964

To the Co-Chairmen and Members of the Special
Joint Committee of the Senate and House of
Commons on the Canada Pension Plan

Dear Mesdames and Sirs:

The Association's submission to your Joint Committee is attached. We hope that the views and information in it will be of use to the Committee.

A complex proposal like the Canada Pension Plan raises many questions. In our view the following are important:

1. Have Canadians through their government
   —a greater obligation to the future aged than to the present aged?
   —a greater obligation to older persons who had above-average earnings when working than to older persons who had smaller or no earnings?
   —a greater obligation to women widowed during and after 1969 than to women widowed before 1969?
2. Is it wise to introduce a Plan, involving taxes equal to a 23% increase in personal income taxes, without first investigating what welfare needs are greatest?
3. Could the Plan be maintained in its proposed form without major overhaul because of its inequities?
4. Is it right to embark on a plan that assumes a future government would be willing to increase the payroll tax without increasing the benefit scale?
5. Would the indexing of benefits have inflationary effects and would it be possible to resist pressures for the indexing of other government obligations?

Approval of the proposed Canada Pension Plan would imply affirmative answers to each of these questions. The reasons why the Association believes they cannot be so answered are set out in the attached submission.

Respectfully submitted,

H. L. Sharpe,
President.

THE CANADIAN LIFE INSURANCE OFFICERS ASSOCIATION

Submission to the Special Joint Committee of the Senate and House of Commons on the Canada Pension Plan

January, 1965

CONTENTS

I. Introduction

1. The Canadian Life Insurance Officers Association consists of 102 Canadian, United States, British and other European companies. These companies have in force 99% of the life insurance business in Canada (excluding fraternal insurance) and serve 10 million policyholders.

2. The provision of pensions and annuities represents about one-quarter of the business of these companies in Canada. Also, the proceeds of most life insurance contracts can be used for retirement income.

3. The pension plans which the life insurance companies administer cover about one-quarter of the number of Canadians in all private plans. Plans administered by trust companies, the federal Government Annuities Branch and employers themselves cover the remainder.

4. The life insurance companies have had long experience in the provision of retirement, death and disability benefits. They have qualified officers and staff able to assess the long-term as well as the short-term problems in this field.

5. The life insurance companies proposed to a similar Joint Committee in 1950 a program of universal benefits for the aged like that later adopted. They believe their views assisted that Joint Committee and hope that this submission will be similarly helpful.

6. Since 1958 the Association has advocated the provision of universal basic benefits both to widows and to the permanently disabled with dependent children.

II. Summary

7. The life insurance companies contend that the proposed Canada Pension Plan is a poorly-designed welfare measure. They believe that adjustments in, and additions to, the present Old Age Security program would meet the needs of Canadians more satisfactorily and more economically.

8. The essential differences between the Old Age Security program and the proposed Canada Pension Plan are:

(*a*) When the Old Age Security program was introduced everyone age 70 and over received benefits. The Canada Pension Plan would provide nothing for to-day's aged.

(*b*) Old Age Security provides benefits for everyone reaching a stated age. The Canada Pension Plan benefits would be based on earnings and Canadians not in employment and those with low earnings would receive nothing.

(*c*) Old Age Security benefits are the same for everyone. The Canada Pension Plan benefits would rise with earnings and thus provide the most for those least in need.

(*d*) Old Age Security creates bonuses for the needy in that the special taxes they pay to support Old Age Security are less in value than the benefits they draw. The Canada Pension Plan would provide the largest bonuses to those with the highest pensionable earnings.

These differences arise from the basic misconception that an earnings-related plan can be the most satisfactory welfare measure for Canada. It cannot be. Such a plan cannot be universal and its benefits cannot be geared to the needs of the aged because these needs are normally greater for those persons whose earnings were the least during their working years.

9. The Canada Pension Plan approach compares unfavourably with the Old Age Security approach in a number of other respects:

(*a*) The cost of this year's Old Age Security benefits can be, and is, paid for from this year's taxes. Canadians and their government know exactly where they stand and are not leaving deficits for succeeding generations. The Canada Pension Plan financing would involve a pushing forward of costs from generation to generation.

(*b*) The structure of Old Age Security is clear and simple and the effect of proposed increases in benefits or adjustments of the commencement age are readily discernible. The Canada Pension Plan's proposed structure is very complicated and would be bound to become unstable. Pressures to use the fund to fill in the gaps in the Plan's cover would certainly develop. If these succeeded, the fund would have to be rescued by an increase in the payroll tax.

(*c*) The administration of Old Age Security is simple. In contrast, the administrative problems for the Canada Pension Plan would be substantial.

(*d*) Integration of Old Age Security and private pension plans is straightforward. Integration of the Canada Pension Plan and many of the private plans would be complicated.

10. Among the economic implications of the Canada Pension Plan, one of the most serious is the precedent that would be set by the indexing of benefits. Surely the adoption of this principle would be an open admission that inflation may not be controllable.

11. Finally, the addition of the Canada Pension Plan to Old Age Security would result in nearly one-half of the population having little incentive to supplement by private saving the retirement income to be provided by their government. This would be a large scale surrender of individual initiative and responsibility.

12. These points are developed in detail in this submission and an alternative to the establishment of the Canada Pension Plan is proposed.

III. Main Features of the Canada Pension Plan

13. The Association's comments on the main features of the Plan, as described on page 7 of the White Paper, are set out briefly in this Section.

Coverage

> "The Plan is comprehensive in the sense of covering as many people as is practicable."

14. In this sentence the White Paper discloses the essential difference in coverage between the Canada Pension Plan and Old Age Security. Because it is earnings-related, the Canada Pension Plan cannot be universal and many in the groups not covered are the least fortunate in the community.

15. These groups include:

—persons whose earnings are less than $600 a year (or $800 in the case of self-employed)
—persons presently unemployed
—persons in "excepted employment"
—persons not in receipt of cash remuneration
—persons now aged, widowed or disabled

There would appear to be about one million Canadians in the first four categories; many of these have dependents who also would not benefit from the proposed Plan. There would be another million in the fifth category.*

16. The fundamental aim of a compulsory social security measure should be to provide protection for persons who specifically need help or for everyone in a population group where need is widespread.

Amount of Benefit

> "It is not intended to provide all the retirement income or survivors' income which many Canadians wish to have. This is a matter of individual choice and, in the Government's view, should properly be left to personal savings and to private pension plans... The purpose of the Canada Pension Plan is to make reasonable minimum levels of income available at normal retirement ages, and to people who become disabled, and to the dependents of people who die. There will be scope for the continuation and extension of private pension plans to provide benefits over these minimum levels."

17. Old Age Security now provides a comparatively high "minimum level(s) of income". Government benefits in few other countries are as high in relation to per capita gross national product. In these terms the average benefits now being paid to the aged in the United States and the United Kingdom are three-quarters of Canada's $75 benefit. Even if the benefit increases proposed recently in the United States and United Kingdom were in effect, the present Canadian Old Age Security benefit would still be significantly higher.

18. Putting the benefits of the proposed Canada Pension Plan on top of Old Age Security would result in substantially larger retirement benefits in Canada than in the United States. Chart 1 compares the "mature" benefits proposed in the United States and Canada.

19. The White Paper refers to the objective of leaving scope for private saving. The retirement income that would be available to a married couple from Old Age Security and the proposed Canada Pension Plan would represent a substantial proportion of pre-retirement income (see Appendix 1). Nearly one-half of the families in the nation would feel little incentive to save for their own retirement.

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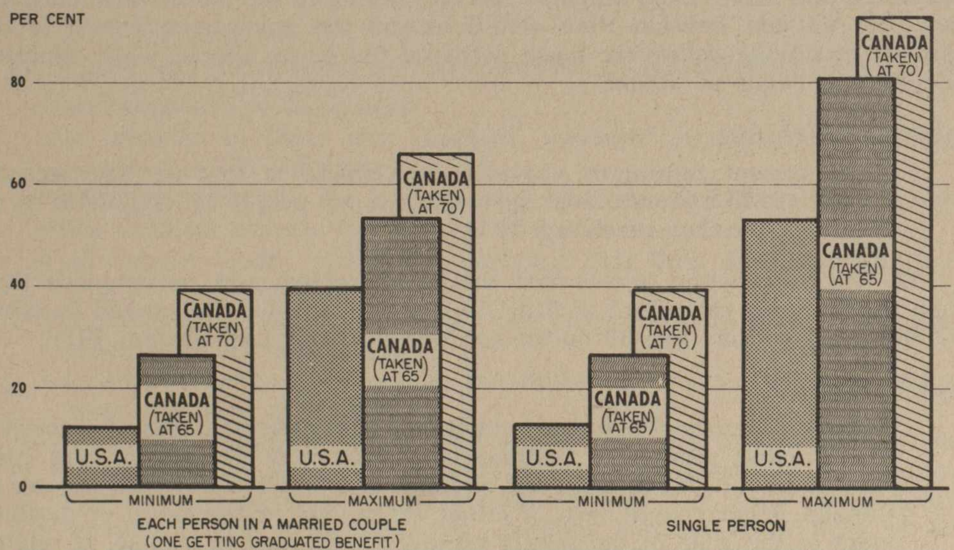
* These figures are for the whole of Canada.

CHART 1

PROPOSED GOVERNMENT RETIREMENT BENEFITS AS PER CENT OF CURRENT PER CAPITA GROSS NATIONAL PRODUCT



The chart relates to the minimum and maximum benefits for a single person and a married couple in which one qualifies for a graduated benefit. It is assumed in the case of the Canadian couple that both take Old Age Security at the same age. In the case of the United States program it is assumed that changes proposed last summer are in effect; a number of years would elapse before U.S. beneficiaries would qualify for the maximum benefits shown. The chart also assumes no adjustment in the Canadian benefits for price increases or in the U.S. or Canadian benefits for changes in the benefit formulae.

A retirement test applies to the U.S. benefit up to age 72 and would apply to the Canadian graduated benefit up to age 70.

20. The impact of the Plan where a generous pension plan exists is illustrated by the proposed scale of government and employer-employee benefits for federal civil servants, as described by the Parliamentary Assistant to the Minister of Finance in the House of Commons on November 18, 1964 (Debates, page 10233 et seq.). Assuming a man earns $5,000 a year in 1966 and that his earnings go up with the indexed earnings ceiling of the Canada Pension Plan, on retirement at age 65 it appears that he and his wife (if the same age) would receive:

Retirement Date	Years of Service	Total Pension Benefits as % of Final Salary*
Jan. 1, 1976	35	111%
Jan. 1, 1876	20	82%
Jan. 1, 1986	35	97%
Jan. 1, 1986	20	70%

* Pension benefits in this Table include: Old Age Security, proposed Canada Pension Plan and "integrated" public service superannuation benefits.

The percentages would be lower if he earned more than asumed; higher if he earned less. Your Committee will wish to confirm that the above figures are correct. If they are, there would appear to be little scope for individual saving for retirement in these cases.

21. The addition of the Canada Pension Plan to Old Age Security goes far beyond the objective of establishing "minimum level(s) of income" at retirement and leaves little scope for private saving in the pensionable earnings area. The Canada Pension Plan would extend the government's role to the point of producing relatively large pensions for many people while ignoring the pressing needs of others.

Commencement Age

> "The present minimum provided in Canada is the old age security benefit of $75 a month from age 70, but many people are unable to go on earning until they reach age 70."

22. The Association agrees that this is a problem and recommends that, when the economy can afford it, full Old Age Security benefits should be made available earlier than age 70 on an appropriate basis (see Section VII).

Type of Benefit

> "Adequate levels of pensions cannot be realistically achieved, in a country like Canada, simply by increasing the flat-rate pension. Living costs vary greatly between town and country, and between different regions of Canada. What people need, if either retirement or the death or disablement of the head of the family removes their regular income, is related in part to the level of earnings to which they have been accustomed."

23. The key words are "what people need". Presumably it is "unmet" needs to which reference is made, i.e., those that cannot be met from a person's own resources and the present Old Age Security benefit. As shown in Appendix 2, the Dominion Bureau of Statistics has some information that seems to suggest that unmet needs vary inversely, rather than directly, with the level of pre-retirement income.

24. Does the Canada Pension Plan fit unmet needs? One example in the Actuarial Report shows that a person earning $5,000 or more would receive an annual benefit of $1,356 from the Plan. However, to a person earning $2,500 the government would say in effect: "You are entitled to only half as much and shall have $678." Surely this is "upside-down welfare", particularly when only a small fraction of the benefits would have been paid for (see paragraph 29). Higher-income persons are better able to build up their own resources for retirement than lower-income persons.

25. The fact that living costs vary to some degree in different parts of Canada does not justify an earnings-related program. The differences in pensionable earnings within any given community are far wider than the differences in living costs among communities. Old Age Security narrows income differences whereas the Canada Pension Plan would widen them. No government plan should have this latter effect.

IV. The Plan's Benefit Structure and Welfare Aspects

The Needs

26. Among those in need is a large proportion of the present aged, as well as both widows and disabled persons with dependent children now in their care.

Amongst the present aged, available evidence indicates that those who have been retired for some time are more in need than those newly retired. Persons now retiring appear to be more in need of help than those who will be retiring in ten years or more. In the main, persons not in employment and those with low earnings are least able to keep up with rising standards of living. Some information and comments regarding the above patterns of need are set forth in Appendix 2.

The Proposal

27. The salient characteristics of the proposed Canada Pension Plan are:

—no benefits to to-day's aged

—no benefits to those now disabled, widowed or orphaned who are unable to enter the Plan

—the biggest benefits for the minority who earn $5,000 a year or more

—the smallest benefits for workers with low or spasmodic income

—no benefit credits for persons earning less than $600 (or $800) a year or for their dependents

—the biggest benefits for workers ten years or more from retirement when the Plan commences

—smaller benefits for workers less than ten years from retirement when the Plan commences

—after the transition period, the smaller benefits to those longer in retirement; for example, a person in retirement would get a smaller benefit than a person just retiring even though their pensionable earning records were identical (because benefits being paid would be linked to prices and new awards would be linked to average wages which normally rise faster than prices)

Further details are given in Appendix 3.

28. The Plan is termed a "contributory" program and this may lead many people to believe an individual would get out of the Plan the value of his "contributions" plus interest. In fact, there would be only the most indirect relationship between a person's benefit and the tax paid in.

29. To illustrate the lack of relationship, an individual taxed during the first ten years of the Plan and then retiring at age 65 or over would draw a benefit with a value of at least nine times the total tax paid by him and on his behalf, accumulated with interest. As a specific example, the seven members of the Officers' Committee of the Association would, on the average, receive retirement benefits valued at 9.8 times the total taxes paid in with interest; the value of the benefits would exceed the taxes plus interest by more than $77,000.

30. The largest of these unpaid-for benefits are directed to persons with the highest incomes. For instance, in the second decade of the Plan a bonus* of $115 would be paid each month to a retired person whose earnings had been at or above the pensionable maximum, $59 to a person whose earnings rate had been $50 a month or less.

31. These bonuses would not necessarily be a temporary characteristic of the proposed Plan. If Canada's current rate of progress were to continue indefinitely, the amount of the bonuses and the disparity of treatment as between above-average and lower income groups could become greater from year to year. As an illustration, in the year 2013 the Plan could be paying each month

* By "bonus" is meant the value of the pension not paid for by taxes collected from the pensioner or his employer, plus interest.

a bonus of $208 to a person whose earnings had been at or above the pensionable maximum for most of his working life and $114 to a person who had earned half the maximum (see Appendix 3, paragraphs 9 to 13).

32. The possibility of bonuses in perpetuity has all the wonderful attractions of a chain letter. As long as the present growth rates of the population, the employed labour force and wages continue, the time of reckoning can be deferred indefinitely. However, a slowing down of these growth rates could quickly bring on that time of reckoning. Any such slowing down could undermine the whole structure of the Plan because much higher payroll tax rates would be necessary to continue promised benefits to existing pensioners. These higher tax rates might be required at the very time a tax cut would be desirable to stimulate the economy.

The Proposal in Relation to Needs

33. The benefit structure of the proposed Canada Pension Plan is completely inconsistent with the patterns of need set out in paragraph 26. The Plan would fail to help those most in need. Conversely, it would favour certain persons with above-average incomes, the very people who should be in the best position to build up their own retirement and other resources and who are likely to be least in need. These are permanent features of the proposal.

34. Moreover, the Plan appears to be based on the assumption that government has a greater obligation to persons who happen to be age 65 or younger at the outset of the Plan than to persons who are older. In fact, by 1976 two of every three Canadians then age 65 and older would be getting no benefits from the Plan. Of the others, only 1.5% would be receiving the maximum benefit and 32% would be receiving less than the maximum (see Chart 2 and Appendix 3).

35. The prospect of receiving large bonuses in 1976 is disturbing to the Association's Officers and should, in their view, be equally disturbing to all thoughtful Canadians. No one in a position to save for his own retirement should look with equanimity on the fact that he would receive bonuses from a Plan that would provide nothing for the majority of Canadians in retirement.

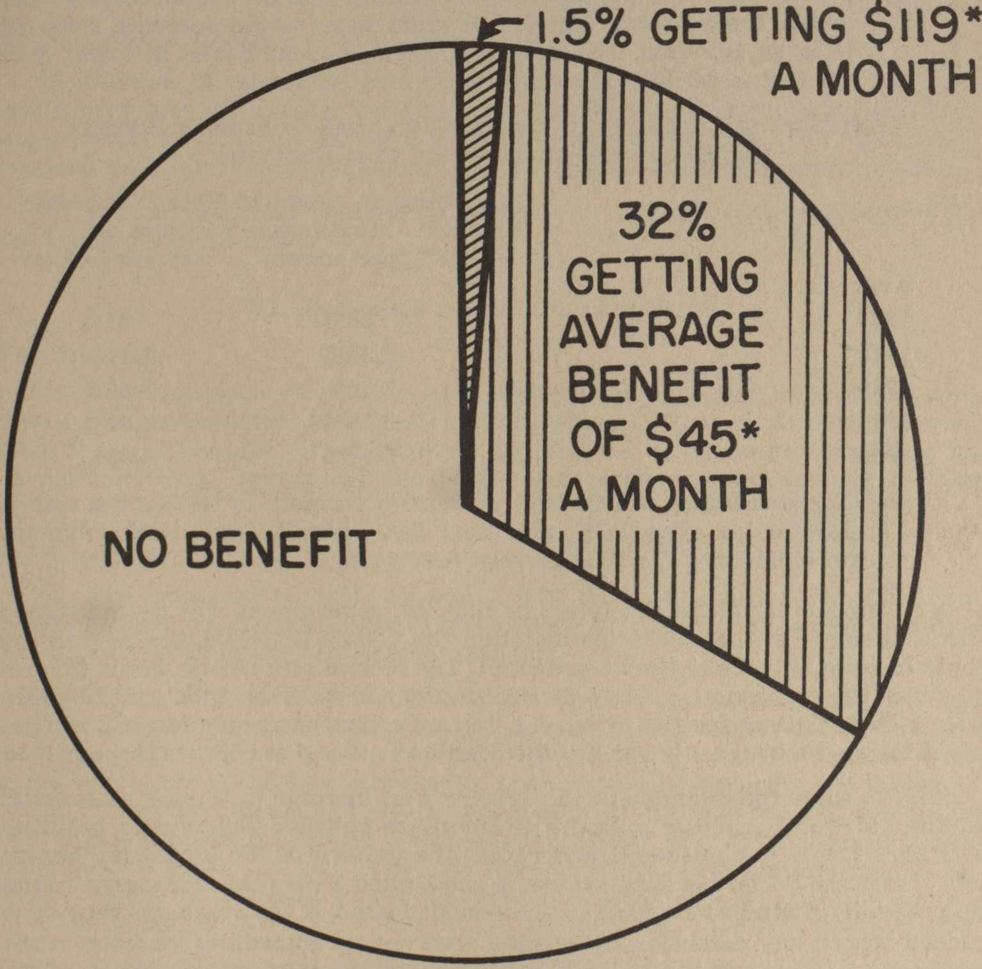
36. The pattern of benefit payments should be studied for other years in addition to 1976. It would be helpful to have, at the minimum, a survey by the Actuary for 1971, 1981 and 1986, as well as for 1976, of the numbers who would be receiving no benefit, benefits of 0-$50 per month, $50-$100 per month, $100-$150 per month and over $150 a month. The survey should also include a calculation of the bonuses receivable by various income categories in these years.

37. In the Association's view, social justice should be the criterion of a government welfare plan. The Plan should help most the least fortunate members in the community. So long as there are groups in the community obviously in need of welfare help, a system of graduated pensions involving misdirected bonuses should not be established because such a system would discriminate against the least fortunate. Such a system represents a reversal of the traditional patterns of progressive taxation and redistribution of incomes.

CHART 2

BENEFIT STRUCTURE OF PROPOSED CANADA PENSION PLAN
AT THE END OF 1976

PER CENT OF 1,880,000 CANADIANS AGED 65 AND OVER
WHO ARE RETIRED AND RECEIVING BENEFITS**



* ASSUMES PRICES RISE 2% PER YEAR
** INCLUDES QUEBEC

38. The Old Age Security program involves unpaid-for benefits but the largest of these go to the least fortunate. Welfare extensions consistent with this principle and more rational from the standpoint of fair treatment and need and universality than the proposed Canada Pension Plan are set out in more detail in Section VII of this submission.

V. The Instability of the Plan

The Objective

39. Since government welfare programs, once begun, are seldom withdrawn, it is essential that their structure be sound and enduring.

The Proposal

40. How would the Canada Pension Plan stand the test of time? The starting assumption is that benefits would be paid only to "contributors" who retire after the Plan begins. Two consequences flow from this:

(*a*) The proportion of the retired population receiving benefits would go on increasing for many years. In a very real sense the transition period would be about 35 years. During this period the benefit load which the working population must bear would increase from nil to large amounts. This can be illustrated from Tables 3, 7 and 11 of the Actuarial Report as follows:

Percentages of Contributory Earnings Required to Provide Benefits and Expenses—Intermediate Cost Estimates

	Using an Assumed Rate of Increase in Average Earnings of	
	3% per annum	4% per annum
Year		
1970	.68%	.67%
1975	2.20%	2.14%
1980	3.61%	3.40%
1990	5.15%	4.69%
2000	5.46%	4.88%

(*b*) The increasing benefit load presents a problem in setting the rate of payroll tax. The 3.6% rate that has been chosen would solve the problem only for a relatively few years.

41. The Actuarial Report forecasts that the government will be confronted with a dilemma in the 1980's. To maintain the benefit schedule, the payroll tax would have to rise or the fund be reduced. The second alternative would involve requiring the provinces to repay the monies loaned to them. This could happen at an awkward time for the provinces. In any event, the reduction of the fund would lower the interest income of the Plan and make a tax increase inevitable.

42. To solve the dilemma of the 1980's by an increase in the tax rate would put the government under pressure to liberalize benefits. This would build up the Plan's future commitments and repeat the pattern of the increasing benefit load. Under the Social Security system in the United States the contingency fund has gradually dwindled relative to the benefit load and the stage has now been reached where any extension of benefits involves an immediate increase in the tax intake over and above the scheduled rise in the tax rate to 9¼% in 1969. This history of rising taxes would inevitably be repeated in the case of the Canada Pension Plan.

43. The government might well face this dilemma long before the 1980's. It would soon be generally realized that many of the aged and the needy would never qualify for the Plan's bonuses and that a huge fund was being built up for others. This would result in demands for more widespread benefits. This recent Committee of Inquiry into the Unemployment Insurance Act, for example, observed how the very existence of a large public fund led to benefit liberalizations.

44. Some participants in the Plan might themselves exert pressures for higher benefits and hence higher bonuses. Because these misdirected bonuses could be a feature of the Plan indefinitely (see paragraph 31), the pressures

would arise again and again. This defect has been avoided in the United Kingdom graduated scheme where no bonuses are provided and has been minimized in the United States Social Security program where the benefit formula is weighted against higher earnings.*

45. The complexity of the Plan would in itself contribute to the pressures for change. Few contributors would understand the lack of relationship between an individual's payroll tax and benefits or the extent of the differential.

The Proposal in Relation to the Objective

46. Because of the widespread dissatisfactions, misunderstandings and irresistible pressures for greater benefits, it would appear that the proposed Plan simply could not continue for long without extensive changes. The Association questions the propriety and wisdom of launching an inherently unstable Plan.

47. In sharp contrast, there is no inherent instability in the structure of the Old Age Security program.

VI. Economic Aspects of the Plan

The Objective

48. It is imperative that any new welfare measure not impair economic vitality and productivity. As stated by Mr. Graham F. Towers, former Governor of the Bank of Canada, "we must avoid the trap of trying to do something for the individual and failing because it did not work out satsfactorily for the country as a whole".

Tax Priorities

49. The proposed payroll tax would fall on three-quarters of a million† Canadians not now paying personal income tax. These new taxpayers would be the people qualifying for the smallest benefits.

50. By ignoring the personal and dependents' exemptions and reaching down to lower incomes, the government is tapping what the Canadian Tax Foundation has described as the only major revenue producer left at the federal level. In the first years of the Plan's operation the tax would average more than $600 million a year for Canada as a whole, about 10% of the total tax revenue of the federal government in 1963-64. This is the equivalent of a 23% increase in personal income taxes. To raise $600 million through the corporate income tax would require an increase in the effective rate from 37% to 51%; to raise it through the federal sales tax would require an increase in the rate of about 15%.

51. These new taxes are additional to the $1 billion cost of existing programs for the aged. The cost of the present and proposed programs together would equal a 10% payroll tax on pensionable earnings between $600 and $5,000 a year. This initial cost would increase.

52. The proposed new tax burden raises the question of priorities for government spending. Should Canada launch a costly additional pension plan or any other welfare plan when there is a need to look after the present aged and to devote vast amounts of money to improve education and research? The Chairman of the Economic Council of Canada estimates that Canada's scientific and technological skills are 25 years behind those of the United States and our

* Under the United States Social Security program relatively higher benefits are paid to covered taxpayers with low earnings than to those with high earnings. Also, benefit calculations are influenced by lower previous ceilings on earnings.

† This figure is for the whole of Canada.

economic development ten years behind the rest of the western world. It is widely agreed that higher education and more specialized vocational training are necessary to solve the more persistent problems of unemployment and human adjustment to automation.

Inflation

53. The proposed Canada Pension Plan employs indices to determine pension benefits. This has grave implications. Indexing pensions could lead to an indifference to inflation. Indeed, large sections of the community would think they were sheltered in part from continuing inflation and would develop a vested interest in it while other sections would be left to carry an unfair share of the burden.

54. As time goes on and graduated pensions become available to an ever-widening segment of the population, there would likely be demands to extend indexing. There have already been examples of this. Some earlier versions of the Plan called for indexing the benefit calculation at retirement but not after. Later, provision was made for indexing after retirement as well as before. Now indexing is proposed for Old Age Security. This has already prompted one provincial Premier to discuss the indexing of Old Age Assistance and an organization of civil servants to propose indexing of their pensions. Soon there could be demands for indexing other government commitments, for example, Canada Savings Bonds, government annuities and so on. In Sweden, where indexing of graduated pensions was introduced in 1960, a goverment study group recently came out in favour of the indexing of government bonds.

55. Loss of faith in money as a store of value could ultimately destroy the incentive to invest money at interest with a consequent serious reduction in personal saving by Canadians. Since the report of the Department of Finance on "Economic Implications of the Canada Pension Plan" does not deal with this point it is strongly urged that your Committee and others, including the Economic Council of Canada, give it intensive study before the proposed Plan is approved.

56. In making these comments on indexing the Association is not opposed to appropriate adjustments of the Old Age Security benefit to keep the floor of protection for the retired population in line with the standard of living of the working population. This could be done by the formation of an advisory committee, such as has been proposed in connection with the Canada Pension Plan, charged with assessing regularly (i) the economic status of the aged in relation to the work force as the basis for adjustment of the Old Age Security benefit and (ii) the priority of all social welfare needs in Canada.

Private Savings for Retirement

57. Pension plans are of course not the only way of saving for retirement. Other important forms are the ownership of businesses, farms, homes, insurance, annuities and registered retirement savings plans. Thus, in a prosperous economy, a large proportion of Canadians will have resources to take care of them in their retirement years. It would appear that the financial position of Canadians at retirement has improved materially in recent years.

58. The White Paper seems to minimize the very substantial problems of integrating private pension plans with the proposed Canda Pension Plan. The disturbance would be greatest for the older and more liberal pension plans, the ones that have done the most for their members. The problems of integration would be made more difficult by the short transition period of 10 years, the indexing and the $600 earnings exemption in the government Plan. In the

five European countries that have indexed their initial pension formulas, the government program has driven private plans out of the pensionable earnings area.

59. It has been said that Social Security in the United States has not inhibited the growth of private pension plans. When Social Security was introduced private plans were few and far from liberal. Also, there is today greater room for expansion of private plans in that country than there would be in Canada if the Canada Pension Plan is adopted because the benefit scale in Social Security is not as high as the combined benefits under Old Age Security and the proposed Canada Pension Plan. United States experience is not a guide to the probable impact of the proposed Canadian plan on private pensions.

60. Many of the private pension plans in Canada cover the employees of large, unionized firms. Cutting back the private pension expectations of this important part of the labour force could be a cause of serious contention in labour-management negotiations.

Matters for Further Study

61. The Economic Report of the Department of Finance became available as this submission was being prepared. Some preliminary observations of the Association are:

(*a*) The Report makes no assessment of the effect of the new tax burden on priorities for government spending (see paragraphs 49 to 52).

(*b*) The Report does not deal with the inflationary implications of the indexing of pensions (see paragraphs 53 to 56).

(*c*) The Report discusses several effects of the reduction in personal savings. It does not discuss the effect of the reduction on Canada's ability to repatriate ownership of foreign-owned enterprises. Funds for this purpose originate mainly through the accumulation of personal savings rather than from business saving or from governments.

(*d*) The Report compares contributions to the Plan with "personal saving", "business saving" and "national saving". It appears that the figures for contributions and "personal saving" are "net" but the figure for "business saving" is "gross". If this is so, "national saving" has a large "gross" component and some estimate of the effect of using "net" figures throughout the comparisons would be desirable.

(*e*) The Report states that the contributions to the Plan are moderate in relation to annual increases in labour costs. Control of production costs in an economy as dependent as Canada's on international trade, and one with a chronic deficit in its balance of international payments, is a prime essential. Most workers depend for their jobs on export industries and secondary manufacturers competing with imports.

(*f*) The Report lists the proportion of social welfare payments to gross national product in several countries. Having regard to our close economic ties with the United States and the magnitude of our trade and balance of payments deficit with that country, comparison with it would appear to be more important than with other countries.

It appears to the Association that further study of these points would be desirable to assist in your Committee's deliberations.

VII. Recommendations

62. The following are the Association's suggestions for amendment of the Old Age Security program. The amended program would, in the Association's view, serve Canada better than the proposed Canada Pension Plan.

63. The commencement age and the level of the Old Age Security benefit can, and should, be adjusted as the needs of the aged require and as the resources of Canada permit. The proposal in Bill C-136 to lower the commencement age to 65 is welcomed by the Association. However, a higher minimum than $51 a month can be justified for persons who have retired from employment. One way to assist in meeting the needs that exist would be to provide the following benefits, subject in each case to a retirement test before age 70:

(*a*) $75 a month benefit at age 65 to all single persons;
(*b*) $75 a month at age 65 to a husband whose wife is under 60; and
(*c*) $125 a month jointly to a husband and wife if the husband is age 65 or over and the wife is age 60 or over, subject to a reduction to $75 on the death of either spouse; the $125 to increase to $150 when the wife reaches age 70.

64. The importance of these proposals can be seen by applying them to the case of a married man approaching retirement at age 65 whose wife is age 63. This couple would receive the following Old Age Security benefits under the present program, the option in Bill C-136 and the Association's proposals in paragraph 63:

Monthly Old Age Security Benefits

Age	Taken at 70	Option in Bill C-136 Taken at 65	Association Proposal
65	0	$ 51	$125
66	0	51	125
67	0	102	125
68	0	102	125
69	0	102	125
70	$ 75	102	125
71	75	102	125
72 (and subsequent years)	150	102	150

65. Under the Association's proposal the financial adjustment for this couple at the husband's retirement would be much easier than under either the present basis or the new option.

66. For a single person retiring at age 65 the comparison would be as follows:

Monthly Old Age Security Benefits

Age	Taken at 70	Option in Bill C-136 Taken at 65	Association Proposal
65	0	$ 51	$ 75
66	0	51	75
67	0	51	75
68	0	51	75
69	0	51	75
70	$ 75	51	75
71	75	51	75
72 (and subsequent years)	75	51	75

67. These changes in Old Age Security benefits would cost, the Association estimates, an additional $300 million a year for Canada as a whole. This could be met by an adjustment in the present 4-3-3 tax formula or by a payroll levy. If financed by such a levy the rate would be considerably less than the 3.6% rate in Bill C-136; it would probably be under 2%.

68. There is another type of adjustment the Association has considered but has not explored fully. It would involve stepping up the flat benefit by attained age, e.g., raising the $75 at age 70 to $80 at age 75, $85 at age 80, $90 at age 85 and so on. In the case of a great many older Canadians it is apparent that not only do their resources decline with increasing age but their living expenses rise. The decline in resources often results from the necessity to consume capital to augment income. The increase in expenses frequently results from illness or special care.

69. Some information indicating that incomes decline with age has recently been developed by the Dominion Bureau of Statistics. More information is still needed, however, to determine the best pattern for an age adjustment (see Appendix 2). The Association recommends that this be obtained because if it supports the views herein expressed an important improvement could be made in Old Age Security at a relatively modest cost. For instance, the current cost of the adjustment described in paragraph 68 would be less than $60 million a year.

70. For some time the Association has advocated the provision of universal basic benefits both to widows and to the permanently disabled with dependent children. It believes that the provision of these through the proposed Canada Pension Plan is subject to the same criticisms as have been made of the retirement benefits in that Plan. Tying benefits for widows and the disabled to an earnings record would fail to meet the principal needs that exist.

71. The proposal the Association has made is that larger Family Allowance benefits be paid for children in families where the father has died and the mother has not remarried or where the father is totally and permanently disabled. The present Family Allowance benefits of $6 for children under 10 and $8 for those age 10 to 15 could be increased on the death of the father to, say, $30 and $40 at an approximate annual cost of $35 million. The same increase in benefits for the children of totally and permanently disabled fathers would cost from one-third to one-half this amount. The Youth Allowances introduced in July, 1964, could be handled in the same way for a modest additional annual cost.

Appendix 1

COMPARISON OF RETIREMENT INCOME FROM FEDERAL GOVERNMENT PLANS WITH ACTIVE INCOME

HUSBAND—WIFE FAMILIES
(Wife assumed same age as husband)

Family Earned Income	Expected Retirement Income from Government (Note 1)						Percentage of Non-Farm Families in Canada with Family Income at Stated Level or Lower (Note 2)
	At age 65			At age 70			
	O.A.S.	C.P.P.	Total	O.A.S.	C.P.P.	Total	
1,200	1,224	300	1,524 (127%)	1,800	300	2,100 (175%)	7%
1,800	1,224	450	1,674 (93%)	1,800	450	2,250 (125%)	10%
2,400	1,224	600	1,824 (76%)	1,800	600	2,400 (100%)	14%
3,000	1,224	750	1,974 (66%)	1,800	750	2,550 (85%)	19%
3,600	1,224	900	2,124 (59%)	1,800	900	2,700 (75%)	25%
4,200	1,224	1,050	2,274 (54%)	1,800	1,050	2,850 (68%)	32%
4,800	1,224	1,200	2,424 (51%)	1,800	1,200	3,000 (63%)	39%
5,000	1,224	1,250	2,474 (49%)	1,800	1,250	3,050 (61%)	42%

NOTE 1: These columns indicate the family's government pension expectations. They show the present and proposed government benefits ("matured" but not indexed) for various levels of family earnings.

NOTE 2: This column provides a rough measure of the proportion of families at or below the various earning levels in 1967. Percentages were obtained by adjusting data from 1961 Census (Table C10, Bulletin 4.1-3) to 1967 on the assumption that incomes increase at the annual rate of 4%. The percentages in this column would likely be higher if the Census information permitted the exclusion of unearned income and the inclusion of the relatively low income of farm families. It is likely that the percentages would be higher for persons not in husband-wife families.

Appendix 2

Patterns of Need Among the Aged

1. This Appendix elaborates on the patterns of need set forth in paragraph 26 of the submission.

Observation: "Among those in need is a large proportion of the present aged..."

2. Need is determined by three factors: living costs, resources and incomes.

3. Little is known about the living costs of older, relative to younger, people in Canada.

4. As to resources, the Dominion Bureau of Statistics has established that elderly people are likely to hold more assets and to be less in debt than younger people and more likely to own their own homes ("Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada, 1958").

5. Statistics on incomes of the aged were presented in the submission of D.B.S. to the Special Committee of the Senate on Aging (Committee Proceedings, October 22, 1964). The figures were gathered in conjunction with the 1961 Census for a large number of families and individuals not on farms and not in institutions.

Individuals Age 65 and Over

1961 Income from All Sources*

	Males	Females	Total
Average Income	$2,451	$1,201	$1,835
Median Income	1,440	830	960

* The Old Age Security benefit of $660 a year would be included as income by persons age 70 and over.

6. The median figures indicate that in 1961 half the men age 65 and over had an income of less than $1,440 a year and half the women age 65 and over had an income of $830 a year. The D.B.S. submission included the following:

> "As the above table indicates average incomes of women were less than one-half of those of males while the median was little more than one-half. Since more than half of all women in these age groups were not married the data suggests that income resources of many women who have no immediate family may be very limited."
> (page 1254 of Proceedings).

The Canada Pension Plan would help none of these people.

Income by Family Status

7. The following evidence regarding income by family connection was given in the D.B.S. submission (pages 1260 and 1262 of Proceedings):

Income of Families with Heads Age 65 and Over

	Male Head	Female Head	Total
Average Income	$3,967	$4,546	$4,047
Median Income	2,710	3,750	2,831

"Income of Persons Age 65 and Over Not in Families (persons living alone, persons doubling up with relatives, lodgers)

	Males	Females	Total
Average Income	$1,733	$1,279	$1,458
Median Income	970	769	829

"These statistics indicate that those persons in the older age groups who are not members of a family group and who are largely dependent upon their own resources are in a much less satisfactory position in respect to income than those who are members of families. Two-thirds of these individuals have incomes of less than $1,200 or less than $100 a month on average—

"—The statistics suggest that the majority of this segment of the population have incomes which are inadequate to provide for even very minimum basic needs." (page 1262 of Proceedings)

Rural—Urban Differences

8. It seems to be generally agreed that the Canada Pension Plan would provide its smallest benefits in the rural areas. The following observations in the D.B.S. submission to the Senate Committee may therefore be of interest:

"—In all provinces significant income differentials exist between rural-urban incomes—(page 1255 of Proceedings)

"—Rural-urban income differences may be the most important explanation for provincial differences in incomes of the older population—(page 1256 of Proceedings)

"Differences in levels of income between rural and urban areas may not reult in differences in the levels of living. The rural population may not find it necessary to spend as much on items such as rents or other housing costs or transportation. In the absence of price data and budget studies we have no information on relative costs in different regions. However, the income differentials were so large between rural and urban areas that it is likely that, even if some living expenses are lower, the general level of living of the older population in rural areas is below that of the urban population in most instances. The one exception may be that of women who are left widowed. Incomes of women were low in urban areas as well as rural areas and it may well be that incomes in the urban areas would be no more adequate than they were in rural areas." (page 1257 of Proceedings)

See particularly Table 2 of the D.B.S. submission (pages 1269 and 1270 of Proceedings).

Need by Region

9. There is regional information from Old Age Assistance records on persons in the 65-69 age group who are in need. On March 31, 1963, 34% of that age group in the Atlantic Provinces were receiving Old Age Assistance, 31% in Quebec, 20% in the Prairie Provinces, 14% in British Columbia and 13% in Ontario. It seems evident that need is most widespread and the ability to build private resources is lowest in the low-income provinces. These are the provinces where an earnings-related pension plan would on the whole produce the lowest benefits.

Observation: "Amongst the present aged, available evidence indicates that those who have been retired for some time are more in need than those newly retired."

10. A special analysis of 1961 Census income statistics for persons age 71 and over indicates the pattern of need within that age group. In the 70's there is a pronounced downward slope in average income as the age of the individual increases. Considering the age groups 71-74 and 75-79, the average decrease in income for each year of increase in age appears to be $56 or about $4.50 for each month of increase in age. The downward slope is evident but less pronounced for persons in their 80's and early 90's.

Non-Farm Individuals

1961 Average Income from All Sources

Age Group	Males	Females	Total
71-74	$2,358	$1,201	$1,757
75-79	1,893	1,136	1,505
80-84	1,656	1,143	1,389
85-89	1,509	1,121	1,298
90-94	1,463	1,089	1,248
95 and over	1,542	1,120	1,262

11. It seems reasonable to expect the newly retired to be less in need of help than those who have been longer inretirement.Personsnowcomingu pto help than those who have been longer in retirement. Persons now coming up to retirement have had an opportunity to amass greater resources than older persons. For one thing they have had longer to recover from the depressed conditions of the 1930's. More of them have had access to private pension and other savings media and they have been at higher earnings levels for a longer time. They have had better insurance against catastrophies. Many of the older persons were able to save less when working. In retirement they have been forced to dip into their built-up savings instead of preserving them to produce a steady income and, finally, whatever earnings they may have dwindle and eventually stop.

12. The pattern is supported by the experience in the United States. There the Old Age Assistance program is a needs-test program analogous to Canada's Old Age Assistance program but its benefits are available as a supplement to the earnings-related Social Security program at all ages. The Chief Actuary of the Social Security Administration recently wrote:

> "About 17 per cent of all women aged 65 and over are assistance recipients, but the proportion moves steadily upward as age advances, from a low of 9 per cent for women aged 65-69 to a high of 35% for women aged 85 and over. The same general trend is also present for men, with the proportion receiving assistance rising from 4 per cent at ages 65-69 to 30% at age 85 and over.
>
> "It seems likely that in the future the proportion of the total population aged 65 and over that is receiving assistance will be somewhat lower than it is at present... Nevertheless, it is likely that in future years the ratio of assistance recipients to the total population will have an upward trend as age advances. As the aged use up the assets they have accumulated, the likelihood grows that they will require supplementation of their income through assistance, even though most of them will have income from Old Age and Survivors Insurance." (Social Security Bulletin, October, 1963, page 17)

Observation: "Persons now retiring appear to be more in need of help than those who will be retiring in ten years or more."

13. The post-war trend is for earnings levels to rise. Therefore, the group of persons retiring, say, ten years later than another group will ordinarily

have the higher wage history and the chance to set more resources aside. D.B.S. income studies show a marked rise in the incomes of the age group between 50 and 65 in the early 1960's compared with the same age group in the 1950's. Similarly, the age group retiring ten years from now can normally be expected to have higher income and resources than the age group retiring now if only because the former group would have had about 30 years at the post-war earnings levels compared to the latter's 20 years.

Appendix 3

The Benefit Structure of the Canada Pension Plan

1. Bill C-136 explains the types of benefits which the proposed Canada Pension Plan would provide. This Appendix furnishes some supplementary comments and illustrations of the retirement benefits.

The 1976 Benefit Structure

2. The possible benefit structure of the proposed Canada Pension Plan at the end of the year 1976 has been illustrated in Chart 2 (page 15 of the submission).

3. One in three of the 1976 population age 65 and over would be receiving graduated benefits. One and a half per cent or about 29,000* of the then aged would be receiving the maximum benefit. Thirty-two per cent of the then aged would be receiving smaller survivors or retirement benefits. This latter group would consist in the main of persons who worked at lower rates of pay, who retired after a "contributory period" of less than ten years or who were the widows of deceased "contributors". About two in three of the aged in 1976 would be getting no benefits from the proposed new Plan.

4. In 1976 there would be nearly one million* aged Canadians who would never qualify for a Canada Pension Plan benefit.

5. The flat and graduated benefits paid to the aged in 1976 would be of the order of:

Canada and Quebec Pension Plans	$ 280 million	17%
Old Age Security	1,400 million	83%
Total	$1,680 million	100%

Indexing

6. If price levels rose subsequent to 1976, the graduated benefits being paid in 1976 could increase up to a limit of 2% during each later year. These adjustments would widen the differences in benefit existing in 1976. For example, by 1981 the maximum graduated benefit granted at the beginning of 1976 could have risen from $119 to $131 a month—a $12 rise. Beneficiaries originally granted smaller benefits would get smaller increases; for example, a benefit of $60 a month awarded in 1976 would have risen by only $6.

7. After the first decade of the Plan, while benefits already awarded would be increased at no more than 2% a year as prices rose, the newly-awarded benefits would be geared to average wages and salaries. As the Actuarial Report indicates, this average could be increasing at double or more the rate for prices. In effect, beneficiaries would be protected, within limits, against rising prices but "contributors" not only would be protected against rising prices but also would share in productivity gains. To illustrate, if prices rose by at least 2% a year and wages 4.2% a year—a "conservative" assumption in the Report of the Royal Commission on Health Services—the maximum monthly benefit awarded in 1976 would have increased to $131 by 1981 whereas the maximum benefit being awarded in 1981 would be $138.

* These figures are for the whole of Canada.

8. Thus, in any particular year persons longer in retirement would get smaller benefits than persons not as long in retirement because (*a*) benefits being paid would have been price-indexed while new awards had been wage-indexed and (*b*) benefit differences would have been widened by price-indexing. This seems unjust when only a small part of the benefits are paid for and when the oldest persons have greater needs than those not so old.

Misdirected Bonuses

9. The benefits flowing out in 1976 would have been about one-ninth paid for. The benefits commencing in 1981 would be about one-sixth paid for. By way of illustration, take two self-employed persons age exactly 50 at the effective date of the proposed plan and retiring at age 65. "A" had earnings which exceeded the pensionable maximum in the Canada Pension Plan and "B" had earnings of half the maximum:

	"A" Earned pensionable maximum or more	"B" Earned half pensionable maximum
(*a*) Payroll tax at 3.6% of pensionable earnings during the years 1966-1980*	$ 2,736	$ 1,195
(*b*) Interest on these contributions at 5% per year	1,214	530
(*c*) Payroll tax plus interest	$ 3,950	$ 1,725
(*d*) Benefit receivable in first year of retirement	$ 1,650	$ 825
(*e*) Value of this retirement benefit taking into account the length of time it will be paid, the widow's benefit available and the indexing of these benefits	$24,296	$12,148
(*f*) The amount of benefit not paid for, i.e., (e) minus (c)	$20,346	$10,423

* Assuming that prices rise at a rate of 2% a year during the first decade of the Plan and average earnings rise at a rate of 4.2% a year throughout the period 1966-1980. These assumptions are consistent with a "conservative" projection in the report of the Royal Commission on Health Services although the projection of prices was extended only as far as 1971.

The unpaid-for monthly benefit for "A" would be

$$\frac{\$20,346}{24,296} \times 1650 \times \frac{1}{12} = \$115$$

The corresponding bonus for "B" would be

$$\frac{\$10,423}{12,148} \times 825 \times \frac{1}{12} = \$\ 59$$

10. The proposed pensionable earnings maximum is and would likely continue to be higher than average earnings in Canada. Thus, "A" whose earnings are above-average would get a bonus nearly twice that going to "B" whose earnings are below-average. In fact, the bonus paid to the above-average earner is far larger than the value of the entire benefit payable to lower-income persons. The disparity between the bonuses paid "A" and "B": $9,923.

11. If the economy continued to expand at its present rate or faster for years ahead, the effect of the indexing feature would be to perpetuate these bonuses for individuals. Moreover, the differences in the size of bonuses would widen as between income levels. To illustrate, a person qualifying for the top retirement benefit of $5,220 in the year 2013 would receive a bonus of $39,064. A person whose earnings had been half the maximum would get a bonus of $21,419. The disparity: $17,645.

12. These figures are taken from the following example. In this case, "C" and "D" would be exactly age 18 at the effective date of the proposed Canada Pension Plan. "C", the high-earning person, is assumed to have earned $3,600 a year at age 18, with his earnings increasing about 8% a year until exceeding the pensionable maximum in 1977. "D" as in the case of "B" would get half the maximum throughout his working life:

	"C" Earned Pensionable maximum or more from 1977 on	"D" Earned half pensionable maximum
(*a*) Payroll tax at 3.6% pensionable earnings during the years 1966-2012*	$15,580	$ 6,973
(*b*) Interest on these contributions at 5% per year	26,962	13,224
(*c*) Payroll tax plus interest	$42,542	$20,197
(*d*) Benefit receivable in first year of retirement	$ 5,220	$ 2,662
(*e*) Value of this retirement benefit taking into account the length of time it will be paid, the widow's benefit available and the indexing of these benefits	$81,606	$ 41,616
(*f*) The amount of benefit not paid for, i.e., (*e*) minus (*c*)	$39,064	$ 21,419

*Assuming that there is no increase in the payroll tax rate, prices rise at a rate of 2% a year during the first decade of the Plan, and average earnings rise at a rate of 4.2% a year throughout the period 1966-2012. Any increase in the payroll tax rate after, say, 1985, would not appreciably affect the comparison. The assumptions regarding prices and wages are consistent with a "conservative" projection in the report of the Royal Commission on Health Services although the projection of prices was extended only as far as 1971.

The unpaid-for monthly benefit for "C" would be

$$\frac{\$39{,}064}{81{,}606} \times 5220 \times \frac{1}{12} = \$208$$

For "D" it would be

$$\frac{\$21{,}419}{41{,}616} \times 2662 \times \frac{1}{12} = \$114$$

13. The misdirected bonuses would disappear in time if it is assumed that the economy slows down or stagnates. For example, let it be assumed that the pensionable maximum increases $100 a year throughout the 47 years in the illustration:

	"E" Earned pensionable maximum or more from 1977 on	"F" Earned half pensionable maximum
(*a*) Payroll tax at 3.6% of pensionable earnings during the years 1966-2012*	$10,332	$ 4,709
(*b*) Interest on these contributions at 5% per year	22,967	11,502
(*c*) Payroll tax plus interest	$33,299	$16,211
(*d*) Benefit receivable in first year of retirement	$ 2,304	$ 1,175
(*e*) Value of this retirement benefit taking into account the length of time it will be paid, the widow's benefit available and the indexing of these benefits	$36,019	$18,369
(*f*) The amount of benefit not paid for, i.e., (*e*) minus (*c*)	$ 2,720	$ 2,158

*Assuming that prices rise at a rate of 2% a year during the first decade of the Plan and that the pension ceiling increases $100 a year thereafter. This would be a rate of increase in the ceiling of roughly 1% a year after 1976.

Of course, unfavourable economic conditions would likely force an increase in the 3.6% payroll tax before the time now suggested in the Actuarial Report. This would increase the tax in line (*a*) of the illustration and eliminate the bonuses.

APPENDIX A4

(Submission of S. M. Thompson)
To the Parliamentary Committee on the Canada Pension Plan

My name is Sanford MacDonald Thompson, a pensioner of three years standing, who during his final year of employment as Vice-President and Treasurer of Canada's second largest life insurance company, was thrilled to see his venerable 75 year old company pass the one billion dollar mark in assets—representing the savings of its Canadian policyholders and those of its policyholders in 24 other countries.

In that memorable year, 54% of that billion dollars was invested outside Canada to cover liabilities there of an equivalent amount.

For 25 years, I had the responsibility for the investment of those savings—and have visited all the foregoing countries, some of them annually, some more frequently.

I therefore have no hesitation in saying that in the financial centres of these and other countries, Canada's name is held in high repute. For example, Bank of Canada representatives command respect everywhere—and at those most important annual meetings of the World Bank in Washington or abroad, they acquit themselves with distinction.

In the field of life insurance, Canadian Life Insurance Companies hold the enviable record as the greatest international life insurance in the world, surpassing in their geographical spread even the world-famous life companies of the United Kingdom.

But...I have also no hesitation in saying to you that Canada's Monetary Policy as expressed in the terms of the proposed Canada Pension Plan—the biggest and most dangerous piece of financial legislation ever proposed in this country—will result in a disastrous loss of prestige and respect.

For example, these Canadian Life Insurance Companies owe their commanding position in this "export market", not only to their expertise, but because their clients trust Canada.

Let me therefore remind you that the significant role played by foreign capital in Canada's recent and remarkable economic development, was also based on trust in Canada.

There are implications here which are ignored in the 26 page White Paper on the Canada Pension Plan, hereinafter discussed under the title:

Inflation—Monetary Control—Canada Pension Plan

These remarks concern Inflation. They are in two parts. Part 1 concerns the "linked-currency" pensions in payment and the "inflation-proofed" savings of contributors during their working life;....and the implications of the Plan to Monetary Control, a Federal responsibility...Part II attempts to answer two questions:

"Why has Monetary Control failed? Why is the Post-War II eroding dollar in such frightening contrast to Post-War I stable dollar?"

PART I

THE CANADA PENSION PLAN

The provisions of the CPP purport to protect the savings of the contributors against future erosion of the dollar's purchasing power, within very definitely defined mathematical limits (involving the use of 3 indices) equivalent to not more than a 2% increase in the Cost of Living in any year, and to protect pensioners in like degree until death.

The CONSUMERS PRICE INDEX, is the official yardstick for measuring the Cost of Living in Canada. It is based on the spending habits of a married man and his wife, having 2 to 4 children, with low to average earnings and living in an urban community of 30,000 or more.

Its base of 100 measures the cost of living in 1949. In April 1964, it had risen to 135, was 136 in July and August, in September 135.6.

At 135 it tells us that our present cost of living is 35% over what it was in 1949, 15 years ago. It says that today's dollar buys only 75% of what it did in 1949. It also tells us that a lender of money in 1949 should today on repayment of a $100 loan then made, in fairness should receive $135 plus some compensation for interest payments meanwhile in eroded dollars.

Mathematically but misleadingly, the 35% increase in the cost of living today over that of 1949, can be expressed as the equivalent of a constant 2% per annum increase, compounded over this period...Hence the concept of "Creeping Inflation".

A Government White Paper is the most authoritative statement a Federal Government can give. The August 1964 paper entitled The Canada Pension Plan, contains therein a statement of MONETARY POLICY of the greatest significance.

The Government and its Finance Minister therein declare, that within the upper limits of a 2% per annum increase in the Cost of Living, sustained economic growth is possible...that an eroding dollar so defined is compatible with such economic growth...that savings will continue at high annual levels ...official and authoritative endorsement that "Creeping Inflation" is compatible with sustained economic growth.

But you say, this is utterly absurd!...indeed in direct defiance of the intent and purpose of the Bank of Canada Act!

To which I reply—Why has the Preamble to the Bank of Canada Act, 1935, disappeared from the published Annual Report of the Governor of the Bank of Canada to the Finance Minister...and does the present Governor not now operate under the following directive: "if there should develop a serious and persistent conflict of view of the government and the views of the central bank with regard to monetary policy...the government should be able formally to instruct the Bank what monetary policy it wishes carried out, and the Bank should have the duty to comply with these instructions". (Footnote page 320 Peter C. Newman's Renegade...)

There has never been any doubt among thinking and informed people, that the Federal Government does have the final and basic responsibility for Monetary Control.

But the central bank is there to assure Canadians that the profligacy of a government is not to be met simply by the printing press—a restraint that Her Majesty's Loyal Opposition may at times be unable to exert—and to that beneficent end, the people of Canada through their elected members in the year 1935, gave the Governor of the Bank an extraordinary but proper power—the power of veto over the Board of Directors of the Bank.—But, the Governor is removable at any time by legislating that the office of Governor of the Bank is now vacant.

This directive which "instructs" then "tells" the Governor that it is his Duty to Comply, simply makes a MOCKERY of the basic principles of and purposes for which the Bank of Canada was established 30 years ago.

The Canada Pension Plan and Provincial Plans.

At the outset, it must be emphasized that this national plan is now in complete harmony with provincial rights to administer now or later, their own pension plans.

Within 30 days of "assent" to Bill C-136, a province may "option out" of the national plan, by signifying that by January 1, 1966, it will have in effect a "comparable plan". Miss LaMarsh says Quebec will so signify and Mr. Gordon says "the Quebec Plan will be virtually identical to the Canada Plan".

Subsequently any province may "option out" by notice that in three years it will have in effect a "comparable plan".

Consequently, in discussing the national plan, the implications of the "forced savings" of both the national and the provincial plans have to be considered together, and in order to do so the savings figures of the Actuarial Report on the national plan, excluding Quebec, have been increased by 50%, such adjustment having the authorative support of such a highly qualified and knowledgeable person as Senator McCutcheon.

As a result of the compromise with the provinces, the original "pay-as-you-go" concept has been abandoned for all practical purposes—more accurately has been deferred for 20, 30, or 40 years, dependent on whether the "least favorable" or the "most favorable" forecasts of such report are taken. But at the end of the first 10 years, the "forced saving" accumulations are identical.

The national plan and that of Quebec together represent a gigantic "forced savings" plan, which will put into the hands of provincial authorities, between $550 and $650 million dollars on the average in each of the 10 years 1966-1975 inclusive, after deducting administrative expense and after paying benefits.

These annual sums are equivalent to about ½ of the current borrowings by the 10 provinces and all their municipalities.

With interest and including Quebec, these "forced savings" will at the end of 10 years aggregate $7.5 Billion dollars... To get such a gigantic build-up of savings in 10 years in perspective, it might be noted that the "voluntary savings" of $10 Billion dollars representing those of policyholders, Canadian and Foreign, of the Canadian Life Insurance Companies, were made over a period of more than 100 years—noting too that most of these companies have extensive business outside Canada, in the case of the two largest, over 50% of such savings are derived from sources outside Canada.

Virtually all persons with employee status from bank president to office boy, male and female, must by law become contributors to the national or provincial plans, as the case may be... If many of these people are already in private plans, no matter how generous some of these plans may be, these people are subject to the enforced savings of the national and provincial plans—unlike their friends in the United Kingdom where private plans may "option out".

Surviving dependents of contributors receive pension benefits.

The provinces undertake to pay interest to the pension funds at a rate not less than that obtaining on the Federal Government's long-term bonds.

This compulsory pension coverage relates to Canada's work force, presently in excess of six million individuals, and it is pertinent to this discussion to remember that these same individuals are presently, and we hope in the future, the source of "voluntary savings".

POLITICAL AND MONETARY IMPLICATIONS

In immediately relieving the provinces and all their municipalities of approximately ½ of their bond offerings to the public, the building of technological institutes, retraining centres, university extensions and hospitals, will be immensely easier—and in this respect, this Plan might be considered beneficent.

But that money which will come from the pension funds will come automatically—and it, of course, may be used for any purpose including—financing budget deficits—nationalizing private industrial and commercial business undertakings (which like previously privately-owned public utilities have tempting federal treasury liabilities on account of corporation income tax and such nationalization therefore at the expense of the federal treasury)... creating new "development" enterprises formerly undertaken as private business ventures.

But equally important, there will result a widening of the area of "conflict" —heretofore between the Bank of Canada and the Department of Finance—. Now that conflict will be between the Federal Department of Finance and ten Provincial Treasury Departments.

Centralized National Monetary Control will become IMPOSSIBLE.

How does a nation carry on as a nation under these circumstances?

Heretofore, all borrowings of a province and all its municipalities has been subject to the approval of bond-buyers. Should the purpose of the borrowing for example, not meet with their approval, this objective disciplinary control puts a healthy check on the spending propensities of these public bodies.

Now we all know from past experience, that literally anything can happen in the short span of 10 years, the period of the Big Build-Up in these plans... Not a Prophecy, but a Warning.

For example, in the 10 year period, 1949-1959, Canada took the great "leap forward" as a welfare state, and five years later finds Canada in "tie position" with the United Kingdom Welfare State and miles ahead of our affluent neighbor, the United States of America, in the ratio of 12 to 7 in terms of national income... If Bill C-136 passes, we will be an easy winner in this international horse race.

For example, in the 10 year period, 1929-1939, Canada saw the birth of our first Socialist Party and it came into power as the Provincial Government of Saskatchewan... In the same 10 years, the Social Credit Party was born and it too came into power in the Province of Alberta. In the latter case, a distinctive concept of Monetary Control obtains.

Even in 4 years, Sweden's "forced savings" plan has startled every one by already representing 45% of total savings in that country, as stated in the House by Mr. Cameron of the Nanaimo-Cowichan-The Islands constituency.

Forced savings of this magnitude in the hands of existing and future bureaucracies is an easy road to disenfranchisement, tragically financed with the electorate's own money and rendering the protests of Her Majesty's Loyal Opposition-s in both provincial and federal houses, impotent.....A Peril which the Minister of Health and Welfare herself warned us of, 15 short months ago!!??

ECONOMIC IMPLICATIONS

The Government White Paper discusses the possible effect on "voluntary savings" of this gigantic volume of "forced savings".

Its conclusion is that it will not be large. The Minister of Finance told the House: "Total individual contributions in 1966 will be about ⅛ of personal savings, about twelve and one-half percent. It would be surprising indeed if personal savings were to be reduced by as much as 5% of what they would have been were the Canada Pension Plan not in effect".

Reassuring—but I can sure worry about that figure knowing that in the postwar years, we have had a chronic "short-fall" of domestic savings ranging from 12% to 25%—made up by foreign savings.

But how long are savers going to save in eroding dollars? Is the minister contemplating "linked-currency" dollar bonds?

But private savings in this same postwar period have been impressive—and particularly in the group pension field, where income-tax deductions have been a motivating force, attractive both to employer and employee. But get the implication of this—Initially, and not improperly, some of these group pension schemes included a prudent proportion of equities, and with bond yields 3% and stock yields 5% or better, such an investment of a proportion of funds designed for old age requirements is justified.

Now, in recent years, the bull market in its understandable exuberance has reversed these yields—5% to 7% yields on fixed interest investments as compared with 3% or less on equities. But the proportions of these non-speculative "old age funds" has been steadily increased.

Why? Answer—Fear. Fear of continued inflation.

Before me as I write this, I have the brochure describing the Waterloo University Pension Plan—modestly affirming "How Canada's first proper purchasing power pension plan will operate".

Its opening sentence is gospel truth: "Inflation tends to undermine most Canadian pension planning". Food for thought Mr. Finance Minister, to whom I suggest that close arithmetical calculations as to how future "voluntary savings" may stack-up, using projections of past experience, is a useless mathematical exercise—where Fear of Inflation is now so universally prevalent and indeed recognized openly in this Bill.

The machinery of government has changed immensely—but those governed have changed but little.

My business life commenced in the early twenties. I was privileged to have a position of some responsibility relative to the investment of money.

The twenties were also a period of rapid economic growth. As the period progressed, from 1922 forward, it was featured initially by Confidence, then by Enthusiasm. Enthusiasm is infectious. At this point some of our less desirable traits begin to show themselves.

Envy for the fellow who was more farsighted, a determination to make up for lost opportunities, then greed, success that seemingly bred more success but interpreted as infallibility, a chance remark by a famous financier that GM stock was different, and presto a new yardstick for measuring stock values.

A prudent man may not be too expressive. He is not only a "wet blanket" but indeed is eventually accused of "lack of faith" in his beloved country. It could be today's picture—a rerun of an ancient movie, this time with appropriate sound effects and in colour.

I will therefore ask the Minister of Finance to consider the words of an ex-Secretary of the United States Treasury, Mr. Humphrey: He warned us a few years ago that unless inflation is stopped, we will have a depression that "will make our hair curl".

Almost coincidentally, an ex-Governor of the Bank of Canada, expressed this view:

"The idea that readiness to create or tolerate inflation can make a useful contribution to the problem of maintaining a high and expanding level of employment and output, is in danger of becoming the great economic fallacy of the day".

PART II.

Why has monetary control in Canada failed in post war II?

Why is the post war II eroding dollar in such frightening contrast to the post war I stable dollar?

What follows is a harsh criticism of both the Bank of Canada and the Department of Finance. A story of failure of monetary control.

Canada does not stand alone in this respect. The US record is as bad as ours. Comparisons with the United Kingdom are odious, recalling the physical ravages of war there experienced. It is appropriate to remind ourselves that the Allied Commission were asked by Germany to help them establish a "sound mark", without which they knew the fruits of the Marshall Plan could not be gathered.

Despite my criticism, I must acknowledge the anti-inflationary effects of early budget surpluses. American financiers for example, were embarrassingly complimentary then, in acknowledging Canada's then demonstrated ability to keep her national house in order.

Despite my criticism, acknowledgement must be made to the Bank for its efficient and imaginative administration of foreign exchange control during the war. In particular for a resolution passed at midnight September 20, 1939, with Canadian Life Insurance Company officers waiting in the Board anteroom of the Bank of Canada, enabling them to leave immediately thereafter for the then neutral United States to meet and solve there, a financial problem of such magnitude, that unsolved would have had catastrophic consequences.

Despite my criticism, I must acknowledge the courage a Governor of the central bank must have in the face of almost intolerable pressures—so dramatically revealed on the public stage three years ago.

Consequently these remarks are made without rancor. But today we in Canada face a challenge to a sound dollar—a challenge or an admission of failure, I know not which—but coming from the Government of Canada itself, from its Cabinet, from its Minister of Finance.

One who has spent a lifetime devoted to the custody and investment of the savings of others, can not remain silent and acquiesce in the swindle of peace-time inflation.

MONETARY CONTROL

It is the responsibility of the Federal Government of Canada to so regulate Canada's credit and currency (by reducing or increasing its volume) as to maintain confidence in the soundness of the Canadian dollar as a store of value (its purchasing power) while promoting economic growth.

Its Agency—the Bank of Canada—performs this awesome and unenviable task. Simply by selling from, or buying for, its bond portfolio, long-term Government bonds—thereby depressing their price, maintaining their price, or increasing their price. The corollary is higher interest rates, same interest rates, lower interest rates. The interest rate of long-term government bonds is the base from which other borrowers and lenders generally determine the rate of interest on the money borrowed—rates which reflect a differential, but a differential which tends to stay within limits.

But in the process of buying and selling bonds, cash in the tills of those banks which are chartered under the Bank Act, is increased or decreased... But the aggregate of such a bank's loans to its customers, is limited in terms of a constant multiple of such "cash".

These central bank operations therefore result in "tight money"—contraction of the volume of credit—or "easy money"—expansion in the volume of credit.

"Easy money" is very encouraging if there is business confidence. But "easy money" failed in the post-depression years—the thirties. Lacking any real confidence, all that really happened was that low interest rates just got lower. Commercial banks having no loan demand (relatively speaking) from customers, became "chuck-full" of government bonds.

The results were progressive. In exasperation these "created" excessive savings plus legitimate savings of savers, were in the aggregate called "anti-social"—then in the United States, some big-name economists noting the slowness of the "recovery" and painstakingly viewing the big expansion of "twenties", declared that in their opinion the United States industrial and commercial apparatus had reached "maturity"—a stage where renewal and replacement of existing facilities represented the sum total of future capital requirements—that therefore a much smaller demand for capital was the prospect. So, low interest rates on borrowings would be the indefinite prospect.

Politicians of both countries seized on this pronouncement with great avidity and exploited the theory that "low interest rates are eternally beneficient"—thereby laying the groundwork for all the "lack of accord" between Treasury and Central Bank which has bedevilled the relations between these two all through this postwar II period—in both countries.

"Tight money" is damned by all and the lot of a Money Controller is not a happy one. It is restraining and disciplinary on both borrower and lender. The latter however is both happy and sad simultaneously. As a financial officer of a savings institution, I loved higher interest rates—lower costs to new and old policyholders. Wished we had more to invest—the best rate in 15 years. But bonds in the vault can't be sold—their price has dropped. Sell them and you realize a "loss". This is the essence of control...restrain the lender to his net new income plus repayments of old loans—Living Within Your Income, so to speak.

In periods of rapid economic growth which has characterized both post-war periods, the demand for materials and labor tends to push prices up, including the price of money—its rental value—the interest rate.

But higher interest rate automatically puts a brake on the rise of those other prices, is beneficient in this respect and a healthy curb on "excessive rises".

Where the Bank of Canada fails to restrain "excessive rises" by permitting an overabundance of credit when materials and labor are in short supply, the result is tremendously inflationary.

But the Bank of Canada did just that in the four year period, 1947-1950 inclusive. It maintained the price of long-term government bonds in "splendid isolation"—3% bonds at a premium of 105 throughout 1947—at par and one-half through 1948 and 1949, and helpless against the speculative invasion of United States capital in 1950, paid up to 103.

For 4 consecutive years, investment officers like myself, sold government bonds zealously at or above purchase price, half the time at outrageous premiums.

Bonds that represented Lancasters shot down years before over Hamburg—old savings reactivated—thereby doubling my participation in this new and higher interest-rate market over this 5 year period. A HIGHLY INFLATIONARY OPERATION! ...Multiply that by all the savings institutions of the country, then contemplate with awe the ballooning effect of bank loans and we have INFLATION with BIG CAPITALS.

In three short years, we lost all the marvellous fruits of the Wartime Prices and Trade Board. This Board, formed immediately at the outbreak of the war, headed by a deputy-governor of the Bank of Canada, and whose second-in-command was destined to become a future Governor, had so restrained the wartime Rise in the Cost of Living—during six years of war—that in 1946 the rise in the cost of living had been limited to 25% over that of 1939...a phenomenal record for a war that was unimagineably costly in relation to previous experience.

At that exact point of time—mid-year 1946, first postwar year, compared with mid-year 1919, also first postwar year, 60% of the inflation that might have taken place and had taken place during world war 1, had been saved.

But in 1949, three years later, this favorable differential had been more than wiped out.

WHY

Because in advance, the only weapon a Money Controller has to lick inflation was laid down, not to be picked up again till October 16, 1951.

On that date, in announcing an increase in the Bank Rate from one and one half per cent to two per cent, the Governor said:

"The Bank expressed the view in February 1944, that it did not see any prospect of an economic situation in the post-war period of a character which would call for a policy of raising interest rates. The change to a 2% Bank Rate is an indication that the earlier view no longer holds good under today's conditions".

Indeed, with a large part of Europe in ruins, unimagineable misery and suffering, currency collapse, the 1944 view was valid—but the unforeseen miracle of the Marshall Plan, the most generous gift in recorded history, offered to foe and ally alike, was the foundation for world recovery.... But published long-term forecasting can be very dangerous—nor need the view have been so long maintained.

What I and hundreds of other institutional investors were doing, was compatible with our clients' interests, which in turn should have been compatible with the national interest, and *could have been.* Their dollars would have gone FURTHER TODAY.

I question whether this marshalling of old investments and this easy money policy built any more houses, constructed any more roads, built any more factories, added any more classrooms, laid any more yards of sidewalk or miles of pipeline.

But many more such undertakings were started, all proceeded at a slower pace, all suffered from chronic stoppages because of non-delivery of materials on schedule—an expensive process in itself—meantime accompanied by an "excessive" bidding-up of prices, wages and salaries.

Early in 1950, the Bank of Canada Annual Report appeared, and looking back over events of 1949, the report indicated that the "excessive" upward pressures, external and internal, on prices, seemed to have spent themselves—and indeed, due to the widespread devaluation of foreign currencies against both the United States dollar and the Canadian dollar, suggested "deflationary influences" in North America. The Canadian dollar was at a fixed discount rate of 10% to the U.S. dollar.

I will never forget the news flash. The Marines were landing in South Korea. I wouldn't believe it—but like most everybody else I had completely underestimated the resolution of the American people and the courage of President Truman.

Immediately, Canadian housewives and their husbands, with recent memories of ration books and scarcities, bought stoves, refrigerators, household goods and other consumer durable goods on a panic scale.... while Canadian raw materials of war such as base metals became in keen demand, externally as well as internally.

Meanwhile, despite the foregoing harsh criticism of Canadian Monetary Policy, the United States had done even a poorer job, and at a discount of 10%, the Canadian dollar suddenly became grossly undervalued.

A veritable flood of U.S. dollars flowed northward as a short term speculation on the Canadian dollar. To buy such U.S. dollars, the Bank of Canada had to supply Canadian dollars in comparable amount, and under modern money mechanism, the Bank supplied these by buying and consequently bidding-up the price of Government bonds.

By midsummer these 3% bonds commanded a premium of 3%. By October 1, the Bank and the Department of Finance had had enough—and belatedly threw in the sponge—cut the dollar free—and in February 1951, the high interest club was finally picked up.

Amazing to relate, we had underestimated our own productive capacity. Consumer goods continued to pour out in abundance and the international base metal market subsequently registered a substantial fall in price.

How was the Cost of Living affected by these events?

The events of fateful 1950 were reflected immediately in the brand new Consumers Price Index, 1949 Index Number being 100.

In 1950, a jump of 3%, but in 1951, a breath-taking vertical high jump of 11%.... The Index now stands at 114.

Then a 1.8% rise in 1952, three years of stability at 116. But doesn't this wretched Index ever turn back. What about those falling base metal prices and the abundance of consumers goods?

Therein lies the fatal weakness of modern monetary control. NEVER does it seemingly permit the natural forces of supply and demand to exercise their corrective function.

1956 reports a resumption of inflation. These are the consecutive jerky steps up the slippery hill of inflation: 1.7%, 3.4%, 2.5%, .8%, 1.6%, 1.5%, 1.5%, and in 1964 1.5%.

A Sickening Sight! FISCAL POLICY IS THE ARCH SWINDLER... MAMMOTH DEFICITS...CONTINUING DEFICITS THAT COMPLETELY OFFSET the Bank of Canada's MONETARY CONTROL.

The result is NO CONTROL... and no help can be looked for apparently from Her Majesty's Loyal Oppositions.

Monetary control when restrictive, is NOT GOOD POLITICS... or is IT?

One brave soul tried it out. He was the Secretary of the Ontario Progressive Conservative Association. He announced:

"Canada needs a political party that will look after persons who will look after themselves.

"I believe the time has now come for a *major* political party to concern itself with the needs of the person who has a job; who does make provision for his old age... who doesn't need and doesn't want subsidized housing... who pays his own medical and insurance premiums... and above all, pays taxes... Social welfare problems largely have been solved... while there are still inequities, in the main these objectives have been attained."

I was so heartened that across Canada (110 grass-root papers on the prairies) in a limited fashion by "letters to the editor", I tried to publicize his creed under the heading: Hogan hits homer—HURRAH FOR HOGAN.

But wiser counsels presumably prevailed in this allegedly conservative party—to this day he has not acknowledged my zealous support of his 'return to sanity Party... yet I had many enquiries as to who this fellow Hogan was, and was he as good as he sounded!

POST WAR I STABLE DOLLAR

Now at long last, what is this brilliant performance of postwar I monetary CONTROL.

*This is a bit cynical to say, but those in charge in Post War I struggled along without benefit of the Bank of Canada—which is only 29 years old—most central banks as such are infants—born after we got mature and threw out the gold standard. But kings, rulers, tribal chiefs, all tried Monetary Control with indifferent success—except one—and what a record—Joseph of Egypt—Premier, Finance Minister and Central Wheat Banker to Pharoh... and what pressures he must have withstood—14 years—7 fat but tight money years, and 7 lean, but easy money years!

The Dominion Bureau of Statistics has obligingly applied its Consumers Price Index retroactively to 1914, and expressed the Cost of Living then and in all the intervening years.

In two parallel columns in a table attached to these remarks, one can alternately gasp at the meteoric wartime rise in the Cost of Living during World War I; exclaim at the sudden drop in it in the yearf 1921-22; be incredulous of the complete stability of the dollar for 8 consecutive years, 1922-1930 inclusive, at a rock-like 75 on the Index; sadly contemplate the 60 figures of the Depression; and note the 63 mark in 1939 after 6 years of "recovery"; and in delight and amazement note the modest figure of 78 in 1946, 7 years after 1939.

In my "book" this is a dollar of stability—25 years of it!

WAR AND INFLATION

Canadians have accepted inflation resulting from 2 wars as an inevitable consequence and part of the price of defending freedom.

But Canadians will not accept much longer peace-time inflation, cold-war peace if you like.

War destroys currency values as I well know having presided over the destruction of my company's business expressed in terms of the Shangai dollar and the Japanese yen.

But even in countries, unscathed by war, currency values are destroyed to a degree. Here is Canada's experience:

World War I

The Index tells us that World War I caused a subsequent permanent rise in the Cost of Living of 50%—an Index number of 75 against 50 in 1914. Thereafter, for 25 years, a stable dollar.

World War II

The same Index tells us today, 1964, that in relation to the Cost of Living in 1939, Index number 63, our 135 of today is 2.14 times that of 1939. Up 113% and still rising—and the war terminated 20 years ago!

But you say to me—if you let natural forces of demand and supply express themselves as "correctives" don't we have depressions and intolerable suffering?

I say NO—unless there is a deep-seated malaise underlying—as indeed we may have today—inflation. But if so you are for it. If not, we may yet escape.

Let us discuss this cynical theory of mine—in the light of actual experience and no fancy theorizing.

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* Omitted from Ottawa presentation.

If that major adjustment in price levels and cost of living in 1921-22 was a depression, then I say categorically no—an adjustment—An adjustment that a young college student—whose previous business experience was understandably limited, working his way "through", in the 2 successive summers of 1921 and 1922—was completely unaware.

First in a small town in Central Ontario and then along the dusty dirt road of Eglinton Avenue West, he was engaged in selling to the most competitive market we have in Canada—the Women's Consumer Market—a $65 set of kitchen utensils made of that marvelous new substance—aluminum—and like most of his colleagues across Canada in hamlet and city, he found business good.

This despite the fact that $65 at that time was an unheard-of price to spend on the tools of the kitchen—women's emancipation from economic slavery was yet to come.

Yes, of course there was some dislocation and unemployment, but the adjustment came early and was short-lived. To call that a depression is sheer nonsense.

But what about the 1929 crash, and the subsequent terrible depression? Severe as the October 1929 crash was, 3 others of equal magnitude as measured by the Dow Jones Industrial Averages, had occurred previously in this century.

At December 31, 1929, one of Canada's greatest savings institutions with 55% of its assets invested in Common Stocks, remained in a very strong financial position on a market value basis.

A market crash does not necessarily result in a depression. Indeed, it may be simply a major corrective of speculative excess in the stock market—a harsh verdict that the market has gone too high too fast—with an underlying confidence in a resumption of economic growth.

But, if coincidentally there exists a deep-seated and continuing malaise, as there was throughout the "twenties", then a market crash will be followed by a depression.

The Treaty of Versailles had imposed heavy reparations on Germany. Those paid to the United Kingdom, for example, were remitted to the United States in payment of war debts, were reloaned by America to Germany to start the cycle again. Significantly, gold not goods was the acceptable form of payment to the New World. United States citizens understandably got a little fed-up eventually, and cancellation of reparations became the subject of many international conferences—all of which foundered on the question of forgiving John Bull his just debts.

In the end the merry-go-round collapsed, and those who say that the "market" never makes a mistake in long-range forecast, may be right—

In this instance it was telling us that time was soon to run out—that the world was to experience a long and desperate illness; that those symptoms of disease long prevalent but dormant, would soon be exposed in all their virulence.

But to repeat, "correctives" need not be followed by depression—but will be if deadly germs are allowed to remain too long in the economic body. It is inflation that I fear today, not reactionary world-trade policies.

But ironically, at this very moment the United Kingdom has been forced to adopt severe trade restrictions, temporarily we hope, but why?

Poor money management—Poor monetary control—Poor fiscal policy.

Inflation

Goods and Services were never cheaper in terms of the human effort that goes into their production.

But never more expensive in terms of the eroding dollar.

This paradox violates commonsense. It will not be long tolerated.

Therefore, to avoid cataclysmic distress—to avoid "voluntary burial" of the free economy, which the Soviet confidently predicts—we have no sensible alternative but to return to a "stable dollar"—and its healthy discipline.

Better to "face the music" now, than perish to the resounding strains of a Wagnerian opera.

50 YEAR COMPARATIVE INFLATION HISTORY

1914–1939 versus 1939–1964

		Index	% inc.			Index	% inc.
Last prewar year P	1914	50	over P	PP	1939	63	over PP
war year	1915	50	+		1940	66	+ 5%
	1916	54	+ 9%		1941	70	+ 11%
	1917	64	+ 28%		1942	73	+ 16%
	1918	72	+ 44%		1943	74	+ 17%
					1944	75	+ 19%
					1945	75	+ 19%
1st postwar year	1919	79	+ 58%		1946	78	+ 24%
2nd " "	1920	91	+ 82%		1947	85	+ 35%
3rd " "	1921	90	+ 80%		1948	97	+ 50%
4th " "	1922	75	+ 50%		1949	100	+ 60%
5th " "	1923	75	+ 50%	Korea	1950	103	+ 63%
6th " "	1924	74	+ 48%		1951	114	+ 81%
7th " "	1925	75	+ 50%		1952	116	+ 84%
8th " "	1926	76	+ 52%		1953	115	+ 83%
9th " "	1927	75	+ 50%		1954	116	+ 84%
10th " "	1928	75	+ 50%		1955	116	+ 84%
11th " "	1929	76	+ 52%		1956	118	+ 87%
12th " "	1930	75	+ 50%		1957	122	+ 94%
13th " depression	1931	68	+ 36%		1958	125	+ 100%
14th " "	1932	62	+ 24%		1959	126	+ 100%
15th " "	1933	59	+ 18%		1960	128	+ 103%
16th " recovery	1934	60	+ 20%		1961	129	+ 103%
17th " "	1935	60	+ 20%		1962	131	+ 108%
18th " "	1936	61	+ 20%		1963	133	+ 111%
19th " "	1937	63	+ 26%		1964	135	+ 114%
20th " "	1938	64	+ 28%				
21st " " war	1939	63	+ 27%				

24/11/64

This table is to illustrate 1. That war does result in permanent inflation—in the case of War 1, about 50% increase in post-war living. 2. that a stable dollar is compatible with economic growth 1922–1930. 3. that there was an excellent chance in post-war 11 to peg war inflation at a + 25% level. 4. WPTB control of wartime prices had excellent results. 5. Index numbers are those published by the Dominion Bureau of Statistics who have applied their Consumers Price Index retroactively.

PRS 8002-521

64 Baby Point Road,
TORONTO 9, December 18, 1964

Mr. Maxime Guitard, Clerk,
Special Joint Parliamentary Committee
On Canada Pension Plan.

Dear Mr. Guitard:

Further to my submission to this committee, and in support of certain of my assertions therein, I am forwarding under separate cover certain documents or exhibits—detailed below—plus certain material in this letter, which I am duplicating, and 36 copies of it is also going forward under separate cover.

At the outset I must reemphasize that in my submission I speak as a private citizen—I repeat as a private citizen and independent of any connection with the life insurance business—that the brief was prepared without their help and the contents unknown to them—until it was in your hands.

But I spent 38 years in the employ of a fine life insurance company—the second largest Canadian Life Insurance company, for which I always have had and will always continue to have, a deep affection.

But a few years ago Canadian Life Insurance Companies petitioned (mine opposed) for an extension of their powers to enter the field previously rightly reserved to the trust companies—and in so doing asked and received the right to issue variable annuities and administer "segregated" funds—both being "inflation hedged savings" formula benefits. My company, having like the Metropolitan Life in the United States who also lost to one, then President Shanks of the famous Prudential Life of America (who stole Gibraltar from us), decided that competitively it was necessary for our agents' arsenal to contain this sinister "missile"—so sorrowfully I parted ways with my beloved company three years "early"—not suffering financial pension loss thereby, but with great grief on both sides.

I hope I have made my point that I am independent

RE STERLING CRISIS—AND INFLATION

I submit the following, authentic copies of

1. Barrons—leading editorial—entitled Bundles for Britain.
2. Hazlitt—News Week—Sterling crisis—note last paragraph and for "dollar" read "Canadian dollar".
3. Economist—London—Sterling Crisis.
4. A suggestion—I respectfully suggest you ask Mr. Lou Rasminsky or his representative, to report on the debate in Tokio at the last World Bank meeting,—for details of the famous debate in which World Bank permanent officials chided representatives of the Netherlands for their balanced budget policy, and the reply of the gentleman chided and that of the French representatives there.
5. The following extracts from the Royal Commission on Banking and Finance of 1964—pages 263 and 264.

   "Governments, having a captive source of finance, possibly at favourable rates, might well be inclined to spend more freely than they otherwise would.

   "Alternatively, the funds might be invested in a broad range of public and private securities to replace the investments which private institutions and savers would have undertaken".

   "At the very least there will be a shifting of functions from the private to the government sector, which will be in a position to exercise a direct influence on the allocation of a large share of the community's savings and might indeed come to *dominate* a large part of the financial system".

   "Professor Lundberg discussed with us some of the difficulties encountered in Sweden where the administrators of the national pension scheme, which is partially funded, have become not only important arbiters of capital and resource allocation, but also a centre of financial power whose decisions can influence the government's financial and monetary policies".

   "Arrangements of this sort would be a substantial departure from the accepted roles of the private and public sectors in the Canadian economy".

   "It is in fact all but certain that the financing of a national pension scheme with relatively high benefit levels would result in a substantial reduction in the funds available for investment in the mortgages, bonds and equities which the savings institutions acquire".

"A change of this type in resource allocation in the economy and our financial arrangements might well take us into a new situation in which the experience of past market developments would have only limited relevance".

"A serious reduction in domestic private financial investment would fall most heavily on municipal and provincial governments and on business, agriculture and housing".

"It might well *lead to increased reliance on investment by non-residents*".

"...an adequate level of investment might place too heavy a demand on the economy's physical resources and *intensify the difficulties of combatting inflation*".

6. Re the number I version of the Canada Pension Plan.
   (*a*) "Pension Cake"—pages 4 and 5—dated November 1963.
   (*b*) US NEWS and WORLD REPORT—issue of December 7, 1964—entitled "How safe is your Social Security Pension—an official interview with Robert M. Ball, Commissioner of Social Security. NOTE: Check Mr. Ball's reassurances with pages 2 and 3 of Pension Cake.

Yours truly,

S. M. THOMPSON, F.S.A.

The Economist, November 28, 1984

THE STERLING TEST

The Labour government has gone to Canossa. It is standing there with a 7 per cent Bank rate, a promise that the coming corporation and capital gains taxes will not be too onerous ones, and an enormous and generous $3,000 million loan from foreign central banks to absorb the great waves of bear attacks which rolled in this week against the pound. Very many of the political assaults that will now be made against it, for what it has had to do, will be flagrantly unfair. However much one can rightly criticise Labour's economic clumsiness and public relations disasters in its first few weeks of power, nobody can justly say, after its disinflationary budget and its increase in Bank rate, that it has ever looked like surrendering to anything like a rake's progress. And perhaps it is just worth saying, in view of a certain undercurrent of exultation about the lurches to the right that have had to be made, and the natural resentment boiling up about these on Labour's own left wing, that it would be politically disastrous if anybody tried to force these rightward retreats by a chastened government noisily further home.

Given the obligatory retreats that have already been made, and the moderately right wing policy that has already been followed, a great many people may share with Labour's restless benches the feeling that it will be intolerable if Britain's proud status as a banking country obliges the nation's economic policy to be to much dictated by events such as this week's widly speculative transfer of capital across the exchanges. Conservative politicians, and still more foreign bankers who may now believe they have a debt-ridden Labour on the run, would be madly short-sighted to ignore the possibility of a future popular back-lash, damagingly anti-foreign and damagingly anti-City. The worst possible end to this sorry mess would be if Labour were driven or allowed to fight—and win—the next election on that.

This is emphatically not the shape of British politics at the moment. Certainly, the events of the past week have underlined the difficulties of running a banking currency, especially for a left-wing government and especially in the situation which Labour inherited. But it is important to keep a perspective about this present rather respectable, if inexperienced, left-wing British government and perhaps to remember here, when pondering whether an initially ham-handed government can recover, President Kennedy's Bay of Pigs after three months in office? The need now for outside commentators is to suggest how Labour should set about this economic recovery, and the need for Labour is to take heed of exactly what mistakes it has made.

Obviously, the $3,000 million loan, by itself, provides only the breathing space necessary to take the steps that are required for sterling's full rehabilitation, and which now become Britain's duty. The main charge that can be laid against the Labour government so far is that, incredibly, at this stage of the day, it has still to face up to the real policy implications of its own diagnosis of the payments crisis. The real burden that Labour has inherited from the last government is not just the balance of payments deficit for 1964, of £700 million or £800 million or whatever the figure ultimately proves to be when the official statisticians have finished with it. A once-for-all deficit of this kind could probably be quickly returned to rights by the stopgap measures, of import surcharges and temporary crisis-level Bank rates, which is all that Labour has so far resorted to. The trouble is that every observer of the international financial scene feels that the deficit would soon flare up again once these stopgaps, which Labour itself proclaims to be only very temporary, are withdrawn. This is because the deficit for 1964 does not look like a once-for-all mischance. Piled on top of the inadequate performance of Britain's balance of payments cycle over the last nine non-socialist years, and especially over the last cycle since about 1960, it appears more as a sign that Britain is, politics quite apart, in a state of some long-term disequilibrium.

Given this sign of basic unbalance, the real wonder is that right through this summer and autumn the speculation that normally accompanies it did not appear. It was only after the emergency budget, and especially from Friday of last week, when it became apparent that Labour considered short-term measures to be enough for the time being, that the panic began. The colour of the government, the gaffes of individual ministers, the omissions of consultation, and then the most bewildering factor of all, sheer uncertainly of what decision the government would be driven to next—all these added fuel to the speculative flames. But without the basic payments deficit underlying them the gauchery of a Labour government could not possibly have brought such merciless retribution in the exchange market.

This government-in-pawn must now provide much more specific evidence of its long-term remedies for Britain's basic payments deficit. It must show above all that, despite its natural and unprogressive inclinations to shy away from really significant radical changes in Britain's economic institutions and habits, it is willing to court the unpopularity that the choice of one or other of the available policy alternatives will certainly involve.

The real clue to the Labour Government's mishandling of this intensely difficult economic situation was given by Mr. George Brown when he presented that initial batch of correctives, consisting substantially of the too protective and too temporary surcharge. "We have spent the last ten days," the First Secretary of State confided in one of those unknowing moments of truth, "being told by all the best people why we couldn't do this, that and the other"; and the tragedy was that they faithfully listened to every one of them.

Thus the Government deferred not only to domestic political considerations but also, and equally, to the feeling of foreign and City bankers in, rightly, ruling out devaluation. It deferred to the international codes of conduct by ruling out any real export subsidies, though it did cause an equal furore by choosing the much more dubious expedient of import restrictions, albeit in monetary rather than physical form. It deferred to Labour predilections, which at that time fitted neatly with those of Washington, in omitting any action on interest rates—until it was too late to have full psychological effect. It deferred to the Bank of England in avoiding any check on the yawning outflow of long-term capital, whether by administrative restriction or some new taxes *à l'Américaine*. It deferred to expansionists everywhere by ruling out a savage deflation. To repeat then: from the five possible remedies for basic imbalance—devaluation, sizeable export incentives, high interest rates, capital controls, or full scale deflation—the Government initially made a determined choice. This was that it would choose none of them.

Each of these omissions could be stoutly defended on its own. The hard fact remains that a choice among them has to be made if the balance of payments arithmetic is to add up. Certainly nobody can regard with equanimity the distintegration of the sterling area that controls on capital movements, just as much as devaluation, could involve. Nor, as *The Economist* has been the first to argue, could one be happy about additional deflationary measures that are certainly not justified on domestic grounds: even as it is, the new Bank rate, coming on top of the petrol tax and the surcharge, has clear deflationary risks, as it would not have done without the autumn budget.

Yet the economic choice has to be made. One of the choices—devaluation—is for good ruled out, now that Britain has made this borrowing from abroad. Even those people who are very rightly concerned by the growing inhibitions being imposed by absolute rigidity of world exchange rates, not just on economic growth in Britain but in more and more countries besides, must now face their own political realities and support measures to hold the parity with full voice. It follows, however, that they—and the government—must look for compensating adjustments elsewhere. One possible contribution could be made by increased controls on capital movements—though particular care would be needed at this delicate stage to avoid yet another adverse blow to confidence.

The better course would be to accept a high level Bank rate not just as a short-lived expedient, but as a major prop and stay for the capital account while the longer term correctives for the export-import balance are put in motion—i.e. perhaps even beyond the duration of the import surcharge. These longer-term boosts clearly include a really tough incomes policy (with no more Lord Devlins for the docks). But it is illusory to put one's faith in incomes policy alone; after all, Britain has in fact had a notably better incomes policy in the past few years than at least its continental competitors. It is productivity that has lagged. The Government must therefore still find a way to make exports directly more profitable. Among the five possible remedies mentioned above, our own choice still falls unrepentantly on tax incentives for exports; this will involve returning to an old suggestion, which has been debated and rejected in government circles before, but there need be no apology for that.

Since Britain's existing sin over the import surcharge has now probably ruled right out a second, if far more worthwhile, sin on actual export subsidies, a decisive new system of export incentives probably demands a substantial recasting of the domestic tax system. The object would be to put a far larger burden on indirect taxes, which the international codes do allow to be remitted to exporters, at the expense of present direct taxes on companies. As will be argued in more detail by a distinguished outside contributor in these columns next week, this presents a major case for replacing Mr. Callaghan's proposed corporation tax by a turnover tax—remitted, as in other countries, on export turnover. Until some real boost to exports is brought into effect, high interest rates must be kept as a safeguard for the foreign balance: and if the confidence trick is properly played, it ought to be possible, after a decent interval, to make compensating tax cuts if domestic demand does begin to flag. But it is idle to ignore the fact that steady growth will no longer have priority. Instead, it is now clear, economic growth in Britain will be tailored, curbed and restrained to whatever rate the defence of the pound at $2.80 will allow.

It has been extraordinarily tough on Labour, after thirteen years in the wilderness, to be dropped with a majority of four into perhaps the stickiest economic crisis in even Britain's rich postwar experience. It is equally tough to face in such circumstances a critical business opinion at home and abroad. But no good will come to the Government from thrashing about at the unfairness of these handicaps. Unfair they may be; but in a large measure both have to be accepted as facts of political life. In a predominantly conservative country like Britain, it does tend to be at just such times that a left-wing party gets its chance; and left-wing parties do, in their nature, have a tougher time with businessmen, and with financial journalists, just as right-wing governments have a tougher time with trade unions and industrial correspondents. Mr. Wilson and his ministers, if they are to govern convincingly, must now not only stop fighting the last election, here and now and for good; they must also become vastly less sensitive to each and every bout of criticism, be bolder in taking action and tougher in sticking to it.

It is on his ability to take at least a six months' view, rather than on the inclusion of steel nationalisation or any other item from Labour's election manifesto, that Mr. Wilson's ability to govern now essentially depends. The long-suffering body of Britain's economy must urgently be released from the pummelling of petty politics, of which even politicians themselves have now surely had enough. If the pound is indeed to be taken well and truly out of politics, that demands, if not a bi-partisan economic policy—though heaven knows there is in truth enough basis for it—at the least a truce in this unending and potentially disastrous election campaign. From both sides, please.
Newsweek, December 14, 1964

Business Tides

THE STERLING CRISIS

By Henry Hazlitt

Never before has any British Government made so many economic blunders in so few weeks in power. First, the new Prime Minister, Harold Wilson, announced the imposition of a "temporary" 15 per cent surcharge on imports and tax incentives for exports. The effect was to injure and disrupt the exports to Britain of all other countries, even if its six economic partners in the European Free Trade Association, and to provoke murmurs of retaliation everywhere. Worse, the action was accompanied by "assurances" that Britain had "no intention" of raising its bank rate—in other words, that it had no intention of taking the first indispensable action toward curing its balance-of-payments problem.

Of course this provoked distrust of sterling, and a rescue operation had to be undertaken. So on Nov. 7 ten of the world's leading financial powers agreed through the International Monetary Fund to extend $1 billion in aid to Britain. But Wilson shook confidence further by announcing his determination to renationalize the steel industry. He hinted at new punitive taxes against corporations and investors, including a capital-gains tax. He increased pension and other social-welfare benefits.

THE 'SPECULATORS'

Sterling weakened again. Wilson gave new reassurances. Central banks and others thought there would at last be an increase in the British bank rate at the regular weekly meeting on Thursday, Nov. 19. It didn't occur. The run on sterling started. Hurriedly, over the weekend, the British Government raised the discount rate from 5 per cent to the crisis level of 7 per cent. A Swiss banker made the premature declaration that "7 per cent will drag money from the moon." He forgot that it won't do this if lenders are afraid they won't get their principal back. The run continued, and wasn't stopped until Nov. 25 when eleven nations announced that they had put together a record $3 billion rescue package of currencies to defend the pound.

So the pound, once more, is rescued, and is presumably safe for at least the next three months. But what then? The notion so widely circulated in the press that the whole crisis was caused by a group of wicked speculators, "the gnomes in Zurich", is simply childish. It is hard to imagine any group of speculators foolish enough to imagine that they could permanently depress sterling by their own short sales. The "speculators" in sterling were the holders of sterling all over the world—central banks, commercial banks, exporters, importers, and investors everywhere. They were scared by the Wilson blunders. They wanted to get out. They wanted to protect themselves against being swindled as the holders of sterling were swindled by the devaluation of the pound from $4.03 to $2.80 in September 1949.

THREE CHOICES

The total $4 billion or so of credit at best gives the British Government a breathing spell. Otherwise it solves nothing. The future of the pound depends on the policies that the British Government follows.

It has three possible courses. First, it may try to save the pound by more of the same kind of controls as the 15 per cent import surcharge and the export subsidy. It may resort to exchange controls, investment controls, import quotas and licenses, compulsory exports, price and wage controls at home, and all the rest. But the world, and particularly the British, have become disenchanted with these methods. They would mean a return to inconvertibility, and at least two prices for sterling.

Secondly, the British could devalue the pound or, through the IMF, try to get a world devaluation of currencies in terms of gold.

Finally, Wilson could stand by tight money, and stop the printing presses that have been turning out a glut of paper pounds. But this might lead to credit contraction and, particularly if the British unions continue with their usual demands, to a slump and unemployment. This violates all the policies that the Labor Party has been preaching for the last twenty years.

The problems of the dollar are different in urgency, but not in nature, from the problems of the pound. The fool's paradise of budget deficits, cheap money, and printing-press currency cannot go on forever.

Barron's National Business and Financial Weekly, November 30, 1964

BUNDLES FOR BRITAIN

The Free World Is Under New Monetary Management

As financial crises go, the one that came and went last Wednesday (for the time being, at any rate) proved to be something of a dud. The sudden threat to the value of the pound, which once might have triggered a panic in stock and bond markets throughout the world, caused barely a ripple. Apart from a flier in gold shares, Wall Street simply sat tight. Dealers in foreign exchange, who had trouble finding buyers of pounds in the morning, or sellers in the afternoon, suffered nothing worse than a frustrating day. Indeed, the only U.S. citizens who lost much sleep over sterling were the staff of the Federal

Reserve Bank of New York, who, in order to remain in constant touch with their counterparts abroad, had to rough it in emergency quarters overnight.

Since the crisis passed, even those few who bore the brunt of it have resumed their customary routine. Federal Reserve officials have gone back to working regular hours. At the Treasury Department, the watchword is unmistakably business-as-usual. In a statement released appropriately for the Thanksgiving holiday, Secretary C. Douglas Dillon gave a hopeful reading to the whole affair. The speed with which the authorities moved to counter "unwarranted speculative pressures" on the pound, observed Mr. Dillon, constitutes "yet another demonstration that present international monetary arrangements are strong, sound, flexible, resourceful and responsive to the needs of the free world."

Like all public servants, the Secretary of the Treasury doubtless feels honor-bound to view everything through rose-colored glasses. Even so, only a perennial optimist could point with pride to the frantic transatlantic telephone fund-raising that strikes others as a desperate measure taken in a desperate case. Only a man of frightening aplomb could shrug off so easily the far-reaching significance of last week's events. While speculation inevitably played a part, the run on the pound in the main reflects mounting distrust in Great Britain's economic future under its present government. Similarly, by refusing to accept any substitute for higher interest rates, the European central banks in effect have given Washington, like London, a decisive vote of no confidence. While the extent and speed of the change remain obscure, one thing is clear: the free world today is under new monetary management.

The upheaval dates back to Friday, November 20, when uneasy holders of sterling, after weeks of waiting in vain for Labour to do something sensible about the deficit in the balance of payments, began to liquidate. Heavy selling that day cost the Bank of England, which commands less than $2.5 billion in gold and foreign exchange (against over $12 billion in short-term claims against sterling) an estimated $60 million. Over the week-end London announced that it had arranged to borrow $1 billion in various currencies for as long as three years from the International Monetary Fund; before the market opened on Monday, the Old Lady of Threadneedle Street, throwing a long tradition of decorum to the winds, boosted the Bank Rate from 5% to 7% (a move which prompted most Federal Reserve Banks to raise rediscount rates from 3½% to 4%). To everyone's surprise, however, pressure on the pound persisted. Hence on Wednesday, as rumors of devaluation spread, the second bundle for Britain, totaling $3 billion in three-to-six month credits, was hastily put together.

Like the Treasury's so-called Magic Fives, a 7% Bank Rate historically—in both 1961 and 1957—has succeeded in working wonders. Its crucial failure last week suggests that Harold Wilson's government, at least by the yardsticks of international baking, constitutes a greater disaster for the United Kingdom than Suez. "The fruits of Labour," said Barron's barely a month ago, "are likely to be bitter both at home and abroad." So, in just four weeks, the event has proved. In a move which aimed at reducing over-crowding but merely succeeded in skying rents, they have banned all new office buildings in the city of London. For the benefit of railroad workers, they have slowed down the Tories' efficiency drive and increased gasoline and diesel oil taxes. Come spring, they have pledged to unveil a budget calling for higher levies on personal incomes (in the middle and upper brackets) and corporate profits, as well as a tax on long-term capital gains. They are threatening to nationalize steel. What basically ails Great Britain is a shortage of talent—owing in part to the "brain drain"—and capital. Labour evidently proposes to cure it by frightening away both essentials of economic growth.

Foreign relations, too, have gone rapidly from bad to worse. As Her Majesty's loyal opposition, the Labour Party, through doctrinaire objections to the sale of frigates to Franco's Spain, succeeded in scuttling an estimated $100 million worth of badly needed exports. Since the October elections, Whitehall has pursued a policy of alienating friends and allies right and left. Two weeks ago, just before the latest outburst of Communist-inspired savagery in the Congo, it imposed an embargo on arms shipments to the Union of South Africa. Perhaps more important, London's highhanded decree of a 15% surtax on imports of luxury and manufactured products has proved acceptable to nobody but Washington. The other members of the European Free Trade Association have assailed it bitterly as a breach of solemn treaty obligations. In the House of Commons recently, a leading Tory denounced such behaviour: "The present British Government has already won itself the reputation of being a government of broken faith. Each country from Norway to Spain had that done to it most calculated to offend its pride and instill doubts as to the value of agreements..." Napoleon once called Great Britain "perfidious Albion." For the first time in history, Harold Wilson threatens to make the name stick.

Such policies inevitably have offended and alarmed Britain's creditors, private and public alike. The European central bankers who helped finance last week's bail-out have been discreet. Nonetheless, their views on fiscal and credit matters are known to differ sharply from those of both the Chancellor of the Exchequer and the Secretary of the Treasury. For example, M. W. Holtrop, who doubles in brass as head of the central bank of The Netherlands and president of the Bank for International Settlements, is a sound money man. So are Karl Blessing of the Bundesbank and Dr. Guido Carli of Rome, whose stern restraints on inflation lately have gone a long way toward reversing capital flight and strengthening the lira. Even Socialist Sweden, homeland of the mischief-making Gunnar Myrdal (whose public advice to Labour to devalue deserves at least part of the blame for the run on the pound), has seen fit repeatedly to boost its discount rate. In terms of fiscal and credit policy, Washington and London have been dangerously out of step. Now the pressure of events is forcing them into line.

While damaging to certain reputations and bruising to the national prestige, the experience, we venture to say, has not been wholly profitless. A financial crisis has been averted. More important for the free world's long-range solvency, creditor nations finally have moved to lay down the economic law to their debtors. Whether they can save the pound remains to be seen. By forcing Washington's hand, however, they surely have struck a blow in defense of the dollar.

U. S. NEWS & WORLD REPORT, Dec. 7, 1964.

BACK OF THE QUESTIONS ABOUT SOCIAL SECURITY

There's rising worry now about Social Security pensions.

Many note this: Despite higher Social Security taxes, the reserve back of pensions keep dropping; it was expected to soar.

Another worry: Congress may add hospital care, wiht huge and unknown costs, to the program.

The fact is that Social Security has undergone vast changes. And more may be coming.

Commitments to pay more than 625 billion dollars in benefits now are on the books of the old-age, survivors and disability insurance system. These are the Social Security pensions to which Americans are looking for income to support them in their old age.

In the reserve fund built up back of those pensions there now is less than 22 billion dollars. Actually, this fund has been diminishing in recent years instead of increasing as had been forecast in the past.

Now Congress is getting set to raise Social Security benefits and taxes once again. In addition, pressure is building up to enact a system of hospital care for retired persons. The idea, gaining in favor, has been to put such medical care under the Social Security system.

Costs of such a hospital-care program are highly uncertain. Opponents of such a measure warn that medical care could bankrupt the pension system. Proposals are being made to keep hospital care separate from the pension plan.

Doubt among pensioners. Even so, many people are beginning to ask: Just how safe and secure are Social Security pensions?

In the interview beginning on page 55 you get official answers to that question from Robert M. Ball, Commissioner of Social Security.

Other facts, added to those brought out in the interview, help to explain to the 95 million people now insured or drawing benefits under the system what is the condition of its finances.

Social Security, as it has turned out, is not like a private insurance system.

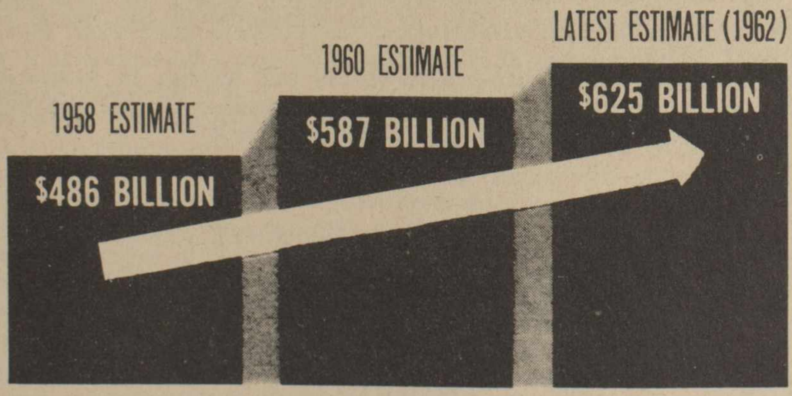
For instance, the reserve fund has not been built up anywhere near the level of commitments to pay pensions, as would be the case in a true insurance system.

Actually, the whole concept of the Social Security program has changed. Instead of building up a mammoth fund, the program is now virtually on a pay-as-you-go basis, and has been for quite some time.

The reason: Congress keeps raising benefits about as rapidly as Social Security payroll tax collections go up.

THE VAST AND GROWING COMMITMENT OF SOCIAL SECURITY

Official estimates of the total future obligations of the Social Security system are shown here. The figures reflect the estimated total benefits to be paid in the future to persons now retired and to those now working and paying Social Security taxes to finance retirement in later years.



This is a measure of the huge and constantly increasing size of the Social Security program. As more and more people become entitled to bigger and bigger pensions in future years, the total commitments of the system grow.

Note: The obligations shown above are amounts that would be needed to equal the benefits to be paid out in future years if the sums were invested at 3 per cent interest.

Source: U.S. Dept. of Health, Education and Welfare.

This steady liberalization of the program has kept the trust fund from building up to predicted levels.

For example, in 1954, before disability was added, the OASI trust fund stood at 20.6 billion dollars. The official forecast at that time was that the fund would climb to 28.5 billion dollars by 1965.

Reserve shrinks. Actually, the old-age fund for 1965 is estimated at only 18.5 billions. Instead of showing a sizable gain over the past 10 years, the fund actually has been diminished by about 2 billion dollars.

Commitments to pay pensions, meanwhile, have mounted steadily—as the accompanying chart shows.

How safe, then, are future retirement checks under Social Security?

The prevailing view is that, as a practical matter, pensions will be paid, even if they have to be financed out of general tax revenues of the U. S. Treasury. Nobody really doubts that.

But note this: Under a pay-as-you-go system, Social Security pensioners will be paid in large part from taxes levied on future workers.

To illustrate how this works—

At latest official estimate, in 1962, it was calculated that Social Security would need 625 billion dollars to meet commitments to pay retirement and survivor benefits to those already insured.

Against this liability, these assets were listed:

Workers covered under the program could be expected to pay 282 billion dollars in Social Security taxes before retiring—counting employer contributions.

The gap widens. The old-age fund, with disability added, had calculated reserves of 22 billion dollars at the time of the 1962 estimate.

Total assets thus came to 304 billions—as against total liabilities of 625 billions.

This left a gap of 321 billions.

Where will that money come from? Answer: From new workers entering the labor force and paying Social Security taxes—together with their employers' contributions—at relatively high rates for a lifetime.

The important point, the experts emphasize, is that this pay-as-you-go system does not threaten the safety or the soundness of the Social Security system in any manner.

Though Congress has shifted part of the tax burden to future workers and employers, it's agreed that benefits due to pensioners will be paid, that the obligations of Social Security will always be met.

An Official Interview

HOW SAFE IS YOUR SOCIAL SECURITY PENSION?

People keep asking: Can I really count on a Social Security pension? What's the assurance there will be money to pay it? Will rising costs wreck the pension system? These and many other questions are answered here by the top man in Social Security.

Q. Mr. Ball, are people's Social Security pensions safe?—A. Oh, yes, I would say that they are absolutely and completely safe.

Q. For persons who retire in the future, as well as for those already retired?—A. Yes, for both groups.

People who are now getting pensions will continue to get them, and those who are entitled to pensions in the future will be able to draw them in the amounts the law contemplates.

Q. What is the guarantee?—A. It's this: The Social Security program has been set up in such a way that, taking the system as a whole, the contributions paid by workers and employers and the self-employed, plus the interest earned by the Social Security trust fund, will meet all benefit costs as they fall due in the future.

Now, it is true that there is a need for a small reallocation of income between the old-age and survivors part of the program and the disability part. But this can easily be handled, and without any increase in over-all contribution rates. Remember that Congress, from the beginning, has been very, very careful to provide for full financing whenever benefits have been increased. Costs of the program have been increased significantly, but the scheduled contribution rates have been increased to cover the costs.

Q. What is the assurance that this kind of balance will be continued in the future?—A. Mainly the strong determination of all concerned to see to it that the program is soundly financed. Congress has shown that it will take no chances on this.

As a safeguard, the financing of the program is studied and reported on regularly by a board of trustees and reviewed by an advisory council composed of people from outside the Government.

Nothing is left undone to keep the program sound.

Q. You mentioned the Social Security trust fund. What is that?—A. It is a fund that stands back of Social Security benefits and can be used only for this purpose. It is first of all, a contingency reserve for periods when outgo might be greater than income because, for example, of a decline in employment. Secondly, the funds earn interest and thus help to meet benefit costs.

Q. How much is now in that reserve fund, or trust fund?—A. About 22 billion dollars in the old-age and survivors insurance fund and the disability insurance fund combined.

Q. Isn't that less than a few years ago?—A. Yes, there have been some ups and downs in recent years. The funds hit a peak in 1958 of almost 24 billion dollars.

...“SOCIAL SECURITY TRUST FUND WILL GROW AGAIN”

Q. So the fund has been shrinking—A. That's right. But much of that decline has been the result of special and temporary situations. Some of the changes that have been made in the Social Security program have been of a character that increased short-term costs without increasing the long-term, or total, costs of the program.

Q. What do you mean by that?—A. Take an example. In 1956, Congress gave women workers and wives of retired workers the privilege of taking their benefits starting at age 62, instead of 65. Those who choose to do this get reduced benefits—that is, smaller pensions than they would have drawn if they had waited until age 65 to start. So, over the long run, the benefit cost is no greater than if these women had waited until 65 to start drawing benefits.

Q. So, in time, it will all even out—A. Exactly. You see, a lot of people came in for benefits who would have waited until age 65 under the old program. That had the short-term effect of reducing the trust fund.

Q. Later on, will the fund start growing again?—A. Yes, it will. The payroll tax rates for Social Security—what are often called the “contributions” of employees and employers—as now scheduled in law will produce a significant increase in income for the fund in years just ahead. There will be more money coming in than going out, and the trust fund will grow again.

Q. Starting when?—A. In 1966, and even more so in 1968. The employee today is paying $3\frac{5}{8}$ per cent of the first $4,800 of his earnings, with the employer paying a like amount. In 1966 the rate is scheduled to go to $4\frac{1}{8}$ per cent and, under present law, the final rate of $4\frac{5}{8}$ per cent is scheduled for 1968. These rate increases will produce large fund increases.

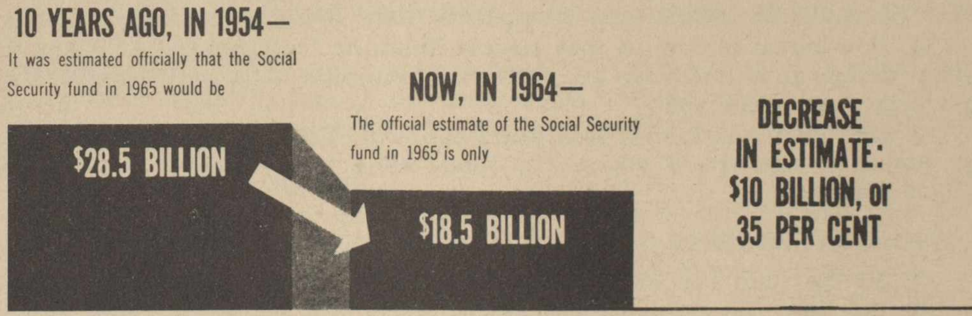
Q. Looking ahead, how big is the fund expected to be in future years—at the schedule of benefits and payroll taxes now in law?—A. Under the assumption that earnings levels will not change in the future, the funds are estimated to reach 55 billion dollars by 1975 and over 100 billion by the end of the century.

If earnings increase—as seems virtually a certainty—these balances will be even higher under your assumption that benefits are kept as in present law.

However, I would like to point out that, in all likelihood, benefits would be increased under conditions of rising wages, thus holding down trust-fund accumulation. Moreover, it is quite likely that the ultimate rate will not actually go into effect as early as 1968. The 1958 advisory council recommended against allowing this increase to go into effect under circumstances that would produce large trust-fund surpluses, and, in its consideration of legislation this year, the Congress voted to change the rate schedule so that there would not be such a large buildup in the years immediately ahead.

SOCIAL SECURITY PENSION FUND: HOW THE SIGHTS HAVE BEEN LOWERED

Official projections of the size of the trust fund for Old Age and Survivors Insurance as of the end of 1965:



REASON FOR THE DROP: Over the years, Congress has voted repeatedly to expand the program, increase benefits and cover more people. Payroll taxes have been raised, too, but not enough to keep the fund growing as originally projected. In recent years, the fund actually has diminished. The Social Security Administration says this shrinkage is temporary, however, and the fund will soon start growing again.

Note: Figures are for Old Age and Survivors Insurance only. Reserve for Disability Insurance is not included.

Q. As of today, isn't the fund considerably smaller than was contemplated earlier?—A. That's right, for reasons I have mentioned.

Q. And you don't regard this as any threat to the system, or to the safety of people's pensions—A. No, I do not. You see, you have to look at the long-range balance of income and outgo under the scheduled contributions, or tax rates. And there is nothing in this picture to cause concern about the soundness of the program.

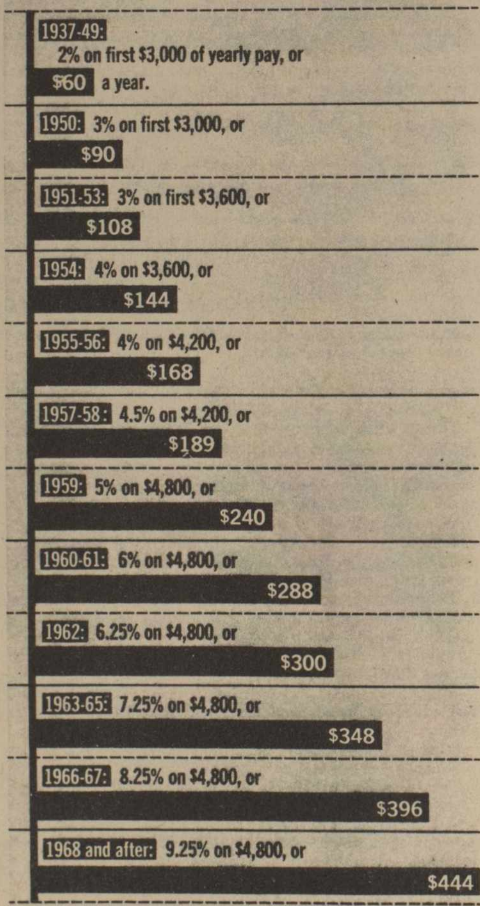
"THE PROGRAM IS SOUND"—

Q. Is this your own opinion, or does it also represent the judgment of other authorities on the program?—A. Oh, it's not just my word, but the conclusions of outside advisory councils and of the Congress—that the program is 100 per cent financially and actuarially sound.

May I emphasize that the policy question of how large you want the trust fund to become does not relate to the question of whether these pensions will be paid as they fall due. Very little of the cost of future benefits—only about

SOCIAL SECURITY TAXES: A STEADY UPTREND

Payroll taxes, shared half and half by the worker and the employer—



Tax increases in 1966 and 1968, scheduled under present law, will have to go even higher if Social Security programs are liberalized further.

Increased benefits under a bill passed by the House this year called for a 9.6 per cent top rate on $5,400 of earnings. Hospital care for the aged would come on top of that, pushing Social Security taxes well above 10 per cent.

10 to 15 per cent—is expected under present law to come from interest earnings on the trust funds. The benefits will be paid, whether or not a large trust fund is accumulated.

Q. You mentioned that the program is financed in part by the interest earnings on the fund. A smaller fund than contemplated means less income from interest, doesn't it?—A. That's true. But it should be emphasized that the principal income of the system is from the contributions, or payroll taxes, paid by employees, employers and self-employed persons. Under present law, as I indicated, the earnings of the fund from interest, in the long run, are estimated to account for only about 10 to 15 per cent of the total cost of the system. So you can see that interest on the fund is not the big thing in financing the program.

Q. Are you saying that large interest earnings on a big trust fund are not necessary for sound financing of the program?—A. Exactly. A smaller fund than contemplated simply means that some part of the 10 to 15 per cent of the cost of benefits now assumed to be met by interest must be financed in some other way. Contributions are the principal source of income in any event.

IF THERE'S A DEPRESSION—

Q. What if we were to have a depression? Would the fund, at its present size, carry the program through a period of sharply reduced income from payroll taxes?—A. Yes, this fund is considerably more than enough to carry the program through a business downturn comparable to any downturn that has been experienced in this country for a generation.

Q. Like the depression of the early '30s?—A. Well, now, I don't think anybody contemplates that the United States will again get into a situation where a quarter of the labour force is unemployed, as there was in the early 1930s.

Q. In a depression, wouldn't there be a drop in the income of the program and an increase in the number of people retiring and starting to draw pensions?—A. Yes, there would.

Q. What would happen if, in a prolonged and severe depression, the fund were wiped out?—A. Well, I have indicated that even the present fund, which will grow in years ahead, is sufficient to carry us through a very serious depression. I believe it is unrealistic to consider a situation so severe and so prolonged that the fund would be wiped out. If you project such a serious situation as that, the whole country would have hundreds of terrible problems, of which this would be only one.

"CONGRESS PROVIDES SUFFICIENT FINANCING FOR BENEFITS"

Q. What is the Government's commitment to pay pensions? Does the pensioner have some sort of contract with the Social Security system?—A. No, there is no such contract. This is one of the major distinctions between a private insurance arrangement and a Government social-insurance arrangement. But, under a Government program, people have statutory rights. The commitment is stated in law.

Q. Meaning that a person can demand his rights as provided by law—A. That's right. If the administering agency does not give the individual those rights, he can appeal through an appeals process, ultimately to the courts if necessary, and force payment of benefits that have been given him by act of Congress.

HOW SYSTEM HAS CHANGED

Q. Can't Congress change the law, thus altering the individual's rights? —A. Indeed it can, and it has repeatedly. These changes have been by way of broadening the program, raising the benefits of those already retired and yet to retire, adjusting contributions accordingly—all these have been changes that affected the rights of individuals.

This is in contrast with private insurance contracts. Under a private contract, an individual has an agreement to pay a given number of dollars and, in return, he gets certain protection that almost always is expressed in terms of fixed dollars.

Q. Has Congress ever voted to reduce pensions?—A. No, never.

Q. Do you think there is any likelihood that Congress would ever reduce Social Security pensions?—A. No, I really don't. I don't think this is at all a real possibility.

Q. As you say, Congress has raised benefits a number of times. Has it always provided payroll-tax rates high enough to meet the benefits to which the system is committed?—A. Yes, absolutely. I would say—and the trustees and the past advisory councils have had no hesitation in saying—that Congress has provided sufficient financing to meet all the benefits as they fall due, using the best actuarial estimates obtainable.

Nobody pretends to know exactly what's going to happen 75 or 100 years from now. But, so far as we can see at this time, the contribution rates as set by law are sound and adequate for the needs as currently projected.

Q. And are you saying that pensioners need have no fear that Congress will ever raise benefits and decline to raise the payroll tax enough to cover the cost?—A. To me it's quite unthinkable that Congress would raise benefits without making provision to cover the cost. I don't believe there is any program that has been handled more responsibly by the committees of Congress or by the executive branch of the Government than has the Social Security program.

Let me say this: The Social Security system has been correctly called the largest financial trusteeship in history. Just about every American has a stake in it. Congress is well aware that the soundness of its financing—the sufficiency of the financing to cover its obligations—is a matter of great importance to the whole population of this country. The Congress has proven its complete responsibility in this matter by always providing for the full financing of the benefits.

Q. Some people have been saying that a 10 per cent combined tax—that is, 5 per cent each on employer and employee—is about the practical limit for Social Security. If so, does that also mean a ceiling on benefits?—A. Well, I have heard statements about a 10 per cent limit. Personally, I doubt it. The Senate this year passed a bill calling for a combined rate of 10.4 per cent, but this did not become law in the session just ended. However, the important point we have just been discussing is that benefits and financing go together. I don't know anyone who advocates increased benefits without also advocating increased financing to cover the cost.

Q. Getting back to the reserve funds: In what form does the fund hold that 22 billion dollars?—A. In U.S. Government bonds.

Q. The Government, in other words, has borrowed the money—A. Yes, and put up bonds for it.

Q. So the money has been spent, and is not there in the fund at all—A. It is true, of course, that the Government—as a borrower from the fund, just as it would as a borrower from a bank—has used the cash. The fund, instead of holding cash, holds Government bonds, and earns a return on those bonds. The Government has an obligation to the trust fund, as it would have to an individual or bank or corporation it had borrowed from. That obligation is to pay interest and repay the principal.

ADVANTAGES IN FUND LOANS

Q. Some people find it hard to believe there really is a reserve fund. Is there a fund when the Government has already borrowed and spent the money?—A. Of course there is a fund, and no less real than if the money were there in cash.

I'm always surprised at the persistence of the idea that the fund is gone. This has been answered authoritatively many, many times.

I think it's clear, on analysis, that the situation is this: If the Government did not borrow from the trust fund, it would have to borrow an equal amount from others—say, the banks or the general public. Then, when the time came to pay off the bonds and interests, the Government would have to colect taxes or else borrow to pay the banks or the general public.

It's exactly the same way with the Social Security funds. To the extent the Social Security trust funds—instead of other bondholders—receive interest in the future, it is not necessary to get as much income from Social Security contributions. If there were no Social Security funds, general taxes or borrowing would have to be equally high to pay the private bondholders and, in addition, Social Security contributions would have to be higher to make up for the lack of interest income.

Q. And the Government's commitment to the Social Security fund is the same as the commitment it has to any other holder of Government bonds?—A. Exactly the same. To the same extent that the Government's credit is good, the Social Security fund is sound.

Q. Another question about the soundness of the program: It appears that the typical worker and his family stand to get back ultimately more than he pays into Social Security. If that's true, how can the system make ends meet?—A. What's overlooked in this question is the employer's contribution. That's the main thing. Remember that every dollar paid in by an employee is matched by another dollar paid in by his employer. So the employer's contribution is used toward the cost of benefits to those who do not themselves pay the full cost of their own benefits. Then, too, there are the interest earnings of the fund.

"THIS AMOUNTS PRETTY MUCH TO AN INFLATION-PROOF SYSTEM"

Q. So it's not true that this generation of workers is just shifting the burden to future generations?—A. Not in the sense of shifting a burden in higher employee contributions.

In real economic terms it is true that the producers of each generation support the retired of that generation except insofar as the savings of the retired have increased available capital and therefore production.

Q. Who are some of these groups that do not pay their way?—A. Well, right now there are a great many people drawing benefits who became eligible for retirement before they had a chance to contribute for any long period of years. Under present law, a part of the employer contributions on into the future goes to pay the major part of the benefit costs for these people.

Q. Are lower-paid workers in that group, too?—A. Yes, they are. If their benefits were geared strictly to their wages and contributions, some of them would draw pensions too small to serve a real social purpose. So there is a weighting in the benefit formula to give them higher benefits in relation to their contributions than, say, a worker earning the maximum amount subject to the payroll tax.

Q. Can a youngster starting to work today ever hope to get back as much as he paid in?—A. Yes, and then some. On the average, youngsters starting to work now will pay for about 80 to 85 per cent of the cost of their benefit protection. The rest will come out of the employer's contribution.

Q. What about a youngster earning $4,800, the maximum amount subject to payroll tax, and thus paying the maximum tax?—A. If you measure that on a traditional actuarial basis, he can expect to get back just about the value of his own contributions. If you recognize that in all probability dollar benefits will be increased as wages and prices rise, he will get more than the value of his own contributions.

You must, of course, take into account the probability that a youngster in time will acquire a family of his own. The protection he is paying for includes benefits for his survivors in event of his death and for himself and his dependents in the event of long-term total disability. These parts of the program are often overlooked.

WHEN BREADWINNERS DIE

Q. In numbers involved, is survivorship protection an important part of the program?—A. Extremely important. For example, we are now paying monthly benefits to about half a million young widows and well over 2 million paternal orphans. The face value of the protection provided in the survivorship element of the program alone is about 625 billion dollars. You have to take that into account in measuring benefits against payroll contributions.

Q. From the standpoint of the typical worker, is Social Security a good buy? Would it be correct to say that no worker could buy private insurance to provide what Social Security does at a cheaper price than the tax he pays?—A. Yes, I would say that. And it's primarily because of the employer contribution.

Q. Another point that is sometimes mentioned as a hazard: Might an individual's stake in a Social Security pension be wiped out, in part, by inflation?—A. Well, as a practical matter, no—not to any major extent and not for any long period of time. As a matter of fact, this amounts pretty much to an inflation-proof system.

Now, I'm not implying that this is written specifically into law. What I am saying is that it works out to be largely inflation-proof, for two reasons: first, because of the way it is financed, and, second, because of Congress's record of raising benefits to offset higher living costs.

Q. What do you mean by saying that there is inflation protection in the way the program is financed?—A. It works this way: The contribution, or payroll tax, is based on the first $4,800 of the worker's pay. As wages rise, more and more workers earn enough to pay the maximum tax. Others in lower pay scales get higher wages than before, and pay more tax. Thus, the tax generates more income for the program.

On the other hand, because the benefit formula, as we discussed earlier, does not give as much to the higher-paid worker as to the lower-paid in relation to contributions, benefit obligations do not rise proportionately with increased earnings and the resulting increased income to the system. This tends to produce a surplus of income to the trust fund.

Q. How does that help the individual?—A. This way: Any surplus income to the fund provides a certain amount of leeway for Congress to raise benefits without raising the payroll tax. The effect is to give protection against inflation, particularly when you recall that wages in this country have, on the average, risen much more than prices.

Q. To sum up, would you say that pensions are secure against everything except runaway inflation?—A. I would say that pensions, in any event, are secure in terms of dollar amounts. I would think they are also safe in terms of purchasing power, because I would expect that Congress, as in the past, would make any changes necessary to keep benefits up with prices. I think that obligation is well recognized in Congress.

COVERED: 75 MILLION

Q. You mentioned the fact that nearly everybody in the country has a stake, direct or indirect, in the Social Security program. How many workers are covered?—A. In the course of a year, with people moving in and out of the labor force, slightly more than 75 million people make contributions to the program—that is, pay Social Security taxes. At any one time, 9 out of 10 workers are covered. Just about everybody is in the program. There are two major exceptions, first, federal employees, who have their own program; and, second, self-employed physicians.

Q. How many are drawing pensions?—A. About 19.7 million. That's one out of every 10 people in the country.

Q. Will the number grow?—A. Yes. It grows each year.

Q. And you seem to feel that these people need have no fear about whether the money will be available to pay these pensions as they come due in increasing numbers each year. Is that right?—A. That's right. Absolutely.

(End)

PENSION CAKE

By S. M. Thompson, F.S.A.

"Pension Cake" is part of a forthcoming book which Mr. Thompson (a former Vice-President and Treasurer of The Manufacturers Life Insurance Company) is preparing. It was written by Mr. Thompson before recent proposed changes in the Canada Pension Plan were announced by the government, but since we had already scheduled this critique as an insert in our February edition of the News Letter, and since Mr. Thompson asserts that the facts are fundamentally correct notwithstanding the new proposals, we decided to circulate his comments as planned. (We realize that certain of Mr. Thompson's figures may no longer be correct in view of the changes—if they are implemented.)

Not all of us who have responsibility for publishing Mr. Thompson's comments on the proposed Canada Pension Plan agree completely with his presentation; we do agree with the spirit of what he says and we admire his manner of saying it. We believe you will enjoy his style and that you will find his arguments thought-provoking.

(Supporting Mr. Thompson's opinions and the industry's, was a Financial Post article, February 1st issue, by Marian Ogden. Miss Ogden says: "Ottawa's new version of the Canada Pension Plan, instead of settling controversial issues and pacifying critics, has raised a whole new set of questions. And most of the old objections still stand... Unlike private pension funds, which are deliberately built up to meet known benefit objectives, Ottawa's newly conceived fund grew up accidentally (as a result of various benefit changes and shifting of financing methods) and is in fact subject to no plan.")

If the proposed CANADA PENSION PLAN is enacted, Canada will have a 3-layer Pension cake:

Old Age Security + Private Pension Plans + the CPP

This paper concerns itself with the new layer—the CPP. It is a lab report of the chemical analysis of the ingredients in this new layer. With the conclusions that this seemingly sweet and pleasing cake-layer is, in the process of disgestion, toxic to a pronounced degree.

Its effects on the consumer will be similar to that induced by a powerful stimulant—elation followed by depression.

The long-term effects are more serious; they will evidence themselves 25 or 30 years hence and are most apt to develop a near-fatal illness.

At that stage any treatment can only be of a temporizing nature—though there is, of course, the well-known superdrug "inflation" which would destroy the disease while the patient dies of the medicine.

As an Addendum, there is attached an analysis of the two existing layers—OAS and PPP—showing that these are wholesome and that PPP is especially nutritive.

THE CANADA PENSION PLAN

The Canada Pension Plan is a compulsory coverage of virtualy all civilian employees in Canada, aged 18 to 69. In addition the plan offers voluntary coverage to the self-employed, such as: professional people—doctors, lawyers and nurses; farmers and travelling salesmen; workers in casual employment such as cleaning women, fishermen, housemaids and farm laborers; some 6,350,000 persons in all—Canada's work force.

The pension benefit is 30% of average salary at age 70, with a death benefit to surviving widows of 60% of the foregoing. For full benefit at 70, a minimum employment record of 10 years after inception is required, but those now aged 60 to 69 can secure graded-down benefits of 9/10, 8/10... to 1/10 at age 69. A person aged 69, for example, may work 1 year and receive a monthly pension of $10 for life at age 70. Also, retirement may take place before 70 at reduced rates of benefit. For example, one may retire at age 65 at 67½% of full pension, 74% at 66, 80½% at 67; 87% at 68, and 92½% at 69.

The plan assumes that all boys and girls aged 18 and presently working, have in prospect 47 years of gainful employment—from now to age 65—but to cover periods of temporary disability—such as skiing accidents to the boys and child-bearing for the girls—or temporary unemployment for any reason, (with resultant wages zero), 10% time off is allowed in computing average salary, or 4.7 years. It at the inception of the plan you are 25 years old, you get 10% of 40, or 4 years off.

The contribution is 2% of salary or wages, 1% from employee, 1% from employer. Self-employed pay 2%. These are for the First Ten Years only.

After 10 years, one has a choice of "high" or "low".... see EXCURSIONS TO NEVER-NEVER LAND, following.

Like RICH and POOR RELATIONS BENEFITS and CONTRIBUTIONS ARE RELATED, but, BENEFITS and CONTRIBUTIONS ARE NOT EQUATED.

Example 1: Actual

I am already a pensioner under a private plan, aged 63, in fair health. To avoid boredom, I am an actuarial consultant in a small way. If I were to exert myself and earn $4,000 in fees in each of the next 6 years, I could draw a CPP pension for life at the rate of $720 per annum for which I would have paid $480 in total! As it is a 4 to 1 bet that I reach age 70, and then have excellent chances of collecting not one but ten years of pension, the temptation is well-nigh irresistible! Dare I deny my dependent wife the fruits of this extraordinary windfall —but if I don't deny her, dare I face my unmarried daughter and my son-in-law with his heavy family responsibilities, each on modest salary—knowing that almost every penny of my pension is paid by them or people like them?

Example 2: Hypothetical

The mysterious case of the CORPORATION EXECUTIVE and his SECRETARY. He is aged 60, makes $40,000 a year, is not on the horns of any moral dilemma about pensions, for he is obliged by law to join the CPP. He is compelled to pay $40 a year to it for 10 years if he stays on his job. For his contributions of $400 in all, he receives at 70 a pension for life of $1,200 a year! If he had bought it from the Government Annuities Branch, he would have had to pay almost 30 times as much!

His Secretary is POLLY POTHOOKS, aged 25, salary $4,000. She too is obliged to pay in $40 a year. Polly works for 10 years, then marries. When she leaves the office, she gets a certificate for a paid-up pension at age 70. For how much? $100 a month like her boss?... No, for $27.80 a month as long as she lives—past 70.

The Minister seemingly dismisses the inequity of pension return in example 2 by reminding us that at the inception of any pension plan, older people always present problems—and by inference, seems to suggest that time will wipe them out.

I suggest that we test this optimistic assumption in the History Lab.

Social Security is the NAME of the CONTRIBUTORY WAGE-RELATED PLAN in the United States. It came into effect there in 1937, and at the end of 1959 was 22 years old. All wage-related plans contain inequities at inception, but have these been eliminated after 22 years?

Hereunder is the record of 4 men, each aged 43 at the inception of the plan, and who retired at age 65 in 1959.

Note that their salaries or wages varied from "low" to "average".

4 Married Men: Retired at 65 in 1959

Average Monthly Earnings	The value in 1959 of All Future Benefits	Total Contributions	Windfall
$100	$12,460	$ 820	$11,540
200	17,740	1,840	15,900
300	22,170	2,490	19,680
400	24,490	2,590	21,900

From this history, it is evident that Time Does Cure Inequities!

On the contrary, time tends to compound inequities, when we now observe the steadily increasing premiums necessitated by this plan and the future prospect of this plan.

CONTRIBUTIONS

Initial contributions are deceptively low in wage-related plans. But here is the schedule of rates actually paid under the SOCIAL SECURITY PLAN in the UNITED STATES.

1937	2%	of contributory earnings
1940	2%	
1945	2%	
1950	3%	
1954	4%	
1962	6¼%	
scheduled for 1968	9¼%	

By 1962 the rate of contributions had trebled.

The plan was 25 years old in 1962, and at this point one of Canada's most eminent actuaries said:

"To help sustain the level of Social Security benefits now being paid out, the contribution rates are scheduled to a 50% increase by 1968.

"By that time many young men entering the labour force and their employers will be paying into the plan nearly double the amount they need to buy their pension in the PRIVATE ANNUITY MARKET".

What happens then?—Rebellion?—Collapse of Plan?—"unless these promises are hoisted further, with the cost hopefully saddled onto still younger brothers and sons".

—deferring the day of reckoning—

The key word is hopefully—and with that, we enter the never-never land of Population Projection, its age distribution, and explore the range of future pension premium rates.

For a description of this journey into the distant future, we now turn to the actuarial report of August 30, 1963 on the Canada Pension Plan, prepared by the Chief Actuary of the Federal Department of Insurance.

EXCURSIONS INTO NEVER-NEVER LAND

Why hopefully? In any estimate of future long-range costs under a wage-related pension plan, it should be evident that the single most important factor is the proportion of pensioners to workers and the trends therein.

The higher the ratio, $\frac{\text{pensioners}}{\text{workers}}$, the greater the cost.
The lower " " " lesser " "
An increasing ratio " rising costs
A decreasing " " reducing costs.

Observe our intrepid actuaries as they make their perilous journey into the Never-Never Land of Projected Canadian population. They in fact make 2 excursions.

FIRST EXCURSION

This is a bold and daring adventure—everything goes off just right. While mortality does improve, it is much greater among the worker and particularly among young workers; immigrants come in goodly numbers and stay, but most importantly of all, our girls maintain their present world record as baby-producers.

Remember Polly Pothooks and the formula on page 1? Everybody Polly's age gets 4 years off, to cover temporary disabilities, so average salary is based on 36 years of best salary! Fair enough; but in the case of Polly and her girl friends of the same age, CPP gives a particularly tough assignment! In the national interest and for the specific purpose of low cost CPP pensions we discover a fascinating suspense story of sex and social security—Polly and her pals must each produce 4 live babies—and this in their "time off". Can they do it? Of course they can.

THE PENSION PLANNERS SAY SO.

I am puzzled as to why the Minister of Health and Welfare, herself a woman, discriminates against her own sex and favours the boys.

DISCOVERY

1. Canada, between now and 2050, will have a population rise to 155 million!

2. The ratio $\frac{\text{aged 65 and over,}}{\text{" 20-64}}$ pretty constant around 15%, and trending downward to 14% in 2050!

RESULTS of this DISCOVERY—LOW COST pensions
net rates for wage-related benefits only

1980	1.82% of contributory earnings
1985	2.54
1990	3.10
2000	3.55
2005–2025	3.29
2030–2045	3.51
2050	3.56

Now, a prerequisite for the success of any wage-related contributory plan is that contributions must become flat or decreasing after a reasonable passage of time, after inception of the plan.

The above rates pass this test, for from 2000 on they are "flat" at about 3.55%.

If, therefore, we have reasonable confidence in the assumptions underlying these rates, viz. mortality, immigration and fertility (and unemployment ratios), a plan based thereon can be said to be actuarially sound in concept.

SECOND EXCURSION

The second excursion is undertaken with timidity and general distrust! Canada's population increases to only 45 million by 2050, and there is, moreover, a shocking discovery of failure on the part of Canada's young womanhood! Their baby-production rate has fallen away off their previous proud record. The result is that the all-important ratio of the elderly to the active workers has doubled.

The result is high and almost continuously rising pension costs.

	Percentage of 65 and over to 20-64 span	Net Cost
1980	15.7%	1.97% of contributory earnings
1985	16.4	2.76
1990	17.8	3.44
2000	17.1	4.07
2005	16.1	4.02
2010	16.0	4.00
2015	17.4	4.27
2020	19.5	4.82
2025	21.7	5.42
2030	23.2	5.91
2035	24.5	6.28
2040	25.9	6.62
2045	27.5	7.01
2050	29.0	7.43

These rates fail the test outlined above. A plan based thereon is consequently actuarially unsound in concept.

What does the Actuarial Report say about these two sets of rates, which are so widely divergent?

"For the long term, since many elements entering the calculations cannot be predicted with any degree of confidence, the 2 sets of estimates were produced...within which range the actual cost might be expected to "fall".

So in Table 8 of the Actuarial Report, the average of these 2 sets of rates are set out as indicative of the pattern of rates to be expected under the Canada Pension Plan. These are gross rates including related benefits.

1980	3.14%	2020	5.22%
1985	3.74%	2025	5.55%
1990	4.33%	2030	5.74%
2000	4.59%	2035	5.92%
2005	4.44%	2040	6.13%
2010	4.55%	2045	6.39%
2015	4.82%	2050	6.61%

These rates show almost continuous increase. As a consequence, young entrants and their employers will at some future date be paying some multiple of the sum necessary to buy the same benefit in the open market.

Under these circumstances, a plan based on the foregoing rates will then collapse due to the revolt of new entrants.

Consequently, the Canada Pension Plan is obviously actuarially unsound.

My criticism is of the Canada Pension Plan and the Planners, but not of the highly-qualified actuaries whose assignment was to interpret mathematically the scheme of the Planners.

The professional integrity of the actuaries of the Report is evidenced by their repeated warnings in Appendix 1:

1. "Clearly, when short-term projections made in the past for periods of 10 to 20 years have often been wide of the mark, population estimates into the long-term future cannot be expected to reproduce the populations that actually develop."
2. They repeat their warning by quoting from a 1957 population projection in the United States: "previous estimates of future fertility have generally been to low. It seems clear that a decrease must eventually occur since the population cannot go on increasing indefinitely. If present fertility rates continued to the year 2050, the total United States population would be over a billion. The most important question is when a decline will begin and how rapid it will be."
3. Their third warning is very strong: "Fertility rates are even more unpredictable than mortality rates!"

From 1921 to 1937 fertility rates fell continuously, total drop 32%.

From 1937 to 1946 fertility rates rose continuously, total rise 35%.

From 1946 to 1960 fertility rates have been constant, a birthrate of 26—27 live births per 1,000 of population.

Obviously our legislators have not read the warnings in the Actuarial Report, otherwise they would be aware of these.

TRAGIC POSSIBILITIES

1. CPP's enacment will immediately begin to cause grave injury to our economy. Many pension plans will be cancelled. Accumulated savings thereunder, (presently $7 billion, + yearly contributions + interest), constitute a major part of the capital demanded if Canada is to continue its development.

   The cancellation of plans will place large sums in former participants' hands. This suggests a "spending spree" and while this will provide a temporary shot-in-the-arm for the consumer goods industry, at the same time it will lead to an enescapable reduction in the availability of investment capital...a stuttering economy... with increasing unemployment and probable, eventual depression.
2. The not-unlikely COLLAPSE of the CANADA PENSION PLAN, possibly 25 or 30 years hence, would have UNIMAGINABLE CONSEQUENCES and might inflict a MORTAL BLOW to our Free Society.

S. M. THOMPSON, F.S.A.
Toronto, Nov. 1963

ADDENDUM

Now for the promised short laboratory analysis of the present two-layer cake.

O.A.S.

The basic layer is—Old Age Security—the flat monthly allowance (currently $75) to all at age 70.

Before its enactment in 1952, 1 out of every 2 persons aged 70 or more required and received "needs-tested" government public assistance. No doubt many more required it but were too proud to ask for public charity. These are the bitter fruits of inflation.

But 10 years later, 1962, "means-tested assistance" had shrunk to the point where only 1 in 10 was receiving it... and with the latest addition to the benefit the ratio will go down again.

I think that all can now agree that O.A.S. is fulfilling its originally announced purpose, viz. to place such a floor under private savings, that they, together with O.A.S. will give the most adequate security possible for the greatest possible number of Canadians.

As a result, the addition of the CPP top layer is completely unnecessary... it will replace and ultimately destroy the 2 present sound layers, O.A.S. and P.P.P.

P.P.P.

Private Pension Plans are actuarially sound in concept. This is because each member and his employer together pay exactly for what he, the individual member, gets, assisted by a third member in the partnership named Compound Interest. For a young man or woman, aged 25 at entry into a private pension scheme which pensions at age 65, interest pays no less than 60% of the cost, assuming 4% interest, compounded yearly.

Meanwhile, these people and all their pals in the scheme may take some satisfaction in knowing that they are building the highways of Canada and the hospitals for victims of the highways; high-rise apartments and slum-clearance low-rental housing; pipe-lines and corset factories... the capital assets of our modern industrial and commercial complex on which our existence depends.

Some say that the Canada Pension Plan may adversely affect private pension fund accumulation of savings, I say this is a certainty!

Many workers immediately would become overpensioned. For example, those earning an average salary of $4,000 generally have company benefits of half salary as their pension benefit—many have a greater expectation. So their company pension is $2,000; O.A.S. adds $900 a year... but now CPP promises $1,200 more. Total pension $4,100 at age 70... more than their average salary while working! This with the kids all educated and self-supporting and the pensioner's needs reduced to those of the wife and himself. He is obviously OVER-PENSIONED.

The obvious next step is to cancel the Company plan... CPP IS SO CHEAP!!!!! (The results of this development are covered under TRAGIC POSSIBILITIES.)

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WEEKLY FORUM OF MANAGEMENT IDEAS FOR INSURANCE EXECUTIVES

PRIVATE INSURANCE AND PUBLIC RESPONSIBILITY

By Raymond Moley, Contributing Editor, *"Newsweek"*

This forthright discussion of the correlation of insurance and public responsibility is the substance of the first address in the series of Clarence Axman Lectures, sponsored by the Clarence Axman Educational Fund, administered by the College of Insurance of New York City. Mr. Moley presented this as the luncheon address this week Thursday at the annual meeting of the American Life Convention in Chicago. Mr. Moley is eminent as original "braintruster" for the F.D.R. administration in the black 1930s and as an editor and columnist with unusual perspective and understanding of the inter-relations of business, government and people.

I am not here to carry coals to Newcastle. I know insurance only from the outside as a client and an observer. I have not come here to tell you how to run your business. If I can serve any purpose, I can only comment upon the area in which private insurance and government meet and also, indirectly, upon the public which both private insurance and official life profess to serve.

I hardly need tell you of the vast degree to which government has intervened in the business of insurance during the past few years. This intervention has taken two forms—regulation on the one hand, and competition on the other.

If I were to list and comment upon the many forms of government regulation with which insurance must deal, I would exhaust my alloted time on that subject alone. For the laws and regulations, state and Federal, have gathered around your operations with some of the stubborn inevitability of virile ivy growing upon a strong and healthy tree. As this network has accumulated, you have found some sort of uneasy accommodation with it.

For regulation is an aspect of government which has grown and developed over the centuries. Methods have been measurably perfected to guide and, when necessary, to restrain private business. A degree of such regulation is essential if individual enterprise is to survive.

But a few basic principles are pertinent when any form of regulation is considered by official authority:

1. Regulation is best when the regulating authority is closest to the regulated business. In this instance state regulation is or should be preferred over any Federal intervention. State regulation has proved to be best suited to its purpose. And may the time never come when that province of the states is taken from them by a Federal bureaucracy.

2. In all government regulation the public interest is best served when government tells business what it cannot do, rather than telling it what it must do. The lurking danger is when a government, itching for power and blind to its own shortcomings, attempts to substitute its judgment for that of competitive business in matters which are within the province of management. Here government has no guidelines of experience.

3. And most of all, those who do the regulating must themselves really believe in the ideal of a free market. This has not always been true in recent years.

The Competitive Factor. But direct competition by government with a private business presents an entirely different problem. Here government has little or no experience to guide it. To be specific, government has its limits and defects when it enters into direct competition:

1. Government lacks the basic means to determine a fair price for its product. That means is the market-place.

2. The capital upon which a government business depends is the illimitable credit of the government and coercive taxation.

3. A government business lacks disciplinary accounting factors such as taxation. For this reason and others, the concept urged in the case of public utilities—government-operated business as a measuring rod serviceable in maintaining fair prices—is fraud and delusion. But, thank Providence, insurance has not yet been officially declared to be a public utility.

4. The management personnel in a government business will, except in most unusual cases, be inferior to that employed in a private business. For arbitrary bureaucratic standards will prevail which will inhibit men and women of unusual talent and ambition from entering government service.

5. The political atmosphere in which a government must operate is the deadly enemy to efficiency and economy. Witness if you will the difficulty encountered in eliminating obsolete and unnecessary military bases and shipyards.

6. In the field which concerns us here, personal aid and security, still greater handicaps face government. One of these is the semantic habit of politics in appropriating honored names such as insurance for programs which are nothing more than government welfare operations providing benefits, props, and other outlays for which there is little prepayment and slight regard for future costs.

A New Channel. Except for veterans' benefits, disaster assistance, and certain protections for government employees, the role of the Federal government in providing personal aid is relatively new. Much of what we have now originated in the great depression and its aftermath. Some of these programs were for emergency aid, and some were intended to provide means for some future economic calamity.

These measures and programs were undertaken by the Federal government initially for a number of reasons. One was genuine need for assistance to people who were in no way responsible for their distress. This gave rise to a widespread demand for personal security. Local and state governments found themselves unable to meet their traditional responsibilities. Private philanthropy felt the pinch of higher taxes and falling incomes. And finally politics discovered that welfare payments were a profitable means of winning votes.

Thus, Federal welfare programs which originated in a great emergency achieved a permanence which was never contemplated. And despite the flush of war and postwar prosperity, the number of welfare agencies increased, and the proportion of the Federal revenues allotted to them burgeoned.

The Dollar Measure. There are various ways of measuring this growth dollar-wise, depending upon what you call welfare. I have, however, with capable assistance attempted to calculate this change.

In 1935, before the initiation of the social security program, there were eight separate Federal welfare programs costing, in that year, $3.9 billion. Ten years later, in 1945, despite the addition of new veterans' benefits and the early social security grants, this amount fell to $3.3 billion. However, in the following ten years, despite prosperity, the sum rose more than fourfold to $13.6 billion. In the five years that followed, the pace quickened. In 1960 the outlays were $23.3 billion.

Since 1960, the fast pace which I have just mentioned broke into a mad run. Welfare outlays rose from 1960 to 1963 by 31%. The amount was $29.9 billion. In 1964 it rose by one and a half billion. And according to calculations which do not include the so-called war on poverty, the welfare costs will go up another billion and a half. If that is the price we are paying for political welfare, it is easy to calculate what we shall pay in 1970 or 1980. That is, if medicare is not adopted. But if that is adopted, no one can tell.

In a very few years, however, the welfare budget will exceed the present military outlays plus atomic energy and space exploration. If we reach the moon meanwhile, the survivors of that trip will return to an entirely different nation from the one in which we are now living.

It is tempting to divert the course of these remarks to the concept of welfare as the major concern of the state—the welfare state. In learned books on that subject, mostly written in the past two decades in Britain, the objective is frankly stated as a plan to redistribute wealth. This, however, fails to take account of the fact that in the process of redistribution the wealth itself will decline. For as more and more are removed from productive work to support more and more to consume it, the well itself will dry up.

Defects and Perils. In December 1954 Louis W. Dawson, the president of the Life Insurance Association of America, delivered a notable address at the Association's annual meeting.

He recited in graphic detail the growth of welfare programs under the Federal government, laying especial emphasis on the social security system. He pointed to the defects in that system, the perils that lay ahead. He said:

"I am confident that, in this great country, we can all have real security, if we are willing to work for it and obtain it by stages that do not extravagantly pledge the future or disrupt the country's economy. But unless we guard against those dangers, we may go down in history as the generation which, instead of passing on a better and richer country to the next generation, as our forebears did, mortgaged the future of our children and grandchildren, to assure our own ease and comfort. The fact that we may have done it, not from malice or selfishness, but from ignorance or misguided generosity, will not mitigate the blame that future generations will heap upon us."

In conclusion he suggested that, while many studies had been made of various phases of the welfare picture, there was need of "a coordinated study of all phases of the problem, including its overall impact upon other elements of our economy." He said further that "In the present temper of the times we cannot turn the clock back. But it is not loo late to weigh future extensions in the light of our capacity to pay all those who enjoy the benefits."

I assume that he meant that the Federal government itself had an obligation to carry out such a reexamination of the programs it had created.

No Study Made. No such comprehensive study has been made, and I see no prospect that it will be made in the near future. I might say that any such study might well be so disturbing that the repercussions upon actual and prospective beneficiaries would be politically inexpedient. Or to take a more charitable view, government in both the Executive and Legislative branches is so busy finding new outlets for its generosity and in managing the mighty engine it has created that it cannot take time for a check-up. In this respect government is like the man who was told by his doctor to spend a week in the hospital for a thorough check-up. The man said he couldn't spare the time. He is dead.

Requiescat in pace.

Instead of time out for a check-up we have had, since Mr. Dawson made that address, five Congresses, and in every one of them we have had not only new welfare programs but the customary "broadening" of Social Security benefits. Over the years these extensions come in every election year. But in 1961 Congress threw in another as a bonus.

Social Security Growth. In the years since 1955 the expenditures in the Social Security system have risen above the total for veterans' benefits which, up to that time, occupied first place. In the five-year period from 1955 to 1960, the social security outlays rose over 100%. Old Age Assistance, a separate program, rose five fold from 1945 to 1960. This program, originally designed to help the elderly who had no equity in social security, was expected, by most of those who helped to create it, to decline as more and more equity was accumulated by new entrants to the system.

In 1945 the government paid the sum of $267 million to OASI beneficiaries. Later there was added assistance to dependents, and so the name of the program became OASDI.

The comments which immediately follow refer only to this program. Railroad retirement and unemployment deserve quite different treatment.

For as we face the future, OASDI will more and more dominate the welfare picture. It will, if present intentions of the President and Congress prevail, be the tree upon which new programs will be attached. Therefore, we must look to the basic soundness of this tree, the equity provided for those who enjoy its shelter, the roots from which it gets its nourishment, and its general impact upon the free economy, with special concern for other, private agencies which are aimed at personal security and aid.

This subject is so vast that in discussing it one is likely to be overwhelmed by his materials. Therefore, I shall limit myself to answering three questions:

1. Is this system financially sound?

2. Does it fulfill the elementary requirements of justice and equity for those who contribute and those who receive its benefits?

3. Does its history justify the assumptions of those who contend that this government, or any government, is able to plan such programs for the long future?

An Analysis. The unfunded obligations of the OASDI as of January 1962 were $330 billion. This was more than the national debt of the United States. Large as this is, it is only a part of the total sum of fiscal obligations which this generation is passing on to the future. In May 1962 Senator Harry F. Byrd submitted on the Senate floor a compilation of the obligations and commitments of the United States government. These were his figures:

Current authority to obligate, such as appropriations, balances, etc., estimated only through fiscal year 1963, beginning July 1, 1962: $188 billion.

Outstanding Federal debt in Treasury securities etc., estimated as of the beginning of fiscal year 1963 on July 1, 1962: $296 billion.

Promises to pay under contingencies specifically fixed in existing law, such as Federal insurance in force, guaranteed loans, etc.: $338 billion.

Other—including such moral commitments as unfunded accrued liabilities of Federal trust funds, securities issued by Federal agencies in addition to the regular debt, etc.: $420 billion.

The sum total of these commitments and obligations amunted at that date to one trillion, two hundred and forty-two billion dollars.

It may be too inflammatory to say that the social security system is $330 billion "in the red." A better way to say it is that this is the amount by which the present worth of benefits for present members of the system exceeds the present worth of the taxes (plus trust funds) payable by them and their employers. Also, it should be pointed out that future entrants into the system (and their employers) must pay taxes that will be sufficient to pay for their benefits and also to pay an amount corresponding to approximately 3½% interest on $330 billion. And this must be paid for all time to come if future generations are to get their benefits. The actuary to the Committee on Ways and Means, on the costs of the bill which was passed by the Senate and which died in conference, said this: "Under the Senate-passed bill it could not be said that the system would be actuarially sound."

Medicare, Too. If medicare in the form passed by the Senate and now made an issue by the President in the campaign were added, it would be probable that there would be added to the $330 billion present unfunded obligations $75 billion to $100 billion more.

A conservative way of viewing this is that these vast liabilities will be met only if future generations are willing and able to pay the excessive taxes which will be necessary.

While a series of increases in the tax on employer and employee enables the government to claim a balance between income and outgo at the moment, there are serious misgivings about further tax increases to meet increasing benefits in number and amount. Ten per cent has been regarded as the danger point.

Moreover, the assumption of continuing actuarial balance is founded upon many unpredictable factors such as a high rate of employment, rising population, increasing longevity, inflationary trends, and political pressures.

I have always had and still have grave misgivings about calling the reserves in the system "trust funds." For this reserve was created by purchasing government securities with the money in excess of benefits. I shall not, however, argue my case here at this time.

Basis for Study. W. Rulon Williamson, whom many of you know as a veteran actuary who spent many years with the Travelers and after that as actuary for the social security system, has suggested to me a rather neat analysis of the finances of the system, based upon the first fat seven years of the system and the last lean years.

During the first seven years, 1937 through 1943, the taxes yielded something like $5 billion. The benefits paid were $450 million. The trust fund grew to $4.8 billion. In the years 1957 through 1963 the taxes yielded $71 billion, and the benefits were $77 billion. Thus, the taxes collected grew 14 fold while the benefits grew 174 fold.

The foregoing are some of the points against the claimed fiscal and actuarial soundness of the system. To sum up, it will be just as sound as those who pay taxes and as those who impose those taxes are willing to impose the growing burdens which will be involved.

But if in the imposition of those burdens the inequities in the system become more and more apparent to those who participate in the system and pay the taxes, there will be very serious trouble indeed.

There are wide disparities in the benefits paid to individual recipients. Many are receiving benefits which can be justified neither on the basis of need nor of what their contributions have earned. I shall briefly cite some of these inequities:

A. The proposal to impose medicare upon the system is in reality the substitution of services for income. This is a denial of free choice. The government would in effect be telling a free people that they are not fit to choose the purposes for which they spend their income.

B. The absolute necessity that the government's annual revenue from social security taxes be at least equal to the benefits paid means that those coming into the working force now and in the future must pay more and more than those who paid in the past, to receive substantially the same benefits. And the periodical increases in the benefits by congressional amendments only theoretically can keep pace with the trend of inflation.

C. The use of the good word "insurance" is a gigantic hoax. For none of the requirements implied in insurance are present in the system as it stands. There are virtually no valid reserves to represent the participants' equities. There is no contractual obligations such as exists in a private insurance policy.

Those who expect that the benign pattern of a government which since 1945 has bestowed more and more benefits on more and more people will continue forever must bear in mind what might happen in a different economic and political climate. I can imagine some future economic crisis or some radical political upheaval in which these so-called moral obligations would be treated not merely as scraps of paper but as figments of political promises that cannot be kept. The whole contraption might be leveled and instead, without consideration of the equitable claims of those who have paid taxes, new legislation might be enacted to extinguish benefits entirely and instead provide only a dole for the needy aged. We must always keep in mind that a new regime can cancel out all obligations incurred by its predecessors.

A quarter of a century ago in a brilliant book, "The Promises Men Live By," Harry Scherman discusses with a wealth of historical detail how government promises compare in reliability with those of individuals. He says:

"The first of these considerations, honesty...plays so slight a role in the half-exchanges of government that it can be ignored, except in philosophical speculations. The cold fact is that men acting together in a community, large or small, are just as dishonest, just as unscrupulous in breaking their promises, as they dare to be at any one time. Governments always, small or large, will get away with what they can, up to the point at which the supremacy of the ruling power is endangered. No such thing as personal integrity, the satisfaction of being reliable, the shame of betraying faith, appear other than microscopically in goverment economics."

A century and a half earlier Adam Smith said that "Like an improvident spendthrift whose pressing occasions will not allow him to wait for the regular payment of his revenue, the State is in the constant practice of borrowing from its own factors and agents, and of paying interest for the use of its own money."

And that old Scotchman might say now, if he could witness the financial affairs of the social security system, that our modern successors of the kings and princes he knew so well have improved upon all the examples of the past.

D. Under the medicare proposal, employees who are "covered" by social security would be burdened with a considerably increased tax to pay for what is called a "social (or national) need"—i.e., hospitalization and other services for people over 65. If this is a "social" need, it should be paid by all, not by some of the nation's taxpayers.

E. Under the medicare proposal, employees would be compelled to pay for free services for everyone over 65 when it is apparent from the uncontested figures presented to the Ways and Means Committee that only about half the eligibles need the help.

F. For every employee who pays, the employer also pays. This employers' tax is mostly passed on in the price of the product. Thus, the employees are also paying in considerable part the employers' tax in the prices of the things they buy.

G. But since for competitive reasons some employers cannot raise prices, there would be great pressure on employers to eliminate jobs and thus increase unemployment.

H. R. J. Myers, Chief Actuary of the Social Security Administration, is quoted in the minority report of the Ways and Means Committee on the 1964 House bill:

"For those now on the rolls, it is likely that they would have paid, at most for about 10 per cent of the benefits actually payable to them." The fact is that people retiring today have by no means "purchased" their benefits. To cite a hypothetical case, a man with wife of the same age who retires in 1964 will have paid into the system since 1937 $3,516. He will receive a benefit expectancy of $32,000.

I. A somewhat different approach to the inequity of the system was pointed out in 1961 by Ray M. Peterson of the Equitable Life Assurance Society. He said that because of the growing debt "employee and employer taxes with respect to the average new entrant will always exceed the value of the benefits (such) a new member will receive...Today, the average new self-employed person is paying 20% more than the value of his benefits. The taxes payable by and in respect of the new entrant must forever be greater in value than the value of the benefits that the new member will receive. The price of social adequacy is perpetual individual inequity...

"Will an employer ask a private insurance company whether he can obtain larger benefits for new employees with the same joint employer-employee contributions? If he should ask me, this is what I would have to say. 'About 80% of joint employee-employer taxes involving your new employees is for old-age benefits for the employee, his wife or widow. The remaining 20% is for survivor and disability benefits before retirement. Depending upon the marital status and the sex of your new employees and the rate of earnings, this 80% of taxes would buy under an Equitable group annuity contract, at our present rates, 40% to 60% more in old-age benefits than are provided under the OASI system.' "

A Den of Inequities. This long list of inequities will ultimately raise what Ray Peterson has so aptly called "a din of inequities." For you can't fool even some of the people forever. The millions of people who are being exploited in this lopsided system of taxation will learn that they are at the little end of the horn of plenty and will clamor not for a relief from their servitude but for some equalizing system of benefits. And you may be sure that their outcries will be eagerly exploited by politicians. The result will be more benefits all along the line without any real overhauling of the system itself. Thus the system carries within itself the seeds of its own growth and its own badly adjusted scale of values.

My third general observation on the Social Security system is a comment on the whole concept of government planning for the future. Mr. Williamson, who I have already mentioned and identified, has supplied me with some comparisons between the figures anticipated by the government at the inception or during the early years of its operations and the actual figures which emerged later.

In 1962, the 26th year after the beginning, the actual income was four times what was expected, but the annual outgo was eight times what was anticipated. The actual ratio of interest receipts to tax receipts was four per cent instead of the 45 per cent expected. This was less than one-tenth of expectation. The increase in trust funds for the year 1962 was minus 1.4 billion instead of the plus 1.3 billion expected.

Thirty years ago and since, there has been a great hullabaloo about economic planning by government. As I have already said, government cannot plan an economic system because it hasn't the talent and it hasn't the market-place to text its information. These Williamson figures, are ample evidence of this inexorable fact.

Other "Aids." I have now reviewed in a general way the role of the Federal government in what is called welfare, with special emphasis upon the social security system. On the one hand, we have a miscellaneous collection of programs, mostly in the nature of personal aid, paid out of general revenue, and, theoretically at least, annually reviewed by committees of Congress. On the other, we have the social security system, supported by a tax on employer and employee alike, with benefits paid to eligible individuals as a matter of routine. There is a distinction here which is not an essential difference. For in neither case are the obligations contractual; they have none of the characteristics of real insurance, and both can be classed as welfare.

My purpose now is to stand off and view these as methods of personal aid generally, the problem that is presented as a matter of national and social policy, the moral considerations involved, and the impact of these outlays upon the character of the American people.

I can make my points more simply if we consider the prospective beneficiaries as composed of two categories, which I shall designate as Group A and Group B.

Group A, consists of individuals who have really tried to be self-sustaining and responsible, but who for reasons beyond their control have encountered misfortune.

Group B are met with misfortune because they have invited it. They have done those things which they should not have done and have left undone those things which they ought to have done. These are the irresponsible needy.

Group A qualifies for government aid as a matter of justice, or, if you will, social justice. Group B qualifies on the basis of compassionate charity, although this word "charity," sanctified over the ages, has now been outlawed in some of our states.

Distinction Made. Sound government policy should observe a distinction in the nature of the aid given, to the members of these two groups.

Aid to Group A is justified. Society, or in the context of our discussion here, government has a responsibility because in many instances society generally or industrial change, or physical misfortune is responsible for the misfortune. Also, as the philosophy of sound private welfare has conceived it, the help given is in the nature of ultimately making these people once more self-sustaining. The narcotic of help is withdrawn as the patient recovers. There is a certain stability in Group A. The law of averages and chance decree that if the help given is wise and far-sighted, the relative number of the people in Group A remains about the same from year to year.

So far as Group B is concerned, the help is given, or should be given, sparingly, not because society is responsible for the misfortune but (and this may seem hard doctrine) because society wants to protect itself, to prevent a festering element which might well undermine the security and well-being of the nation. A blot, as it were, on the community, imperiling its safety and security, and, for lack of a better word, public attractiveness. Well-ordered communities seek to keep beggars off the streets because they are a nuisance and an unsightly item on the landscape. The housewife gives food to the able-bodied tramp because she wants to get him out of town and out of sight, and also because she is afraid of potential reprisals if he is denied. Perhaps in dealing with Group B an element of morality enters the picture. For the Lord, it is said, is kind to spivs and drones, and we are all supposed to be doing the Lord's work.

To keep this distinction in mind should be a central concern of statesmanship, legislators and executives vested with the power of government. Their problem, our problem as citizens, is to see that our welfare efforts do not encourage the enlargement. Sound policy demands that Group B be not enlarged by encouraging the belief that self-help is unimportant, that indiscriminate aid will be given to the worthy and unworthy alike.

There are four factors, however, which in the case of Federal aid tend to enlarge Group B:

1. Federal help is administered by a vast bureaucracy, the center of which is far removed from those who receive the benefits. And even when such a bureaucracy operates through field agents and agencies, it is under directives which permit little discretion. The operation is hard, machine-like, impersonal. Even when, as is suggested as a corrective for this, Federal money is allocated

for state and local distribution, those who administer the aid are less concerned with economy and efficiency when Uncle Sam is paying the bill. The easy way is indiscrimate help when any government at any level is involved.

2. In the past half century, a sociological concept has gained wide acceptance that all individual failures are created by environment. This materialistic interpretation of human motivation has been assiduously taught in academic life and has well permeated the ranks of social "engineers." It is also a convenient tool in politics, as has been evidenced in the campaign for medicare. We are taught that a needs test is degrading, a "pauper's oath." A false intellectualism has cancelled out self-help and personal responsibility.

3. Politics considers one vote to be as good as another. It also thrives on the fact that the irresponsible are also easily managed. They are subservient to political influences.

4. Finally, we have the frail nature of man himself. Self-help is a fragile virtue. Life for many is far pleasanter when there is freedom from any consideration of future contingencies and need. The pressure to live for and in the present is very strong.

The larger that Group B grows, the smaller the number who must bear the burden of support. With smaller numbers producing national wealth, the greater the demands upon our national income, with rising outlays which can have no return in added production. And since an element of injustice is involved in indiscriminate aid which people close by can see, the greater the pressure on presently responsible workers to give up the struggle.

Federal welfare programs have conspired to that deplorable end. And no system which gives indiscriminate help can long escape disintegration, decay, and chaos.

Moreover, the penalty is paid also in the decay of political institutions. For the history of past civilizations tells us that a dependent citizenry lends itself to the malign designs of demagogues and dictators.

No Lack of Warning. There has been no lack of warning about the peril which is inherent in even as strong a democracy as ours. One hundred and thirty years ago, Tocqueville, a sympathetic observer of American democracy, said that we need not fear "tyrants" but "guardians." Under a government concerned only with welfare, he said, its people are reduced to nothing better than timid animals, with the government their shepherd.

There is an old French saying that the stairways of time are forever echoing with the sound of wooden shoes going up and patent leather boots coming down. It is obvious that most parents have the inclination to overindulge their children. But when the government itself conspires to follow the example of the misguided parent through a political policy on a national scale, the children of the poor as well as of the rich are made the victims.

These moral consequences are foremost among the counts against the ethic which through politics has become national policy. We may dissipate our material substance by waste at home and profligacy abroad. We may lose that respect among the nations which Americans earned when our power was but a fraction of what it is now. These losses would be recoverable under a government with different ideals.

But if in the course of protracted experiments our strong individual fiber and character are impaired, the loss is total, irrecoverable, absolute.

Should Tell the Facts. I hesitate to leave these remarks on this grim note.

I am addressing today members of an enterprise which over the years has been the very home of responsible management and concern for the society of which it is the servant and an integral part. It has repeatedly and consistently in its emphasis upon thrift, foresight, and responsibility contributed mightily to the end that the disastrous moral consequences that I have described might not be visited upon this nation. Insurance companies and their great army of agents constitutes a powerful educational force reaching into every corner of the nation and into every level of society. The confidence of the American people is evidenced by the vast number which has entrusted its savings into your hands.

Specifically, I suggest that this educational potential be directed not just toward the appeal to individuals to protect themselves, but that it should also provide in greater measure the essential facts which bear upon the protection and security of the nation.

This does not mean that it is an industry's business to enter the political and ideological struggle. We need a vast crusade for the strengthening of the virtues of self-help and also responsibility for looking to the fiscal and moral security of the nation. This is a quite proper, legal and essential function of what we call public relations.

Finally, I recall to your minds the suggestion made ten years ago for a broad and impartial examination of government welfare generally and the Social Security system in particular. We need something more than the hurried efforts of Congressional committees to review government welfare. What is needed is a panel of distinguished and non-political Americans for a check-up before it is too late. The postponement of the 1964 bills enlarging social security has provided a breathing space. After the election there will be less insistence upon shouting the pros and the cons in this subject from the soap boxes of the nation. Let us have the delineation of sound and understandable facts from an unimpeachable source. And the insurance industry, with other respected and powerful forces, can promote the necessity for such a survey. This, it seems to me, is an order of business for which there is an imperative need.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964-1965

SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS

Appointed to Consider and Report upon Bill C-136, An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

Joint Chairmen: Senator Muriel McQ. Fergusson and Mr. A. J. P. Cameron (*High Park*).

MINUTES OF PROCEEDINGS AND EVIDENCE

(Meetings held during the adjournment of the Senate and of the House of Commons, as of January 12, 1965.)

No. 13

WEDNESDAY, JANUARY 13, 1965

WITNESSES:

Messrs. G. N. Watson, F.S.A., J. E. E. Osborne, Technical Adviser to this Committee, and from *The Canadian Life Insurance Officers Association,* Messrs. H. L. Sharpe, B. T. Holmes, D. E. Kilgour, G. R. Berry, G. E. Brown, J. M. Linnell, J. W. Popkin, J. A. Tuck, Q.C., F. C. Dimock, R. A. Nix, M. K. Kenny, J. L. Clare.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

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MEMBERS OF THE COMMITTEE FOR THE SENATE

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and honourable Senators:

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Croll
Denis
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Smith (*Queens-Shelburne*)
Smith (*Kamloops*)
Stambaugh
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MEMBERS OF THE COMMITTEE FOR THE HOUSE OF COMMONS

Mr. A. J. P. Cameron M.P. (*High Park*), *Chairman*

and Messrs:

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Basford
Cantelon
Cashin
Chatterton
Côté (*Longueuil*)
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Knowles
Laverdière
Leboe
Lloyd
Macaluso
Monteith
Morison
Munro
Perron
Prittie
Rhéaume
(Mrs.) Rideout

Maxime Guitard,
Clerk of the Special Joint Committee.

(Meetings held during adjournment of the House)
(As of January 12)

MINUTES OF PROCEEDINGS

WEDNESDAY, January 13, 1965
(22)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan met at 10:30 o'clock a.m. this day. The Joint Chairman of the House of Commons section, Mr Cameron (*High Park*), presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Croll, Fergusson, Lefrançois, McCutcheon, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh (8).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Gundlock, Howe (*Wellington-Huron*), Knowles, Laverdière, Leboe, Lloyd, Monteith, Morison, Munro, Prittie, Rhéaume (21).

In attendance: Mr. H. L. Sharpe, President and Managing Director, The Northern Life Assurance Company of Canada, London, Ontario, and President, The Canadian Life Insurance Officers Association; Mr. M. K. Kenny, President, The Excelsior Life Insurance Company, Toronto, and First Vice-President of the Association; Mr. B. T. Holmes, Vice-President and Chief Actuary, Confederation Life Association, Toronto, and Chairman of Association's Old Age Security Committee; Mr. D. E. Kilgour, President, The Great-West Life Assurance Company, Winnipeg; Mr. G. R. Berry, Vice-President and General Manager, Metropolitan Life Insurance Company, Ottawa; Mr. G. E. Brown, Senior Vice-President, Sun Life Assurance Company of Canada, Montreal; Mr. J. M. Linnell, Group Manager, The Standard Life Assurance Company, Montreal; Mr. J. W. Popkin, Economist, Sun Life Assurance Company of Canada, Montreal; Mr. J. L. Clare, Assistant Group Actuary, Confederation Life Association, Toronto; Mr. J. A. Tuck, Q.C., Managing Director and General Counsel, The Canadian Life Insurance Officers Association, and Mr. F. C. Dimock, Secretary of the Canadian Life Insurance Officers Association; and Mr. R. A. Nix, Actuary; and also Mr. J. E. Osborne, Technical Adviser to this Committee.

The Committee resumed its questioning of the witnesses.

It was agreed unanimously that a document intituled "1961 Average Incomes of Non-Farm Individuals" be filed with the Committee.

And the examination of the witnesses continuing, the Committee adjourned at 12:30 o'clock p.m. until 2:30 o'clock p.m. this day.

AFTERNOON SITTING

(23)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan reconvened at 2:30 o'clock p.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Honourable Senators Croll, Denis, Fergusson, Lefrançois, McCutcheon, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh (8).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Howe (*Wellington-Huron*), Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro, Perron, Prittie, Rhéaume (22).

In attendance: The same as at this morning's sitting, and also Mr. G. N. Watson, F.S.A.

The Committee resumed its questioning of the witnesses from the Canadian Life Insurance Officers Association.

Their examination being completed, the Chairman thanked them and a vote of thanks and appreciation was extended to the delegation on motion of Mr. Munro, seconded by Mr. Monteith and agreed unanimously. The witnesses retired.

Then Mr. G. N. Watson, F.S.A., was called and examined.

The Committee agreed unanimously to print as appendices to this day's Minutes of Proceedings and Evidence, the following briefs by;

(1) Mr. G. N. Watson, F.S.A. (*See Appendix A5*),

(2) Professor Donald C. MacGregor. (*See Appendix A6*).

His examination being completed, Mr. Watson retired after the Chairman had thanked him for his contribution to the deliberations of the Committee.

And on motion of Mr. Munro, seconded by Mr. Lloyd, it was agreed unanimously that a vote of thanks be extended to Mr. Watson.

At 5:13 o'clock p.m. the Committee adjourned until 10:00 o'clock a.m. on Thursday, January 14, 1965.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, January 13, 1965

The CHAIRMAN (*Mr. Cameron*): We have a quorum, ladies and gentlemen, and I think we might as well get under way as quickly as we can. There are no announcements to be made that I know of according to the memorandum in my hand. Mr. Cashin wants to ask a supplementary question, and Mr. Knowles wants to ask one. Then we have Mr. Monteith, Mr. Cantelon, Mr. Côté (*Longueuil*), Mr. Leboe, Mr. Macaluso, and Mr. Morison. This is still the first round.

Mr. MONTEITH: Yes, this is still the first round?

The CHAIRMAN (*Mr. Cameron*): Yes, we are still on the first round.

Mr. CASHIN: I would like to continue asking the line of questions I was concerned with when I was interrupted last night in order to permit a supplementary question by someone else. I shall try to be reasonably brief. I am interested in the association's dismissal of the Canada pension plan and supplementary benefit in paragraph 70 by likening it to a retirement benefit. Are you not aware that the formula for supplementary benefits is quite different from that for retirement benefits, and with the rate or basis of those benefits? If not, why is it implied that supplementary benefits are tied to the earnings record, if there is a directly proportionate relationship between such benefits and earnings?

Mr. B. T. HOLMES (*Chairman of Old Age Security Committee, the Canadian Life Insurance Officers Association*): The association is quite aware of the flat benefit portion of these benefits. Ever since, I think 1958, with the old age security, we have been suggesting to the government in the first instance through Dr. Clark that there should be an effort to extend the uniform benefit into this area. We are pointing out, as we do point out in the Canada pension plan addition to the old age security plan, that an income related plan does have these drawbacks to which we refer.

Mr. CASHIN: Yes, but once again I do not know to what end you are talking. You are separating the two completely. I think we have to treat them as one: the earnings related portion and the insurance portion of social security. When it suits your purpose you go the other way in everything, and you ride a horse in the opposite direction, such as when we talked about bonuses last evening. You talked about them in the realm of the part that is insurance, but you cannot have insurance with social security if you do not have benefits.

If I should die tomorrow, the senator will have subsidized me. If he has paid in his pension for 35, and if I died, then I would have been subsidized. I think I have proved my question. What is the point of all this? We look to people who have been involved in this business and are coming before us, and when you say that other countries have done this sort of thing, we say that there are many people in this country who do not have such a direct interest in the profit and loss aspect of it as you do yourselves, who want this sort of thing. But why can we not talk about it with a little more feeling, believing that you people are just as interested in the welfare of Canadians as we are?

Mr. D. E. KILGOUR (*President, The Great-West Life Assurance Company, Winnipeg*): I think we are, and if there is any misunderstanding, it is an intentional one. As I see it, this bill constitutes—we use the word welfare plan, because we speak of welfare benefits to employees of a firm covering the whole range in regard to death benefits, disability benefits and all these things that we speak of as welfare benefits. This plan sets out to raise $600 million a year, and then to re-allocate it among Canadians in a manner described in the bill. The main burden of our brief is that after examining this redistribution, we do not think it is the kind of distribution that Canadian people can live with. When you refer to too much going in the way of pension benefits to those in the higher salary group, we think that is one marked inequity; and similarly in the case of death and disability and supplementary benefits, it will be exactly the same.

Suppose a man who is earning over $5,000 a year is killed in an accident. His wife and children may draw benefits of $168 a month. But should a man be killed in the same accident who is unemployed and not a contributor, then his widow will get nothing. We suggest that this is a very harsh distribution of the total welfare moneys available under the provisions of this bill, and that there could be a better plan to give more to more people who need it, then by this distinction of being in or out, or being over $5,000 so that we may get the maximum benefit. What we are trying to do is to suggest a different distribution of this fund among Canadians, since we have had considerable experience in this field.

Mr. CASHIN: How can you in one breath reject the plan and then accept it in any kind of serious way, in your individual objection to the plan? For example, we went back last night to about a ten year maturity period. Surely if you do not extend the basis or principle of the plan, then any dicussion about it becomes superfluous.

Mr. HOLMES: I would like to make a three fold answer, if I may.

The CHAIRMAN (*Mr. Cameron*): All right, Mr. Holmes, go ahead.

Mr. HOLMES: Surely the committee realizes that we are saying to them that there should be a better approach to the addition to the present old age security plan. For a matter of six or seven years, we have been advocating an addition in this area through an addition to the uniform benefit plan. We are quite well aware that speeches have been made suggesting that people around Kapuskasing and on marginal prairie farms and in the outports may be wallowing in luxury on old age security benefits. There has been that suggestion. We would like to call the attention of the committee to three facts about the general position. We think it would be fair for Canadians as a whole if parliament approaches the question on the basis of seeing what can be done and extending the uniform benefit plan.

First of all, the bureau of statistics figures show that old people over 65 living in what are classified as urban areas, that is, groups of 1,000, 10,000 and 100,000, and a million, are 70 per cent of our old people, and that that figure has increased between the last two censuses by 7 per cent. It seems fairly certain that by the end of this decade the number of old people in urban centres where they have a public water supply, public sewage disposal system, wil be in this class of 75 to 80 per cent. We think this is good. But what about this 30 per cent dropping to 20 per cent who are on the outskirts of our industrial civilization? Some of us are a little familiar, it may be, with the outports or marginal prairie farms, and with some of the rural areas of Ontario. We know something about conditions. We know that their cash income is not too great. You may grow your own food or catch it; you may repair your own house or barns, you may get water from your own well and clean out your own backhouse. But now when you are 70, it is not so easy to catch or grow your own food, repair your own house, fetch water from your own well, or clean out your own backhouse.

When we were young, young people would help out, yes. But young people today are going to the cities. There are many people from the outports of Newfoundland who are working in our factories and offices right here in Ontario. It is not so easy. What are we going to do, the aged say to themselves. Are we going to finish our battle here in the sticks, or hop off to the nearest town? We think that the people in this condition merit your consideration. And one final thing—and I am back to statistics now—I think I have given a reasonably fair description of people in the difficult areas with not too much cash income as in rural Ontario. But one final thing; I did give the committee a figure from the bureau of statistics yesterday for Canada as a whole indicating that urban dwellers in the retirement ages of 65 and over—the 70 per cent running up to 80 per cent—were living on an average income 43 per cent less than that of persons of working age; whereas the people over age 65 in these marginal non-urban non-farm areas seem to be on an average income 52 per cent less than that of persons of working age in those areas. I look at Newfoundland and the question of the outports. Are these people being too well treated? Very well. But the information so far suggests just the opposite. In Newfoundland the average income for persons in urban areas aged 15 to 64 is $2,900. For 65 and over, it is $1,400. This is a drop of about 50 per cent.

Mr. FRANCIS: Are these for the heads of families, or for personal income?

Mr. HOLMES: I will have to get you the table. We can furnish you with the table. Once again, I am in Mr. Kilgour's position; I will have to get the exact information. Perhaps Mr. Dimock will give the source when I am through.

All we say is that this is the information we have at the minute. We wish the committee would ask the Dominion Bureau of Statistics and see what is the situation.

In the rural non-farm areas of Newfoundland the income for those of 15 to 64 was $1,740 and for those of 65 and over—and this includes the old age security—in 1961 was $846, again a drop of 51 per cent.

We think that if the two retired groups are living on half the average income of the working people, the older people in the lower income areas probably need some additional consideration.

Mr. F. C. DIMOCK (*Secretary, C.L.I.O.A.*): These are average incomes of non-farm individuals.

Mr. FRANCIS: This will be for heads of families and not average per capita income?

Mr. DIMOCK: No, this is non-farm individual income.

Mr. HOLMES: Have you the exact table?

Mr. FRANCIS: It is not per capita income?

Mr. DIMOCK: It is Bulletin No. 4—4.1 of the 1961 census.

Mr. HOLMES: We will give you the information, and we are sure this committee will check with the Dominion Bureau of Statistics.

Mr. DIMOCK: I can file the table.

The CHAIRMAN (*Mr. Cameron*): Do you want it filed, Mr. Francis?

Mr. FRANCIS: Yes.

Mr. CASHIN: As I said yesterday, you confuse the problem of security with the problem of low income groups generally. It remains as a fact, despite what you have said, that the people under this arrangement with the Canada pension plan and old age security receive in their retirement years a higher proportion as a pension in relation to their lifetime income. The problem with these people is to have them more productive so they can earn a higher income. I think we should so arrange it in this land of plenty, where we cannot tolerate much longer a situation in which these conditions exist, and aim toward the day when these people will be more productive, because the private insurance companies obviously can do nothing for them.

Mr. HOLMES: You are asking me a question and I do have a reply to this question.

Again, we call the attention of the committee to the fact that you have at the present old people in the outports, and around Kapuskasing and around the prairie farms who are a part of the Canadian community. Their sons and daughters have moved in—as Canada wishes them to, I think, to some extent—to the towns and the cities. We are quite certain that their sons will marry our daughters if Canada continues to be the sort of country it has been, and their daughters will marry our sons. They are a part of the community, and we think they should be considered by this committee along with all other parts of the community.

Mr. CASHIN: The opposite of that must hold true too, because we do not consider the others then. However, I would like to draw to your attention the fact that Newfoundland has the highest natural increase of population of any part of Canada; and the only conclusion one can come to is that the proportion of the population emigrating from Newfoundland to the cities is very low. People are continuing to live in Newfoundland; and they are continuing to live a better life in Newfoundland.

Mr. AIKEN: Mr. Chairman, I would like at this point to raise a question of order.

Yesterday you gave me the privilege of starting off the questions, and you asked each member to restrict his line of argument to five or ten minutes, which I believe I did. I think a good many of the other members have also done so. We have several hon. members here who have not even had the chance to ask one question yet; some members of the committee have dominated it both yesterday and today. I think we should in conscience give some of the other members of the committee a chance to ask at least one question.

The CHAIRMAN (*Mr. Cameron*): I was going to reach that point right away, Mr. Aiken. I think Mr. Cashin has had a very fair opportunity. I will let him ask just one more question. I have the schedule in front of me, and I think I will be able to see that everyone has a fair and full opportunity of asking questions.

Mr. CASHIN: I would like to ask why you did not provide supporting figures for page 7.

Why is there no date attached to chart I?

Is it correct that chart I applies to the year 1976 or later?

Has your association projected both the gross national product and the total population of Canada and the United States for the next ten years?

Has it been assumed for the case of the United States as well as for Canada that the husband and wife are of the same age?

Is your association aware that the average age of wives is generally two or three years less than the average age of husbands?

The CHAIRMAN (*Mr. Cameron*): That is a series of questions, Mr. Cashin.

Mr. CHATTERTON: And all well prepared.

Mr. LEBOE: Perhaps Mr. Cashin could file the questions for later reply.

Mr. CASHIN: On this whole business of questioning, Mr. Chairman, I would like to say that we should not just take into consideration the instance of one meeting of a committee. I have been a fairly silent member of this committee for about a month. If you care to look at the total of the questions asked in a month you will certainly see that I have been quite silent in comparison with Mr. Aiken, Mr. Monteith and Senator McCutcheon.

Mr. AIKEN: You have made up for it today.

The CHAIRMAN (*Mr. Cameron*): We have had a discussion of the steering committee and it has generally been understood that each questioner, in fairness to others wanting to ask questions, should try to confine himself to a maximum of five minutes and then, if he does not get all his questions asked in the five minutes, he would have an opportunity to carry on in a second round. Some members have been longer than that, but that is my fault as Chairman for not calling it to your attention.

Can you supply Mr. Cashin later on with the answers to this series of questions, Mr. Holmes?

Mr. DIMOCK: I would be prepared to answer them, but I would appreciate it if Mr. Cashin would read them back one at a time.

The CHAIRMAN (*Mr. Cameron*): I think we will wait until Mr. Cashin comes up on the second round.

Mr. CASHIN: I will defer to the wishes of the committee. The questions are on the record.

The CHAIRMAN (*Mr. Cameron*): I have on my list Mr. Knowles for a supplementary question, and then he is listed again for the second round.

Mr. KNOWLES: I believe this is a supplementary question; stop me if it is not.

The purpose of the supplementary question is to try to see if we can understand the difference in approach between the position taken by the delegation and the position represented in Bill No. C-136. I would like to get at it in this way. Let us suppose we were to accept the recommendation of your brief; what would be our position? As I see it, we would discard the present Bill No. C-136 and, instead, we would make certain amendments to the Old Age Security Act and consider certain other changes as well.

Is it not a fact that as a result of accepting your proposals we would then be in the position that we would have improved the basic pension position of people between 60 and 70 but that we would not have improved—would not have changed at all—the pension position of those over 70? I recognize that you suggest in paragraphs 67, 68, 69 and 70, and so on, certain other matters that might be considered, but does it not all add up to the fact that your approach, as life insurance people, is that government should concern itself only with providing a minimum floor of security, whereas the approach of this bill suggests that we want to start providing more adequate security? And that is basically the difference between having only a flat rate program and having a flat rate program plus an earnings related program.

Lest you think I am implying something, let me lay it on the table right away so there is no secret about it. It does look to me a little as though you in the life insurance industry want government to provide the basic minimal pension arrangements, but you want to leave to private arrangements the supplementary pensions or the kinds of pension that bring things up to a level of adequacy. This is not the time to argue, Mr. Chairman, and my position is pretty well known, but is that not getting at an understanding of the difference between us?

Mr. HOLMES: No. It is not the difference between us, by the way; it is the difference between our recommendation in this brief and Bill No. C-136, as you said originally.

Mr. KNOWLES: That is what I mean.

Mr. HOLMES: We do call your attention to the fact that the reason we have only suggested a study of the area over age 70 is that we do not feel the information we have, while it suggests things to us, is adequate enough to move on. However, we are quite satisfied that this committee could very quickly secure information from the dominion bureau of statistics to form a judgment. I was asked last night for our views about the amount, and I must give the same answer that I am sure the record of 1950 will show was given by us at that time. We did not feel it was our office to recommend the actual amount but that it was the function of parliament, with advice received from different directions, to try to balance what they thought the community should do for the older people as a community effort against the cost to the community.

We are all part of the same working force in the community. We would regard the main difference in principle not the actual amount, which we feel is something which parliament ultimately must take responsibility for, that is, balancing the needs of the older people, considering what they have been able to do for themselves through their own efforts, and what the working people are prepared to do by way of community effort. But, we would regard the main difference of principle whether Canada in approaching this problem has examined the problem of everyone in the community and, at least, considered them all on one basis until such time as it has very strong reasons to feel that some should be treated better than others; or whether Canada will start out on a new course which we view with great concern, when we look into our own extensive family relationship and business relationship, and consider how this proposal affects people that we know.

Mr. KNOWLES: I think I can say that we are understanding each other now even though we may differ. I note that you have me down for the second round but I still have one question to put at the present time. Is it not still a fact that if we did accept your proposals we would have made certain improvements in the age 60 to 70 group and in doing so we would have raised and redistributed $300 million or $400 million, but we still would have with us as a parliamentary committee, or as parliament, the problem of trying to provide adequate pensions, and I use that word implying that I do not think $75 a month is the amount of pension that we should be settling for in terms of the cost of living today. Would we not have to devise some other legislation to meet that problem?

Mr. HOLMES: We would have thought the general avenue of this legislation or this legislation amended is the fair method of trying to deal with the problem. We tried to say that we realize this is the responsibility of parliament and, indeed, a very difficult responsibility of parliament. But, we do not think we can get away from it by promising very large benefits in the future to a part of the community; we have to look at the community as a whole, face what the cost is of doing whatever we are considering doing in the community as a whole, and I am sure this is a very difficult responsibility of parliament. They would have to balance the one against the other.

Mr. KNOWLES: But you would support substantial increases.

Mr. HOLMES: In that connection we have said we think you must obtain additional information. We have given you what we think is a fair comparison, which seems to indicate that Canada's treatment of the aged compared with, let us say, the people with whom we are in greatest contact and with whom we do most of our trading, is better than what is going on in the United States and the United Kingdom as far as the amount of benefit is concerned. There may be some disagreement in this connection, but you can acquire that information. On the other hand, we recognize there are reports indicating that old people in Canada are having considerable difficulty with the present benefits.

Mr. KILGOUR: Mr. Chairman, if I could speak in response to Mr. Knowles' question. I think, Mr. Knowles, your analysis was quite accurate.

The proposed Canada pension plan will allocate $600 million a year to commitments to the working population under, let us say, age 65. The problem of the present old people, the problem of the present widows, still remains to be solved by parliament. So, under the proposed Canada pension plan this business of raising basic incomes and the suggestion of $370 million a year is only a partial answer to the question. But, this bill spends $600 million a year in future promises or commitments.

Hon. Mr. McCUTCHEON: The word "promise" is the better word.

Mr. KILGOUR: Now, if we have a problem, as we think we do, that we have many people in the community who are now in the 65 or over bracket, with insufficient income, this problem will remain to be dealt with by the parliament one or possibly two years hence; but I think our view would be that $600 million being committed is not going sufficiently in the correct directions and parliament again is left with the question of what to do with the present old people and widows in respect of whom no provision is being made in the proposed Canada pension plan.

Mr. KNOWLES: So far as you are concerned the problem of all those under 70 needs to be solved.

Mr. KILGOUR: We would improve them to the degree which one would give priority to social security, and parliament can lead in this area by considering what it is doing for the old people, looking into its responsibility for education and all the other things, as well as all the bills that come to the door of parliament.

Mr. FRANCIS: Are you recommending an increase in old age security now?

Mr. KILGOUR: Well, that is up to the wisdom of parliament.

Mr. PRITTIE: Mr. Chairman, I have a supplementary question in respect of a question which Mr. Knowles put.

The CHAIRMAN (*Mr. Cameron*): Would you proceed with your supplementary, Mr. Prittie.

Mr. PRITTIE: Mr. Knowles put a question which has not been answered yet, and I will ask that it be answered.

Mr. Knowles posed the question: Does the delegation feel that the government should be in the field of the proposed contributory pension plan, up to the age of 65? Mr. Knowles suggested that perhaps the view of the delegation was that the government should not be in that field but rather the basic old age security field. Would you answer that question?

Mr. G. R. BERRY (*Vice President and General Manager, Metropolitan Life Insurance Company, Ottawa*): It seems to me that what we are doing is confusing the number of dollars and the principle that is in the scheme. I refer you to paragraph 56 of the brief, in which we pointed out that the adjustment of old age security was a continuing responsibility of parliament and under continuing study by an advisory committee. Whether the amount should be increased at the present time and by what measure is something which someone should sit down and look into. This we did not think was our responsibility at this point. Now, you ask if we are oposed to the government being in a contributory pension plan because it is taking some of our business, our answer to that is no. If the government decides to produce the necessary degree of care for the aged which cannot be secured in any other way we are not opposing it. But, this is my fourth effort at trying to explain that the principle on which this contributory scheme is being set up is wrong. The key matter is how can you do better the things you want to do better through the type of benefits you now already have. I think I talk reasonably plainly but, as I say, this is the fourth time around, and we keep coming back to it. There is this misunderstanding about what it is we say is wrong with the program. We are talking about the money you are taking and, as Mr. Kilgour pointed out, and as we do in paragraph 56, you cannot regard this particular program as something existing in a vacuum because you face a host of other demands. Mr. Knowles could tell you a dozen things which he thinks should be done in Canada. It will take $600 million for this one thing, but have you taken it for the thing which the country needs most?

The CHAIRMAN (*Mr. Cameron*): Thank you very much. I think the question has been fully answered. I understand fully now the difference of opinion.

Mr. AIKEN: Mr. Chairman, may I ask a supplementary question which, I think, all members of the committee would be interested in hearing.

The CHAIRMAN (*Mr. Cameron*): Supplementary to what?

Mr. AIKEN: To Mr. Knowles question. I thought he was about to ask this particular question. We have heard the delegation set forth what they believe to be a large number of inequities of errors in this plan. My question is this. In their opinion, can the plan that is before us, Bill No. C-136, be amended to meet the major objections they raise, or should it be completely recast? Must it be completely recast before their objections can be met.

Hon. Mr. CROLL: With all due deference, may I point out to Mr. Aiken—and I am not complaining—that I put that question when we first started our deliberations, and I received no answer. So, I have been quiet since, waiting to see if an answer would be forthcoming.

Hon. Mr. MCCUTCHEON: You may get it now.

Hon. Mr. CROLL: From you, but I will not accept it that easily.

Mr. KILGOUR: Mr. Chairman, if I could answer that point, I thought I said, in reply to Senator Croll's question, that this was like an airplane, and if it does not fly you will have to redesign it. Certainly I will express the view that in order to satisfy the deficiencies in this plan and its grave errors one would have to start afresh in order to remedy it.

The CHAIRMAN (*Mr. Cameron*): Mr. Monteith has the next question.

Mr. MONTEITH: Mr. Chairman, my question, I presume, has been answered. It is the one I was thinking of originally some time yesterday afternoon. I was thinking of the recommendations. We had discussions on portability, indexing, and its possible effect on the economy, and the fact that the basic figure used in the recommendations is $75, which is the present basic old age pension. I do not believe that these recommendations have been properly put before the committee in the form in which they were presented on page 25. I wonder if it would not be well to have on the record a brief summary by Mr. Holmes of these points as they do appear in the recommendations.

The CHAIRMAN (*Mr. Cameron*): My idea was that we might ask Mr. Holmes to sum up, if he wanted to.

Mr. MONTEITH: At some stage I would like to see a summary of the recommendations.

The CHAIRMAN (*Mr. Cameron*): Would you be prepared to do that, Mr. Holmes?

Mr. HOLMES: I feel we have presented them in the brief as briefly as we can.

The CHAIRMAN (*Mr. Cameron*): Whichever way you wish to do it. It may be that you want to return and then send another summary down which could be included in the proceedings.

Mr. HOLMES: In our preliminary presentation we did discuss whether I should read to you some of the recommendations. We have spent a great deal of time trying to make them as brief as we could, and we decided yesterday we should not do that. I can do it as we conclude today, if you wish.

The CHAIRMAN (*Mr. Cameron*): Is that satisfactory to you, Mr. Monteith?

Mr. MONTEITH: Yes, Mr. Chairman.

Mr. CANTELON: Mr. Chairman, like some of the other members, by the time you get to me most of my questions have been asked. I had five questions and they have all been asked in one form or another. However, I would like to make a comment. I was much disturbed by what I consider the very antagonistic attitude taken by some of the members towards the presentation of this group. I consider, and I think we all do, that the insurance industry is one of the main factors in our economy, and naturally they would not be here if they did not feel they could offer us some suggestions which might lead to improvements in the pension plan. I therefore think we ought to give them sympathetic treatment, whether we agree with them or whether we do not. If we are just sitting here as rubber stamps to say "here is a scheme and it will go through willy-nilly", we are wasting our time. I can assure you I do not like wasting at least two weeks of my time when I spent ten months in parliament during which time I was practically never able to go home at all.

If I may introduce a political aspect into this, let me say that from the look of things by next June I will have to get re-elected.

Mr. MUNRO: Mr. Chairman, on a point of order—

Mr. CANTELON: I realize it is a point of order and I am finished with it. A lot of other people have done exactly the same thing.

Mr. MUNRO: I think Mr. Thompson last night read a telegram in answer to an inquiry of his. It was a telegram from Miss LaMarsh and he read it into the record. He also read a letter from the Prime Minister in answer to one of his inquiries where it was clearly set out that this committee had power to consider all the clauses of the bill, hear all the briefs and then make any recommendations for any changes they thought were necessary after they had heard all the briefs, and so on. Therefore, certainly in both the letter of the Prime Minister and the letter from the Minister of National Health and Welfare there was no suggestion from the government that this was a *fait accompli* and that the committee was just incidental. That being in the record and that being the case, unless you can come up with something more specific I think your remarks are entirely out of order.

Mr. CANTELON: I do not think they are out of order but they are the consequence of some of the questions that have been asked. I am glad to hear Mr. Munro's explanation and I am sure it clarifies the question.

Mr. BASFORD: Mr. Chairman, on a point of order; Mr. Kilgour was most anxious that we should raise a storm on this question and we are trying to oblige him.

The CHAIRMAN (*Mr. Cameron*): I think that the Chairman understands that in asking questions sometimes you put them in such a form as to bring the thinking to a focus. That is what has been done. I think Mr. Cantelon has correctly expressed the opinion of this committee. We appreciate the efforts of the Life Insurance Officers Association. We appreciate the brief. They have furnished us with a great deal of material and a great deal of things to think about. We want them to go away with a feeling we had a very full and frank discussion of the whole matter. We are, after all, Canadians and we do not always play the game with "yes, please", and "no, thank you", and so on. We do use somewhat tougher attitudes sometimes, but I think we all understand that what we are trying to do is to consider the basic merit of the Canada pension plan as proposed in Bill No. C-136. We understand the difference in philosophies as presented by the Life Insurance Officers Association and as contained in the bill. We have to consider it and we also have to make our recommendations back to parliament in the light of what we consider to be the proper approach to the problem.

Mr. CANTELON: Thank you, Mr. Chairman. I think what I said has clarified the atmosphere, and that was the purpose for saying it.

I would like to ask these gentlemen a few questions about the insurance business so as to emphasize the point that I think they are very much concerned with this and they are an important part of the economy. I am wondering what effect this bill will have upon them. Perhaps they could give us some answers which might lead us to see what effect this bill might have on their business. First of all, what percentage of the company's private pension plans in Canada is set out through life insurance companies?

Mr. HOLMES: We have answered this in the brief, Mr. Cantelon, through you, Mr. Chairman, on page 1 concerning the plans in the private sector and in industries where we are handling about one in four. Perhaps I should read it to you.

> The pension plans which the life insurance companies administer cover about one quarter of the number of Canadians in all private plans.

We then give the other methods that are used.

Mr. CANTELON: I suppose you understand we sometimes ask questions to which we know the answers so as to emphasize the point.

How many of these plans do you estimate will eventually be abolished if the Canada pension plan becomes operative?

Mr. HOLMES: I cannot answer that question exactly. We have had some studies carried out on this question. If you remember, in reply to a question put to me yesterday I stated three things. I will review them briefly. No matter what kind of a plan is put in, the life insurance companies and the field staff will be doing their utmost to build supplements to it, to lower the age, to persuade people to make additional provision for their old age security. We think a well designed community government plan helps us to do this, but we pointed out that we feel there are features in this plan which are going to make it more difficult. I hesitate to give you an estimate. We have had estimates made for our consideration.

Mr. CANTELON: That pretty well finishes the questions that I had on that particular feature.

There was one other that I wanted to ask you. It has to do with the relationship between our plan and the United States social security system. In paragraph 42 of your brief on page 18 you say:

> Under the social security system in the United States the contingency fund has gradually dwindled relative to the benefit load and the stage has now been reached where any extension of benefits involves an immediate increase in the tax intake over and above the scheduled rise in the tax rate to 9¼ per cent in 1969.

In other words, the United States tax rate in 1969 for a scheme which does not give as many benefits as ours will be 9¼ per cent. Did I interpret that correctly?

Mr. HOLMES: I think the committee needs to keep before it all the time the fact that the United States social security plan is the entire program for the United States. When you are considering a question like this in Canada and what the Canadian plan costs, in answering that question, you obviously have to add together the cost of old age security to the Canada pension plan.

Mr. CANTELON: You also have to consider the fact that the United States plan has been running for some time, which would naturally raise its rate.

This leads me to my next question which has to do with the funding in this plan of ours. The original plan was practically a pay as you go proposition, and it was a very small fund. Now there is going to be quite a large fund. Do you feel that part of the large value or large amount of this new fund is due to an overtaxing or an over increase in rates?

Mr. HOLMES: No. I think the committee is aware that in the early stages of the plan, before Canada received reports from its government actuaries, some estimates showed that the tax rate would be as low as 1 per cent of the payroll, half per cent for the employee and half per cent from the employer, which gave the wrong idea. The plan, of the dimension we talked about, would ultimately cost from 5 to 6 per cent of the payroll. However, once we had the reports from qualified actuaries in the government we have made estimates. Our estimates are not exactly the same as theirs, but I am sure that you have very good cost estimates both on the plan a year ago and on the plan at the present time. These cost esimates do indicate that ultimately the cost of this plan as it is proposed will have to go up somewhat from the 3.6 per cent and, when you are thinking of cost, you do have to add in the cost of old age security. But the minutes you propose earnings related benefits—which as we have told you is our fundamental objection—you have a choice of evils; you either have to face these increasing costs almost constantly—that is, parliament has to—without at the same time announcing to Canadians there is an increase in benefits, or mitigate this and create one difficult decision 25 years from now by building up the fund for part of that time.

In the United States there has been a long period in which costs have been stepping up. This certainly has led to considerations about what can be done in respect of increasing benefits.

Mr. KILGOUR: There is a very good illustration in the brief relating to costs and the matter of this United States figure of 9¼ per cent being high in relation to the Canadian one. On page 20, paragraph 51, we point out that the cost of the present old age security and the proposed program together would equal a 10 per cent payroll tax on earnings between $600 and $5,000 a year. In fact, you are not collecting in precisely that form, but if it were turned into a payroll tax, then the old age security and proposed Canada pension plan could be represented by virtually a 10 per cent tax on those income brackets. So, the proposals in this bill, as one would expect, would have to cost more than that in the United States.

Mr. HOLMES: There is one further sentence in paragraph 51. "The initial cost would increase". We agree with the estimates of your own actuaries that the adoption of this plan will confront parliament with an increase 20 or 30 years from now.

Mr. LLOYD: May I ask a supplementary question? A fully funded plan would devote a great deal more of the disposable incomes of Canadians to achieving the same objectives in benefits.

Mr. BERRY: No sir. If you fund the plan fully from the beginning and consider the position of paying no one a benefit unless you have the money on hand against it, you then will have a fund on which you earn a great deal more interest.

Mr. LLOYD: The capital of the fund would have to be built up.

Mr. BERRY: Yes.

Mr. LLOYD: And therefore the contributions would have to be greater in the early stages.

Mr. HOLMES: The initial contributions would have to be somewhat higher.

Mr. BERRY: Initially, but not over the long haul.

Might I make one comment which might help you? It is the long term effect of the pension plan. I would like to offer one very small illustration which I think indicates this. We have talked about the United States social security program as though it is a plan which has reached its final form. It is interesting to remember that although the plan is nearly 28 years old, if you assume a normal working life to be 47 years, it would be another 21 years before the people who entered that plan at age 18 will draw their retirement benefit; that will be the first moment when all the people in the program could have been in it for their working life, so it is a long way from showing its final form.

Mr. G. E. BROWN (*Senior vice president, Sun Life Assurance Company of Canada, Montreal*): Might I add a further point in answer to Mr. Lloyd? I should like to point out that we are not in favour of a fully funded plan. We are in favour of the pay as you go approach. If you are going to be able to develop a fund, somebody is going to pay the interest on that fund, and that interest plus current contributions is going to cover the current benefits. So, you have a load on the economy, whether it be by contributions or interest, to pay the balance.

Mr. Holmes' point, in answer to Mr. Cantelon, is that initially when we looked at this Canada pension plan in the summer of 1963 there was forecast an increasing scale of contributions in order to meet the benefits that were then set up on a pay as you go basis. This involved a situation in which you have a constantly increasing contribution rate with no change in benefits. Remember also that some of these benefits do not become available immediately; your committee has been told that the first widow's benefit cannot be paid before February, 1968, under the bill as you have it in front of you, ad that the first disability benefit cannot be paid until May, 1970, under the bill as you have it in front of you.

In the light of these things, there is a delay in outgo and there is a build-up of income through the excess contribution that is being provided for under this bill. This fund—as you pointed out yesterday, Mr. Lloyd—will disappear in due course, and it is purely fortuitous that this fund is developing in the meantime. I think it should be clearly on the record that the tax rate as it stands here bears no relation to benefits. I think it is essential to the question we have in front of us to observe that there is no magic in a state having a funded plan; that is not what we are in favour of. What we favour is the pay as you go approach and, if yau can, a fully mature flat rate plan from the outset.

Mr. CANTELON: Thank you very much. I have one other question which Mr. Knowles hinted at. This has to do with the matter of priorities suggested on page 21 in paragraph 52. We have heard others mention the fact that there should be three orders of priority, education first, technological development second, and improvement of pension plans and help for the aged as the third of three priorities. Is this the attitude you gentlemen have?

Mr. HOLMES: Mr. Chairman, I feel this question again is somewhat like the question of exactly what monthly amount do we think should be paid under old age security. We would feel much happier if we felt certain that the people responsible for making this very difficult decision—the parliament of Canada and the government of its provinces—had looked at all the priorities. We do feel there is a very pressing need for development of our educational facilities. We really do not feel competent, with the information we have, to balance the needs among themselves.

Mr. CANTELON: I realize this really is a social problem and a problem with which parliament must deal. Unfortunately in our country we have very little control over the educational processes. I will leave it at that.

Mr. CÔTÉ (*Longueuil*): Mr. Chairman, I believe Mr. Kilgour mentioned this matter yesterday; in paragraph 34 reference is made to the fact that not many persons will get benefits under the plan by 1976. Reference is made to the chart which goes to 1976. Are you prepared to tell us what the trend or change would be if a chart was designed until 1986 or 1996.

Mr. HOLMES: Yes. I will answer that as well as I can. It took us a good deal of work to prepare this chart for 1976. We worked on the basis of the report of Mr. E. E. Clarke and his group. We have suggested in our brief to the committee that you should have a report from them in respect of 1971, 1976, 1981, and 1986. Undoubtedly, as time goes on, the non-benefit area steadily will decrease; but we are saying to you, when we give you this picture, that it is almost a fantasy to think there will not be a major change in the plan before, let us say, 1981. We think that, when Canadians generally realize what is going on, they will not be content with the assurance that the situation among old people will improve in 1996.

This took a good deal of work. We feel that you can get a similar report from your advisers. It may not be exactly the same, but we think it would be a close picture of the situation.

Mr. CÔTÉ (*Longueuil*): Is it normal that in the first ten years of pension there would be fewer people who would benefit under the pension plan?

Mr. HOLMES: In the proposed type of plan, but not under old age security. In the plan we advocate, no. In this type of plan, yes.

Mr. BASFORD: Even if we disregard the provisions in the act for increasing old age security?

Mr. HOLMES: No. There is one thing we would like to say about the charts. I would like Mr. Dimock to explain the heading in chart 2, and tell us exactly what chart 2 does represent. The heading is brief. Perhaps he could explain it a little more fully.

Mr. DIMOCK: Chart 2 does not relate to old age security in any way. It relates only to the Canada pension plan.

Mr. BASFORD: It disregards the provisions in the act now before the committee.

Mr. KILGOUR: The diagram shows one and one half per cent getting $119 per month. This indicates an increase in the benefit; instead of $104, it will have gone up to $119 a month. This does reflect indexing for these people drawing benefits. It still remains that two thirds of the retired old people will not be getting one cent from the Canada pension plan.

Mr. HOLMES: I would like to make one point clear about 1976. In the heading we referred to Canadians aged 65 and over. This should refer to Canadians of 65 and over who have retired. The figure of 1,880,000 that is in there is an estimate of the population of the age of 65 and over. I think it is correct that Mr. Clarke in his study has assumed that the people between 65 and 70 by and large will take their reduced old age security and their pension under the Canada pension plan at the same time. It is assumed that if they take one at 67, they will take the other at 67; and this chart illustrated represents that two-thirds of those who have retired at the end of 1976 will be receiving no benefit other than the old age security pension; and 32 per cent of the people will be receiving the old age pension plus this average of $45 a month under the Canada pension plan. The remaining fortunate few—one and one half per cent—will be receiving the old age security plus the maximum benefit of the Canada pension plan with the increments. This is the best estimate we can make.

We have tried to show you a picture which represents our deepest and great concern. We do suggest that you do not accept our chart, and that you secure information and a picture over the next 20 years. We agree that as time goes on the picture gets better. However, we do not think that the plan itself can possibly remain drastically unaltered over the next 20 years.

The CHAIRMAN (*Mr. Cameron*): Thank you, Mr. Holmes.

Mr. CÔTÉ (*Longueuil*): I was not quite through.

The CHAIRMAN (*Mr. Cameron*): I was not stopping you. I was just thanking Mr. Holmes.

Mr. CÔTÉ (*Longueuil*): In that chart, is there included that percentage of the persons who are already over 69, or the ones who will not participate in the plan?

Mr. HOLMES: The chart relates to everybody in the retired population. Some of them may be 65 and have retired.

Mr. CÔTÉ (*Longueuil*): Many of those will not be participating because they are too old.

Mr. HOLMES: Oh, yes, some of them are 90. This is a picture of retired people as a whole.

Hon. Mr. MCCUTCHEON: This is to indicate that in 196—

The CHAIRMAN (*Mr. Cameron*): Is this a supplementary question?

Hon. Mr. MCCUTCHEON: My arithmetic is not so good this morning, but some two thirds of the population aged 65 and over retired will be getting no benefit from this bill. In other words, this bill does not take care of what is alleged by many to be the important consideration for people who are now old and who are going to get old pretty soon.

Mr. CASHIN: That is true, because they have ignored the indexing.

Mr. HOLMES: No, the indexing is in this chart.

The CHAIRMAN (*Mr. Cameron*): I think we have all had an opportunity to read the brief and if we have had a lot of answers that we cannot put together, then there is something wrong with us.

Mr. GRAY: In the part of the circle which says "no benefit", do you include those who are receiving old age security pension? If this bill should come into effect, because of the provisions of part IV, they would have increased only the old age security pension by reason of the index.

Mr. HOLMES: Yes.

Mr. GRAY: Is this not incorrect when you say they would receive some benefit under this act which they would not have if it were not passed? Can you answer that question?

The CHAIRMAN (*Mr. Cameron*): One at a time, please.

Mr. GRAY: I am not suggesting that there is anything intentionally done here that should not have been done. It may be that it is merely a question of terminology.

The CHAIRMAN (*Mr. Cameron*): The answer I think is perfectly obvious. Perhaps Mr. Dimock could tell us in a word. Do you want to give us that information?

Mr. DIMOCK: The heading of the chart refers solely to the proposed Canada pension plan and there is no Canada pension plan benefit payable to two-thirds of those people then retired. But there is an old age security benefit payable to all the people, those getting $119, under the proposed plan or averaging $45, or getting nothing under it. At that time the old age security benefit may have been increased from $75 to $81 or $85 a month, depending on the price index.

Mr. KILGOUR: There should be in the brief the number of those who will be getting the old age security but not the Canada pension; these people will be getting nothing.

Mr. GRAY: I suggest that the delegates before us take a look at Bill No. C-136 which bears the title "This act may be cited as the Canada pension plan," and in part IV, starting on page 82 it says: "Part IV. Amendments to Old Age Security Act. 119. Paragraph (c) of section 2 of the Old Age Security Act is repealed and the following substituted therefor:"

Your chart says that these people get only the old age security if this plan comes into effect, and they will be receiving no benefit. This could not possibly be correct according to your own definition.

The CHAIRMAN (*Mr. Cameron*): I think this is a matter for argument.

Mr. LEBOE: I would like to point out that anything indexed is not a benefit. All you are doing is keeping up with the times. It is not a benefit if you are just keeping up with the times, as it indicates.

Mr. CHATTERTON: Is it not correct to say that we were informed at a previous meeting that this bill refers to an amendment to the Old Age Security Act, but in the actual act which will be passed by parliament there will be no reference to any amendment to the Old Age Security Act, because such an amendment would be brought down in a separate act?

The CHAIRMAN (*Mr. Cameron*): Whether it is an amendment to the Old Age Security Act or not, I think it should wait until we get into a discussion as a committee without witnesses, when we can iron out these various things. Are you finished, Mr. Côté?

Mr. CÔTÉ (*Longueuil*): No, I did not have a chance to speak yet.

Mr. MUNRO: May I make one supplementary remark to say that when Senator McCutcheon referred to two thirds on chart 2 on page 15 of the brief, I think it should be pointed out that in this chart it says in 1976 apparently 1,880,000 people will be receiving no benefit. I think that works out to approximately 1.2 million Canadians over 65 in 1976 who will be receiving no benefits; that would be 1.2 million. All that is supposed to be reflected in this white aspect of this circle. Now through you, Mr. Chairman, I would like to comment on this. Would it not have been fairer in this chart to show in that big piece of pie that there is no benefit to the number of people who are now—right now, or in 1966, ten years before this chart—over 70, and will still be alive in 1976, because we all know that this Canada pension plan has an aspect of earnings relation, and is not supplementary old age security. So would it not have been fairer to show what aspect on this white circle includes those who are people already over 70? That is one point.

My second point is this: would it not have been fairer to have included in this chart the number of widows aged 55 or over in 1966, and who are not wage earners, and who could not possibly come under the plan? I think that would further cut into this white square. Would it not also be fair to show in the white square the number of unemployed of age 55 and over in 1966? We know if they are unemployed and earning under $600 a year they are not going to come under the plan, and this would point out that anyone in that area, unemployed, who cannot come under the earnings related plan has to be dealt with under other assistance programs. If they are under the exemption, under $600, they must be making $12 a week, which obviously indicates they should be treated under some other assistance program, because it indicates their inability to work.

Mr. LEBOE: Now we have a discussion going on between two members of the committee, and a moment ago you said we should get down to the business of dealing with the witness. I think this is out of order.

Mr. MONTEITH: I think we should have an answer to this because there are various implications in the question.

The CHAIRMAN (*Mr. Cameron*): Perhaps we should agree that there will be no more supplementary questions after this. We will just go right down the list, and then if someone has a supplementary question he will reserve it until his opportunity comes up.

Mr. MUNRO: If there is to be an answer, my only other comment dealing with that piece showing what is one's earnings benefit, is that I do not think that leaves a good impression. It says there are 32 per cent getting an average of $45. Why did they not break it down and show the people getting $115, and the full range in this area. I think this chart is misleading.

Mr. HOLMES: We suggest that your own actuaries break down that 32 per cent. This is almost impossible for us. On the white part you have really suggested there are five or six categories of people not covered by the proposed new plan. It is quite true that a very large percentage of them are those presently over 65, but this white section falls into a group of categories, and you have listed them very well. That is exactly our concern. Those five or six categories in 1976 will be without benefit.

Mr. MUNRO: That is exactly it.

Mr. HOLMES: We have no objection. If that is what the committee wishes, I am sure their own actuaries could split the white part of that chart and tell you what proportion fell into the different groups that did not come under the Canada pension plan.

Mr. MUNRO: Thank you, Mr. Holmes; that is the answer I wanted.

I suggest if it was broken down in that way it would at least clear up a generalized statement that has been referred to many times because it is obvious that people who are now retired over age 70 and will be alive, fall into this no-benefit category, and so do widows.

Mr. MONTEITH: That is what is wrong with it.

The CHAIRMAN (*Mr. Cameron*): Let us have no more cross questions.

Mr. Munro indicates that he has the answer he wanted.

Mr. KNOWLES: Out of his own mouth.

The CHAIRMAN (*Mr. Cameron*): The next questioner is Mr. Leboe.

Mr. CÔTÉ (*Longueuil*): I did not speak yet, Mr. Chairman.

The CHAIRMAN (*Mr. Cameron*): I am sorry, Mr. Côté; I thought you had spoken several times.

Mr. CÔTÉ (*Longueuil*): We can assume, then, Mr. Holmes, that if a chart had been prepared for years other than 1976, such as 1986 or 1996, there would be a big change. As you say in paragraph 48, the proportion of the retired population receiving benefits would go on increasing for many years. It would be quite a different chart, would it not?

Mr. HOLMES: The white part of this chart in 1981 would be somewhat less than it is here, and in 1986 it would be somewhat less, and so on.

Mr. CÔTÉ (*Longueuil*): The association did not prepare any charts?

Mr. HOLMES: No, but the uncovered segment would never disappear.

Mr. CÔTÉ (*Longueuil*): Do you usually prepare a chart for more years ahead when you prepare a private pension plan or do you just prepare charts for ten years after it begins?

Mr. KILGOUR: May I speak to that question?

This chart shows as accurately as can be estimated the group who are receiving nothing from the Canada pension plan ten years hence. It is perfectly true that 20 years hence there will be another big white piece of pie, the people who are receiving no benefits, and 30 years hence—

Mr. CÔTÉ (*Longueuil*): It would be much smaller?

Mr. KILGOUR: It will be smaller, but it will be those people who do not come under the Canada pension plan. They will be the poor, the 25 or 30 per cent who never get into solid, permanent employment and will not be covered by the plan.

This question gets down almost to the first question asked in the association's letter where it says:

1. Have Canadians through their government

a greater obligation to the future aged than to the present aged?

a greater obligation to older persons who had above-average earnings when working than to older persons who had smaller or no earnings?

a greater obligation to women widowed during and after 1969 than to women widowed before 1969?

This will always be the white piece of the pie in which there are no benefits payable under the Canada pension plan.

Mr. CÔTÉ (*Longueuil*): In those years would you say those poor people will not get a chance to receive any benefits from this pension plan? Would you say after this pension plan is put into operation that proportion of people would be smaller? Would you say that more people will have a chance to be covered by a pension plan if we have this plan than if we leave it only to private plans? Would there be more people covered after this plan comes into operation than if this plan did not come into operation?

Mr. KILGOUR: Of course. A plan that spends $600 million a year is bound to cover a lot of people, but unfortunately it leaves out a lot of people including the present aged.

Mr. HOLMES: And old aged security takes whatever money parliament assigns to this purpose and spreads it over the entire circle.

Mr. CÔTÉ (*Longueuil*): But the longer we delay this plan the more people who will not get any benefits from this plan. Is that right?

Hon. Mr. CROLL: Quite right.

Mr. LEBOE: Mr. Chairman, I have some questions which are on a different line from the ones that have been asked. It does not refer to the brief but it does refer to something about which I am apprehensive, and I would like to get the views of the delegation on this question. Further discussion of these matters that I will mention will be brought up, Mr. Chairman, at the time when we are in commitee without any delegation before us, when we have the department officials here.

Unfortunately I was not here at the beginning of the sittings because I replaced someone else on the committee.

The CHAIRMAN (*Mr. Cameron*): I understand.

Mr. LEBOE: Do you consider the possibility exists that a province operating its own plan could mix welfare with the plan and thereby cause confusion in the whole of Canada, in other provinces, by virtue of supplementing the pension plan as a result of pressures on politicians in any particular province?

Mr. HOLMES: I am sorry, but I do not think I am in a position to answer that.

The CHAIRMAN (*Mr. Cameron*): I think, Mr. Holmes, that is a field you should not venture into.

Mr. HOLMES: We have not considered the question of provincially versus federally operated plans.

Mr. LEBOE: The arguments that have been put forward here seem to indicate to me that there are apprehensions. What I am trying to get at, and I think someone in your group must have some ideas on the question, is this. If, for instance, I heard correctly, a number of delegates who are here were apprehensive about changes coming in the pension plan. Those changes come into the pension plan because of pressures by individuals on the street, voters, being concerned about certain things as far as their own private lives are concerned in connection with welfare. It seems to me that in your thinking you must have come to some conclusion on whether or not a supplementary allowance to the Canada pension plan by a province would result in stability in the plan or instability.

Mr. BROWN: May I say something to that? I do not think I have a complete answer to Mr. Leboe's question but it might stimulate a little thinking along the lines he has opened up.

Our concern, as we have tried to put it yesterday and today, is that there are going to be two groups of people in Canada, those who benefit from the Canada pension plan and those who do not. These groups of people are to be spread across the length and breadth of Canada. Take the small towns, the small villages, and think of the individuals who have been working in the branch banks, in the railways, in the organizations of other large employers, people who have stable employment and who have been working in those towns as citizens of the towns. Under the private pension plans they are now being covered and provided in their retirement years with pension over and above old age security. There are less fortunate people who are not in that kind of stable employment in those same communities, and parliament has assisted the provinces and the municipalities to help these people through the Old Age Assistance Act. If we overlap this stable employment, this secure employment group, with a further pension plan we will perhaps be distorting even more the situation as between the one group and the other. And, I think this is the reason—and again I come to Nova Scotia—that Nova Scotia said in their brief to your committee, Senator Croll, that:

> It is pointless to tell these people that because the Canada pension plan is based on the insurance principle and is a contributory plan, these exclusions are just and equitable. This large number of ineligible persons will expect from government and the community the same kind of treatment and retirement income as their more fortunate neighbours who have been included in the Canada pension plan. The inevitable results must be increasing pressures on the provincial and municipal levels of government to bring their level of public assistance up to the total level of income of those who are receiving additional income from the Canada pension plan. The greater pressures will be on the province. Obviously, the percentage of such persons will be much larger proportionately in a province such as Nova Scotia than in a more highly industrialized and wealthier province. By the same token Nova Scotia will be less able financially, under present federal provincial sharing arrangements, to cope with the resultant pressures and financial costs.

That, Mr. Chairman, is on the record of the Senate committee on aging. I would like to add, sir, that our studies have shown that there are just as great disparities of income in the urban centres as there are in the rural centres and, hence, this is not a problem that is going to be in only one area. I suggest this is partly the thinking which has led Mr. Leboe to make the comment he did.

Hon. Mr. CROLL: I do recall the very thorough study and the evidence given, but there is one thing upon which I am not clear. If I recall correctly there was some question of the number of people over 70; that was the age who are now covered by some pension plan. Do you recall a figure in respect of that number?

Mr. BROWN: I am sorry but I am afraid I cannot help you with that.

The CHAIRMAN (*Mr. Cameron*): Would you continue, Mr. Leboe?

Mr. LEBOE: I have only three questions altogether. Do you foresee any problems where a government is a tax collector and an employer contributing to a plan on behalf of its employees? What I am getting at here is that this is in the political field, and because of the statements made by delegates I would like to know from them if in their studies they have taken into consideration the realistic position in which the politician finds himself in connection with some of these matters. At the present time we have three levels of government and these three levels of government are employers, who are employing an increasing number of people year by year; they are also the tax collectors and they are going to collect the taxes from the people generally. Also, they are going to make 50 per cent of the contributions of 3.6 per cent.

The CHAIRMAN (*Mr. Cameron*): Mr. Leboe, do you think that the delegates are competent to answer questions of this nature. If you will recall, Mr. Cantelon suggested, and I rather agreed with him, that we are not here as politicians but we are here as people to study the merits of this bill. I know that my opinion in this connection really has nothing to do with the merits of this particular bill.

Mr. LEBOE: I think it has.

The CHAIRMAN (*Mr. Cameron*): Well, I am not going to stop you, Mr. Leboe, but only to remind you that we are not here as politicians but rather to consider the merits of this bill, together with the arguments for and against it.

Mr. LEBOE: I agree, but the merits of the bill are going to be related to its ability to stand. Surely when the bill is in the final draft form it must be one that we as a committee, and the people who are making presentations to this committee, must approve in some measure. They must be concerned whether it is going to have stability and surely whether it is going to stand. Some of these things must have been discussed by them.

The CHAIRMAN (*Mr. Cameron*): I do not see how he could be competent to answer your question.

Mr. LEBOE: Well, if they do not want to answer it I will pass. But, first of all, may I ask if you have given any consideration in respect of the stability of the plan. It seems to me that where you are going to have pressures to break down a plan surely it is the job of this committee to deal with those pressures. I think we should be entitled to question the delegates who are before us in order to find out whether or not, in their opinion, there are any weaknesses in the plan, or whether they feel it is going to break down under pressure.

Mr. KILGOUR: Mr. Chairman, I would be glad to stick my neck out for 30 seconds on that. I think this touches a very important point. The government of Canada has provided an absolutely first class generous pension plan for federal employees; provincial governments have provided a first class generous plan for their employees, and most private industries have supplied good generous pension plans for their employees, although not all.

Mr. LLOYD: And, the cities have.

Mr. KILGOUR: And, through parliament all of these are going to be granted the greatest benefits under this proposed plan. I think it will be perfectly true that there will be widespread cynicism on the part of a man who does not work for the government or one of the prime employers in Canada. They will be given a very much thinner deal than would be the case if they could get on the payroll of one of the governments.

Mr. KNOWLES: Have you read the section of our proceedings which deals with integration of the superannuation plan with this?

Mr. KILGOUR: One of our—

Mr. LLOYD: Answer the question.

Mr. KILGOUR: Yes, I have read that, and I would think that the integration of the civil service pension plan could only be described as very generous. The full windfall goes to the employee, and this is on top of a first class plan. Many people will envy it and many other employers will not feel they can take such a generous attitude.

Mr. FRANCIS: The civil servants of Ottawa will be happy to hear that.

Mr. J. M. LINNELL (*Group Manager, The Standard Life Assurance Company, Montreal*): Paragraph 20 on page 8 of our brief draws attention to that. It cites a particular man who retires on January 1, 1976, with 35 years of service under the civil service plan who will receive a pension benefit of 111 per cent of his pre-retirement salary.

Mr. LEBOE: I have one further question on this subject. I am sure we will not have any problem the political angle. I want to ask if the delegation considers it necessary to tie the pension plan about which we are talking with old age security, or could not the pension plan be set up as a separate proposition. We have lots of private plans which have nothing to do with old age security. Is it necessary under our bill to have them tied in together?

Mr. HOLMES: Well—

The CHAIRMAN (*Mr. Cameron*): I would not think that is a question which the witnesses should attempt to answer.

Mr. HOLMES: We feel that the approach should be an improvement and amendmeint of old age security and I think this indicates that we feel that Canada has to look at this problem, as far as it deals with it as one approach, in that way.

Mr. KILGOUR: Another point relates directly to that. Could we in any way relate it to the Canada pension plan? To use a point and a principle that was used against us in the Hall commission, when we were appearing on behalf of those who wished to finance medical care through private enterprise, service plans and so on, one of the points Mr. Hall made very strongly was that if private industry can only cover 75 per cent of the people that is not good enough. We have to admit that there is a segment of the public that we can never reach because they have not any money available. They cannot buy without money. That is a practical reason. Accordingly, any approach that is related to collecting money, such as the Canada pension plan, is going to run up against the same hard core. There are going to be 20 per cent, 25 or 30 per cent from whom you cannot collect money by any known device in order to have them benefit properly from a wage related plan. That is why one has to go back to the old age security approach. These people are people, and we have to provide benefits for them even if we have not been able to collect money directly out of their wages.

Mr. LEBOE: Supplementary to the answer I received and just to pinpoint it I believe, from what you have said just now, you think it is not possible to set up a pension plan which has nothing to do with welfare or old age security, or a contributing pension plan without it being mixed up with the old age secucurity program that we have today. In your chart you dealt with it separately and you made a very strong point, if I understood you correctly, that we already had the old age security and, therefore, the benefits, so far as the plan is concerned, must not be by virtue of a heading in the act which brings the old age security into the Canada pension plan act but that actually, in fact, we have certain benefits today for the aged. We do have certain benefits. Now, when we add to these, our friends over here are saying that we have to include them all as benefits. But, we already have the benefits of old age security. What I am saying is that I believe now, if I undestand you correctly, you believe that you cannot be separated and that we cannot establish a pension plan without interfering with old age security at all.

Mr. KILGOUR: We should not operate a social security scheme which excludes the large segment of the population from which we can never collect under the earnings-related approach.

Mr. LLOYD: Mr. Chairman, I have a supplementary question.

The CHAIRMAN (*Mr. Cameron*): No. Mr. Lloyd, not now.

Mr. MONTEITH: Mr. Chairman, I have one question. Have these gentlemen given any consideration to what would happen to this plan if Ontario were to decide not to come into it?

Mr. HOLMES: We have not really felt that that is something we should consider at the present time.

Mr. MORISON: I would like to go back to page 4, paragraph 11, dealing with the surrender of the individual initiative and responsibility. It appeared in the newspapers this morning and it might have set some conservative people to thinking. I myself was a little concerned because I do not like to feel I am going to lose any more of my individual initiative. I would therefore like some clarification from the committee, if possible. In our deliberations so far we have discussed the poor who cannot and do not buy life insurance. You have discussed the pension business, and you have also said that there will be greater sales of life insurance as a result of this pension scheme. My first question is as follows: All life insurance contracts, I believe, do have a monthly income provision, and therefore does it not make sense that we can expect people will not lose their initiative to invest in private pension schemes of their own?

Mr. SHARPE (*President and Managing Director, the Northern Life Assurance Company of Canada, London, Ontario, and President, the Canadian Life Insurance Officers Association*): Mr. Chairman, may I answer this question? I think that statement was one that was attributed to me the other night. I might admit here it is my private belief that a new social security scheme will not interfere with the life insurance element. There is a difference of opinion in the group on that particular matter. I would like to clarify that point for you.

Mr. MORISON: I am sure from past experience that life insurance companies do expect a windfall, if I may use that word, as soon as this legislation is passed. However, if you throw out those who do not buy, cannot buy, and never can be expected to buy—and those people are covered by group pension plans—can we expect the life insurance sales and pension plans to increase, and if so where are we surrendering our individual initiative and responsibility?

Mr. HOLMES: Speaking on this question of incentive, we do have one illustration on page 8. We feel that there really is not much incentive for those people. As I have told you before, we are attempting to persuade people through our field staff to make supplementary provisions. We urge them to do so, we tell them that the Canada pension plan is not enough, they need more. What we say to you is that there are quite a lot of people who are placed in that position which we illustrated on page 8. We can persuade them they need life insurance, but we may find it a little hard to persuade them that they need additional pension. These are the people in Canada who are in a position to save some surplus for themselves.

Mr. MORISON: It is true, but life insurance does have the income provision as an option at the age of 65, so they are buying a small pension or they are taking a lump sum settlement.

Mr. HOLMES: In other words we can conceal from them the fact that they have made additional provision for their old age without realizing it.

Mr. MORISON: I would not like to say you conceal it.

Mr. KILGOUR: Maybe I could comment on this pertinently by saying that when you realize that government employees and private corporation employees are going to have held out to them pensions of the order of 70 or 80 per cent including the Canada pension plan, in plain fact the need to save is greatly diminished. Those people are far more likely to buy new cars or to satisfy many of the needs that advertisers are selling them every day than to save. A great deal of the savings that have generated business in this country have been built up by people who have started to save because they knew they were going to get old some day. They have borrowed on their savings and started off their business, and they have been successful. Many an enterprise has been built in this country because someone saw an opportunity and used his money. If this gets locked in a public pension plan it is possible that much of the liquid capital that is needed to start new Canadian enterprise will also be locked up. The desire to save can be substantially killed by the plan.

Mr. MORISON: Let me congratulate you and the other insurance companies on a terrific selling job in Canada, one that I think puts us in the forefront of insurance buyers throughout the world. I am sure that whether there is a pension plan or not your sales staff will still keep that proud record.

I would also like to congratulate you on a very well thought out plea for those poor people who will never be the customers of your company even though they would like to be.

Mr. CHATTERTON: Mr. Chairman, I should like to speak on paragraph 30 regarding this bonus. In paragraph 30 it says:

> For instance, in the second decade of the plan a bonus of $115 would be paid each month to a retired person whose earnings had been at or above the pensionable maximum.

Would somebody tell me, what group pays that bonus to the well-off?

Mr. HOLMES: I do not think we can answer that. Under the Canada pension plan we can see a direct bonus being paid to them. The Canada pension plan must obtain its money from the contributions spread across the country. In our view of reports made by your economists, the most likely model is the one involving complete forward shifting which in effect assesses the cost of the plan against our people as a whole and what they buy. Opinions will differ there, but it is very difficult to answer who will pay it. We are satisfied that it will be some other Canadian that will receive it.

Mr. CHATTERTON: You say it is a complex question. There may be many groups that contribute towards this bonus. Can you say whether some of the people who contribute to this bonus are those that are earning less?

Mr. HOLMES: We feel that the cost will be shifted forward. It will appear in the economy as an increase in prices, either small or large. These folk who are on old age security only will be paying those higher prices, I am sorry to say, and if this occurs before 1967—I am not sure I have the exact date when the indexing starts—there is no provision to help them meet this charge.

Mr. CHATTERSON: In other words a man making $2,000 a year could actually be paying part of the bonus to one earning more than $5,000 a year, maybe $20,000 a year?

Mr. HOLMES: Worse than that; a Canadian subsisting on old age security may have to make some small contribution towards them.

Mr. CHATTERSON: I do not think anybody pretends this is an actually funded plan; it is not fully funded. Can you tell me how most private pension plans on a fully funded basis actually operate?

Mr. HOLMES: I cannot give the percentages. In private plans that are purchased from life insurance companies the benefit that is bought from us must be paid for before we promise to pay a benefit. In pensions that are handled as trusts there is frequently a period during which what is called a past service cost is built up, and they come to a time when they are fully funded. If you examine the Ontario legislation, it recognizes the fact that there are quite a few private plans which are not at the present time fully funded. One of its objectives is to require them to become funded. Therefore, you can say some are funded and some are not.

Mr. CHATTERTON: Even in the case of those that are not fully funded, those paying into it and administering it know what is going to happen in 20 years' time; they know what the benefits are going to be. Is that correct?

Mr. HOLMES: I would think most of them have obtained actuarial advice, but I cannot give you the figures.

Mr. CHATTERTON: Under the Canada pension plan we know that X number of years from now there will have to be a change in contributions or some change in the plan itself to be decided by parliament. Would it be difficult or would it be easy for those private pension plans to adjust their own plan to integrate it with the Canada pension plan? What would be the difficulty?

Mr. HOLMES: We feel there will be a continuing difficulty, that whenever there is a change and the big fellow rolls over, all the little fellows will have to try to roll over with him. There is a continuing change ahead, as we see it, major change, and the private industry has to try and foresee those changes. This is very difficult, in our opinion.

Mr. CHATTERTON: Will the indexing increase that difficulty of integration?

Mr. HOLMES: That would be our opinion.

Mr. CHATTERTON: I would like to tackle Mr. Kilgour once more about the airplane that will not fly. He says we have got to redesign this airplane. I doubt very much if the government is prepared to redesign it, and in support of my opinion I will quote the minister, Miss LaMarsh who, on page 28 of the proceedings said:

> In the first place, I would say that I would hope there would not be any reason for the committee to wish for any substantial change.

I will quote again from the minister as it appears on page 29.

> It seems to me that since we have had experts dealing together on the published report of the Quebec pension plan and the published report of Bill No. C-75 it is obviously a compromise plan on which both governments have gone a very long way to meet. It would seem to me that as reasonable men and a reasonable woman in this committee you, of course, notwithstanding your point of departure, will follow that same line of reasoning.
>
> I am not really foreseeing that there will be great divergence on questions of principle by the time you conclude these hearings.

Now, assume the government or the committee will not redesign this airplane to make it fly, would you give us your ideas of how we can at least make certain repairs or minor changes to this airplane so that in the future it might have a better chance to fly? Assume the government is not going to accept your proposals, which it is not, what amendments can be made to the Canada pension plan as proposed to make it a little more feasible and help those who are not helped?

Mr. KILGOUR: As this analogy of the airplane gets pushed along, I would say that the designers of the Comet expected it would be the jet aircraft of the future but unfortunately found that it should be withdrawn. Personally, I believe, if this bill is passed, that parliament of one year or two years hence will have to make the corrections because the public finally will not tolerate it.

To answer your second question directly, if this bill is to go through, there are some patches which clearly should be made and I think in that case that perhaps we should return.

Mr. LLOYD: If your effort fails, you want to return.

Mr. HOLMES: If it is to be a patching job, there may be other people from whom you would seek advice. If you want advice from us on that point, I think we would want to return; that is, we would not want to make recommendations along that line today.

Mr. CHATTERTON: If it were pretty well obvious, as it is now, that the government is going to go through with this plan as it is without substantial changes, then your group would be prepared to come through with amendments.

Mr. HOLMES: I am sure anything we would suggest would involve substantial changes.

Mr. CHATTERTON: Would an extension of the transition period be an improvement in this plan; would it level out or remove some of these inequities?

Mr. HOLMES: I think you received an answer last night in respect of the bonus area, which as the committee can see is an area of our major concern; that is, the transition period and the indexing are big factors in that area. I think probably that is all I should say; but that was said to you last night.

Mr. CHATTERTON: Coming back to the hard core of 25 per cent or 30 per cent who would not obtain benefits, the ones who need it most, to what extent do the private insurance companies do business with that group? Is it possible for private industry to assist that group?

Mr. HOLMES: I think Mr. Kilgour answered that. Their fundamental problem is lack of money. We are a business organization and we have to obtain the price of what we supply. I do not think so; I hope the committee realizes we are fully in sympathy with the poor, but there are things that Canada can and must do if the community is prosperous enough which businesses like ours cannot do. However, we think it is a mistake for Canada to think of itself as a great big insurance company.

Mr. CHATTERTON: In other words, this hard core group which would not benefit under the Canada pension plan can look to the community only for relief?

Mr. HOLMES: That is our opinion.

Mr. CHATTERTON: And they will be looking to us for relief before very long.

Mr. HOLMES: That is our opinion also.

Mr. CHATTERTON: Some of them are looking for it now.

Hon. Mr. MCCUTCHEON: That is a fact.

The CHAIRMAN (*Mr. Cameron*): That completes the list of persons who have indicated they wished to ask questions on the first round. We now are on the second round. Mr. Munro is first; I have, then Mr. Francis, Mr. Knowles, Mr. Cashin, Mr. Lloyd, Mr. Aiken, Mr. Basford, Mr. Gray, Senator McCutcheon and Senator Croll.

Mr. KNOWLES: Should we have some understanding in respect of passage of time?

The CHAIRMAN (*Mr. Cameron*): I think we should ask the members to confine themselves to one or two questions and make them specific so that we might obtain specific answers.

Mr. CHATTERTON: On a point of privilege; again it seems we will not conclude this group this morning. Will they be available again this afternoon or evening?

The CHAIRMAN (*Mr. Cameron*): They have indicated to me they are prepared to put themselves entirely in the hands of the committee. I do know they had hopes of flying out of Ottawa some time early this afternoon, but it looks to me as if they will not be able to do so.

Mr. LLOYD: At some point while these gentlemen are here I had hoped we would concentrate our questioning in an effort to obtain information, if they are able to give it to us, more precisely on the adequacy of present private pension plans. We have heard a lot about government plans, provincial plans and city plans, but have done very little by way of examination of the adequacy of existing pension plans and why they fail to reach so many people.

Mr. KNOWLES: Is this a question?

Mr. LLOYD: It is applicable to the matter or arranging our study.

Hon. Mr. MCCUTCHEON: Is the delegation prepared to return at 2 o'clock?

Mr. KNOWLES: We have Mr. Watson this afternoon.

The CHAIRMAN (*Mr. Cameron*): These gentlemen have indicated their willingness to return and follow out our desires, whatever they may be.

Mr. HOLMES: Many of us have a flight leaving at 1.40 p.m. Some of us have remained until this moment with some difficulty. You will realize originally we intended to end yesterday afternoon. If you wish us back, we certainly will be prepared to return.

Mr. PRITTIE: I think that would be asking too much. These gentlemen have stayed over now and have made arrangements to leave. I think we should accommodate them.

Mr. AIKEN: I believe we can wind it up.

The CHAIRMAN (*Mr. Cameron*): Would you proceed, Mr. Munro?

Mr. MUNRO: Mr. Chairman, there are just two or three points which were brought up. I am sorry the gentlemen cannot remain, because quite a few things have been said. One point was brought up concerning the question of this being a detriment so far as personal savings are concerned. I believe this was mentioned by Mr. Holmes who said it prejudiced Canadians in repatriating their own industry because a good source of these funds come from personal savings.

I think one comment was made to the effect that many companies had gone up to their limit. I would like to refer to page 127 in the Minutes of Proceedings and Evidence of the Banking and Commerce Committee. This is a series of questions and answers between Mr. Moreau and Mr. Humphrys, Superintendent of Insurance. This was approximately two months ago:

> Mr. MOREAU: I was interested in the answer you gave, Mr. Humphrys, to Mr. Munro pertaining to the percentage of assets of insurance companies in common stocks and the percentage in Canadian stocks. I put a question on the order paper last session, and though I do not have the answer before me now my recollection is that the total investment by Canadian life Insurance companies was about 4½ per cent of their assets in common stocks, and about one quarter of that or approximately 1½ per cent was in Canadian stocks. You now say it is almost half, and I wonder if the picture has actually changed that much in this short a time.
>
> Mr. HUMPHRYS: It is less than half. I am asking Mr. Patterson to calculate it.

Mr. Patterson is Mr. Humphrys' assistant. Then on page 129:

> Mr. HUMPHRYS: Mr. Patterson has calculated the figures from our reports at the end of the year, and his figures show a little higher than one third now, not as much as one half.

It is not as much as one half of $4\frac{1}{2}$ per cent which was invested by Canadian insurance companies in Canadian common stock as of the end of 1963, according to Mr. Humphrys, the Superintendent of Insurance. I believe under the act you are limited to 15 per cent.

Hon. Mr. McCUTCHEON: Is that book value you are using or is it market value?

Mr. MUNRO: Do the insurance companies use book value?

Mr. J. A. TUCK, Q.C. (*Managing Director and General Counsel, The Canadian Life Insurance Officers Association*): Yesterday I referred to the proceedings which you mention. I was only going by recollection when I said about 5 per cent. I had no intention of using an inaccurate figure; that is why I referred to the proceedings. The questioner then went on and asked whether any companies were high in relation to the statutory limit and I pointed out that Mr. Humphrys' figures were on book value and that on market value the companies' percentage of assets in stocks was higher and that in fact some—I did not say many—companies have nearly 15 per cent of their assets in Canada in stocks—some.

Mr. MUNRO: I think, at one point in the proceedings, Mr. Humphrys said that if you take it at market value rather than book value it might double it. If you still are under the $4\frac{1}{2}$ per cent, according to Mr. Humphrys' figures, even if you double it you are nowhere near the 15 per cent figure at the end of 1963.

Mr. TUCK: I do not think this is relevant. I shall not take up any more time except to point out that there is no inconsistency with what I said last night, that this particular type of investment is relatively larger in some companies than others.

Mr. MUNRO: If this is a valid point on the part of the life insurance companies, I suggest that their record could have been considerably better.

Mr. AIKEN: What has that got to do with the Canada pension plan?

The CHAIRMAN (*Mr. Cameron*): There are a lot of irrelevancies, but they may have some bearing some time later.

Mr. POPKIN: The Canada pension plan does not increase the ability of the insurance companies to invest in equities to the extent of the diversion of income from the private sector to the government sector. I see no indication that the government intends to use this money to buy equities.

Mr. MUNRO: I have one other point. It was given in evidence yesterday I believe when a gentleman said that the countries that had used the indices system for raising their benefits had such an experience that they had abandoned it, and specifically he referred to France.

Mr. AIKEN: This question is not getting us anywhere.

Mr. MUNRO: Was it not mentioned that France had abandoned the index system?

Mr. POPKIN: It was mentioned that they had abandoned it in 1958, but it has come back into the system now. They do use it now.

Mr. MUNRO: I have one other point: referring to the brief, page 27, clause 71 where you say:

> 71. The proposal the association has made is that larger family allowance benefits be paid for children in families where the father has died and the mother has not remarried or where the father is totally and

permanently disabled. The present family allowance benefits of $6 for children under 10 and $8 for those age 10 to 15 could be increased on the death of the father to, say, $30 and $40 at an approximate annual cost of $35 million.

I have checked the records and I would like to know what is the source of the $35 million which would in effect allow for $24 and $32, for each orphan, depending of course on his age. I would like to know how many orphans are allowed for, because in the 1961 census it mentions 150,000 parentless children with 148,000 under 19, and in addition there are fatherless children with widowed mothers, and the census mentions 34,000 motherless with widowed fathers; and even at $35 a month for each child the benefits would add up to more than $90 million to $100 million in 1961; yet you cite a figure of $35 million. I would like to know the source of how you arrived at this figure of $35 million.

Mr. DIMOCK: I could not follow your figures, but I could put ours on the record. Our source is the 1961 census, publication No. 93516, at page 71—1. The children in the families where the head is a widow projected to a 1966 figure came up to 56,700 in the age group up to nine, and 62,100 in the age group of 10 to 15, giving a total number in 1966 of 118,800, and paying an extra $288 a year for the zero to nine year old age group, and $384, for the 10 to 15 year old age group, we came up with a total figure in 1966 of $40,100,000.

Mr. MUNRO: They are up over $5 million now.

Mr. DIMOCK: They are up over $35 million on the basis of a 1966 projection.

Mr. MUNRO: I took the figures I indicated, and multiplied them by $25, and I have checked the figures. There is one other point if the committee will allow me, on this question of old age security which throughout the brief I would suggest has been used by the association to point up certain things, and has been omitted to point up other things. I am referring to chart I where they talk about the relative costs of social welfare schemes in Canada as compared with the United States. In their chart they have included old age security. Again, I would point out on page 8 they comment on the relative generosity of the development of the superannuation fund for civil servants, and they have again included old age security. Midway through the page they say the percentages would be lower if they earned more than assumed and higher if they earned less .When they themselves have included old age security it is hardly indicative that the rich will get more on the basis of the statement that the committee would wish to confirm whether the figures are correct, and if they are that it will indicate little scope for saving. So they were quite right to include old age security.

Hon. Mr. MCCUTCHEON: It is a welfare benefit.

Mr. MUNRO: But when they were talking about bonuses all day yesterday, Senator McCutcheon, they refused to consider the old age security as part of the over-all consideration in arriving at this. In other words, they divorced all consideration of old age security when they talked about the Canada pension plan. This is analogous to saying that the framers of this legislation should have completely ignored the effects of the old age security plan when they figured out the Canada pension plan, and of course it had to be taken into consideration. So I say that when the association point out the over-all cost of the implementation of this plan they then add it to old age security figures when they wish to show the over-all cost. When they wish to criticize the plan on the basis of bonuses assisting the welfare, and so on, they omit the old age security. My point in referring to this schedule is that this is rather unfair because when one does add old age security it gives a considerable weighting factor and works out far more accurately for the lower income brackets.

I would not mind filing this. My figures show a person earning $100 a month, if he is single and assuming the average retirement age at 67½, would be getting $88 a month, and that is 88 per cent of his wage, 88 per cent of the $100 a month. If he is making $200 a month he would be getting $113, which would be 57 per cent of his wage. It gradually comes down from 88 per cent to 57 per cent. If he is making $250 a month, if he is single, he will be getting $126, which is 50 per cent of his average wage. If he is making $300 he will be getting $148 or 46 per cent. At the top he would be getting $163 a month or 41 per cent of his wage. So, from a man making $100 a month who is single getting 88 per cent the percentage drops down to the top level of 41 per cent. Of course, I agree this is combined. This is assuming that the average retirement age is 67½.

I would ask if the association feel those percentages from 88 to 41 are unreasonable in the circumstances.

Mr. KILGOUR: The quick answer to that is that dollars are what one has to take to the grocery store and not percentages.

Mr. MUNRO: But, I am saying that this certainly does go a long way when you include old age security as a weighting factor. It does go a long way to remove the implications which were suggested by those considering the Canada pension plan alone.

Mr. KILGOUR: The biggest dollar bonus goes to the higher income group.

Mr. MUNRO: I have one last question, and I hope I have not taken up too much time.

M. MONTEITH: You have.

Mr. MUNRO: Well—

Mr. MONTEITH: Does not anyone else get any consideration?

Mr. MUNRO: The only other remaining question was that if the gentleman felt by lowering the ceiling on earnings in a year from $5,000 to, say, $4,000 this would overcome to some degree some of the element of this plan benefiting because they claim the higher income earnings have prejudiced the lower income earnings.

Hon. Mr. MCCUTCHEON: And, lowering the benefits as well?

Mr. MUNRO: No, the same percentage of 25 per cent.

Hon. Mr. MCCUTCHEON: That would not fit in with the province of Quebec.

Mr. MUNRO: Do you feel that lowering the ceiling would not ameliorate this criticism.

Mr. HOLMES: Lowering the ceiling, of course, would reduce the benefits, as Senator McCutcheon has suggested. I think we have indicated as clearly as we could that the proposal needs a more drastic overhaul than that.

Mr. MUNRO: My only comment in that connection would be that in a brief, which I can quote but which I will not, the Canadian Life Insurance Officers Association opposed a suggestion made by the federal government that the ceiling be $4,000—that is what they were proposing at that time—which amounts to $78 a week for a married man, and I believe their claim at that time was that it would give such a pension to $4,000 and under that there would be very little incentive for personal savings.

Mr. KILGOUR: We never had an opportunity to present a brief.

Mr. MUNRO: Well, I can read from it. I have referred to it.

The CHAIRMAN (*Mr. Cameron*): Mr. Munro, time is passing.

Hon. Mr. MCCUTCHEON: Mr. Chairman, I think we will have to adjourn and ask these gentlemen to come back this afternoon.

Mr. CHATTERTON: Hear, hear.

Hon. Mr. MCCUTCHEON: And, when we do come back I would like Mr. Munro to take his seat by the clerk because he is giving a great deal of evidence upon which we would like to examine him.

Mr. CASHIN: And, I would suggest that Senator McCutcheon sit on the other side of the clerk.

The CHAIRMAN (*Mr. Chameron*): Now, gentlemen, we still have some time left.

Mr. MUNRO: These are questions which are pertinent to what has been claimed.

Hon. Mr. MCCUTCHEON: I am not criticizing Mr. Munro, but it is obvious that we cannot finish by 12 o'clock.

Mr. KNOWLES: Our questions will take only another couple of minutes.

Mr. CHATTERTON: On a point of privilege, Mr. Chairman, questions were asked earlier with regard to chart I and at that time you ruled that the delegates would be given a chance later on to answer those questions. This is on the record and no chance yet has been given to them for reply.

The CHAIRMAN (*Mr. Cameron*): They will still have that opportunity.

Mr. CHATTERTON: I was just bringing it to your attention, Mr. Chairman.

Hon. Mr. MCCUTCHEON: In my opinion, Mr. Chairman, we cannot finish by 12.30.

The CHAIRMAN (*Mr. Cameron*): But, at least we can go to 12.30, if that is agreeable.

Hon. Mr. MCCUTCHEON: Why not let them have time for a decent lunch and then come back later.

The CHAIRMAN (*Mr. Cameron*): I am not clear in my mind whether they intended to come back this afternoon or to return to Toronto and come back at a later date.

Hon. Mr. MCCUTCHEON: I do not think they intended to come back this afternoon but, I suggest, they would be quite willing to do so.

Mr. MUNRO: Mr. Chairman, I was quoting from page 13 of the brief of the Canadian Life Insurance Officers Association submitted to the minister, which was filed in the House of Commons in response to your motion, Mr. Knowles. That brief was submitted by your association. It was dated July 26, 1963, and I was referring, as I said, to page 13 thereof. That was when the suggested level was $4,000, and you were opposed at that time.

Hon. Mr. CROLL: Mr. Chairman, Mr. Watson is a member of the group and it is quite conceivable that you might be able to arrange for this gentleman to be here at 2.30. Perhaps Mr. Watson will remain until later.

The CHAIRMAN (*Mr. Cameron*): That is up to the association. I would certainly like to finish it up, and I think they would also.

Mr. HOLMES: I think the delegation is in your hands, Mr. Chairman.

The CHAIRMAN (*Mr. Cameron*): Are you prepared to come back at 2.30?

Mr. HOLMES: If that is the wish of the committee, yes.

Mr. KNOWLES: Why not give them a couple of minutes to get together and decide?

The CHAIRMAN (*Mr. Cameron*): Certainly. We will adjourn for two minutes to allow you to consider with your group what you wish to do.

Mr. HOLMES: It is clear that a sufficient number of the delegation are in a position to stay, so we will be happy to stay, if that is the wish of the committee.

The CHAIRMAN (*Mr. Cameron*): It is agreed.
We will come back at 2.30 p.m.

Mr. CÔTÉ (*Longueuil*): Could we not continue until 12.30?

The CHAIRMAN (*Mr. Cameron*): We will continue until 12.30.

Mr. AIKEN: Has Mr. Munro finished his line of questioning? I do not want to object to his taking our time, but if we are going to continue we should all have a chance to ask all the questions that are necessary. My only objection in counting the five or six questions is that it will leave no time for other members. If Mr. Munro is going on, let us let him finish his line of questioning.

The CHAIRMAN (*Mr. Cameron*): I think he was nearly completed. I think he had some other observations to make.

Hon. Mr. MCCUTCHEON: Did Mr. Munro quote a reference from the brief? He has given us his interpretation, let us have the reference.

Mr. MUNRO: I am referring to page 13 of the memorandum submitted by the Canadian Life Insurance Officers Association enclosed with the letter to the minister dated July 26, 1963. Starting five lines down, it says:

> A major weakness of the federal plan under consideration would be its unfavourable effect on private saving as the payroll tax rises. Most individuals earning less than $4,000 a year—and this includes the majority of Canadian workers—would likely come to rely on the government to meet their entire retirement needs and discontinue or reduce their own savings since most saving is for retirement.

My point was simply this, that even at $4,000, the proposal was for 30 per cent. I believe that would work out to something in the order of $1,200 a year at the maximum level of pension. A man making $5,000 under the present proposal would be getting $1,200, just like the man earning $4,000. You cannot say that all those people in the range from $4,000 to $5,000 would get the same benefit as somebody earning up to $4,000, and you can hardly say that under the old scheme there was any great benefit for the person in the higher wage level because how can a man raise a family on $70 a week? The association was even opposed to that on the level of $4,000. I would think that when they are trying to establish this point maybe they should tell us what level they think should be applied assuming that a Canada pension plan of some kind will be put into effect.

Mr. HOLMES: At the time this memorandum was presented the Canada pension plan did have a maximum of $4,000 a year. The comment which was read is simply our comment on the plan as it existed at that time. We were essentially saying the same sort of thing as we are saying today, that an income related plan does have certain defects and that it is only partial in its coverage. May I remind the committee that since 1950 we have consistently supported the old age security approach, a uniform, universal approach to old age security for all Canadians. We were not recommending $4,000 or $5,000 or any other limit. Consistently we have said the same thing about the income related program.

Mr. MUNRO: With that explanation I accept that you are opposed to this type of approach to pensions. I am glad that is clarified, because now we have that on the record. I had the impression that at one time it was $6,000 and you objected; now it is $5,000; it used to be $4,000 and you even opposed that. Presumably if you lowered it to $3,000 you would be opposed on the basis of the general principle you outline now?

Mr. KILGOUR: It was clearly stipulated in the memorandum to the Minister that "we oppose a federally operated pension plan providing earnings related benefits".

Mr. HOLMES: And that we supported a federal plan based on universal benefits.

Mr. MUNRO: I am glad it is clear that the association should be revealing such tremendous concern for the lower wage levels, because they are not being helped when you oppose it for $1,000 or $3,000. You are getting down to a man earning perhaps $78 a week. At $3,000 it might work out, perhaps, to $65 a week. It has been isolated to this; you are opposed to this as a general principle—a contributory scheme.

Mr. MONTEITH: They have been trying to tell you that since yesterday noon.

Mr. MUNRO: Then let us have no more gobbledegook.

Mr. HOLMES: There was a word slipped in there; that is, that we are opposed to a contributory scheme. I would call the committee's attention again to the fact that we supported old age security as a contributory scheme; that it was recommended by the King-Lesage committee as a contributory scheme and was presented to parliament by the government as a contributory scheme; and parliament presented it to the people of Canada, including ourselves, as a contributory scheme, and we supported that contributory scheme.

Mr. MUNRO: But it supplies only $75 a month which hardly is adequate.

Mr. HOLMES: I think we have made it clear that we feel the question of amount is a responsibility of parliament.

The CHAIRMAN (*Mr. Cameron*): It is 12.30 p.m., gentlemen. We will meet here at 2.30 p.m.

AFTERNOON SITTING

WEDNESDAY, January 13, 1965.

The CHAIRMAN (*Mr. Cameron*): Gentlemen, we have a quorum. Mr. G. M. Watson is here. He has presented a brief and is supposed to be our only witness this afternoon but he has kindly suggested that he stand aside temporarily as long I can assure him that he will have an opportunity to catch a train to Toronto at 7.00 p.m. Under those circumstances I suggest that we proceed with the life officers association members until 4.00 p.m. unless we finish sooner than then, and that at four o'clock we call upon Mr. Watson and if necessary bring the life officers back, because they are willing to return. Mr. Munro still has a few questions he wishes to ask. He may proceed.

Mr. MUNRO: My question is related to the one I asked this morning, in connection with the diagram—I think it is chart 2, showing what purports to be 1.2 million Canadians aged 65 or over at the end of 1976 who would be receiving no benefits. I think it was agreed as a result of the questions that this 67 per cent, or whatever it is in this white spot, would include the unemployed, would include people now in retirement over 70 who would still be living ten years from now, and would include widows who are now 55, whose husbands were already dead when the plan came into operation.

My question is this, so that we may have an opportunity to check the accuracy, if you like, or come to our own conclusions with respect to this chart: do you have figures to show how this whole area of no benefits is broken down, showing the number of unemployed, showing us how you establish it, showing us the number of people now retired over 70 who will be alive in 1976, showing us what portion of the pie it is, and how you arrive at it, showing us the widows now 55 who will be alive in 1976, and showing us how you arrived at that?

Mr. HOLMES: The answer to that question is no, we do not have an analysis. The way we approach this, as I tried to explain, is as follows: It is quite a difficult problem for us to base it on your own actuary's forecast, but we have worked quite hard in order to give you as accurate a picture as we can from the outside. You will realize that this forecast does not divide the benefits being paid into these different categories. We suggest that you do obtain whatever analysis you wish from your own actuary. We feel that this is an accurate picture, and certainly the best we can give you.

I would call your attention again to the fact it may be that our subheading there should be lengthened a little bit. We have taken people actually in retirement and receiving benefits, and have tried to divide them up. Included in the total of 1,880,000 Canadians of age 65 and over are those who are still working, but they are not in the pie. The pie is composed of those who are in retirement, according to your own actuary's estimate.

Mr. MUNRO: You make it very difficult for us to come to any conclusion on how this was arrived at without having a breakdown.

Mr. HOLMES: That is partly why we recommend that you ask for a further analysis from your own actuary. We cannot give you a more complete analysis in this part.

Mr. MUNRO: Thank you. You are not prepared to verify the accuracy of it.

Mr. HOLMES: I stand behind it, and I say that we feel that this is an accurate picture of the situation, and part of the situation that is concerning us, as we have expressed it to you in the brief. We would be very glad to have you obtain a confirming or alternative report from your own adviser. If for instance, his report showed that the white part of the pie was a little smaller, this would reduce our concern; but if it happened to show that it was a little larger, it would of course increase our concern.

Mr. MUNRO: All we can say is that this is a chart which you laid before us to establish your argument, but that you cannot have any source of authority for the figures arrived at, because they are not available.

Mr. HOLMES: The source is your own actuary's report, and we have been just as careful as we could in the analysis of the people in receipt of benefits.

Mr. MUNRO: Thank you. I have one final point which I want to clarify. I believe this morning in referring to this last recommendation of the association concerning orphans it was estimated to me that that particular benefit would cost $35 million. They feel now that a more accurate figure would be $40 million. Do I understand it from the gentleman who answered the question that he was talking about orphans and widows?

Mr. HOLMES: I would like him to reply to that, and to explain exactly what is in his estimate.

Mr. DIMOCK: The lead in to this illustration is the first sentence in paragraph 70 which says that for some time the association has advocated the provision of universal basic benefits both to widows and the permanently disabled with dependant children. We then go on in paragraph 71 to illustrate one way in which this can be done for widows; the figures I gave you were for widows with dependant children.

Mr. MUNRO: You mean orphans with both mother and father dead. They are not included here and they would be supplementary.

Mr. DIMOCK: That is true.

Mr. MUNRO: And that would also apply to the orphans of widowers; they are not included here?

Mr. DIMOCK: That is right.

Mr. HOLMES: I would call your attention to the fact that we put this before you as a suggested practical plan. We have not the least conception that the committee would just take our plan.

Mr. MUNRO: Through you Mr. Chairman to Mr. Holmes, apparently it is quite true. During my questioning and perhaps some of the others, perhaps it would be better if he spoke for himself; that if I appeared to be unduly belligerent or discourteous in any way, I hope you will accept my apologies. It certainly was not my intention. One does get wrapped up in these things, and one perhaps pursues a point unduly. I would not want you to feel offended in any way, and I do certainly appreciate your courtesy and that of your association in answering my questions.

Mr. HOLMES: I reciprocate your comments. I am sure that both you and I have tried to make our statements clear, and I have no feeling that any one has been particularly belligerent.

Hon. Mr. MCCUTCHEON: You know your are right, Mr. Holmes.

Mr. CANTELON: Let us not start off with any sarcasm.

Mr. FRANCIS: This does not have to do with Mr. Munro's comments, but I think the brief is an excellent one, and that the presentation is first rate. I only hope that the briefs we have yet to receive will be all of the same standard. But what concerns me, Mr. Chairman and Mr. Holmes, is to try to relate this to the program before this committee. We have a specific piece of legislation and it seems to me that the life insurance officers association is saying that at this stage Canada is looking towards a major departure in social security measures, and there are three approaches to be considered. One is through the means testing, or the resources background. The second, is through a social insurance measure, and it seems to me that a good deal of the criticism directed at it is because it is not something else. And the third is to take a universal benefit approach in order to meet the problem.

The association seems to be saying first that of the three paths that you could tread at this time, this legislation is a step in a direction which you gentlemen generally distrust, and you feel that it is wrong in concept and in terms of social insurance as such.

You have been kind enough to place before us a series of alternatives which you think would add up to a more equitable or more defensible package from your point of view. I want, if I may, to see if I have interpreted this package carefully. In your summary of recommendations you have first of all suggested $65 or $75 a month for every single man.

Mr. BROWN: Who has retired.

Mr. FRANCIS: Yes, who has retired.

Mr. HOLMES: To all; every person who has retired.

Mr. FRANCIS: For all married persons you have a scale for the husband of $65, and for his wife who is 60 there will be a sliding scale up until 70 which goes up to $150.

Mr. HOLMES: For the husband whose wife is under 60 we have simply suggested a single amount, and that when the wife crosses 60, it is suggested we give $125 to the couple, and it would increase to $150 when the younger wife reaches 70.

Mr. FRANCIS: The cost which you have indicated by your own estimate for this recommendation is in the order of $300 million a year.

Mr. HOLMES: That is correct, and that is the very best estimate we can make. Again we feel sure that your committee would want to check it with your own adviser.

Mr. FRANCIS: I appreciate that. The second recommendation is put a little more tentatively in terms of a premium for the higher age group after the age of 70. This is a clever suggestion. Presumably for the alternative you would need more money than you would get per month under this scale which you have put forward with the suggestion that you can do it for $60 million annually.

Mr. HOLMES: That is correct.

Mr. FRANCIS: And the third category is to bring about a universal benefit approach to dependancy for children losing both parents, and children losing the breadwinner in the family, and your estimate is $35 million for this. And then Mr. Munro raised some technical questions which are not important in principle. He wondered if your estimate was low.

Mr. HOLMES: If you are thinking of using our estimate for the group you mentioned, it would be low. We have suggested a smaller group than you, and the committee might readily think that it should be a larger group.

Mr. FRANCIS: As I understand Mr. Munro's interpretation, he had an estimate in the order of $100 million or approaching it.

Mr. HOLMES: That is right. The largest part of the difference would be motherless children in the care of their father and since the father would still be working, we did not suggest that there be extra payments there.

Mr. FRANCIS: The concern I have relates to what this package would mean. Just as there are certain limitations that depend on a social insurance measure, I think the committee is as basically aware of the same basic points of application as you are. But let us look at what this adds up to. It is an extension which would amount to the order of $400 million a year immediately. There is an argument that there be no increase or benefit for people who go on retirement over the flat rate scale, or for people now retired. Mr. Knowles, I think, made this point earlier.

Mr. HOLMES: I am afraid I do not quite follow you.

Mr. FRANCIS: For people presently retired I am not aware that any of these recommended changes would add to the pensions or benefits of those presently beyond the required age.

Mr. HOLMES: Oh, yes. First of all, the man who was 73, with his wife 68, would receive $125 a month.

Mr. FRANCIS: If one were to take the case of a man of 73 who has a wife of 68 he would receive $125 a month, whereas at the present time a number of those couples are in a very critical situation trying to get along on $75 a month. There is no question of additional benefits for people less than 70.

Mr. HOLMES: No. If the husband is over 70 and his wife is still under 70—

Mr. FRANCIS: Yes, I see.

Mr. HOLMES: We have said we do think there is further study needed as to whether something further is to be done at the older ages. Based on what we have seen of the dominion bureau of statistics' figures—and the information we have had can be wrong—the picture may be different at 80 than 75 and at 85 than at 80.

Mr. FRANCIS: I think this total package is a much more radical package than I certainly anticipated from your group. I have a great deal of sympathy with a great many things here, but I think it will be more expensive than the Canada pension plan if you project forward a period of years.

Mr. HOLMES: We frankly do not agree with this, but again I think the only people you can possibly be expected to believe in this connection are your own actuarial advisers. Again, I might mention that we have not criticized any of the cost estimates that you have received from the actuaries.

Mr. FRANCIS: I appreciate that, but you feel that projecting this to the same period as that to which we have projected the Canada pension plan would not show it to be of a greater order of magnitude?

Mr. HOLMES: I am quite sure in my own mind that it would not be.

May I refer to a point you have mentioned? I think you mentioned no indexing. I still do call your attention to the fact that we think the actual scale, the $75 basic and $125 and so on, should be reviewed quite regularly and systematically with reports from the bureau of statistics primarily to see whether the retired people's income is keeping reasonable pace with the income of people at work.

Mr. FRANCIS: Do you not expect the result of this procedure would be a series of amendments to the basic level?

Mr. HOLMES: Of course, and it would become quite systematic and well worked out.

Mr. FRANCIS: What gives me most concern, to be frank with you, is that I think it would be an invitation to political instability if this approach were generally adopted. It seems to me it would be more detrimental to the economy than the proposals put forward. This is my basic concern with the alternative.

Mr. HOLMES: You realize that we feel this alternative is not nearly as unstable as the plan we are considering, and the main reason is that this alternative appears to be fairly equitable to all people at the older ages. We cannot see how the introduction of a plan, which does make for comparisons between one and the other, will not greatly increase the pressure to keep changing the combined plan.

I know that this has been a difficult problem. I do not think we have been any more satisfied than the committee members with the method that Canada has so far worked out to consider adjustments in old age security since we first adopted it, but I think a system can be worked out. We agree it is parliament's responsibility. We think that the various parties can find a method, together with our civil service and perhaps an advisory council from outside. That would be the rational approach.

Mr. FRANCIS: You have no specific suggestion beyond the method we are comparing?

Mr. HOLMES: Not beyond what I have said, Mr. Francis, no.

Mr. FRANCIS: I am surprised at the lack of interest in supplementation on a test of needs or means. In an earlier presentation Dr. Willard said that no modern country, to his knowledge, had ever been able to devise a social security system in total that had avoided testing on a means, need or income basis, or some basis of resources to determine need.

I believe paragraph 16 of your brief comes very close to saying this. It says:

> The fundamental aim of a compulsory social security measure should be to provide protection for persons who specifically need help or for everyone in a population group where need is widespread.

The basic concern that worries me, and I am sure it worries many other people, is that when we go to the universal benefit program need is not pinpointed. We presume need in a general class and general category, whether the circumstances in the individual case warrant it or not, and I do have reservations in my own mind as to how far Canada or any other country can go on any other basis to presume need in a broad category and provide security without any test of individual resources. This does surprise me, quite frankly.

Mr. HOLMES: You realize what we have said to you in this area is that as far as we can see the universal uniform benefit approach comes closer to the meeting of unmet need among older people as a whole than the Canada pension plan plus old age security. Actually, the latter tends to pay benefits to Canadians who have shown themselves able to look after themselves and to keep it away from others who, from the dominion bureau of statistics figures, seem to be in greater need. We would agree with you that Canada will not get away completely from assistance. We think the test is: Does our "payment as of right" plan, our community plan, keep this to as small a percentage of the beneficiaries as possible? We really think that the old age security approach has had that result.

We have tried to make a summary of these things throughout the world. There are seven or eight countries with plans and every plan is different, but I think you would find that under the social insurance approach, one that is related to income, there was a rather larger percentage of people in the older ages requiring some assistance than under the uniform universal approach. We have very good company in our universal uniform plan, and the number of countries which, having had a universal uniform plan, have put in an additional income related plan such as we are discussing are quite few; they constitute a very small minority.

Mr. RHÉAUME: Mr. Chairman, I want for a moment to get down to a different line of questioning.

Among the recommendations that Mr. Holmes' delegation has made, and in stating that there are serious gaps in the categories of people who will be assisted under the Canada pension plan, is the recommendation in effect to study where the poor people are and where they are likely to be ten years from now. I wonder if they feel that the institution of the Canada pension plan now will seriously obscure the fact that hundreds of thousands of Canadian people in poverty will get nothing. Is that one of their concerns? Are they concerned that by proceeding with this plan we will in fact postpone the essential study of where the needs are to be found in Canada today and where they are likely to be found. Is that one of your fears?

Mr. HOLMES: Well, we would hope that the examination of welfare needs would proceed as quickly as possible. But, we do find, when talking to people on the street, that they do not understand what is being proposed at all because everyone you speak to says that we must do something for our old people, and when they say that they are thinking of the present old people. However, there will come a shock of realization, a moment of truth, and whether this will speed up or slow down consideration of the overall problem I could not say. But, I do say that it would be very difficult to find a solution, a third plan, that would solve the problem after you have the two plans in operation. It would be infinitely better to look at the problem very thoroughly and hard-headedly before you go into the second plan. When you find the needs of the people do not fall into the pattern created by the second plan it is going to be extremely difficult to know where to go.

Mr. RHÉAUME: From the analysis you and your colleagues have done, in your opinion, is there general awareness on the part of the current old people and those presently widowed, disabled and blind, of the fact that they will benefit nothing from the Canada pension plan.

Mr. HOLMES: Well, we wish you would ask almost every witness that appears before this committee that question. As I told you we have just tried in our own personal way to make inquiries. We really do not think the people are aware of the situation. Of course, there is an awareness among some groups but it is not general.

Mr. RHÉAUME: From your experience, with this kind of thinking on the part of you and your colleagues is it your guess, or perhaps I should say opinion, that the lowest income groups are going to be those groups who attempt to opt in, if I could use that expression, at $51 a month rather than wait the additional five years and qualify for the universal $75.

Mr. HOLMES: I am sorry, but I do not think we really have experience on this. It would be my personal opinion that the person who was finding himself in fairly easy circumstances at age 65 would postpone taking the benefit in order to get the $75 at age 70, and the man that was hard up would be inclined to take the $51. But, this is only a personal guess.

Mr. RHÉAUME: But, surely you have had sufficient experience with people who would take pensions here and now at lower rates rather than wait for the final payment that the mature policy might give.

Mr. HOLMES: Not really because when people come to us for an option, as you realize, a business concern does not really ask if they are very hard up or if they are comfortable; it is just a business transaction, and we really do not know.

Mr. RHÉAUME: But, what is your personal opinion?

Mr. HOLMES: I have just given my personal opinion.

Mr. LINNELL: Mr. Chairman, this information possibly is available in some of the insurance companies' records, but at the moment it is not available here. However, as I say, I believe it could be obtained.

Mr. RHÉAUME: The purpose of my questioning is to find out if, in fact, the people who are the hardest up will come in as soon as they possibly can in the terms of the new flat rate $75 a month pension and take it at $51 a month here and now rather than waiting an additional five years. Do you foresee a problem whereby hundreds of thousands of low income people at age 65 will, in fact, be receiving $51 a month and $51 a month only since this will be the same group which does not qualify for the Canada pension plan benefits by and large.

Mr. HOLMES: Perhaps Mr. Berry might answer your question.

Mr. BERRY: I have one observation to make which bears on this. It is our own experience that people who retire at age 65 generally ask us to integrate the present old age security benefit into their present pension; in other words, they take an increased pension under our option at age 65 with the understanding it would be reduced by $75 at age 70. I think it is fairly obvious, particularly for people in the low and moderate incomes, that it is not very sensible to have your income go up $75 at age 70 if you have an inadequate income between ages 65 and 70. We find a large proportion of them will take the integration and have a flat pension across the whole period.

Mr. RHÉAUME: In your opinion and in the opinion of your colleagues will we, in fact, be producing as a result of the facilities of this plan a class of poor old who are on $51 a month for life at age 65?

Mr. HOLMES: That is going to start to go up in 1968 with price levels, with a limit on it, and we have suggested the effect of this plan may be to increase the price before that starts. But we certainly feel that some of us will be receiving the maximum benefits from the Canada pension plan while some of our fellow members of the Canadian community who will be looking at the situation 10 years from now will be looking at it from the point of view solely of an income of $51 a month escalated.

Mr. RHÉAUME: Now, I want to return to the principle very briefly that I discussed yesterday. I am taking a page from Mr. Munro's book, who wanted to qualify paragraph 30 of your brief. I will ask you now, in the light of information we have heard in the last 1½ days, if we should not clarify the proposed statement of policy in terms of the pension issued by the minister in the house. The original statement was this: "The purpose of the government's proposed legislation is to ensure as soon as possible in a fair and practical way all Canadians will be able to retire in security and with dignity".

Now, in the light of the testimony, as Mr. Berry was asked to qualify the bonus system, could this be the properly qualified statement: The purpose of the government's proposed legislation is to ensure that wealthy Canadians will be able to retire? I am eliminating all the adjectives.

Mr. HOLMES: This is the purpose of the—

The CHAIRMAN (*Mr. Cameron*): Just a moment, Mr. Holmes. I would like to say, with all due respect, Mr. Rhéaume, that I do not think that is the type of question you should ask at this time. It is a hypothetical question, in respect of which you are asking an individual for his opinion. For instance, last night I picked up the Gideon Bible and looked at the first thing I saw was this: "This contains the greatest collection of myths, mysteries and superstitions of the fools men are". Someone wrote that in there. Whatever opinion one may have I do not think we are accomplishing anything by asking certain individuals, is this not really what the minister should have said.

Mr. RHÉAUME: The statements that the gentlemen have given us have demolished the actual use of these adjectives, "fair, practical, all Canadians, security, and dignity". In view of that, I am doing what Mr. Munro attempted to do to qualify that.

The CHAIRMAN (*Mr. Cameron*): You can do your own mathematics on it.

Mr. HOLMES: The trouble with your question is that the statement refers to the purpose of the government and I am not qualified to make any comment on the purpose of the government. I am a person who thinks that the purpose of all policies is a good purpose but that sometimes in a slightly technical matter the government may not quite foresee what a particular course of action may lead to. But, this is a statement of purpose. It came up yesterday in connection with our contention that Canada was looking at itself as a great big insurance company and that it was not looking at itself as a community, and we quoted the minister to show this was so.

Mr. RHÉAUME: Then I will change the question. Would you say this would be a safe statement: The effect of the proposed legislation—

Mr. MUNRO: I was quoting from the brief and not from any of Mr. Diefenbaker's statements.

Mr. RHÉAUME: On a point of order, surely if Mr. Munro can introduce a telegram from the minister and say her words are rock bottom and copper sheathed, and that the government is going to stand on them, I am entitled to introduce other statements and ask the committee if the effect of the plan, in fact, will be the converse of the statement given to the House of Commons in respect of what it was trying to do.

The CHAIRMAN (*Mr. Cameron*): You are entitled to come to your own conclusions but you are not permitted to ask the witness if he comes to the same conclusion as you do, if he does not want to make that sort of a statement. I think it is rather extreme to ask a witness to come into a direct conflict with a statement of policy made by a minister in respect of what the purpose of the act is. You may very well do that, having listened to the evidence. You could say that you have come to the conclusion that the minister, when she said that, was not saying the right thing and that she should have said something else. But, there is a proper place and arena for doing these things.

Mr. RHÉAUME: Will the effect of the proposed legislation be the converse or the reverse of a plan that would allow in a fair, practical way, for all Canadians to retire in security and dignity?

Mr. HOLMES: We have tried to describe to the committee some of our concerns about the effect of the legislation. That is really all I can say.

Mr. RHÉAUME: I will rest with that.

The CHAIRMAN (*Mr. Cameron*): Would you proceed, Mr. Knowles.

Mr. KNOWLES: Mr. Chairman, I expect it would be a fair statement to say that at this point we are indulging in a certain amount of repetition, and the only defence I shall make to my remarks is that I shall try to keep them brief. But, I would like to join with those who have expressed themselves to the Canadian Life Insurance Officers Association for their brief and for the way in which they have answered our questions.

Before I get to the other side of it there is one other thing for which I would like to thank the delegation—and I say this quite earnestly. I think they have done a good job in drawing attention to the gaps that will still remain in our social security and social welfare system even if we bring into being the Canada pension plan along with the other legislation that is on our books both federally and provincially.

The delegation has documented this quite well, and it has expressed very strongly concern for the people now over 70 who will not get anything out of the Canada pension plan and the people under 70 who likewise may not get anything out of it. I hope that whether or not we take the rest of the recommendations of this delegation as seriously as they would like us to, the committee will pay attention to the emphasis that the delegation has placed on the gaps in our social security. I am sure that other delegations who will appear before us in the next week or two will underline this fact. Some of them may be special interest groups, but at any rate I hope they will underline the fact that there are many people in our society today who have unmet needs, and they will still be unmet even after this legislation is passed, if indeed it is passed.

However, I must repeat—to come to the other side of my remarks—what I said when I had the floor on previous occasions, I regret very much that this delegation has not, in my view, given us any help with respect to the problem of doing something to provide adequate pensions for all our people. It is one thing to talk about social welfare, to talk about minimum pension schemes or benefits or allowances that help people in need—and I am proud of what we have done in Canada to move in this direction over the past few decades—but I think the thing that is unique, the thing that marks this kind of legislation as a turning point, is that we are trying to get into the field where, as a state, as a community, we accept the proposition that all our people are entitled not just to a subsistence existence in their old age but to pensions on an adequate scale. I think the facts are clear, that people have not been able to do it by themselves, that private pension plans have not done the job. It has not even been possible for workers to get themselves sufficiently organized to win it through collective bargaining; there are still a great many people for whom the only resources available in old age is what is provided by the state.

You have said quite clearly that you do not think we should regard ourselves in Canada as one great big insurance company. Well, I am not going to suggest we adopt that phrase, but I think there is justification for that concept; that it is part of the business of society to see to it that there are arrangements open to all our people to ensure themselves a decent and adequate old age security system. Mr. Chairman, I submit that the delegation has not helped us on this score.

I hear little mutterings about my offerings to be brief. I will accept the mutterings and I will forget the rest of the notes I have here because they are only a repetition of what I have said in the past, both yesterday and today. I will say again quite seriously that I am grateful to the delegation for what they have done in drawing our attention to the gaps in our social welfare program, but I do not think they have been any help to us at all with respect to this other concept of the state doing something about adequate pensions.

If they do come back, I hope they will try to be helpful to us on that score as they have been on the other.

Mr. HOLMES: Is this a question, Mr. Chairman?

The CHAIRMAN (*Mr. Cameron*): I do not think it is. You can make a comment on it.

Mr. KNOWLES: Perhaps I can meet that by asking: does Mr. Holmes have any comment to make about himself?

Mr. HOLMES: I do have a comment. We are stating to you that in your approach to this problem you referred to you should have stressed the word "all", all our people. To take the approach which only looks towards a part of the people will simply make our problem greater. I know that the total cost of providing something for all the people is more than the cost of organizing something for a smaller group. We are considering a scheme where the community undertakes something for part of itself. That is what is proposed. It is obvious that generally the cost of doing something for half the people is half the cost of doing it for all the people. It is obvious that if we make grandiose promises 30 or 40 years from now it will not get into this year's budget at all. This leaves a problem for some unfortunate future parliament. We have tried to stress as strongly as we can that in approaching the whole problem the word "all" and the idea of fair treatment for all should be kept in the forefront.

Mr. KNOWLES: May I ask a supplementary question? Does Mr. Holmes not believe that in the course of time a plan such as we have, a two stage plan for a flat rate on earnings benefits, will tend to cover most of the people? I am looking for example at your chart on page 15. If you admit that in 10 years 33½ per cent of all the people at that time who are aged 65 and over will have been covered by the Canada pension plan, and that includes people who are already over 70 and had no chance to get into it, is it not likely that in 30 or 40 years this will be the kind of coverage that will just about be universal?

Mr. HOLMES: The only answer is most, not all. When we look at the situation 10 years from now, which we think is much more important than 40 years from now, we just shudder at the small size of the fraction that will be assisted or helped.

Mr. BROWN: I think we should also recognize that even though the white portion of the chart is reduced by 1986 or 1996 or 2006, or whatever date you want to take, under the Canada pension plan as proposed there are going to be many people who are getting "negligible assistance". I say that advisedly because amongst the group who will be added will be the housewife who has withdrawn from the labour market on marriage at age 25 and has not returned, and who is getting a very small pension, not something that we can consider as adequate. It is a benefit, it is something under the plan, but, as Mr. Kilgour endeavoured to indicate, it is very much less than she would have received had she used her own initiative and her own funds through a private source, even using her own contribution without regard to her employer's portion.

Mr. MUNRO: She gets the survivor's benefit after her husband dies.

The CHAIRMAN (*Mr. Cameron*): We have been all over this several times before.

Mr. KNOWLES: I have one more supplementary question, if I may be pardoned for a moment longer. Granted that the Canada pension plan may not ever cover all people, but is it not a fact that it will cover a great many as something beyond old age security, whereas if we do not pass this plan, if we go for the alternative proposed by the delegation, there will be a great section of the Canadian population which will never have for their pension purposes anything other than old age security? I refer to all those who are not in private plans, who are not in industrial plans. Is not your alternative still leaving all those people out in the cold?

Mr. HOLMES: I do not think so; they are in old age security. As Canada becomes more prosperous, old age security will distribute its prosperity to the older people more effectively than any other means we can see.

Mr. KNOWLES: I will now stop, Mr. Chairman. This is the difference between us—I am not satisfied old age security is enough; I want the benefit of the insurance principle for all Canadian people.

Hon. Mr. MCCUTCHEON: Have you figured out what the farmer will get, the adequacy of the pension he gets as compared to what his widow would get?

Mr. KNOWLES: I was discussing it with farmers a couple of weeks ago and they want it.

Mr. CASHIN: I had some questions to ask this morning but I think we have covered the field since.

Mr. BERRY: Might I make one comment on this? I think really down at the heart of the problem we are discussing is the choice between whether it is better to do something of this order, with its faults and gaps, on the theory that sometime in the future the picture will improve, or whether it is better to do something about the problem which is right under our noses today. If you go ahead with this, what are you going to do about all the people who are not helped by this? Are you going to wait for 40 years and leave them without further help? This is the choice you must make, because this is the heart of it: the principle that you can do something for everybody and catch all, or you can do something for part of the population and catch some and do most for those who have a better chance to do it for themselves.

Mr. CASHIN: Mr. Chairman, you asked me if I have a question. The hon. gentleman and myself have been having a few questions back and forth. I would like to say that I would hope in a civilized society we can do both; the problem of the low income group is not the adequacy of their pension only, but the fact that they have to live a lifetime at $1,200 a year. That is the problem I hope we can do something about, and I am glad to hear these gentlemen are interested in this problem.

The CHAIRMAN (*Mr. Cameron*): Mr. Lloyd is next, then Mr. Aiken, Mr. Gray, Senator McCutcheon, Senator Croll, Mr. Macaluso and Mr. Chatterton.

Mr. Osborne points out that a question Mr. Cashin asked this morning was not answered.

Mr. CASHIN: I did have a question.

Mr. HOLMES: I believe there were six points to it.

Mr. CASHIN: Yes.

The CHAIRMAN (*Mr. Cameron*): Perhaps we might have this information put in writing to be passed on to all members.

Mr. KNOWLES: Make it an order for return.

The CHAIRMAN (*Mr. Cameron*): It now is 25 minutes after three and we are trying to finish by four o'clock.

Mr. LLOYD: Mr. Chairman, before lunch I referred to my desire to have more information on the field occupied by private pension plans. Subsequently, and since we have reconvened, Mr. Knowles has summed up a conclusion that there still is a large number of employed people who would like to have the opportunity to contribute to a pension plan on a wage related basis and who, at the present time, do not have that opportunity.

I wonder whether Mr. Holmes could supply from his association any kind of statistics which indicate the extent of your coverage in the field?

Mr. LINNELL: The Department of Labour in its recent survey of working conditions in industry, for 1963, published a great deal of information about pension plans that service companies or establishments with at least 15 employees, excluding forestry and government.

Mr. LLOYD: I understand that you are knowledgeable about these labour department statistics?

Mr. LINNELL: I have read that publication.

Mr. LLOYD: May I ask you whether you have seen the January 9 issue of the *Financial Post* which has a summation of pension plan patterns in Ontario?

Mr. LINNELL: No.

Mr. LLOYD: Have you seen it, Mr. Holmes?

Mr. HOLMES: I have not had an opportunity to study it.

Mr. LLOYD: This is on page 13 of the January 9 issue of the *Financial Post*; it is a Canadian pension conference report which is published in the *Financial Post*. In that report they refer to a survey by Ontario of its private pension plans and they draw certain conclusions. In a graph they show on this page that 49 per cent of the employed people in Ontario—males—are members of a pension plan, but this leaves 51 per cent who are not members of a pension plan. Do you have any quarrel with these statistics at all; is this correct? These are employed people; they are not farmers or self-employed people; they are not people who look for old age assistance. These are employed people.

Mr. HOLMES: I really feel that a question on this should be directed to the organization which obtained the statistics. There is another 17 per cent in firms who have a pension plan, but are not participating in the plan.

Mr. LLOYD: That is part of the 51 per cent.

Mr. HOLMES: There are various reasons for this. I did point out to the commitee yesterday that a large proportion of the labour force is in the young ages. We feel that the critical question at any time in this area is what proportion of the employed people, shall we say in the ages 45 to 65, or in the ages 35 to 65, if the committee wishes, are looking forward to a pension and a pension plan? We think this should be driven as close to 100 per cent as is possible.

Mr. LLOYD: Despite the vigorous and I should say the laudable efforts of insurance companies and others who are engaged in offering pension plans, they have been unable to convince a very large number of employers.

Mr. HOLMES: Had this diagram been made up 20 years ago or 30 years ago, it would have had a very small segment of plans. Canadian industry has been adopting pension plans rapidly during the last 20 years.

Mr. TUCK: May I add one point; this is not a contradiction to the figures. Of course, there are individual arrangements for retirement on the part of people who are not in plans; there is private provision for retirement in quite substantial numbers. It is very difficult to obtain any over-all figure, because there is duplication.

Mr. LLOYD: It is an inescapable and irrefutable fact that a very substantial number of employed Canadians are not members in a wage related pension plan in Canada, and despite all the references to the matter of old age assistance it is a fact that what we are dealing with is some measure to take care of that great gap; that really is what we are doing, is it not; you do not quarrel about the effort to do something about that, do you, to fill the gap? I take it it is obvious you do not quarrel with it at all.

Mr. LINNELL: We do not quarrel with the fact that there is quite a large number of people still not in pension plans.

Mr. HOLMES: And that some effort should be made by somebody or by some body in Canada to fill the gap.

Mr. LLOYD: There certainly is a need to be met. Now, the National Trust Company made a study of Canadian pension plans and in its second edition on page 40 it refers to pension benefit levels. Are any members of your organization familiar with these three tables of benefit levels?

Mr. TUCK: I remember seeing it when it came out.

Mr. LLOYD: They break it down into three divisions; benefits based on final average earnings, those based on current average earnings, and those who use the uniform benefit plans. As I look at all three of these I find this is the kind of information which suggests to me there is inadequacy in the benefit in pension plans, which has been referred to by Mr. Knowles. For example, under the final average plans studied, there were 35 plans. In respect of the percentage each year, at the top was 2 per cent and of the 20 firms, only eight used that rate of calculating the benefit. Down at the bottom you find six firms who had one per cent; you find 20 firms whose multiplier, if you like, ranges from 1.5 down to one. Now, you have been making many references to federal government plans, and even plans to which the gentlemen here belong, indicating the relatively high or adequate pensions which you receive; but do these statistics which I am quoting suggest there are many plans where the benefits really are inadequate or inequitable? It is not your fault, mark you; this is the result of having to tell employers in respect of what they should do.

Hon. Mr. MCCUTCHEON: The worst plan you cited would still have a better benefit than the Canada pension plan.

Mr. LLOYD: If Senator McCutcheon wishes to become a witness I could question him, and I would welcome the opportunity to do so. I know he is well informed, but I would like him to be in a position when he is completely objective about his statements and not political.

Mr. TUCK: A one per cent plan does not have the liberality of a two per cent plan, but it does produce after 45 years of service a pension of some size, and these plans are being approved all the time. I venture to say that some plans in that study have been improved since that time.

Mr. LINNELL: There are many plans with different employers where the benefit is a percentage paid through the employer's contribution, and frequently in that type of plan the employee may contribute additional amounts voluntarity. Frequently the one per cent benefit is produced entirely through the employer's contribution.

Mr. LLOYD: In each of these different formulae for dtermining pension benefits you find the same ratio of plan at approximately the mid point. You fin the bulk of them in the lower range of benefit calculations. This suggests to me that we have to be extremely cautious about judging the adequacy of pension plans and not be merely taking the obviously good ones. Do you in your association, Mr. Holmes, have any statistical information which would show by earnings brackets the kind of pensions available to employed Canadians? Have you put together any statistics of that kind at all?

Mr. HOLMES: No, Mr. Lloyd. We feel we can only survey our own plans. We are a fairly small fraction of this pension business, which handles one quarter of the member of persons in plans. We would be delighted if this committee would organize an exact examination of this whole question. We feel that this is the place where a study of that kind might be made.

Mr. LLOYD: I shall conclude with the observation that any judgment of the Canada pension plan will really not be a good judgment until the kind of information I asked for is made available to us. Is that correct? Your criticism of the Canada pension plan should be supported really with a statement of what you are accomplishing in this field, and you have not given it to this committee.

Mr. HOLMES: What we have called your attention to are more general statistics. They are statictics of the income position of older Canadians at the present time. We have tried to point out to you that the community of Canada looking at the factual situation of the present older citizens should be adopting a certain course. This is a much more general type of information and inquiry than the dominion bureau of statistics have obtained for pension plans. The ways in which Canadians within their own bailiwick prepare themselves for their old age takes a great variety of forms. These would be all looked at together in these studies of the income of older Canadians.

Mr. LLOYD: I have one final question. A lot depends on the voluntary effort of employers to provide pension wage related plans in Canada. Is this not so? I say that a lot depends on the willingness of employers to provide wage related plans. Of course you have to sell them on the idea.

Mr. HOLMES: Yes, there has been some, and we welcome effort by the government in the way of encouraging them to do this.

Mr. LLOYD: Thank you.

Mr. TUCK: I think however a survey of what people are getting through private pension plans is desirable but perhaps even more necessary is a survey in depth of needs, and we suggest to the committee that this survey of needs should precede a decision whether or not to go ahead.

Mr. LLOYD: I am surprised that you people have not done this before, yourselves.

Mr. AIKEN: My question relates to indexing as it concerns the problem of inflation. Perhaps Mr. Popkin would be the person to answer this, although I shall leave it open, because it arises from a statement he made yesterday.

When the subject was raised Mr. Popkin said that the mere objective of indexing was to have a mental or psychological effect on the public. The public felt that if the one section is protected against inflation, everyone else feels that he should also be protected. I would like to ask a more specific question: Is there any relation between purchasing power and old age pensions and the proposed Canada pension plan and inflation? In other words, how much of consumer spending would the Canada pension plan benefit represent? Would it have an impact on consumer spending in the immediate future or in the distant future?

Mr. POPKIN: We accept some implications in the economic report of the Department of Finance which has come out and said that the impact of the Canada pension plan is inflationary, and they have put some figures on it. Certainly as the plan matures it tends to have an inflationary impact in the sense that it adds more spending power or reduces the level of savings; this has an inflationary impact. I would like also to say that the economic report sets up three or four models of the effect of the plan depending on the extent to which contributions were shifted. Under condition three there was complete forward shifting. That is where the employee is able to shift the cost of the contribution to the employer either through increased wages or by the employer taking on the burden of his contribution, and where the employer is able to shift his burden to the community at large through increased prices.

In the economic report this is regarded as possibly an extreme condition. The economic council of Canada's first report says that "strong demand conditions favourable to high employment and sustained economic growth may also encourage the rapid or persistent increase in prices."
If we accept the judgment of the economic council so that even without the plan there will be strong upward pressure, can we quote the statement of the Department of Finance that the plan will be inflationary and that there will be increased prices? I think we are entitled to say that condition three in the Department of Finance economic report where there will be more or less complete forward shifting of the burden to the employer would be a typical case rather than an extreme case.

A footnote of that model in the report says that "the substantial effects which follow the increase in prices and not dealt with in this simplified model." I would like to suggest that this committee should get the details of what the substantial effects would be, and that they might ask the Department of Finance or somebody else to fill them in on the price effects of the Canada pension plan under the economic conditions postulated by the economic council of Canada.

Mr. AIKEN: May I ask one further question: would it be fair to say that the indexing, that is the automatic increasing of the contributions of the pension, will in effect have the same effect on the cost?

Mr. POPKIN: We think indexing is the factor which does increase the inflationary impact of the Canada pension plan.

Mr. AIKEN: In a financial way and not just in a mental way?

Mr. POPKIN: Yes, in a financial way.

Mr. MUNRO: May I ask one further supplementary question?

The CHAIRMAN (*Mr. Cameron*): If you promise it will be a quick one.

Mr. MUNRO: Very well, I shall forget it.

The CHAIRMAN (*Mr. Cameron*): We have 15 minutes, Mr. Gray, and we have six people still to go.

Mr. GRAY: In order to supplement the answers which are going to be put in through Mr. Cashin, am I right in suggesting that we have in chart 1 the gross national product to which reference was made, and that it was the 1964 gross national product, and that the United States social security benefits to which reference was made would be those in effect in 1966, and that the Canada pension plan benefit to which reference was made would be those in effect in 1976?

Mr. DIMOCK: Shall we include these with the return?

The CHAIRMAN (*Mr. Cameron*): You may deal with this one.

Mr. GRAY: Would you agree with what I said?

Mr. DIMOCK: The gross national product per capita that we took is for the first half of 1964 projected of course for the whole year.

Mr. GRAY: Yes.

Mr. DIMOCK: For both countries.

Mr. GRAY: Yes.

Mr. DIMOCK: The maturing benefits to which reference was made in paragraph 18 are those which would be in effect in Canada in 1976.

Mr. GRAY: What about the United States benefits?

Mr. DIMOCK: The United States benefits relate to the benefits which would come into effect next spring, and if the congress sees fit to move in the way it was tending last summer, these would provide a benefit of as much as $215.10 for a couple. I think that is what it was.

Mr. HOLMES: Would you deal with the question of price increases?

Mr. DIMOCK: The U.S. benefit is based the recipient's wage history since 1950 excluding the dropout of five years. In other words, while the men scale would come into effect in 1965 the $215 maximum could not be qualified for in the United States for some years beyond 1976. There are several other assumptions to this chart. This gets back to the area of Mr. Cashin's questions. These are dealt with in the footnote to the chart. It assumes no adjustment in the Canadian benefits for price increases in the U.S. or Canadian benefits for changes in the benefit formulas.

Mr. GRAY: Why did you not use a projected 1976 gross national product?

Mr. DIMOCK: I have them right here.

Mr. GRAY: Why did you not use them in the chart?

Mr. DIMOCK: The United States projections were not available to me at the time this submission was put in, which was several weeks ago. I do have them now and I can read them to you if you would like me to do so.

Mr. GRAY: Put them on the record.

Mr. DIMOCK: You would find the picture changed in no significant respect and, in fact, the comparison is perhaps more favourable to Canada projected through to 1976.

The CHAIRMAN (*Mr. Cameron*): Will you send that information to me?

Mr. DIMOCK: Yes. I have the list of questions asked by Mr. Cashin this morning.

The CHAIRMAN (*Mr. Cameron*): Is that satisfactory, Mr. Gray?

Mr. GRAY: Yes.

Can the delegation explain to me why they are so opposed to having government provide earnings related pensions when the pension plans that they offer are based on the earnings related approach? Why is it right for you and wrong for government?

Mr. BERRY: I thought we had dealt with this, but I will try again.

In a private plan the benefits for each individual are directly related to his contribution, and the fact that they are related to his compensation is a direct reflection of the contribution which he makes. This relationship is not so in a scheme of social insurance.

You use the word "contribution" in a social insurance scheme, but it is quite a different kind of contribution from that in an individual scheme with a closed group.

In the second place, the contribution of the individual does not pay for his benefits in a social insurance scheme. In fact, under a plan of this sort there would be little or no relation between the contribution and the benefit, and the extreme case—as I said yesterday—is the man at age 55 who puts in $940 and takes out $1,250 a year.

Finally, because they do not bear this relationship, you are getting the money from somebody else, and in the government plan the amount of other people's money given to an individual is increased as his earnings increase. I think all these characteristics do not make very much sense for a government.

Mr. GRAY: Is it correct that in the Canada pension plan as proposed the fellow who makes the higher contribution gets the higher pension?

Mr. BERRY: Yes, but he does not pay for all of it. This is the great difference. I do not speak English very well—

Mr. GRAY: You speak it very well; I understand you all too well. If you would like to speak French I would be happy to accept your remarks in that language.

Mr. BERRY: If you do not pay all the cost, someone else pays for it. I do not see how you justify taking more of other people's money as the salary goes up. That is the basic principle we have been trying to explain.

Mr. GRAY: Does this not also happen in private plans? Do not the following three things also happen in private plans: When a plan is put into effect at the time when there are many people close to retirement and there has been a contribution by both the employer and the employee, the employer often provides paid up benefits to which the employee will have made no contribution?

Mr. BERRY: Yes.

Mr. GRAY: So he gets a bonus with respect to the years of credit for which he makes no contribution.

Mr. BERRY: Yes, which his employer has decided he has earned.

Mr. GRAY: Is it any different if you make the nation analogous to the employer and say that the nation, having been provided by a citizen with years of service—

Mr. BERRY: I do not think that is an analogy that holds water.

Mr. GRAY: That is your opinion.

Mr. BERRY: That is right.

Mr. HOLMES: I think this illustrates the principle. All you can ask in the Canada pension plan is this question: Is he aged 55? How much income is he receiving?

Let us suppose an executive has just moved over from the United States and has a good deal of past service in the United States and has credit for it in company plans and in social security. With the approach you have you cannot measure his past service. You just give him the additional benefit because here he is in 1966 earning more than $5,000 in Canada.

On the other hand, you have another person who is 65 and he may have been earning $10,000 or $15,000 for 50 years or he may have been earning $3,000 for 50 years. From Canada's point of view he has had a lot of past service, but you have no way in the Canada pension plan of assessing it; you do not give him anything.

Mr. GRAY: But not all the people covered are going to be executives who have moved from the United States.

Mr. HOLMES: No, but I was just illustrating a principle.

The CHAIRMAN (*Mr. Cameron*): It is five minutes to four and I still have five people on my list. Have you finished completely, Mr. Gray?

Mr. GRAY: I do not accept the assumption of the delegation before us that we do not intend also, as appropriate, to assist the other groups to whom they are referring.

The CHAIRMAN (*Mr. Cameron*): Senator McCutcheon?

Hon. Mr. MCCUTCHEON: I have no questions.

The CHAIRMAN (*Mr. Cameron*): Senator Croll.

Hon. Mr. CROLL: I pass.

The CHAIRMAN (*Mr. Cameron*): Mr. Macaluso.

Mr. MACALUSO: I have one short question to put to Mr. Holmes.

Will you look at chart I again which appears on page 7 of your brief and which deals with married couples. At the bottom it is assumed in the case of the Canadian couple that both take old age security at the same age. In the case of the United States program it is assumed that changes proposed last summer are in effect; a number of years would elapse before United States beneficiaries would qualify for the maximum benefits shown.

It is my opinion that right now this picture is distorted with regard to married couples because you are taking Canadian couples at the same age. I am putting it to you that this is based on averages where it shows the average wife as 2½ years younger than her husband in the United States and therefore in your Canadian figures, where you take husband and wife at the same age, you are increasing the benefits payable and thus increasing the benefits generally across the board. I am putting it to you that your chart here distorts the picture of benefits in Canada being higher.

Mr. HOLMES: I will ask Mr. Dimock to answer that.

Mr. DIMOCK: This question was not asked by Mr. Cashin but it is on his list, Mr. Macaluso.

Mr. MACALUSO: If Mr. Dimock can answer my question when he is answering Mr. Cashin's, that is fine.

Mr. CHATTERTON: I have a brief comment to make.

May I ask Mr. Holmes whether the government asked his association for a brief before this plan was prepared.

Mr. TUCK: May I mention the history of our comments to the government on this subject matter?

Our comments on social security were first made in a parliamentary committee in 1950, and you are aware of that. I think we were silent until around 1957 because there was no occasion for us to make any comment. At that time there was some talk by the then government and we made comments informally and by letter. In 1958 a commission was appointed—Dr. Clark's commission—and at that time we prepared an elaborate submission. Within about a year after that we prepared a little booklet of questions and answers on earnings related pensions versus flat pensions and we distributed it rather widely, and I am sure members of the government and many members of parliament became aware of our views at that time. I remember that in early 1963 we did make our views known in correspondence and in discussions with quite a few members of parliament of different parties. And, as soon as the new government was formed in early May, 1963, we sought out the Minister of National Health and Welfare, who gave us a good part of a half a day, at which time we elaborated our views in some detail. She asked us to prepare a submission, and we said we would. In the meantime, because we knew the submission would take some time, we did confirm what we had said in a letter to the minister, and then we prepared and distributed rather widely to members of parliament the submission of July, 1963 that Mr. Munro referred to. Now, I know I have taken a little time to explain this. Have I missed your question?

Mr. CHATTERTON: No. Carry on.

Mr. TUCK: You are wondering if we are coming with a new idea.

Mr. CHATTERTON: No.

Mr. TUCK: That brings us up to the summer of 1963.

Mr. CHATTERTON: The last submission you made was on the number one plan, the April plan.

Mr. TUCK: Yes, this was a submission before the minister's speech of July 18, 1963. It was based on newspaper accounts of proposals by the Liberal government. I believe a pamphlet was also issued and, of course, our submission stated the principles that we adhere to regarding this type of social security.

Mr. CHATTERTON: May I ask if it is true that the first time it was proposed you never saw the details of it or a bill but that there was some general discussion of it, and then the second plan, Bill No. C-75 was proposed and, of course, you know there is a major difference between Bill No. C-136 and the other plan?

Mr. TUCK: Oh yes, there are some very important changes.

Mr. CHATTERTON: But, you were not invited to present a brief on a proposal such as this.

Mr. TUCK: Do you mean before it was proposed?

Mr. CHATTERTON: Yes.

Mr. TUCK: We were not specifically invited to, no, but the government did know our views from our submission of July, 1963.

Mr. CHATTERTON: I think it is very important that this type of submission was not considered before the bill was drafted and before the commitment was made to the provinces that this would be the plan. *

The CHAIRMAN (*Mr. Cameron*): Have you a question, Mr. Basford.

Mr. BASFORD: I would like to know what contribution the Canadian Life Insurance Officers Association is making to the Canadian welfare study in respect of poverty.

Mr. TUCK: I do not remember the Association being asked to contribute to that. There is a study or a conference on aging which the Canadian welfare council has organized, and they have asked us for help in that connection.

Mr. BASFORD: For your information, the Canadian welfare council is undertaking a very intensive study of poverty in Canada, covering the cost, effects, locations and so on.

Hon. Mr. MCCUTCHEON: Provided they can raise a substantial sum of money.

Mr. BASFORD: In view of your brief, I thought perhaps you had made some contribution.

Mr. TUCK: They have not asked us but perhaps they will.

The CHAIRMAN (*Mr. Cameron*): Thank you very much, Mr. Tuck. I think that concludes our deliberations as far as this delegation is concerned. But, if anyone has a question of major importance which they would like to put at this time I would ask that you do so now. Although I do not think that there are any further questions I just wanted to make that clear so no one would go away and say that they had an unanswered question.

I would like to take this opportunity of thanking Mr. Sharpe and Mr. Holmes, together with the other members of the Life Insurance Officers Association for their attendance here. I am sorry, did you wish to make a statement?

Mr. HOLMES: I am sorry, Mr. Chairman. I realize you would like to be through with us at 4 o'clock. But, it is the desire of your committee that our recommendations should be our final statement. However, we are in your hands. You may wish to relegate them to an appendix, but I will read them now, if it is your wish that I do so.

Mr. KNOWLES: Are you referring to page 26 and so on?

Hon. Mr. CROLL: We could put them in the record.

Mr. HOLMES: Yes.

Mr. KNOWLES: Mr. Chairman, this is an important part of their brief and even though we did put it in as an appendix yesterday I think we should put it in the brief today as if it had been read.

The CHAIRMAN (*Mr. Cameron*): We will take it as read and it will form part of the minutes of today's proceedings. The recommendations read:

VII. RECOMMENDATIONS

62. The following are the association's suggestions for amendment of the old age security program. The amended program would, in the association's view, serve Canada better than the proposed Canada pension plan.

63. The commencement age and the level of the old age security benefit can, and should, be adjusted as the needs of the aged require and as the resources of Canada permit. The proposal in Bill C-136 to lower the commencement age to 65 is welcomed by the association. However, a higher minimum than $51 a month can be justified for persons who have retired from employment. One way to assist in meeting the needs that exist would be to provide the following benefits, subject in each case to a retirement test before age 70:

(*a*) $75 a month benefit at age 65 to all single persons;
(*b*) $75 a month at age 65 to a husband whose wife is under 60; and
(*c*) $125 a month jointly to a husband and wife if the husband is age 65 or over and the wife is age 60 or over, subject to a reduction to $75 on the death of either spouse; the $125 to increase to $150 when the wife reaches age 70.

64. The importance of these proposals can be seen by applying them to the case of a married man approaching retirement at age 65 whose wife is age 63. This couple would receive the following old age security benefits under the present program, the option in Bill C-136 and the association's proposals in paragraph 63:

Monthly Old Age Security Benefits

Age	Taken at 70	Option in Bill C-136 Taken at 65	Association Proposal
65	0	$ 51	$125
66	0	51	125
67	0	102	125
68	0	102	125
69	0	102	125
70	$ 75	102	125
71	75	102	125
72 (and subsequent years)	150	102	150

65. Under the association's proposal the financial adjustment for this couple at the husband's retirement would be much easier than under either the present basis or the new option.

66. For a single person retiring at age 65 the comparison would be as follows:

Monthly Old Age Security Benefits

Age	Taken at 70	Option in Bill C-136 Taken at 65	Association Proposal
65	0	$ 51	$ 75
66	0	51	75
67	0	51	75
68	0	51	75
69	0	51	75
70	$ 75	51	75
71	75	51	75
72 (and subsequent years)	75	51	75

67. These changes in old age security benefits would cost, the Association estimates, an additional $300 million a year for Canada as a whole. This could be met by an adjustment in the present 4-3-3 tax formula or by a payroll levy. If financed by such a levy the rate would be considerably less than the 3.6 per cent rate in Bill C-136; it would probably be under 2 per cent.

68. There is another type of adjustment the association has considered but has not explored fully. It would involve stepping up the flat benefit by attained age, e.g., raising the $75 at age 70 to $80 at age 75, $85 at age 80, $90 at age 85 and so on. In the case of a great many older Canadians it is apparent that not only do their resources decline with increasing age but their living expenses rise. The decline in resources often results from the necessity to consume capital to augment income. The increase in expenses frequently results from illness or special care.

69. Some information indicating that income decline with age has recently been developed by the dominion bureau of statistics. More information is still needed, however, to determine the best pattern for an age adjustment (see appendix 2). The association recommends that this be obtained because if it supports the views herein expressed an important improvement could be made in old age security at a relatively modest cost. For instance, the current cost of the adjustment described in paragraph 68 would be less than $60 million a year.

70. For some time the association has advocated the provision of universal basic benefits both to widows and to the permanently disabled with dependent children. It believes that the provision of these through the proposed Canada pension plan is subject to the same critcisms as have been made of the retirement benefits in that plan. Tying benefits for widows and the disabled to an earnings record would fail to meet the principal needs that exist.

71. The proposal the association has made is that larger family allowance benefits be paid for children in families where the father has died and the mother has not remarried or where the father is totally and permanently disabled. The present family allowance benefits of $6 for children under 10 and $8 for those age 10 to 15 could be increased on the death of the father to, say, $30 and $40 at an approvimate annual cost of $35 million. The same increase in benefits for the children of totally and permanently disabled fathers would cost from one-third to one-half this amount. The youth allowances introduced in July, 1964, could be handled in the same way for a modest additional annual cost.

Mr. HOLMES: There are only two other things I would like to say. I would like to thank the committee for their courtesy in receiving us and for the frankness of the questions. I think the whole delegation would agree with me—and we would like to say this to all of you; it has no reference to history or anything else—that we do find, I think, it much easier to present our views in a situation like this, namely to a committee representing all parties. We hope that in this area, which is a most important one, that there will be some continuing study of this sort, to which we could make comments. We do not necessarily expect that the committee always will agree with everything we say but in the intervals when there is no such a committee you realize that our only alternative in most cases is to talk to the government of the day.

The only other thing I would like to say to you is this. If you wish us back at a later time we are quite prepared to come. Thank you for giving us the opportunity to express ourselves.

Mr. MUNRO: Mr. Chairman, I know you are going to make some remarks but I would like to move a vote of thanks at this time to the Canadian Life Insurance Officers Association for their graciousness in staying with us for two days in order to answer our questions. I would just like to give this indication of our approval.

Mr. MONTEITH: I second the motion.

The CHAIRMAN (*Mr. Cameron*): You have all heard the motion; would you signify the usual way.

(Applause)

The CHAIRMAN (*Mr. Cameron*): Mr. Sharpe, Mr. Holmes and all the members of the Canadian Life Insurance Officers Association, I am sure it gives me a great deal of pleasure to pass on to you this motion of thanks. We do appreciate your attendance here and I know we will benefit a great deal from the opinions and the facts you have laid before us.

Mr. SHARPE: Thank you, sir. I will be delighted to pass on your expression of appreciation.

The CHAIRMAN (*Mr. Cameron*): Ladies and gentlemen, Mr. Watson has now arrived at the head table.

Mr. Watson is a fellow of the society of actuaries. He has prepared a brief and you all have received a copy of it.

May I say to you, Mr. Watson, if it meets with your approval, we would like you to give a summary of the brief, as complete as you think it should be, your recommendation in regard to the Canada pension plan, and then we would appreciate it if you would make yourself available for questioning by members of the committee.

Mr. G. M. WATSON (*Fellow, The Society of Actuaries, 27 Bayview Wood, Toronto, Ontario*): Thank you, Mr. Chairman. Ladies and gentlemen, I appear before you as an individual. I have been listening to this delegation to which you have been listening to. I am a simple citizen; I am a constituent with some knowledge in this field.

Mr. BASFORD: Mr. Chairman, if I may interrupt, I think the witness should be asked to sit down, unless he prefers to stand.

Mr. WATSON: I have prepared a short brief and I will try not to be too tiresome about it. I hope you have read it because it makes a few points. In particular, it takes a slightly different point of view from the previous delegation principally because, as I make the point on the first page, that after the act has had two readings in parliament and was unanimous I am not going to come here before you and explain why that is incorrect. I have to start with a premise that this is obviously a very fine measure, and then try to determine how it can be rationalized in the framework that we have in Canada.

Now, the first point I wish to make is that in my opinion this plan is not a plan to provide welfare for the aged; it is rather a pension plan. And, I have used that phrase, "a pension plan". I make the point that evidently members of parliament feel that everyone in Canada should be covered by a pension plan if he is able to make a contribution.

Now, I go on to say if that is the case it would seem to me that pension plan should be self-supporting, and I deplore the fact that the rate of contribution that is specified in the act will not provide a plan which is self-supporting. In fact, from 1985 and on it will require a higher rate of contribution if we are to rely on the estimates of the chief actuary.

It seems to me it would be much better indeed if we could determine now a scale of contributions that would bring out the fact that 1.8 per cent is not in itself sufficient to support the benefits for an unlimited period of time. That is the first point, that I would like to see a plan, if this is the action that will be taken, that will stand on its own feet, considering the present population as a group. I developed this point in some detail.

I now come to the second point which I wish to make. If you will pardon me, I brought some pictures with me simply because I thought they might dramatize a little bit what I want to say on this point. I am making the point that the Canada pension plan, as the previous delegation has stated, does not adequately classify itself as a welfare plan in the sense that it looks after the needs of the people. I drew an analogy here. If you wanted to extend the parliament buildings so as to introduce additional quarters you would perhaps call in an architect. I have drawn here a picture of the parliament buildings to illustrate the analogy to old age securty. This is a sort of flat benefit, and it is very well designed. It is something of which we have been rather proud in the community of nations, and it is attractive. As time goes by we will want to add to it; we will want to supplement it. We want an earnings related plan which is modern and has additional benefits. I thought of the expression of the earnings related towers which have little balconies at the side which represent the dependant's benefits. It also has other features, for example, you notice it only has two legs because it is not self-supporting. Undoubtedly it has within it escalators instead of elevators, but that is not shown in this diagram. Gentlemen, though there is some dismay in certain quarters at that kind of program, it is a perfectly valid program by itself, there is nothing wrong with it. If it had two more legs, in 20 years' time it would fall over like the leaning tower of Pisa. However, if it had one more leg, it would stand up. If you integrate it with your present architectural scene in Ottawa, you get what I might call a monstrous result. It is this monstrous result that has caused much of the evidence that you have been listening to the last two days.

All I wish to say to you is that it is undoubtedly satisfactory to have such plans, but please do not pretend they are integrated, because they are not, and please make the Canada pension plan self-supporting.

I only have two more points to make: One is that in 1908 we did exactly that. You wished everyone to have pensions so you organized the government annuities branch, and that was on a voluntary basis. It happens that in Great Britain a similar voluntary plan was instituted and as the years went by it became evident that a voluntary plan was not sufficient. And so, at this date, you wish to introduce a compulsory plan. I am merely suggesting that if you wished to tidy up the scene as you proceeded along, you should have eliminated the government annuities branch because it no longer covers the purpose for which it was conceived in the early days, and the Canada pension plan will take over.

My last point has to do with the economic report. I am not an economist; I cannot claim any skill in that particular field, but I feel that it tends to underestimate what I regard as the most serious implication of the Canada pension plan, taking into account all the things we have said, to make it self-supporting and consider it for what it is. It is not a welfare plan, it is simply a compulsory statewide pension plan. If that is the case, I think the great danger is that we will see a diversion of considerable sums from the private investment sector to the public sector. It is that fact which worries me as an individual very deeply. That is the reason I am here today, because I am most concerned with that diversion and what it will mean to the economic life of this country.

If you read the economic report you will see, at page 413 of your evidence, a statement which I myself cannot understand. It is possible that Mr. Bryce—if Mr. Bryce wrote the report—can defend it, but he seems to minimize the possible diversion of the contributions from the private plans to the Canada pension plan. I personally think that the diversion will be very much bigger than he shows it. In those circumstances I am urging this committee to take a harder look at the economic report for the two reasons I give in my brief. I believe it has tended to minimize the diversion. I would be very interested to see what an outside economist would say, someone who is not in the government and who does not feel a loyalty to try to minimize and defend the actions of the government, because I am afraid this very serious matter is minimized by some of the figures and some of the language used.

I can talk a lot longer but I think we have heard a lot of talk this afternoon, and 17 minutes is not too bad.

The CHAIRMAN (*Mr. Cameron*): May I have a motion that Mr. Watson's brief be incorporated in the minutes to these proceedings? It is agreed.

Mr. WATSON: I will not release these pictures.

Mr. MONTEITH: I think they should be on the front page of the local papers.

The CHAIRMAN (*Mr. Cameron*): On my list I have Mr. Lloyd, Mr. Cashin, Senator Croll, Mr. Côté, Mr. Francis and Mr. Aiken. Mr. Lloyd, you are first.

Mr. LLOYD: Mr. Watson, on page 2—perhaps you clear this matter up in later parts of your brief—you say that "we can agree at the outset that the old age security plan is a welfare plan designed to meet the subsistence needs of the aged". Are you aware that the ministers of national health and welfare have consistently pointed out the old age security plan was not designed to meet the subsistence of the aged; it is an assistance but it is not designed to meet their subsistence needs. I think you more or less brush over that later on.

On page 4 you consider it "improper" to develop a pension plan which proposes to provide benefits on a basis of contributions which will not support those benefits. You then say "considering the present covered population only". Why is it necessary to measure the validity of the Canadian pension plan with respect to the present covered population only?

Mr. WATSON: This is a personal opinion, and I am trying here to understand what the House of Commons had in mind when they voted unanimously for this. I am trying to justify it, to find a rationale. I feel that if a body which represents the present population has enacted to give benefits to the present population, that should not carry high liabilities for the children and the grandchildren who will have to actually pay for that. That is just my personal opinion. I think we ought to be men enough to stand on our own feet and pay for it. I personally enjoyed the situation when I went home, after hearing the minister in Toronto explain that the Canada pension plan was merely a device whereby the children would pay for the fathers. I explained to my son that finally I was going to get some money back from him after all those years. I then worked it out and I found that he was getting money as well as I was. This is what disturbed me and this is what is disturbing me. This present plan is very much better than the first plan, but I just want to quote one figure which I think is relevant, and you will then see what I mean. I worked out some calculations for a man aged 40 in terms of what it means to him at the age of 40, assuming he is married and leaving the children out of it. I worked out the present value of the benefits that he and his wife could expect. I am assuming his wife is five years younger. The present value of the benefits less the present value of the contributions that he can expect to make, assuming a rate of 1.8 per cent and a rate for his employer at 1.8 per cent—adjusting for the employer's contributions as well as the employee's contributions—that difference is over $3,500, that is without allowing for the value of the disability allowance.

Mr. CHATTERTON: At what salary?

Mr. WATSON: That is for an individual making over $5,000. I do not want you to think that I am 40 years old, but I took the age of 40 because it seemed to me that this might very well be an average age. It is the sort of age we run into in pension calculations as being the average age. I am just asking the question: Why should we feel that such a person should be bonused to that extent? I have not found an answer to it.

Mr. LLOYD: What would we do, for example, with old age security. Everybody contributes to that?

Mr. WATSON: I am not referring to a welfare plan; I am referring to a pension.

Mr. LLOYD: Finally, I would like to pursue this question a little further. I refer to your illustrations; I found them most interesting and very instructive. I think finally you put together what looked like two boot legs in one corner and a black leg in the other.

Mr. WATSON: This is a $600 stilt.

Mr. LLOYD: In the case of private pension plans it was necessary, because of the trust relationship of private entrepreneurs, that they invest funds received from the contributions to meet their actuarially calculated liability. In the case of a government supported leg being put in there, there is substituted not investment on an actuarial basis but the power of the government to raise revenues. I lead you into this because I would like to have the benefit of your observation in more detail in respect of why you think this is not a good substitute—the two legs that are going back in which really are the powers of government to raise money to meet calculated future liabilities.

Mr. WATSON: I had anticipated that question. My feeling is certainly the government has that power and could fill in the balance.

Of course, in Great Britain it is filled in by government; government has undertaken to fill it in to the extent it is deficient. However, as I understand this legislation there is no provision in this act that government will make up any deficiency; it will have to be the rate of contribution which has to be changed. Therefore, I am looking at the rate of contribution and I see—assuming the chief actuary's assumptions are valid—at the end of 20 years it will have to be increased. At the end of 20 years a man even now under the age of 45 will have to contribute more than I will, and the fact that government has taxing power is irrelevant because government is going to merely increase the contribution rates.

I would like to digress a minute off the record. I have forgotten a very important point about this diagram. You will observe, Senator Croll, that it has two flags; it has one on this and this, and you can change them about, depending which government is in power at the time. I am sorry I omitted that.

Mr. LLOYD: I take it that what you really are saying is you would prefer that the liability for pension benefit be supported by an actuarial fund of investments?

Mr. WATSON: No; I am not saying that. I am saying I would like to see a higher rate of contribution which would make us all feel the plan is self-supporting for the present population; but if for some reason or other that was thought to be impossible, at least I would like some part of the act to specify that at the end of X years the rate would be increased to such and such a percentage in the same way as the United States house of representatives has introduced an act to specify precisely the rate of contributions that will be required in future years.

Mr. LLOYD: Finally, may I sum it up in this way? You are saying in essence that you do not want to see the future funds that may be required to meet the liabilities come from taxation, and you say they should continue to be drawn from the wages within the framework of contributions.

Mr. WATSON: I think that is what they are going to do, but I want to be sure it is understood by the people, because in integration with private plans you must recognize that as I say people under the age of 45 will have to contribute more than 1.8 per cent.

Mr. LLOYD: Will this depend on an expanding population which the economists are forecasting? Have you studied this?

Mr. WATSON: I cannot say I have studied it exhaustively, but the calculations I have made would indicate an increasing contribution would be required, if we just take the present population and follow it through.

Mr. LLOYD: But the economists are forecasting an expanding population?

Mr. WATSON: Yes. You can see from the actuarial report it still will be required.

Mr. CASHIN: In the second last paragraph you define a welfare plan as a measure designed to assist the aged, and you contrast this with a pension plan. Is not a pension plan designed to assist the aged?

Mr. WATSON: It is the word "assist". I am trying to get some term we understand. I think of a pension plan as something where contributions are made by the employer and the employee and there are benefits. This act does not provide for contributions by anybody else; therefore the employer and employee together are making a contribution for the purpose of the employees, and their dependants, and so on, I can see no difference between that and any other pension plan which might be arranged privately or with a trust company, an insurance company, or any other. I cannot see the difference. A pension plan is distinct from a welfare plan in that there is little or no relationship, in a welfare plan, between the benefits received and the contributions made.

Mr. CASHIN: On page 3, near the bottom of the page, you refer to normal actuarial standards. Are these normal actuarial standards ones which relate to private insurance or actuarial standards which apply to social insurance?

Mr. WATSON: Either way; it does not matter. I was thinking of any actuarial method which would produce a result so that you could say the plan is self-supporting. I really was referring to techniques. The technique that is used in this actuarial report simply is an attempt to forecast what the future costs are going to be, and then assume that future generations, my son, your son, and their sons, are going to pay for it. I know my son is not; I don't know where he will go, but I know he will not because I know him by reputation.

Mr. CASHIN: I am glad to see on page 5 that you at least have attempted to do something that the previous brief did not attempt to do; you have talked in the context of a Canada pension plan, and if we are to have one you have made some suggestions in respect of how you think it can be improved. I, personally, welcome that approach much more than the previous approach. I would like to ask you one thing which always has bothered me. How do you account for the fact that statements by a society which historically has been relatively well off always are very concerned about the well-being of future generations when they are not so concerned about the well-being of the people who are not, themselves, at the present so well off?

Mr. WATSON: I do not know whether you are referring to me, former President Kennedy, or Lyndon Johnson, but they all are much more concerned about it than I am. They have their reasons and I have mine. I feel that the delegation you have heard is concerned that there will not be eventually a third plan to fill the gap. In other words, it would get rather cluttered if we had a government annuity branch, an old age security, a Canada pension plan, and something else. I think it is a legitimate expression of an expert opinion that there are people in the business who are not going to be covered by this plan.

I am not attempting to argue this because, as a citizen, when the House of Commons votes on something unanimously, I certainly do not have the temerity to come here and argue the point.

Mr. CASHIN: The expression, because all men cannot be redeemed does not mean that no man can be redeemed, occurs to me. Would you accept that? That is all.

Hon. Mr. CROLL: Following Mr. Cashin's question, you do appreciate that we who are in parliament constantly are concerned with the problem of welfare, so when you say the gentlemen who were here before were concerned, I think you heard them say the last time they appeared before a committee of parliament was in 1950.

Mr. WATSON: That was the last time there was such a committee.

Hon. Mr. CROLL: Certainly that is the last time there was a committee, but is that the only concern one has?

Mr. MONTEITH: They have presented other representations.

Mr. WATSON: They have done the best they could under the circumstances, senator, and so have I.

Mr. LEBOE: Is there not a difference between the concern of a corporation or a society; I would think there is a difference.

Hon. Mr. CROLL: What I am getting at is how did they show their concern by merely showing it today?

Mr. WATSON: There was concern.

Hon. Mr. CROLL: On page 8 you say there was a royal commission recommendation in respect of annuities. I cannot remember it.

Mr. FRANCIS: The Glassco Commission.

Mr. WATSON: I believe, senator—and I did not take the time to check this—it is correct to say that the Glassco Commission recommended that the government annuities branch should be discontinued.

Hon. Mr. CROLL: I think you are right on that.

Mr. WATSON: And no action has been taken. I think it might be a very interesting point to follow, because I do believe that on the rationale that I have given these two things are very similar. In 1908 this was thought to be a very forward step, as it was in Great Britain. In 1965 Great Britain however has changed from voluntary to compulsory, and so are we. But let us tidy it up as we go.

Hon. Mr. CROLL: You appreciate the obligations are there for the annuities to the extent of years and year.

Mr. WATSON: I would close it off.

Hon. Mr. CROLL: Of course, but I would not put any bets on that, if I were you, about closing off annuities, because you would hear from quite a few people. But with respect to terminology, you refer to a pension plan and a welfare plan and you used these terms. You do appreciate that governments are not in the pension business as governments.

Mr. WATSON: I am sorry, but you are in the pension business as soon as this act goes through.

Hon. Mr. CROLL: That is exactly what I thought you might say, that we are in the pension business. But my point is this: I want to state clearly that we have been in the welfare business a very long time and we are still in the welfare business, and we look upon the pension plan as being a part of the welfare complex. That is our view.

Mr. WATSON: I have a picture to show you this.

Hon. Mr. CROLL: No, no. That is your picture.

Mr. WATSON: I refuse to accept that. I cannot believe that you would do that to the houses of parliament.

Hon. Mr. CROLL: Let us forget about the houses of parliament and deal with the pension and welfare plan. We have many welfare plans in the country today, to which some people contribute a great deal while others contribute very little. Is that not correct? It must be so. But if in the same context you look upon this as an extension of our welfare plan, merely another extension, some will contribute more and others contribute less. Some will be covered, and others will not be covered.

Mr. KNOWLES: Surely it is getting us into the pension business. That is what is good about it.

Mr. WATSON: Welfare plans always have a government contribution and I cannot see any government contribution in this one.

Hon. Mr. CROLL: Let us assume there is no government contribution in it at the moment.

Mr. WATSON: Oh, at the moment; that would satisfy me if the evidence would say that.

Hon. Mr. CROLL: Do you know of any plan which was ever put in our statute books which has remained frozen?

Mr. WATSON: No, sir.

Hon. Mr. CROLL: What makes you think that this will not change in time?

Hon. Mr. WATSON: I am getting some of my answers.

Hon. Mr. CROLL: What makes you think so?

Mr. WATSON: I just read the act.

Hon. Mr. CROLL: But other parliaments may have different views and may change it if it needs changing.

Mr. MONTEITH: In other words, they will make up the deficit.

Hon. Mr. CROLL: That is what parliament is here for.

Mr. WATSON: I just knew that my son would win in the end.

Hon. Mr. CROLL: Whether your son knows it or not, that is the case. Let me deal with what Mr. Knowles said when he said that we are in the pension business.

Mr. KNOWLES: When the bill passes.

Hon. Mr. CROLL: The pension is still not our business. Would you agree that the pension is one of the methods of obtaining for the people a better way of redistributing the wealth of the country, rather than to have no pension business, or do you think we are in the pension business?

Mr. WATSON: I do think you are in the pension business. In fact I know you are, whether you realize it or not.

Hon. Mr. CROLL: Do you think it is a good business to be into?

Mr. WATSON: I shall answer your question in this way. A few weeks ago we heard a very reputable research scientist say that there would be a cure for cancer before we got to the moon. Now, if there is a cure for cancer, then I am glad you are in the business, because it will cost the business an awful, awful lot of money.

Hon. Mr. CROLL: It cost the companies a lot of money, but for what?

Mr. WATSON: For existing annuities, and the government annuities branch, and the Civil Service Superannuation Act. I am all in favour for a cure for cancer because it could be personal.

Hon. Mr. CROLL: Are you opposed to this other measure that you just mentioned?

Mr. WATSON: No, I say that I think it might be a good thing to see the government in that business, but I will not say that you are going into that business.

Hon. Mr. CROLL: I might say that we are in it, but after seeing the men who were here yesterday and after listening to you I feel it is a business in which a guy could make a buck.

Mr. WATSON: That is what I thought.

The CHAIRMAN (*Mr. Cameron*): Are you through Senator Croll?

Hon. Mr. CROLL: Yes.

The CHAIRMAN (*Mr. Cameron*): Now, Mr. Côté.

Mr. CÔTÉ (*Longueuil*): You mentioned before in answer to Mr. Lloyd that you are very concerned that this plan should stand on its own feet, and you mentioned also at page 5 as follows:

> I think it would be much better if a rate of contribution was established which would guarantee the continuance of the plan for a much longer period than 20 years.

Could you say how much longer? Is it indefinitely?

Mr. WATSON: If you look at the actuarial report you will see that at 1985 the pay out will be, I think, 3.6 per cent or thereabouts, and following that year it will increase. Now, unless there is an increase in the rate of contribution in 1985 the plan will start to fall, or the fund will start to fall. Mr. Lloyd earlier had an issue of the *Financial Post* dated January 9, in which you will see a diagram, which is a very instructive one, showing how the plan reaches a peak and then goes down again.

Some people have come to me and asked—and these are simple people that I would be talking to in an audience to which I was speaking—if I thought that eventually the result would be that the Canada pension plan would end up the same as the unemployment insurance fund. I assured them of course that nothing of that kind could be possibly thought of. But unless you somewhere make it clear that it is envisaged that an increase will be made at the end of 20 years, I am afraid that will be the impression that anyone will get. That is all I am trying to bring out in this brief, in the best way I can.

Mr. CÔTÉ (*Longueuil*): Is it possible to establish a contribution rate which will prevent this from happening?

Mr. WATSON: Yes indeed; the chief actuary could give it to you. I hope he does not hear me because he is being asked to do many things. But I am sure he could compute such a rate.

Mr. CÔTÉ (*Longueuil*): In that same paragraph you go on to say:

> I would estimate that such a calculation might produce a result of approximately two and one half per cent instead of 1.8 per cent. From the standpoint of equity, a higher rate of contribution now would be much more desirable than leaving this to a later generation.

Do you believe it necessary to build up a larger fund than is at present contemplated?

Mr. WATSON: My basic concern is to indicate the probable pattern of future contributions, that is basic. If you should decide that you want to indicate that at end of 20 years the contribution rate should be increased to two and one half per cent, for example, I would think that would meet my objection. But it is an unfortunate result that those people in the population under the age of 45 would be asked to contribute more money than those over the age of 45. I say unfortunate. I do not know how unfortunate, but they at least would get some money from young people, which I say without making further reference, because you can see I am interested. But that would be better than nothing, and it face a new problem for the future. I was taking political ramifications into account as probably the best that we can expect.

Mr. CÔTÉ (*Longueuil*): Do you think that the rate of contribution should not be increased now?

Mr. WATSON: I would like to see it increased now, but as a second choice I would like to see you come out and say that at the end of 20 years it would be increased to "X" per cent, and I will tell you why. First of all, I think the average person in the population will respect that as being a mere facing up to the liabilities of the future. Secondly, in the integration of private plans today we have to take into account the probable future rates of contributions. We just cannot integrate present plans along the lines of the Public Service Superannuation Act and create all this magic when in fact it is not magic at all; it is ignoring what is going to happen after 20 years.

Let me put it in another way. I can take any pension plan with a normal rate of contribution, say 5 per cent, and I can integrate it with the Canada pension plan in such a way that I produce total benefits which are greater and total contributions which are less, and I can make everyone very happy in every firm. I can even make the employer happy—but I am not going to explain that to you because you would want to change something. I can do it, however, and the only reason I can make them happy is that I do not tell them what happens after 20 years. It is all tied up with that.

Mr. AIKEN: It is like writing off too much depreciation.

Mr. WATSON: You have your figures of what is going to happen in the Public Service Superannuation Act and you saw the magic. But there is no magic at all because what they were not facing up to was what would be the rate of contribution after 20 years.

Mr. CÔTÉ (*Longueuil*): Let us suppose we would increase our contribution rate. If it were now at 2½ per cent would you ask us to make provision for 3½ per cent in 40 years?

Mr. WATSON: If you look at the projection in the chief actuary's report you will see that it will go for quite a long while after 1985 at 2½ per cent. I would not dream of trying to project it any further than that because we are not that clever really.

Mr. CÔTÉ (*Longueuil*): You would not try to project it further than the 20 years?

Mr. WATSON: No. If you increase it from 2½ per cent—employer and employee—at the end of 20 years you will see that it would stand up for another 10 or 15 years, or maybe longer, a very considerable number of years, so much longer that none of us here would have to worry whether it was right or not, but at least we would have faced up to our present responsibilities. I am not speaking of some extreme period in the future, but 20 years is not very long.

The CHAIRMAN (*Mr. Cameron*): Have you a supplementary question, Senator Croll?

Hon. Mr. CROLL: Mr. Côté was asking the question I was going to ask.

Mr. Watson, do you remember the time when an attempt was made to increase the extent of annuities by a bill, when there was opposition to it—perhaps half a dozen years ago?

Mr. KNOWLES: Fifteen years ago.

Hon. Mr. CROLL: All right, perhaps 15 years ago.

Mr. WATSON: To increase what? To increase old age security?

Mr. KNOWLES: No, government annuities.

Hon. Mr. CROLL: You remember the opposition to it?

Mr. WATSON: Yes.

Hon. Mr. CROLL: You remember the arguments used at that time, which were exactly the totals for the arguments used in 1908 against putting the

Annuities Act into effect, and in the course of time there was need for some subsidization. Do you remember that? It was in the red to some extent.

Mr. WATSON: Yes.

Hon. Mr. CROLL: And the annuities branch is in existence and has been continuing to stay in existence, and everyone is quite happy about it.

Mr. WATSON: I am not, Senator Croll.

Hon. Mr. CROLL: I did not think you would be.

Mr. WATSON: Senator Croll, my point is simply this. When the government annuities branch was organized that put the government in the pension business. Now you are doing something else. You are moving out of that and into this—

Hon. Mr. CROLL: You are saying we are now in the pension business with both feet?

Mr. WATSON: It is as if your sales were not sufficient so you were going to make it compulsory because you have some magic which private concerns do not have. It is the same. You are making the sales compulsory rather than voluntary; that is all, only it is a little better because this time you are projecting it and trying to make it stand on its own feet whereas in the annuities branch you do not face up to that responsibility.

Hon. Mr. CROLL: But the government's liability is not the same as that of the private firm. You have to balance your books year in and year out, and governments do not work on that basis and never have.

Mr. WATSON: I simply mean that if you took no more business from that source you would have a tremendous pay out over the next 70 or 80 years. You would have a tremendous pay out even if you stopped today. The present value of all that pay out is your liability, whether you like to accept it or not. I think perhaps you take it into the public debt, but I would not swear to that.

Hon. Mr. CROLL: Do we?

Mr. FRANCIS: Yes. There is over $1 billion in the fund.

Mr. KNOWLES: There is no cash in the till.

Mr. FRANCIS: There is credit.

Mr. WATSON: It is perfectly valid. It is a liability. I say it is a good idea to discontinue it because there is no relationship between the benefit you receive and that liability.

Mr. FRANCIS: No, I am not sure about that.

The CHAIRMAN (*Mr. Cameron*): You are next on the list, Mr. Francis.

Mr. FRANCIS: Mr. Watson, I tried to compare your submission with the one that preceded it, and it seems to me the big difference is in the funding.

Mr. Brown was very specific. He wanted the pay as you go and he did not believe in a fund. As I understand your submission, this is your major difference from their submission: You would not only fund but you would fund to a greater degree than the present bill would do.

Mr. WATSON: I am trying to be a realist, Mr. Francis. I say here we have an act and it receives unanimous approval, so I am not going to argue with it. It is not that I want it; it is that I have got it. Having got it I say let us face up to what it is and put another leg or two under that building.

Mr. FRANCIS: I appreciate that as an actuary you know more of this field than do most of us here.

Let us look at a public plan as against a private plan. There are a number of statements in your brief to the effect that a public plan must be the same as a private plan in respect of funding and so on. But it is not the case when you go to a public plan that you have an unlimited life, you have a very definite body of contributors over a longer period. There are factors which limit the actuarial techniques of projection. You have to predict the greater growth of the labour force and make some guesses on price changes and on participation of the labour force, and whether married women are going to work to a greater or lesser degree. You have to make assumptions in population changes. You have a greater range of unknowns. Is this not so?

Mr. WATSON: I feel if you took a substantial private plan such as that of the Canadian National Railways or the civil service plan you would have essentially the same elements. You have new people coming in and you have people leaving the force. You have to predict future salaries. I know of nothing in the civil service plan that is not in this country-wide plan. A difference only arises when the government agrees to make a contribution. Then there is a difference, because then there is a third party.

Mr. FRANCIS: Is there not a difference in the nature of the guarantee that the government can give? Canadian National Railways cannot give the guarantees that the government of Canada can give, with all due respect, in terms of continuation of the enterprise over a long period.

Mr. WATSON: I must say that my whole brief has been based on the principle that this act is based on contributions from employees and employers and no one else, and that is exactly the same as any large employer.

Mr. FRANCIS: May I put my question in another way? At the age of 70 we offer $75 a month to everyone who has met a residence requirement in Canada. What is the present value of $75 a month at age 70? Do you have any approximate figure?

Mr. WATSON: It is probably ten times the annual pay out. What is that—$9,000?

Mr. FRANCIS: Does it worry you that there is no funding in respect of this? Does it concern you?

Mr. WATSON: No, not at all. As I say in my brief—

Mr. FRANCIS: Why does that not worry you when the other does?

Mr. WATSON: Because, as I say in my brief, this is an admission by the country as a whole that we must do something about our present aging.

Mr. FRANCIS: Does the other not do the same?

Mr. WATSON: No. I will come to that. We say we must do something about our present aging so we make an assessment across the whole country—sales tax, corporate income tax and taxable income—in order to raise the amount of money necessary. When we come to this plan we say a man whose average salary is $2,000 a year will get a pension of $500 a year, and if he is making $4,000 he will get a pension of $1,000. You are paying him twice as much, but you say there is no sense to that at all because it is the reverse of what they really require.

Mr. FRANCIS: I think we went through this with the other group, with all due respect. I am concerned about the apparent difference between the two submissions on funding. When I compare your submission its greater emphasis is on funding if we go on to the Canada pension plan. I find it difficult in my own mind to see that there is that great a difference in principle. Why should the Canada pension plan be totally funded when we have no funding with social security?

Mr. MONTEITH: It is pay as you go.

Mr. FRANCIS: This is future thrust. I have heard it is terribly evil to have forward thrust for the Canada pension plan but it is accepted without question for old age security, and not only accepted but accepted totally right down the line.

Mr. WATSON: This is the gist of the whole thing, Mr. Francis. If you want to look at the $75 benefit, and you say why do you not feel that way about it, you would probably feel very similar if you could relate the contributions to the individual. There is no identifiable charge to the individual and his employer. That is the difference. If you try to pin down—

Mr. FRANCIS: Perhaps I am under an illusion when I file my income tax statement at the end of the year. There is a charge that I pay, very definitely.

Mr. WATSON: You have not understood my point. If you try to find out how much you are contributing to old age security, you will never find out because it has a sales tax that you are paying, but you do not know how much. There is corporate income tax that you are also paying, but you do not know how much that is either.

Mr. FRANCIS: There is a general revenue component?

Mr. WATSON: Yes, in other words one cannot relate it to the individual; there is not an identifiable charge related to the individual because it is spread through the whole economic life of the country. But, when you come to the Canada pension plan it is identifiable, and that is when equity comes into the question.

Mr. FRANCIS: But, there is an equity in tax just as much as there is in payroll contributions under the pension plan. This is just a difference in the point of view.

The CHAIRMAN (*Mr. Cameron*): Have you a question Mr. Aiken.

Mr. AIKEN: A few minutes ago when Mr. Lloyd was asking questions there was a suggestion made that part of the answer to the problem of where the money might come from in the future would be an expanding population. By that I assume there would be more people to pay the contributions and, therefore, more money to pay out the benefits. Would not the result be that in the same instance there would be more benefits to be paid in the future and that the expanding population would be more inclined to build it up on the chain letter principle rather than alleviate the problem of contribution.

Mr. WATSON: That is correct. Of course, the chief actuary, in his report, has taken all that into account, and he has projected what the pay out will be as a percentage of the assumed payrolls from year to year, assuming certain immigration and expansion of population. The figures I have quoted today have taken that into account. I believe if you left that out altogether you probably would have a higher rate of contribution; but, it would not be very much different from the $2\frac{1}{2}$ per cent that I have quoted. I think an expanding population has the virtue of delaying the ultimate, but that is all.

Mr. AIKEN: I have another question in respect of the government annuities branch. I happen to be one of those persons who have been paying money into that for some years, and I learned with some consternation a few years ago that really there is no money there; there is just an obligation to pay me out when the times comes. What would you see as the method of paying out to present annuities holders if they were incorporated into this plan, or would they merely be discontinued as of this date and go to maturity when the age is reached?

Mr. WATSON: I was recommending you discontinue the branch in respect of any future annuitants; that you wind it up and restrict your pension business to the group form through the Canada pension plan.

Mr. AIKEN: Therefore, you are suggesting that the operation of the present annuities branch be transferred into the Canada pension plan?

Mr. WATSON: Yes. In fact, as you will recall, in the case of hospital insurance, it was very convenient to have the Blue Cross people available to set up the initial framework for the considerable staffs that were necessary in hospital insurance. I think the same thing might happen here. You might have the beginning of a considerable framework for what is a tremendous administrative problem. No one talks about the administrative problems very much but I think it will be a tremendous administrative problem.

Mr. AIKEN: I have one final question. You started off your statement today by saying you are accepting the fact that parliament has given second reading to this bill and, therefore, you are not going to project what the bill might be. Do you believe that there is any element of a welfare plan in this bill; that is, an element where the poor are assisted at the expense of the better off?

Mr. WATSON: The only virtue I can see in this plan is that it results in certain employers being forced to provide pension benefits for their employees, which benefits are not adequate because we had an earlier discussion about whether this plan or that plan was adequate and someone talked about some of these plans which, of course, in some cases produce pensions of $10,000 a year. But, the Canada pension plan provides a pension of $1,250 a year, so it certainly is not adequate. But, the virtue of it is it forces such employers to do something about buying from a private company enough to make it adequate, and that is a virtue. The question whether it is a good thing to thrust it upon all the rest of the community who already have taken that step is something else which I do not pretend to argue. But, when you offer the plan at 1.8 per cent no one in his right mind would contract out of it anyway, so you do not have an alternative. It has that limited virtue.

Mr. AIKEN: But, as you understand it, it is a pension plan and not a welfare plan.

Mr. WATSON: That is my interpretation. Now, every member of my profession would not necessarily agree with me; they do not always agree with me. But, that is my opinion.

Hon. Mr. CROLL: I am agreeing with you.

Mr. WATSON: I feel very much better about that.

The CHAIRMAN (*Mr. Cameron*): Would you proceed Mr. Basford.

Mr. BASFORD: I will pass.

The CHAIRMAN (*Mr. Cameron*): Then you are next, Mr. Chartterton.

Mr. CHATTERTON: Mr. Watson, you said you are a realist; I am inclined to think you might be a fatalistic realist because when I voted at second reading I voted for the principle of a contributory pension plan and not for this one presently before us.

To use an example, you calculated in respect of a man aged 40, earning $5,000 a year, that the present value of these future benefits, after deducting the contributions, would be $3,500. Is that about right?

Mr. WATSON: Could you repeat part of your question.

Mr. CHATTERTON: I gave an example where you calculated the present value of the future benefits which have been given under the Canada pension plan and after deducting these contributions the bonus, so to speak, to him, is $3,500.

Mr. WATSON: That is correct. But, it is in excess of $3,500 because I made no attempt to put a value on the disability.

Mr. MONTEITH: That also takes in the employers' share.

Mr. WATSON: Yes, indeed.

Mr. CHATTERTON: And, someone is paying that $3,500.

Mr. WATSON: Yes.

Mr. CHATTERTON: Someone else other than his employer?

Mr. WATSON: Yes, and that will come after 20 years.

Mr. CHATTERTON: Did you work out a similar program for a man earning, say, $2,500?

Mr. WATSON: No, I did not; I just worked the one out because it was the simplest. This is rather complex, you know.

Mr. CHATTERTON: But, as an actuary would you suggest the benefit for a man earning $2,500 is greater or less than the $3,500?

Mr. WATSON: I think it probably would be very close to being proportionate. It would be somewhere in the order of $1,700 or $1,800, but that is a rough estimate.

Mr. CHATTERTON: I am talking in terms of dollars, not percentages.

Mr. WATSON: Yes.

Mr. CHATTERTON: In terms of dollars in respect of a man earning $2,500 the benefit would be approximately $1,700.

Mr. WATSON: It would be $1,700 or $1,800.

Mr. CHATTERTON: Now, you said that someone is paying this bonus. You said that someone will be paying it 20 years from now. It not some of that bonus being paid right now by some people?

Mr. WATSON: When I said it will be paid 20 years from now I meant it is starting in 20 years, when the additional contribution will have to be paid. Of course, right now it is an exchange of money; money is going into the plan and money is coming out of the plan, and there is a transfer from one individual to another. But, this is what happens in any insurance or pension plan; money comes in and money goes out. My point was that this $3,500 is not paid in by either employee or employer if he continues to pay 1.8 per cent through to his death. It is deficient to that extent. Therefore, somewhere along the line there has to be more than 1.8 per cent contributed if this was, for example, the average age in the country.

Mr. CHATTERTON: Is this fund building up? Right now someone is contributing towards this bonus of $3,500.

Mr. WATSON: Yes, but I personally think, if I made a complete analysis, that I could show you that it is the children who are not yet eligible and the unborn children who are going to eventually pay for it, and this is the big point; it is not the present people nor the constituents of the present parliament that are going to pay for this. *

Mr. CHATTERTON: We are giving them everything now which will be paid for later, so if everyone gets money now everyone votes for that measure. *

Mr. WATSON: As I say, it is easy to understand why it is unanimous; it is a very fine arrangement at 1.8 per cent.

The CHAIRMAN (*Mr. Cameron*): Are those all your questions?

Mr. CHATTERTON: Yes.

The CHAIRMAN (*Mr. Cameron*): Would you proceed, Mr. Prittie.

Mr. PRITTIE: Mr. Chairman, I have just one question. In reference to a higher contribution you say on page 5 approximately $2\frac{1}{2}$ per cent. Would it be fair to interpret your views this way, that if we are going to have a funded plan at all we should do a better job of funding? Is that what it amounts to?

Mr. WATSON: Yes. If this is what we are going to do let us do it properly.

Mr. PRITTIE: And, alternatively, you would like in the act some commitment on the part of the government that if they do not raise it now they will raise it in the future, or failing that any deficit will be met out of general revenue. You feel you need that third aspect to the employer-employee contribution.

Mr. WATSON: Yes because, otherwise, it is quite unreal.

Mr. PRITTIE: Thank you.

The CHAIRMAN (*Mr. Cameron*): Mr. Munro, you are next.

Mr. AIKEN: We thought you might pass, Mr. Munro.

Mr. MUNRO: I pass.

Hon. Mr. SMITH (*Kamloops*): Mr. Chairman, coming back to the $3,500 bonus that this fellow aged 40 collects, what part of this $3,500 would be represented during his anticipated lifetime in his collection of the $75 old age assistance?

Mr. WATSON: I am taking this as a separate unit to illustrate the point. I have not brought in the old age security; in other words I refuse to combine the two, I am taking it separately. This is my particular philosophy, that old age security is an assesment against the population, and changed as necessary to support it. This is something else which is supposed to be, according to the way the act is written, dependant only upon the employee and the employer contribution and nothing else.

The CHAIRMAN (*Mr. Cameron*): Gentlemen, our witness for tonight was to be Professor Donald C. MacGregor. He will not be here so that there will be no meeting tonight. However, he sent his brief, and I would like to have your instructions on what to do with it. Should we file it in the library or make it an appendix to these proceedings?

Mr. AIKEN: How large is it?

The CHAIRMAN (*Mr. Cameron*): It is a fair-sized brief. Each member will get a copy, of course. It came in today's mail.

Mr. PRITTIE: Is he not going to appear at all?

The CHAIRMAN (*Mr. Cameron*): No.

Hon. Mr. CROLL: I think we should put it into today's record.

Mr. KNOWLES: I would so move.

Mr. MACALUSO: I second it.

Mr. CANTELON: Who will we hear tomorrow morning?

The CHAIRMAN (*Mr. Cameron*): Mr. W. N. Anderson, of the board of the North American Life Assurance Company of Canada. In the afternoon we will have Mr. Robert J. Meyers, chief actuary of the Social Security Administration of the United States of America. In the evening we will have the retail council of Canada.

Mr. MUNRO: I would like to move a vote of thanks to Mr. Watson.

Mr. AIKEN: I will second it.

The CHAIRMAN (*Mr. Cameron*): Mr. Watson, we had much pleasure in passing a vote of thanks. We appreciate your contribution very much.

APPENDIX A5

SUBMISSION TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS FOR THE CANADA PENSION PLAN

G. N. Watson, F.S.A.

January 13, 1965

I wish, first, to identify myself to the members of the Committee. My name is George N. Watson; I am a Fellow of the Society of Actuaries; I have been a Fellow for 19 years and, during that entire period, have specialized in the area of group insurance and group pensions. Although this submission is being made in my capacity as a private citizen, I am a Vice-President of Crown Life Insurance Company of Toronto and have been employed by that Company during my entire business career, exceeding 28 years. In addition to serving on several committees in various trade associations and acting as chairman of several others, I am Chairman of the Group Committee of the Canadian Association of Actuaries. The opinions that I am expressing in this submission are entirely my own.

Although many points could be made with regard to the development of the Canada Pension Plan as it is set forth in Bill C-136, I wish to make only four points which I regard as the most important:

1. The Need for the Canada Pension Plan.

Bill C-136, when it received second reading, was unanimously approved by all voting members of the House of Commons. Evidently, there can be no question that there is a need for the Canada Pension Plan but what, precisely, is the need that it is designed to fill? Speaking to different individuals, one might very well get differing opinions as to precisely the need for the Canada Pension Plan. For example, is it a measure designed to assist the aged which, for the sake of brevity, I will refer to as "welfare plan"; or is it a measure to provide pensions on a compulsory basis to those who can afford to contribute in order to make sure that the future aged will be covered by some pension plan regardless of whether private arrangements are made through their employer. This last type of plan, we may call for the sake of brevity, simply a "pension plan".

I think it will be helpful to establish clearly whether the Canada Pension Plan is, in fact, a welfare plan or whether it is a pension plan on the basis of the definitions I have just given. With an undertaking of this magnitude and the development of an apparatus which will extend, perhaps, for centuries, we ought to be sure at the time of its birth the precise and exact reasons for its conception. It seems to me that the weight of evidence would indicate that this is a pension plan and not a welfare plan. It would seem that the Old Age Security plan was designed to meet the basic needs of the present aged and an assessment is made against the entire country in order to provide the amount of money required to meet those needs as they change from year to year. In developing the Canada Pension Plan, however, there has been little attention given to the fact that there is an Old Age Security plan in existence and, in many respects, the two plans have been treated entirely separately as though no integration was necessary or even desirable. This has caused a great deal of discussion, conjecture and criticism; but it may be explained if we can agree at the outset that the Old Age Security plan is a welfare plan designed to meet the subsistence needs of the aged, however they may change from time to time; but the Canada Pension Plan is not related to that idea in any way but is, in fact, a pension plan which sets out to make sure that every wage earner in Canada will reach pension age with a pension of some kind which, it is hoped, he will supplement through his private resources. It is as though we are stating that it is as important for the citizen to be provided with a pension as he reaches the last years of his life as it is that he be provided with an education as he commences it, and we are justifying the element of compulsion in the one as much as in the other because the end result is a desirable social objective. Perhaps it is on this ground that the Bill met with the unanimous approval of the House of Commons and it is from this standpoint that I am, therefore, discussing the Canada Pension Plan.

From what I have said, it is apparent to me that the rationale behind the development of the Canada Pension Plan is that: compulsory saving for retirement is desirable. Whereas we have always understood that thrift was a necessary virtue, the degree of thrift exercised being left to the individual's own discretion, we now seem to feel that whether the individual is thrifty or not, we must insist on some accrual of pension rights so that even the improvident, in spite of themselves, will be taken care of. It is another step in the direction of reducing the degree of individual self-reliance.

However, looking at the matter from this point of view, we quickly come to the conclusion that if this is a pension plan, the present value of all the contributions of the individual and his employer should, in the aggregate, be equivalent to the present value of the benefits for which all employees and dependents are covered.

However, in this plan, we know that the benefits are not fully funded and, therefore, whatever benefits are received by persons who are the early recipients of benefits under this plan, will far exceed the contributions they have made or their employer has made on their behalf and this, of course, will be entirely at the expense of future contributors because it can be shown that, if the entire present labour force was considered as a group, the contributions of 1.8% by the employee and the employer would not provide that particular group with the benefits promised. It would, in fact, develop according to normal actuarial standards an unfunded liability at its inception which would have to be retired by future contributors or, at any rate, the interest on the unfunded liability would have to be paid by some third party, whoever that may be. Of course, we know that there is no third party to take care of the unfunded liability and, hence, we conclude that, in the future, there must be an increase in the rate of contribution. The point I wish to make is that it is entirely improper in my view to develop a pension plan which proposes to provide benefits to persons on a basis of contribution which will not, in fact, support those benefits, considering the present covered population only. It, therefore, means that the future population, that is persons coming to Canada and the children not yet covered or born, will have to pay more for their benefits than their actuarial value in order to make up for the deficiency in contributions which now exists. Although one can understand that a pension plan based upon deficient contributions will meet with a ready response from a House of Commons or even an entire population which believes, by some magic, that future generations will pay the bill, it is not clear to me that future generations will continue to pay the bill and receive benefits which have an actuarial value of less than they are contributing. But, of course, it must eventually come to that and so I ask the question: Is it right and proper for our elected representatives at this time to pass a Bill which must eventually be paid for in part by future generations and future parliaments? Would it not be much more reasonable, if we can agree that this is, in fact, a pension plan of exactly the same sort as a pension plan developed by an individual employer, to provide benefits which, for the present population, are the actuarial equivalent of the contributions that can be expected from the present population without relying on the largesse of our children and our children's children and even beyond that.

We cannot make the excuse that this is a benefit for the welfare of the present aged. We must, by the reasoning I have developed here and in the next following section, accept the principle that this is a pension plan on a compulsory basis and it should stand on its own feet and be self-sufficient for the present population. Mr. Chairman and gentlemen, this plan, is not in that financial condition. It is very much better than the first version of the Canada Pension Plan, but it is still not providing benefits which, considering the entire present population, are the actuarial equivalent of the contributions required.

A review of the actuarial report suggests that, on and after 1985, assuming all the assumptions of the Chief Actuary are realized, it will be necessary to increase the contribution rate from both employee and employer to approximately 2½% each. It would be much better if we faced that prospect now and considered its implications rather than to assume that this will be a decision of some future government and need not be taken into account at this stage. For example, if it should develop that this is the action that is, in fact, taken 20 years hence, which is not a long period in the arrangements that have to be made in pension plan funding, it would simply mean that we would be asking those persons now under the age of 45 to make a higher contribution for their benefits than the persons now in the population and over that age. I would think it would be much better if a rate of contribution was established which would guarantee the continuance of the plan for a much longer period than 20 years. Such a rate of contribution could be calculated by the Chief Actuary applying normal actuarial methods to the entire population as it now exists. I would estimate that such a calculation might produce a result of approximately 2½%, instead of 1.8%. From the standpoint of equity, a higher rate of contribution now would be much more desirable than leaving this to a later generation.

My first point, therefore, is that, if I am correct in the philosophy which has developed this Canada Pension Plan, the scale of benefits should be reduced or the scale of contributions should be increased in order that there will be no mortgage on the future or any unnecessary degree of uncertainty in regard to what we may expect after 1985.

2. *Can it be Argued that the Canada Pension Plan is, in fact, a "Welfare Plan" and not a "Pension Plan"?*

If the answer to the question raised in the previous section is that the Canada Pension Plan is, in fact, a welfare plan and is not a pension plan in the sense that I have described it, then I must argue that the Old Age Security plan which was so well-designed some years ago and which has been increased and improved since then is the proper vehicle to provide such benefits. If the Old Age Security plan is not providing sufficient benefits or if the benefits do not commence at an early enough age or if additional benefits besides retirement benefits are thought to be necessary, this can be easily achieved by making the necessary amendments in that plan. It would be very amateurish from the standpoint of pension plan design or social insurance planning to develop an earnings-related plan and superimpose this on a flat benefit of the old age security type without the most careful attention to the problems of integration. It is as though you were dissatisfied with the accommodation in the Parliament Buildings and you decided to extend the buildings but, instead of calling in an architect, which I suppose would be the normal course to follow, this was developed by political architects who developed a tower on stilts which we may call the Earnings-related Towers which sits on top of the Parliament Buildings. No sensible architect would suggest such a structure and no member of parliament would vote for such construction in the city of Ottawa. Yet if you argue that the Canada Pension Plan is designed as a supplement to the Old Age Security plan, that is exactly what you have done because no expert in this field would possibly conceive of such a monstrous result.

An earnings-related plan has no application in this area whatever. To illustrate, consider two individuals, one earning consistently $2,000 per annum and the other, $4,000 per annum. The Canada Pension Plan provides a pension of $500 annually to the first and $1,000 annually to the second. But, the second individual is much better able to care for himself than the former. If anything, the pensions should be the other way around or, better still, they should be equal. Thus, no one can argue that the Canada Pension Plan is a welfare plan. It is a pension plan, purely, and reasonable relationships between contributions and benefits are implied just as in any private plan.

I, therefore, conclude that the reasoning I developed in section 1 of this submission is the only reasonable conclusion to reach.

The Canada Pension Plan and the Old Age Security plan have, in many ways, been treated entirely separately. There is little or no integration and I submit the rationale behind the development of each plan is entirely dissimilar.

3. *The Government Annuities Branch.*

Based on the conclusions of the first two sections of this submission, I would consider that the Canada Pension Plan, if it is adopted in essentially its present form is, in fact, a compulsory version of the idea behind the development of the Government Annuities Branch as it was originally conceived in 1908. The idea then was to promote the purchase of pensions and this vehicle was made available. Since then, it is apparent that the public at large does not take advantage of such annuities to the extent that one might otherwise suppose and now, in 1965, we conclude that some degree of compulsion is necessary and, hence, we substitute the Canada Pension Plan for the Government Annuities Branch. Gentlemen, I suggest that if the material I have submitted up to this point has any logic to it, we must now conclude that the Government Annuities Branch should be discontinued. It represents a huge liability of this country to various individuals. There is no fund whatever behind the liabilities of that branch and we might as well consolidate that liability with the liability of the Canada Pension Plan and here and now resolve that, having adopted the principle of compulsion in order to achieve the results that could not be achieved by voluntary methods, we should not preserve the older agency which is now rendered superfluous. This recommendation has already been made by a Royal Commission appointed some time ago, which recommendation has not been proceeded with by this government and I now urge it upon you as a logical conclusion of developing the Canada Pension Plan.

4. *The Implications of a National Pension Plan.*

If we assume that a National Pension Plan of the type which we are examining in Bill C-136 is desirable on the basis of the reasoning set forth above and if we assume that, to be logical, the benefits provided ought to be the actuarial equivalent of the contributions to be made, we will, of course, develop a larger fund than now contemplated; but whether that fund is 5 billions or 10 billions of dollars is not so important as the realization of the fact that this fund represents a considerable diversion of investments from the private sector to the public sector of our economy. On reading the Economic Report, it is clear that the government has attempted to evaluate the effect of this diversion, but it seems to me that the Report tends to seriously understate the magnitude of this diversion.

In the first place, it would be my judgment that practically all private pension plans now existing which require a contribution from employees of 5% of earnings will undoubtedly be integrated with the Canada Pension Plan in such a way that the total employee contribution under both plans will not be increased with the result that considerable sums will be diverted from private investment channels to the public purse. Secondly, in the evaluation made in the Economic Report, it was assumed that there would be no increase in the level of contributions required after 1985. In other words, the Report examined the situation as though the fund would eventually fall into deficit which, of course, is not contemplated.

For both these reasons, I believe that the Economic Report has tended to minimize what many people think is a serious effect on the economy of the introduction of the Canada Pension Plan.

APPENDIX A6

SUBMISSION TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON THE CANADA PENSION PLAN JANUARY 1965

Donald C. MacGregor

32 St. Andrew's Gardens,
Toronto 5, Ontario.
January 8, 1965.

To the Co-Chairmen and Members of the
Special Joint Committee of the Senate and
House of Commons on the Canada Pension Plan.

Dear Mesdames and Sirs:

A submission to your Joint Committee is attached.

I send it solely as my personal submission. It is not intended to represent the views of the University of Toronto nor of its Staff Association, nor those of the Pension Commission of Ontario of which I am a member, nor of any other body.

Respectfully submitted,

Donald C. MacGregor,
Professor of Economics.

DCM: b
Encl.

SCOPE OF THE SYSTEM

(1) Coverage of the population for the purpose of contributions.

The large number of persons contributing, from age 18 up, has been mentioned as showing the completeness and effectiveness of the system. Equally effective retirement pensions and almost as effective supplementary protection could be provided if contributions began at slightly later age (say 22 or even 25) with an appropriate increase in rate.

An objection to such an increase in the lower age limit is that employers would have an inducement to prefer younger employees for whom no contribution was required. The objection loses its force when it is remembered that among the youngest workers unemployment is rather high.

An age limit higher than 18 offers advantages to the pension administration, to employers and to the membership, all without detriment to the level of benefits at retirement if contribution rates are higher. An incidental advantage of delaying membership would be that most adult immigrants reaching Canada in their middle and later 20's, ages at which more than half of the adult arrivals occur, would then be able to qualify for virtually full benefits at 65.

(2) Compulsion and the self-employed.

Despite the compulsion exercised by Section 11, no compulsion need actually be exercised on self-employed persons unless they are obliged to file income tax returns (Bill, 31(5) and Evid., p. 235). As far as it goes this is as it should be, for it acts to preserve individual freedom of choice for at least some of a group to which the rationale of compulsion, justifiable for employees in view of their demands, does not apply. The policy of no compulsion also avoids the invidious administrative task of fining or seizing the goods, or imprisoning the person, of a man who considers that this form of provision for his old age is either superfluous or too costly.

Whether compulsion is justifiable on grounds of equity when applied to the rest of the self-employed, who must file a tax return, is a nice question. We seem to be coming to a point, in what is evidently deemed social progress, where a man can be punished for failing to save money, provided he earns enough for the state to take notice of it.

In the absence of compulsion the Plan must, however, be protected against the abuses that arise from self-selection (i.e., selection by the individual of what and when he will pay with a view to "milking" the plan to his own advantage).

2.

SCOPE OF EMPLOYERS' PLANS: A MISUNDERSTANDING

Closely related to 1(1) is a common misinterpretation of the scope of employers' pension plans. Many workers who are not covered nevertheless work for an employer who has a plan, a fact that has been interpreted to mean that the plan permanently excludes them. As a rule, however, the non-members become members as their period of service increases or as they become older, provided they remain with the same employer. In 1960 the D.B.S. non-financial survey found that in addition to 1,422,000 members (male) of plans there were 506,000 non-members working in the same organizations. Of these non-members only about one in eight, or 61,500, were permanently ineligible. Of the remaining 444,000, some 250,500 were temporarily ineligible while 194,000 were voluntarily outside the plans because they had elected not to join. As to females, there were 393,000 members and 352,000 non-members. Of the non-members 129,000 permanently ineligible and 132,000 temporarily so, while 91,000 elected not to join.

3.

CONTRIBUTIONS AND THE FISCAL SYSTEM

(1) The proposed system of contributions, earmarked for the use of the Plan, at first sight appears wholly to relieve the national Treasury of a burden that might otherwise have been defrayed from ordinary taxation or borrowing. The required premiums or charges also have at first sight the appearance of saving rather than taxation. Thus, whether looked at from the standpoint of the Treasury or of the public, the system has the appearance of insurance and saving rather than of taxation. Here, one might say, is a self-supporting system that won't trouble the tax-gatherer, and won't be troubled by him.

The actual outcome is likely to be less simple and agreeable on both sides. The national Treasury will find that an additional levy on income of about $425 million in 1966, equal to almost a fifth of the yield of the personal income tax and over and above the yield of the existing Old Age Security levy, which amounts to another fifth, may make it more difficult (if not impossible) to gain further revenue for general purposes from the income tax, and may even precipitate demands for its reduction. I say *may* rather than *will*, because if the Canada Plan contributions were not associated in the public's mind with taxation or tax collectors they would be less likely, in my opinion, to act as a barrier to future increases of income tax or other taxation.

This brings us to the question: how far will individuals and employers regard this apparently autonomous pension plan as tinged with fiscal colours? Since, for reasons of administrative economy, the income tax authorities are to undertake collection of contributions from self-employed individuals, it follows that as much as 15 per cent of the contributing population will be dealing directly with the tax gatherer. The rest of the contributing population will be employees and they will have no direct relations with the tax authorities except perhaps in the matter of refunds, which are to be extraordinarily numerous. It is nice when one finally gets the refund cheque but if the wait is long or the required negotiations are difficult the millions of individuals involved may not find the experience particularly satisfying. If their contact is with National Revenue unfavourable associations with taxation are likely to develop.

It is employers who will have the most contact with the tax authorities since they act as collecting agents, standing between their workers and the Treasury as well as paying their own dollar-for-dollar contributions to the tax authority. They have been told, correctly, that in this plan their contributions are not necessarily associated with the amount of pension to be received by their own employees. In other words each employer's share goes "into the pot," the only restriction on its use being that the moneys are to be utilized for paying a cash benefit from the plan to some eligible recipient as Parliament may from time to time determine. Under this procedure the employer's contribution loses its character as a premium and becomes virtually a tax on the labour services it buys, the chief difference being that purchaser rather than vendor remits the levy to government.

Firm A, which employs mainly middle-aged and elderly people can look on this with complacency since its retiring workers over the next two or three decades will receive benefits that are very large compared with the contributions it pays, but another firm, B, which employs mainly the young will find, if it looks into the matter, that its contributions are being diverted as a cross-subsidy to pay the relatively large, more or less instant, pensions of firm A. It may be added that a growing province, which usually has a high proportion of young workers, will resemble firm B while a more or less static province will resemble A, as regards the ultimate destination of the employer's share.

If the employer's portion comes to be regarded as almost pure taxation not only in his eyes but in the eyes of labour, one may speculate as to the effect on labour negotiations.

A general impression to which this section leads is that while the statutory outer garment or skirt of the system has an agreeable appearance when first tried on, the fiscal slip will soon begin to show below.

One long-term consequence, for individuals, is that the income tax net will now close around them permanently, at the same time bringing a good many new faces into the tax gatherer's ken.

The situations discussed here arise from the benefit formula of the pension plan and from the proposed method of administering contributions. The administration is designed to realize direct and immediate economies; my suggestion is that it may indirectly and gradually bring less agreeable results, but it is clearly difficult to compare the two.

(2) Exemption of the first $600 of earnings from the rateable income is a measure that can be defended on grounds of equity but which seems to lead to disproportionate administrative difficulties. Good laws in this field result from compromises between the conflicting claims of equity on the one hand and of convenience and economy on the other.

The size of the exemption is not enough to conserve the potentialities of the personal income tax in the lower brackets, for which I have shown concern above.

(3) A persistent problem will be "when to raise the contribution rate?". In the Bill much attention has been given to the popular and rather "gimmicky" subject of raising benefit rates by formula but we are left without a formula or an administrative or deliberative procedure directed to securing adequate contributions. Even the Advisory Committee (S. 117) is not specifically charged

with this responsibility. It is only benefits that have the benefit of escalators. (In saying this I realize that the real purpose of the escalators, in the eyes of the inflation-minded authors of the Bill and its supporting actuarial and financial studies, may be to prevent the benefits from sweeping upward like a balloon.)

4.

GREATER PRODUCTIVITY DEPENDS ON MORE CAPITAL

(1) The future levels of production, relative to the amounts of labour and capital employed impose limits on the effectiveness of the economic accomplishment of the country. Their relevance for any one use of resources naturally depends on competing demands for other uses, which are many. This has been alluded to in the Second Report on Portable Pensions (Ontario), pages 4(*a*) and 103 and in Coward, Pensions in Canada, pages 68-69 and 76, par. 3.

It is not usually realized that increases in production per head usually depend on the utilization of more as well as better capital. The average requirement of capital of all kinds for an average family of four in Canada is about $50,000, a sum which considerably exceeds the saving power of the average family (cf. Coward, Pensions in Canada, p. 70, table).

5.

BENEFITS

(1) The early commencement of benefits, and the resulting large outpayment per dollar of contributions comprise both the appeal and the weaknesses of the proposed system. The appeal, which is the promise of a life income of $125 a year from age 65 in return for a single combined premium of 3.6% of $4,400, or $158.40, can be expressed in other words: an annuity, the lump-sum cost of which (for a man) at 4 per cent would be about $1,200.00,[1] is to be sold in the first year at a cost of $158.40, which is 13.2% of $1,200.00. On this basis there is a subsidy from within the Plan of 86.8% at the outset or, if interest on the contributions during the first year before outpayments begin, of a trifle less. The same proportion of subsidy applies to persons retiring at the specified ages (69, 68, etc. as in S.66) at the end of any one of the first ten years from the time the Plan begins to collect contributions. After that time the number of contribution years required to gain the same benefit increases at one per year for the next 37 years, subject to the drop-out provision for disregarding a limited number of years of low or zero earnings. As the length of the required contributory period increases the proportion of cross subsidy diminishes but it is evident that as regards the required total of contributions and cost per dollar of pensions the plan does not mature until the end of the first 47 years of contributions. This may be compared with a maturity period on the side of benefits of 10 years. The term *maturity period*, if used without designating which period it refers to, is therefore ambiguous. If, as a matter of convention, it be taken to refer solely to the 10-year benefit period it is then necessary to find a new term to refer to the 47-year contribution period.

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1. Quotations of the lump sum cost differ slightly since they depend on the estimated average of remaining years of life for those reaching their 65th birthday (expectation of life at age 65). On the basis of the widely used 1955 Annuity Table the cost of $125 a year would be, at 4 per cent, about $1,280, based on an expectation of life of 14.31 years. If, instead, we use the latest D.B.S. calculations for males (based on ages of the male population in Census of 1961 and on an average of deaths in 1960, 1961 and 1962) which give 13.53 years as the expectation at 65 for all Canada and 13.16 years as that for Quebec, the lump sum cost is less.

If no interest be allowed the cost is more, being simply the product of the annual pension and the expected number of years in payment; e.g., for $1,280 above read $1,789.

The weaknesses arising from early payment of benefits, in a system which is represented as contributory and self-sustaining, are mainly as follows:

(*a*) By requiring payment of only about one-eighth of the average cost over the first decade and by failing to reach the full contribution rate until 37 years thereafter the public is given a false impression of the true cost of contributory pensions and is encouraged to demand more and more pension on this basis as long as the "bargain sale" continues to offer noticeably good value, say for the first 25 years.

Similar demands have already been made for across-the-board increases in the universal (O.A.S.) pension. The fact that small tax increases immediately follow the resulting increases in the O.A.S. is a trivial deterrent to those who are to get the higher pension at once or within a few years, and of only minor consequence to younger persons since more than half of the O.A.S. taxes are hidden.

As the nation already has, therefore, a pension system in which the method of imposing the cost is a very weak deterrent of further demands, it is the more important that a "second-deck" of pension should contain a more effective deterrent. At first sight the increase in the combined contribution rate from 2 to 3.6 per cent is an important move in this direction but against it should be set the increase in the estimated benefits payable. The following table shows estimated benefits after nine years, in the first Bill and the second.

	Payable 1974 Bill C-75, March 1964. Actuarial Rept., 30/8/63, p. 8, Table 2.	Payable 1975 Bill C-136, Nov. 1964. Actuarial Rept., 6/11/64, p. 15, Table 2.
	(in millions of $)	
Age Retirement Pensions	177.3	162.7
Disability Pensions		62.8
Widows' and Widowers' Pensions	12.3*	88.5
Orphans' Pensions		37.1
Death Benefits		19.7
Administration	†	17.6
TOTAL	189.6	388.4

*"Aged Survivors." †Not shown.

(*b*) It is possible that the new directions in which benefits are to be provided, indicated in the above table, will serve as so many more opportunities to influence the electorate with its own money in the name of welfare, by promising more. Until March 1964 there was one opportunity, the O.A.S.; then there were two more under the *first* Canada Pension Plan of 1963-64 and now there are a further three under *second* Canada Plan, making six as compared with one. The outcome will partly depend on the response of the provinces, which already give aid in several of these fields, in part with federal assistance.

(2) The provision of a death benefit or refund is in accord with custom. In other pension plans it is usually as great as the individual's own contributions and in some cases as much as the combined contribution with interest. The advantage of the practice is obvious despite the added cost to the fund

but it is alloyed by the resulting income tax which may be considerable although the benefit is taxed at a lower rate than ordinary income. The tax aspect offers justification for providing a small benefit, since equivalent compensation can be provided (but not in all situations) by group life insurance.

(3) The Canada Plan's provision of annuities for widows and certain widowers, and surviving dependent children likewise has a precedent in some employers' plans and is available as an option in others. The most widely used protection for survivors is probably the last survivor provision applicable to an annuity that is in payment. If a pension provides for survivors without either a reduction in pension or an increase in prior contributions it imposes a heavier drain on the revenues of the Plan than an ordinary pension, indicating that there is a cross subsidy presumably at the expense of single people and those without dependent children, both of whom, along with the employer, are obliged to pay more than otherwise. As there is a much larger cross-subsidy in favour of all those retiring for some decades to come the cross-subsidy in question adds only slightly to the size of the subsidy as a whole and the comments already directed to the one refer equally to the other. That it is good to make provision for survivors is not questioned; what is questioned is who should foot the bill, especially when the cost rises in future, and whether some of those who are called upon to pay more because others benefit more may not have equally valid claims which are not recognized. One may suggest the case of an unmarried daughter who is supporting parents, sisters, or aunts; in the event that such a daughter dies before or very soon after retirement the only resulting claim on the Canada Plan will be the death benefit, which cannot be much more than her funeral expenses.

The arbitrary element in arrangements which thus compel contribution, but restrict benefit without regard for equality of treatment deserves close attention. I am not much impressed with the common reply that the benefits granted are all the protection that has been paid for. The answer to this is that in the unmarried daughter's case she should and probably would have paid for a different type of contract, if she had been free to do so, in which the loading for spouse and children was replaced by one for other dependents.

(4) The payment of virtually free pensions to those retiring in early years of the plan has been likened to the provision of past service pensions. I have already dealt with this in the Coward volume on page 64 and 65. Here I wish only to emphasize the position, taken there, that if further past service benefit is to be provided, over and above that now provided by the O.A.S. and existing supplements to it, it should be paid for out of the tax system as a whole, from higher incomes as well as from those under $5,000, and from investment income as well as from labour income, instead of wholly by cross-subsidy out of combined contributions, which is in part at the ultimate expense of the young and the unborn. What I advocate is subject to whatever limits on the size of the fund may be deemed appropriate for economic and prudential reasons.

(5) Retirement Test. The withholding of benefit by this, a species of means test, from those aged 65 and under 70, is hard to justify. It is doubtful equity since a person who has income from rents or other investments may draw his full pension from age 65. It will be especially hard to administer since the presently permitted earnings of $900 (Sec. 69; made intelligible in the Evidence, p. 321) are decidedly low. It conduces to misrepresentation among some and to idleness among others. The best thing that can be said for it is that the loss of income is graduated in one step, earnings over $900 and under $1,500 attracting a pension loss of only 50¢ per $1.00 of income.

The argument that other countries have employed this method does not impress me in view of the objections to it.

(6) May I draw attention to the lack of an age-adjustment for the benefit scale in the Canada Plan between the ages of 65 and 70. This, taken with the presence of a retirement test, suggests that the government favours a policy of discouraging people from working even at self-employment after reaching 65.

6.

THE OFFICIAL FORECAST OF CREEPING INFLATION

(1) In both the second Actuarial Report (6 Nov. 1964) and in the subsequent study of Economic Implications (10 Dec. 1964) it is assumed that the cost of living will, on the average, rise $1\frac{1}{2}$ per cent per annum for the many years of the forecast period. The second Actuarial Report also envisages the possibility that the cost of living may increase more rapidly, in the neighbourhood, it appears, of 2 to $2\frac{1}{2}$ per cent per annum, leading to an upward movement of money earnings averaging 4 per cent. The difference between 4 and $2\frac{1}{2}$ reflects increases of earnings made possible by higher productivity. In all cases the figures imply compounded rather than simple rates of growth.

The first Actuarial Report (30 Aug. 1963) makes a similar assumption as to rising money earnings but is less specific as to the rise of prices implied in it. It assumes that earnings will rise at a rate of 3 per cent compounded.

When I came upon the 3 per cent assumption in the first Actuarial Report, I noted it marginally, raised an eyebrow, and passed on. I recalled that many actuaries neither know nor care much about economics or history as the faulty assumptions on the future of interest rates made by most of them in the period 1920 to 1930 illustrate eloquently, and supposed they did not bother to discuss their assumption with others. It is now clear that they are not alone in this assumption and that it is the expectation if not the deliberate intention of the Minister of Finance that prolonged creeping inflation, averaging at least $1\frac{1}{2}$ per cent a year, compounded, and possibly rising to 2 per cent after about 1975, is to take place.

This is a remarkable prognostication. We are left in doubt whether the forecast will set in motion forces tending to confirm it or perhaps to exceed it. There is also doubt whether the forecast was made as a form of *arrière pensée* with a view to indicating by indirection the probable consequences of recent policies.

If this is really to be the future of Canadian prices one may inquire how long it will take for the long-term rate on Canada bonds to reach 6 per cent, and other bonds in proportion, for I do not think the prospects of inflation in the past four years have been such that the market is already discounting, in long-term bond prices, an inflation of $1\frac{1}{2}$ per cent yearly.

There are undoubtedly a few advantages in gradually rising commodity prices, to be set off against the many disadvantages, but the advantages would for the most part be lost if the inflation were a certainty. Rising wages and other costs would press unusually heavily against prices, both hastening the rise and pricing labour and goods out of the market, thereby dislocating the economy and darkening the expectation of high employment and output. If other countries foresee and strive successfully for less inflation than Canada, the implications for the Canadian dollar and for those who have borrowed abroad deserve serious attention. The implications for provinces and municipalities are especially grave, not only as to their debts but their revenues. There are also implications for the Bank of Canada that I need not dwell on here.

Repetition of the assumption of creeping inflation in the three documents mentioned can no longer be ascribed to inadvertence. The announcement of what the government contemplates has now been made too often for responsible opinion to ignore the statement in the hope that it will die quietly.

7.

HEAVY ADMINISTRATIVE WORK FOR REFUNDS, ETC.

(1) Both the Bill and the hearings indicate an enormous number of refunds and of adjustments arising from payment of interim benefits. Civil servants who appeared before the Joint Committee took a rather light view of the matter and stressed the low overall rates of administrative cost to total money turnover. This is not the whole story, however, since a single unmechanized human being is on the opposite side of every one of these changes. He may have to take one and possibly several steps, by methods unfamiliar to him, to secure the required adjustment. What is easy and routine and a source of livelihood for a government staff may mean wrath, anxiety and agony for him.

Refunds, because occasion for them may arise many times in a person's life, seem to be much the most serious problem and careful consideration should be given to any changes in the Bill that hold promise of avoiding a large proportion of them. An age limit higher than 18, as pointed out in part 1(1) above, might be such a change, while elimination of the $600 exemption is another. Excess contributions, from income over $5,000, might be dealt with by several methods which would lump them together for refund at noticeable intervals. One might even go farther and aggregate small excess payments into a surplus refundable on death or retirement, whichever comes first, unless demand for payment were made.

The best method would be to simplify the scheme of accumulation to avoid occasions for refund and minimize the cost of compliance on the part of contributors.

8.

CRITERIA OF EFFICIENCY OF THE PLAN

(1) Four criteria of the Plan's efficiency which are stressed by its advocates are:

(*a*) the early appearance of substantial benefits;

(*b*) the low ratio of administrative cost to total rateable earnings (not contributions) of the membership;

(*c*) the high proportion of the population which will be covered for benefits, and

(*d*) the high proportion which will be contributing.

Four other criteria deserve consideration; *first* the cost to contributors per dollar of pension gained, with and without allowance for interest otherwise obtainable on the sums contributed; *second*, the lowness of the percentage of the working population on the contributory rolls, to produce a given pension (cf. Part 1 above); *third*, the ratio of administrative expense to contributions or to contributions plus benefits, which is the customary way of making the comparison. As to the third, the method of presenting administrative cost in the second Actuarial Report, while it parallels the other percentages shown, is not a percentage of much interest and in my own case it was some time before I realized that I had placed the wrong construction upon it. Expenses are expected to be about 3 per cent of the contributions over the first ten years.

A *fourth* criterion is the extent of complementarity with the Canadian situation, as to pension needs and existing arrangements for meeting them, and as to the Canadian economic, geographical and political setting. Possibilities of duplication and of conflict should be considered.

9.

FUNDING

(1) The present Plan is expected to build up a fund much larger than that proposed a year ago, to between $4,000 and $5,000 million in 1975 and between $7,000 and $8,000 million in 1985. Increments to the fund in the neighbourhood of $400 million per annum are expected in the first 15 years. Growth of the fund is expected to cease during the next five-year period and to be followed by a steady decline thereafter unless and until the contribution rate is raised. An eventual increase in contribution rate is unavoidable.

While in its period of growth the fund seems to become distinctly large its size must be considered partly in comparative terms. It must be considered, that is to say, in relation to the rising totals of incomings and outgoings of the Plan (Actuarial Report of Nov. 6, Table 8, p. 18) and also in relation to the aggregate labour income and national product as shown in the Study of Economic Implications (p. 3). By the year 1975 the dollar values of the labour income and national product are expected to have risen by about 75 per cent, and by 1985 by more than 300 per cent, compared with 1966. It is altogether probable that the demand for capital funds will have risen in proportion and indeed it may well be a necessary condition of this great expansion that it rise more than in proportion, although that will depend on the character of future technical progress which I would not care even to guess. It is sufficient to remark that future sums expressed in thousands of millions (billions) which may seem large today will not bulk so large after the whole economy has added a couple of decades of growth.

Furthermore the size of the Fund is not large in relation to its mounting obligations. As the obligations are not presented in terms of their present or discounted values, however, no comparison is possible. The total liability would eventually reach tens of billions of dollars but not until the whole economy was much larger than to-day.

By way of illustration the obligations under the Federal Government's Superannuation Plan at the end of 1957 were $1,984 million and a year later those under the Ontario teachers' plan were $642 million. Both figures are now much larger.

It would be of interest to have, in rough figures, the estimated capital value of the obligations in 1980 for comparison with the expected size of the fund at that time.

More pertinent is the size of pension fund assets in relation to all assets eligible for investment within the country. Two years ago the assets of pension funds (about $8,000 million, including some stock) equalled about one-seventh of outstanding bonds and mortgages in Canada (not all of which would be eligible), some of the claims of government plans not however being represented by government securities. As the country grows the eligible assets will grow, and the estimated totals of a fund twenty or thirty years hence will not appear nearly as large when compared with the other and larger magnitudes of that time.

I foresee little danger of a larger Fund, arising from an early increase of contribution rates, proving too big to be effectively utilized, but its administration must be appropriate to its extent.

The difficulties most likely to arise are of another sort. The first is that the presence of large assets in a Fund may lead to granting excessive benefits, for the assets are sometimes regarded by members of a plan as though they were a form of distributable surplus or buried treasure to which they (i.e. those soon to retire) are justly entitled. Even teachers, who should know better, have been known to take the attitude that the Fund should be "milked". When the plan is under government supervision there has been a tendency for legislators to yield to the resulting clamour for higher benefits out of the Fund, however unjustified this may be. This is not, strictly speaking, an argument against a Fund but against weak trusteeship and failure to impress the membership with the Fund's purpose. The aspects mentioned in this paragraph did not receive appropriate attention in my contribution to the Coward Volume *Pensions in Canada,* being only alluded to there.

The second difficulty is that if the managers of the Fund are free to, or obliged to, place the moneys in their own government's securities the earning power and strength of the Fund may be less than it might have been. Recent Ontario legislation governing employers' pension plans restricts such use of private pension moneys. In a large public plan the channeling of great sums to a particular borrower or class of borrowers might lead to a disproportionate flow of capital in that direction, to the detriment of other users of capital. Sometimes referred to as the canalization of funds, this is by no means a new problem. Improvements in the organization of the capital market and in the accompanying legislative controls have been doing something to reduce canalization in commercial banking, life insurance and trust companies, and many people regard these changes as highly constructive. It would be unfortunate if the trend to improvement were reversed as a result of federal pension legislation.

If there are to be a number of provinces administering pension moneys, instead of a single national administration, the weaknesses of canalizing will at least be reduced by diversified management. The sums to be forthcoming are, however, decidedly large when compared with recent levels of provincial borrowing (Economic Implications study, p. 16, and App. E) and it may be hoped that the provinces will indirectly make enough moneys available for municipal issues and possibly housing to oblige them to submit some of their own borrowings to the judgement of the capital market.

Since the flows of pension moneys are thus large in relation to provincial borrowing it follows that if the Fund (at present contribution rates) begins to decline as expected, after about 1985, going down more and more quickly after a few years and soon reaching zero as estimated on page 22 of the second Actuarial Report, the provinces would be forced to enter the capital markets on a large and continuing scale with refunding issues designed to repay all their debts to the fund over a few years. As they would no doubt be borrowing for new capital outlays also, their demand for market funds might become embarrassingly large and savings would be diverted to consumption. It follows that the contribution rates to the Plan should be raised at about this time, if not earlier, to avoid any significant reduction of the Fund.

The best outcome for the provinces and for the nation should be reached by (1) devising a more autonomous and stronger administration of pension moneys with (2) more flexibility in placing the moneys than now seems contemplated, and (3) a more rapid growth of the Fund (probably) after the first four or five years, by way of higher contribution rates.

In this part of my submission there have been several references to the interesting study of Economic Implications, dated 10 December last, issued over the name of the Department of Finance. Before taking leave of the study may I express my regret over its preoccupation with the very short run, neglect of the frustrated long-term development and savings that would otherwise have occurred in field of private plans, its lack of attention to possible influences on international capital transactions, and the apparent endorsement of creeping inflation of at least 1½ per cent annually.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964-1965

SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS

Appointed to Consider and Report upon Bill C-136, An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

Joint Chairmen: Senator Muriel McQ. Fergusson and Mr. A. J. P. Cameron (*High Park*).

MINUTES OF PROCEEDINGS AND EVIDENCE

(Meetings held during the adjournment of the Senate and of the House of Commons, as of January 12, 1965.)

No. 14

THURSDAY, JANUARY 14, 1964

WITNESSES:

Messrs. D. Sheppard, Assistant Deputy Minister of National Revenue, J. E. E. Osborne, Technical Adviser to this Committee, W. M. Anderson, F. S. A. Chairman of the North American Life Assurance Co. of Canada, Robert J. Myers, Chief Actuary, Social Security Administration of U.S.A. and From Retail Council of Canada, Messrs. A. J. McKichan, General Manager, E. E. Went, Vice-President, Personnel, Dominion Stores Ltd.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

21740—1

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Croll
Denis
Flynn
Lefrançois
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Smith (*Kamloops*)
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MEMBERS OF THE COMMITTEE FOR THE HOUSE OF COMMONS

Mr. A. J. P. Cameron M.P. (*High Park*), *Chairman*

and Messrs.:

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Basford
Cantelon
Cashin
Chatterton
Côté (*Longueuil*)
Enns
Francis
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Gundlock
Howe (*Wellington-Huron*)
Knowles
Laverdière
Leboe
Lloyd
Macaluso
Monteith
Morison
Munro
Perron
Prittie
Rhéaume
(Mrs.) Rideout

Maxime Guitard,
Clerk of the Special Joint Committee.

(Quorum 10)

(Meetings held after adjournment of the House)

MINUTES OF PROCEEDINGS

THURSDAY, January 14, 1965.

(24)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan met at 10:10 o'clock a.m. this day. The Joint Chairman of the Senate section, Senator Fergusson, presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Croll, Denis, Fergusson, Lefrançois, McCutcheon, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh (9).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Gundlock, Howe (*Wellington-Huron*), Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro, Prittie (21).

In attendance: Mr. W. M. Anderson, F.S.A., Chairman of the North American Life Assurance Company of Canada, of Toronto, Ontario.

Also in attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee.

The Joint Chairman opened the meeting and invited the witness to make a preliminary statement before being questioned.

On motion of Senator Croll, seconded by Mr. Francis,

Resolved,—That the brief submitted by Mr. W. M. Anderson be printed as an appendix to this day's Minutes of Proceedings and Evidence.

(*See Appendix A7*)

The examination of the witness continuing, at 12:30 o'clock p.m. the Committee adjourned until 2:30 o'clock p.m. this day.

AFTERNOON SITTING

(25)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension plan reconvened at 2:35 o'clock p.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*) presided.

Members present:

Representing the Senate: Honourable Senators Blois, Croll, Denis, Fergusson, Lefrançois, McCutcheon, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh (9).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Lon-*

gueuil), Francis, Gray, Howe (*Wellington-Huron*), Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro, Prittie (20).

In attendance: Same as at this morning's sittings, and Mr. Robert J. Meyers, Chief Actuary, Social Security Administration of U.S.A.

The Joint Chairman introduced Mr. Meyers who read a prepared statement and was questioned thereon.

At the request of Senator McCutcheon, the Committee agreed unanimously that reprints of Periodicals quoted by Mr. Meyers be appended to the Evidence as soon as available for publication.

The examination of the witness continuing, at 5:20 o'clock p.m. the Committee adjourned until 8:00 o'clock p.m. this day.

D. E. Levesque,
Clerk of the Committee pro tem.

EVENING SITTING
(26)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan reassembled at 8:10 o'clock p.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Honourable Senators Denis, Fergusson, Lefrançois, Smith (*Kamloops*), Stambaugh (5).

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Gundlock, Howe (*Wellington-Huron*), Knowles, Lloyd, Morison, Munro, Perron, Prittie (16).

In attendance: Messrs. D. Sheppard, Assistant Deputy Minister of National Revenue; J. E. E. Osborne, Technical Adviser to this Committee; and from Retail Council of Canada: Messrs. A. J. McKichan, General Manager; R. H. Hyndman, President of Charles Ogilvy Ltd. Ottawa, Director and Member of the Executive Committee of Retail Council of Canada; E. E. Went, Vice-President, Personnel, Dominion Stores Ltd., and Chairman of Retail Council Employees' Relations Committee; Lawrence Freiman, President of A. J. Freiman Ltd., Ottawa, and Director of Retail Council of Canada.

The Joint Chairman opened the meeting and read a request presented by Retail Council of Canada, for the following corrections to be made to their brief submitted previously for distribution, namely:

On page 8, paragraph 25(b):

Line 4—Delete word "*both*".

Line 6—Insert period after word "Plan".
—Delete words "*and because of the merits of this method of financing*".

(*Said corrections have been made in the said brief—See Issue No. 14, Appendix A8*).

Mr. McKichan was introduced and invited to make a preliminary statement.

The Committee agreed unanimously that the brief submitted previously by Retail Council of Canada be printed as an appendix to this day's Minutes of Proceedings and Evidence.

(*See Appendix A8*)

The examination of the witnesses being completed; the Joint Chairman thanked them for their contribution and they retired.

At 10:00 o'clock p.m. the Committee adjourned until 10:00 o'clock a.m Friday, January 15, 1965.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

THURSDAY, January 14, 1965.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mrs. Rideout and gentlemen, we have a quorum and we will begin.

Mr. MONTEITH: Madam Chairman, might I inquire whether you have any information about when we are going to get our minutes of previous meetings.

Mr. CAMERON (*High Park*): We have the minutes for December 11. The others are on the desk waiting to go to the printer this morning.

Mr. MONTEITH: You are putting in two meetings as one?

Mr. CAMERON (*High Park*): Two meetings, I think, yes. I cannot tell you exactly, but there are two folders and I imagine they are for Tuesday and Wednesday.

Mr. CHATTERTON: How long will it take before we get them?

Mr. CAMERON (*High Park*): We are just checking now. Mr. Dimock has to come back and check the evidence to see that it is in a proper form to go to the printer.

Mr. LLOYD: I would like to be assured that, in your arrangements for reviewing minutes, we are not taking too much time. I am a little concerned about that. It is all very well to be courteous and give people an opportunity to do this, but I would not like it to be done if it were to result in long delays.

Mr. CAMERON (*High Park*): The chief of the committee branch tells me they will be in the hands of the printer by twelve o'clock today.

Mr. CHATTERTON: How long will they be then?

Mr. CAMERON (*High Park*): I cannot tell you but it should not take too long.

Mr. CANTELON: If we are ready to start this morning, I have a question I would like to ask immediately if I may.

The CHAIRMAN (*Hon. Mrs. Fergusson*): You may.

Mr. CANTELON: I read Mr. Anderson's brief with great interest, and perhaps it is because I am not sufficiently educated that I found the first few pages very difficult to follow. I do not find it difficult when he comes to concrete matters, but the first few pages were difficult to follow. I hope this morning he will define for us the basis on which he founds his discussion. I ask this purely for my own sake because I find it very difficult to follow.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I am sure Mr. Anderson will make it clear when he gives his evidence.

We are very fortunate to have Mr. Anderson as our witness today. Some of you will remember that he was one of the most important witnesses before the King-Lesage committee in 1950. He has a great knowledge of the matters we are studying.

I would like to tell you a little about him because I have known him and have great admiration for him, and I would like to share with you a little of what I know about him.

After taking his B.A. in mathematics at Toronto, Mr. Anderson entered the employ of the North American Life Assurance Co. in 1924. He steadily proceeded through promotions until he became president in 1955, which he still is.

Mr. Anderson has taken a great deal of interest in things outside his work. At present he is vice chairman of the Ontario Cancer Institute; and when I was fortunate enough to meet him he was chairman of the executive committee of the Canadian Welfare Council, which position he held for seven years at least. You might also be interested to know that he was president of the Society of Actuaries, and I believe that only two Canadians have ever held this position; one is Mr. Anderson and the other is Mr. Holmes, from whom we heard yesterday. I think this will give you an idea of the importance of the evidence that Mr. Anderson is going to give us.

Before I call on Mr. Anderson I would like to know if someone would make a motion that we put his brief in the minutes.

Hon. Mr. CROLL: I so move.

Mr. FRANCIS: I second the motion.

The CHAIRMAN (*Hon. Mrs. Fergusson*): It has been moved by Senator Croll and seconded by Mr. Lloyd Francis that Mr. Anderson's brief be placed in the minutes. Are you ready for the question? All in favour? Opposed?

Motion agreed to.

Hon. Mr. MCCUTCHEON: Madam Chairman, before we continue there is one point I would like to raise. Professor MacGregor apparently was unable to attend. We have had his brief and it is one that I think should be incorporated into the minutes.

Mr. KNOWLES: It was incorporated yesterday.

Hon. Mr. MCCUTCHEON: That is good. I apologize; I did not know.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I would ask Mr. Anderson if he would speak to us on his brief.

Mr. W. M. ANDERSON (*Chairman, North American Life Assurance Co.*): Madam Chairman, Mrs. Rideout and gentlemen, may I thank the committee for having invited me to appear personally in order to express some of my views in connection with your problems and to answer any questions which you may have and wish to put to me.

I think I should emphasize that I am appearing as an individual. I do not want any of my views to be regarded as being necessarily held either by my company or by any organization with which I am connected. I come to you as a person who has spent over 40 years studying various problems in the field of social security and the allied fields of private insurance, saving, pensions, taxation, national accounts, and other economic problems.

I must thank you very much for having been gracious enough to accept this paper, which I prepared fairly recently, in lieu of asking me to prepare another brief for filing here.

Before I begin, Madam Chairman, may I make one very mild correction to your introduction? You described me as being president of North American Life. For the last two years I have been chairman.

Hon. Mr. MCCUTCHEON: Semiretired!

Mr. ANDERSON: More of an individual, let us say, Senator McCutcheon.

Mr. Cantelon has already referred to the difficulties that he had with the first few pages of the paper, and I must confess that I have difficulties with them myself. They were remarks that were extracted from, and summarized in relation to, another paper which I had prepared several years ago and which the royal commission on taxation accepted a year ago in lieu of a brief.

While I would be delighted to spend some time explaining some of the views which I hold in the general field of redistribution of income, that is the net pattern achieved by income taxes and income transfers, I am afraid that it would not leave enough time, Madam Chairman, for discussions related to your more immediate problem. I would be very happy at any time with any of you to talk at length in connection with that matter.

You will recall that the paper moves fairly rapidly into the kind of distinction that exists in our community between people who have access to earnings and people who have not. I have endeavoured to emphasize the kind of problem that has been emerging in our country and other countries, and the way in which it has such a major impact in relation to retired people, because they constitute a very substantial part of those who have not access to earnings and also because they live for comparatively long periods without such access.

I stressed in the paper the desirability of recognizing the necessity, if you will, of regular patterns of post retirement increases in income so that retired people can maintain a position in the community which is in harmony with that of the rest of us. In particular, I stressed the desirability of arranging for those increases in such a form that they are regular and flat, rather than systems of increase that are of a character of percentage increases in certain elements of their income, or even in all elements of their income.

In particular, I spent a lot of time on the possibility of moving toward an age-related old age security structure. I do not want to dwell on that at this point expect to mention two things. The first one is that further work which I have done since preparing the paper has strengthened my view that in Canada we could justify an age differential of as much as $3 per month per year per person in the old age security structure. This, of course, relates to material that the dominion bureau of statistics prepared in connection with the big population sample study in 1961, which has as yet not been published.

The second point, of course, is that since no other country has attempted to engage in age relationship in this form, except to the mild extent that Denmark grants five per cent increases when people reach age 80, I have wondered whether the thesis was sound because it had not heretofore been used. But on further analysis I find that a country must possess a combination of characteristics, which I think Canada has, that make this kind of action logical. As far as I have been able to tell, I can find no other country that has the necessary conditions precedent to consider the problem of age-related benefits as I suggested should be done.

When I come to my remarks about the Canada pension plan I think I should preface them by saying that I have never been opposed to earnings related benefit as such. In my studies of social security over the years I always have recognized that in certain areas, workmen's compensation, unemployment insurance and cash sickness benefits, earnings related benefits, are the only answer and they necessarily in those circumstances should be kept as high as is consistent with the application of good insurance principles. Admittedly, in those areas I do take the view that wherever it is practical to do so the government should take what I call the employer liability approach to the provision of earnings related benefits rather than to operate them through a state fund.

In my view, the priority for earnings related benefits in the case of retirement is relatively low and certainly does not rank ahead of the question of having an adequate and satisfactory flat benefit system not only for retirement but for other contingencies. In the area of disability and survivors' benefits, over the years my view has been that there is little or no priority for incorporating them in a governmental system except under conditions where the employer liability approach might be used, as it is on occasion in the disability field. I have had the feeling that for survivors and the disabled the flat benefit approach together with the readily available insurance contracts of various kinds presents a better solution. You will have noticed I have emphasized the desirability in the case of earnings related benefits for retirement of linking them as closely as possible to the earnings level at the ages close to retirement rather than to the totality of the covered earnings of the individual. This is on the score that the major problem facing a state or government or public authority is one of providing for logical and orderly transition from the earner status to the retired status.

I have stressed throughout the paper the desirability of avoiding all forms of percentage escalation. In my opinion, percentage escalation is not a good instrument in the case of any kind of benefit that can be described as of the windfall type that is not, in fact, paid in in an equivalent value form of the contributions. This attitude relates to flat benefits as well as to earnings related windfalls. On the other hand, I must emphasize I believe in what I regard as absolute escalation that is the provision for post-retirement increases in absolute dollar form, which in my opinion, serves the over-all purpose much better, having regard to the variations in the public benefits and also the variations in the individuals' private income levels.

Another thing I have stressed, without giving it a name—and I would like to give it a name now—is the importance in any system of avoiding even the appearance of what I would like to define as "high grading." By "high grading" I mean a situation where earnings related windfalls are supplied in whole or in part from individual contributions or from general taxation. It seems to me that as along as you have unpaid-for benefits that are earnings related, the system should be described in such a way that it is abundantly clear to everyone that these earnings related windfalls come from the employer only. I have suggested in the paper a double barrelled method of accomplishing this.

I have suggested that this clarity might be achieved by the process of incorporating an explicit component in the benefit structure which consists of the refunding of the individual's own contribution in equivalent value form. I also have suggested that the law should establish two separate accounts, one that has its inflow from individual contributions and the other from employer contributions. With the system proposed these two accounts would have equal input. And, I would think the administrative expenses might be charged to the employer's account. But on the output side, and, much more importantly, it should be abundantly clear that all earnings related windfalls are derived from the employer's account.

The question as to where refunds come from is different. Depending upon the attitude taken by the government the refunds of employees' contributions could come from their own account, but in that kind of accounting the clamour for contracting out might present a very difficult problem.

Madam Chairman, I have views in respect of several other areas that are not covered directly in the paper. I would be pleased to present them, or alternatively, to entertain questions concerning them. I will mention the headings. There is the question of portability versus uniformity, the question of integration versus contracting out, the question of the general effect on private savings of this plan, the question of the whole principle of what may be called financial interchange or actuarial equivalents, or as the British actuaries describe it, the "one community principle". This is a view that I indicated in the early part of the paper, that under conditions where you have payments in one direction and in the opposite direction occurring at different times; as long as there is an agreed upon equivalence in value these two can be regarded as offsetting each other. I have endeavoured to examine this principle and some of the problems related to the plan in respect of this principle, such as the problem of provinces opting out of the plan. If you desire later I will make some remarks in this connection.

Some of the other areas that I mention relate to the question of retirement tests or earnings tests and the desirability and principle of applying them to all windfall benefits, whether earnings related or flat. I have some views with regard to the question of excepted employment. I have some extensive views with regard to the grave problem which we face administratively in respect of what might be called legitimate overstatement of earnings. There are a number of different areas where this plan is going to produce earnings overstatements by individuals, admittedly with additional income tax. It must be remembered that part I of Bill C-136 is drafted in the atmosphere of a tax law and the Department of National Revenue normally does not mind people overstating their earnings, but under conditions where you have the equivalent of a negative marginal tax rate this becomes an awkward administrative problem.

Finally, Madam Chairman, I have one or two comments about the actuarial report as well as a comment in respect of its relation to the economic report. These are quite independent. Then, there is the compliment I would like to pay to Mr. Clarke, to Mr. Bryce and to all their colleagues in respect of these two documents. I think they are to be congratulated, and I think the government is to be congratulated for having people on its staffs who can prepare documents of the type of these two reports.

I think, Madam Chairman, I would prefer to leave any further comments because they may not be comments which the committee would like to hear at this time.

The only other point I wish to make is that in reviewing the Canada pension plan legislation I have continually asked myself the question why certain things were put in this bill as they were, why certain rates were used and why certain amounts were used. There has not seemed to me to be very much explanation why different kinds of things have been put into the bill. Of course, I have no difficulty in discovering where the different components came from, but I do find it difficult to understand why they should be tied together in this particular package for use in Canada under conditions where some of them may have been lifted out of different contexts from other countries.

I think that completes my preliminary remarks and I would be pleased to answer any questions which members may wish to put to me.

Mr. CHATTERTON: Madam Chairman, I for one would like to hear those other views of the witness before we start questioning.

The CHAIRMAN (*Hon. Mrs. Fergusson*): What is the feeling of the committee in this regard? Is it your desire that the witness give views on the subjects he has mentioned or do you think at this time we should move into the question period?

Mr. CHATTERTON: Madam Chairman, in my opinion if he did give these views at this time it would put myself and perhaps other members of the committee in a better position to put more intelligent questions.

Mr. ANDERSON: Are you referring to that point at which I indicated I have certain views in respect of other matters.

Mr. CHATTERTON: Yes.

Mr. ANDERSON: Well, I can do that. I will try to do it very briefly, just indicating the kind of views I have, and then if there are any questions in that respect I will elaborate on them.

The CHAIRMAN (*Hon. Mrs. Fergusson*): If that is agreeable to the committee, would you proceed, Mr. Anderson.

Mr. ANDERSON: In the first place, I will speak on the question of portability versus uniformity. It seems to me there is a great deal of confusion here. As far as I can see, uniformity means the process of making a plan consistent between the members of that plan at any one time, remembering that no plan, private or public, stands without change for long periods; that it is very rare to see a pension plan of any kind that does not go through alterations on various occasions. The United States plan is possibly a very good example; it is altered 1 very regularly once every two years, nevertheless at ony one time it is consistent as between its members and therefore it can be regarded as uniform. On the other hand, portability means the process of making sure that an individual who has successively been a member of several different plans can preserve the several pension rights which he acquires. It has never seemed to me that there is any important virtue in trying to make different plans uniform in order to assist portability. Portability is merely a matter of desire. I think almost any actuary in Canada, United Kingdom or United States will tell you that there are no problems about portability except the desire to achieve it, and it can be achieved quite independently of whether several plans to which a person has belonged are uniform or not; in any event they will not be uniform over a long period of time. If a man works in one plan during the first half of his working life and in another plan in the second half, there is not one chance in a hundred that these two plans will be the same because they are operating at different periods.

2 My second point is on integration and contracting out. If I may put it this way, contracting out is merely negative integration, or integration is merely negative contracting out; in other words they are the opposite processes depending upon which plan does them. All that is happening really is eliminating the overlap that may exist between two plans when the individual belongs to them concurrently. The process of getting rid of the overlap is one which can be carried out unilaterally by either plan or can be carried out very often by joint agreement between the plans, and this process rests entirely on what I mentioned earlier, the principle of financial interchange; that is merely exchanging an input at one point for an output of equivalent value at another point in time.

3 In connection with the problem of the provinces, a province that wished to establish a pension plan by no means needs to opt out of the Canada pension plan as long as it is going to provide benefits that are at least as great as what the Canada pension plan contributions would buy. Of course, this means a very low level of benefits in the transitional years and a modest level of benefits at all times. As long as this province is going to establish benefits at that level, it can integrate very readily just like a private plan does. It can integrate by saying to the individual, "We drop your contributions to our plan by the amount of the Canada pension plan contributions, and correspondingly we reduce the benefits in our plan by what those Canada pension plan contributions would buy if they had been put into our plan." It is a perfect example of financial interchange. However, under the conditions of section 94(a), granting concurrent rights to the federal government and the provinces, it is also indicated that if there is a priority position, it is the provinces that have it.

Therefore, the thing that worries me is that the Canada pension plan is not going to say to a province, "If you put in a plan and we have this plan, let us decide who is going to do the integration, whether it is more convenient for you to do it or for us to do it". This will have no financial effect on either plan; it does not even affect the question of who holds the money because the Canada pension plan will let the provinces hold the money in any event. I do not see any reason why the provinces need to be worried about the question of opting out in the fashion in which the Canada pension plan suggests.

There were two very good reasons for Quebec going her own way: The first one was practical. Quebec has a lower ratio of retired to active people, and presumably will continue to have this lower ratio for a good many years to come. Therefore, the funding formula is not satisfactory; that is, the Canada pension plan allocation of funds to the provinces would not be satisfactory for Quebec because she would not get as much money as she does by running her own plan owing to this lower ratio which will exist for a long time. Secondly, Quebec has a psychological problem. I am very sympathetic with it. If I had been in Mr. Lesage's position, I most certainly would have decided that I would establish my own plan because it is more in keeping with the over-all philosophy that Quebec has adopted.

In relation to retirement tests, I mentioned that I thought they should be applicable to all windfall benefits. I feel that you should re-examine the question of whether or not the retirement test should not operate in the field of disability and survirvorship benefits as well as prior to age 70 in the earnings related pensions benefit. I think you must look at the form of the retirement test. One particular point is that in Canada our pension benefits are subject to income tax; in the United States they are not. All their old age security benefits are tax free. This means that in Canada a taxpayer subject to the retirement test is not as severely punished as a non-taxpayer. You are going to be accused of the fact that a person who earns money after retirement and becomes subject to income tax, if he is a taxpayer, can lose only his benefit less marginal tax, whereas a person who is not a taxpayer can lose the whole benefit. I feel, in fairness and in self-defence, that the form of the test should be altered on that score. I am somewhat doubtful whether the form of the test is satisfactory, having regard to the much greater spread in the levels of benefit that will exist in Canada as compared with the spread in the United States. (4)

Our benefits under the Canada pension plan will range from virtually zero up to the maximum, whereas in the United States the benefits vary only between the minimum and the maximum. Under these conditions one wonders whether the person with the small benefit under the Canada pension plan should be subject to the test at the $900 earnings level, or whether he should not be allowed to have greater earnings before the test applies. For example, one might say that the test would not start to operate until the point when the man's earnings plus his benefit are equal to, say, $1,500, and only beyond that would the retirement test start to apply.

On the question of legitimate overstatement of earnings, I am really bothered about this. I look at Taxation Statistics and I find that our self-employed people in Canada are currently claiming about $10 billion in deductions from gross income. I am not talking about exemptions here, I am talking about deductions, which include about a billion dollars in cost allowances. The atmosphere of the Department of National Revenue is such that the taxpayer has every right to delay taking deductions. He can always defer them and say, "I will not take them this year; I will take them next year." (5) He is told he can do this in connection with the capital cost allowances. Under these conditions self-employed people are likely to tend to overstate earnings, in the early years of the plan at any rate, and if they are close to retirement, in order to secure maximum benefits, and having delayed taking these deductions, they will then take them perhaps in the 65-69 age range in order to avoid having the retirement test applied to them. Perhaps we are content to have this sort of thing happen, but I think we should at least realize that our own tax laws are going to permit it to happen, and we should examine whether or not it is our intention to have the system operate this way. If it is not our intention, we should do something about it. There are other areas which I do not wish to mention. I just mentioned this one as an example, but some other examples are equally valid.

Hon. Mr. McCUTCHEON: You mean you do not want to give people ideas.

Mr. ANDERSON: Let us put it that way. I would be very happy if any member of the committee wished to hear some of these other examples of possible overstatement of earnings, but I do not think the committee is very much interested in having them on the record.

In the case of excepted employment, I am really worried about the way in which the act, in a cavalier fashion, says "If we cannot tax the employer, we exclude the employee". This does not seem to me to be a fair process. I would have thought that it would be much fairer for the act to say "If we cannot tax your employer, then your wages are self-employment income." I trust that you may see fit to question Mr. Myers about this point this afternoon because it is my understanding that this is exactly what the United States does in a number of cases of excepted employment. For example, if I am not mistaken, in the case of a United States citizen working for the Canadian embassy in Washington, Uncle Sam cannot tax the Canadian embassy, but he goes to the United States citizen and says, "you are self-employed for the purposes of the act, you file your wages in your tax return and you are covered"; it is not an option, it is compulsory.

With regard to the actuarial report I have been a little disturbed that in the form of the long term forecasts suggested it is not possible for the actuary to give to you, to me and other interested parties any kind of a summation in respect of costs of the plan other than the long string of ratios of benefit payments to earnings that extend through into the next century. When I say not possible, I say this in the sense that in five of the six forecasts, as I understand it, one cannot in theory construct the equivalent level premium. Even if one could,—and one can in the first high cost three per cent forecast—level premiums cannot mean much in a system like this; they are completely unrealistic and nobody pays much attention to them after they are calculated. However, over the last several years it has seemed to me there should be some method of assembling a great mass of figures like this in such a form that one rather meaningful single statement can be made about them. I have in mind a method which I have studied and which Mr. Myers, I believe, has described as the "frozen initial surplus" method; but I do not think the committee would like to have it described in detail. What I would like to do is ask whether I might have your permission or whether Mr. Clarke might have your permission for us to discuss it. I have not felt free to talk to Mr. Clarke for the last couple of years, but I would be pleased to be able to talk to him on a particular subject if I were authorized to do so.

I have some wild worries about the immigration forecasts, but they are mild because the assumption is so low. If the forecast had a larger immigration assumption, I would worry about it very much on two scores; first, because the pattern of immigration is such that the immigrants tend to be young and when they land in Canada, according to Mr. Clarke, they have a birth rate at that time of approximately twice that of the domestic population, and also since they are a bit younger than the domestic population they have an immediate rate of natural increase which is close to three times that of the rest of the population. This means that if the immigration assumptions were large we would in effect be importing a profit into the system which in a sense may be spurious because of the fact that the power to compel people to do things has not yet reached the stage where we can compel immigrants to come to Canada nor has it yet reached the stage where we can compel people to stay in Canada. Mind you, this is an argument in semantics, if you like, but I am a little afraid there is some question of the propriety of making an immigration assumption for an open group forecast of this kind.

I asked Mr. Myers about this and he said the immigration to the United States is so low they ignore it. He said they do not even know what part of their population may consist of immigrants. I leave this matter with you, Madam Chairman, to see what you think.

With regard to the problem of the distribution of the Canada pension plan benefits between age groups, as the system moves towards maturity, I recognize that Mr. Clarke's forecasts are in such a form that it is not possible to identify accurately the proportion of beneficiaries in each age group at different stages of time, nor the average level of their benefits. However, it is possible to calculate for each age group or each year-of-birth cohort—certainly for each five-year cohort— the average benefits per cohort member. Mr. Clarke tells me that if, for example, you ask him for the year 1980, in respect of the people then aged 75-79, what would be the average Canada pension plan benefit per person in that age group, he could give you this and do it, I expect, with reasonable facility.

I happen to be quite interested in these figures, because one of the points I have been trying to bring out is that the Canada pension plan will operate in such a way that literally at all times in the future the lowest average benefit will be paid to the oldest among the retired, and I think it would be most helpful to see how these averages are going to move; that is, whether in 1990, say, we will be in a position where there is a very much larger average benefit per person in, say, the 70-74 group than in the 85-89 group, and if so is this something that is satisfactory.

There is one other point, Madam Chairman, and this one really bothers me. I might preface it by saying I wish to make a reference to the economic report first and say that I have been a little worried about whether the problem of analyzing how the shifting will occur is not likely to be affected by the fact that the Canada pension plan introduces a change which is of a very pervasive and wide-spread nature rather than the kind of change in an economy which will affect different people in different ways. The introduction of virtually a universal payroll tax seems to me to have a different impact than the kind of changes which affect some employers to a large extent and other employers to a smaller extent. Correspondingly I wonder whether the fact that the fund is distributed among the provinces and therefore will be used in concentrated and more or less co-ordinated form may not have different implications from the situation which would exist under conditions where there was a greater diffusion of it through the capital markets.

The place where I wanted to bring the two reports together is a peculiar one. You have proposed that old age security will be made available at younger ages. Within a few years a person at age 65 will be able to get $51 a month at age 65 in lieu of $75 a month commencing at age 70, and presumably if there is a change in old age security level, this change will occur in proportion. First there is the minor point in respect of whether the escalation—the price indexing—of old age security benefit does not introduce a different relationship to the ratio of 100% to 68% or $75 to $51. I have the impression, if my arithmetic is correct, that the promise of escalation at an estimated rate of 1½ per cent per year alters the ratio between these two options, but nothing seems to have been said about this point.

The main point is that in Mr. Clarke's earlier report he indicated the cash flow effect of allowing old age security benefits to be taken earlier. In his earlier report, which extended the short term forecast through 1974,—and with extension to 1975 which was easy to make—and then multiplying up to the $75 level from the $65 level, which also was easy—it appeared that by the end of 1975 the extra cash flow due to the use of the option would be about $1,800,000,000. From his longer term forecast it looks as if this aggregate would have increased to somewhere around $2½ billion before it finally levelled off; that is, from that point on there would be no difference in the cash flow under the two options. You would be paying out the same amount of money if everybody had taken out benefits at age 65 as you would if everybody had taken them out at age 70. The $2½ billion is a reasonably significant amount even if spread over a period like that. Under the new proposal there are some mild alterations in these assumptions if you exercise the early option, but on the other hand the escalation is involved too. I would guess that in the year 1985, the last year of Mr. Bryce's model, there would be an additional cumulative cash flow from the old age security fund of somewhere around $3 billion as a result of people taking the earlier option, and perhaps by that time the problem would have more or less finished off and you would not worry about it any more.

Here is what bothers me. What is this cash flow? We have said this is taking an actuarial option—virtually that.

You adjust your benefit to $51 a month, to be worth $75 a month, maybe with zero interest or something of that kind. It is pretty close. When I asked the government annuities branch for figures on their actuarial reductions, it was very close to this. Now I do not think an actuarial equivalent represents a charge on the expenditure side. When a civil servant retires and asks for an optional superannuation account annuity which is different from the normal one, the incidence of his cash payment—he may be getting a survivorship benefit or a guaranteed benefit—does not affect the government's revenue and expenditure position because all he is doing, as I understand it, is to exchange two equal things.

As far as I can see this $3 billion does not represent an expenditure but in fact merely represents a prepayment of future obligations, and it should be accounted for as such. When I look at the two reports, I cannot tell what is being proposed. Mr. Clarke is completely silent. He says nothing about the age adjustment of old age security, although in his first report he gave it in elaborate detail. But the assumption as far as I can tell, unless I am mistaken, is that it is Mr. Clarke's understanding that this will be treated as an actuarial option or a cash flow problem. Well, if this is the case, Mr. Bryce ought to have recognized the big extra cash load on the national account basis, and that the use of the actuarial option will affect the surplus of the government because cash payments of this kind are treated as transfer payments. No matter how they are being handled. They appear in the national accounts at the time the cash flows out.

Unless there is the queerest coincidence, that according to Mr. Bryce's forecast the total government surplus (excluding the Canada pension plan fund) over the years should exactly equal the upward movement of this cash load as it comes in through the years—unless that happens, there is something wrong with those two reports when you put them together.

Mr. Bryce has already said—and I agree with his assumption—that for the purposes of the model we assume, excluding the Canada pension plan, that the government surplus, that is the national accounts surplus for all levels of government, will be taken as zero during the period. But if he is saying that he implied that for purposes such as the acceleration of old age security the governments will run a surplus of $3 billion through that period, and, therefore, he has not taken it into consideration, then those two reports do not jibe.

I am sorry to have taken up so much time in bringing this matter to your attention, but I am a great supporter of the government, and I do worry about these things.

Hon. Mr. McCutcheon: It is nice to have an objective approach.

Mr. Anderson: I am not bringing it up without the government's foreknowledge, because I raised it with certain of the ministers over a year ago. On the other hand, if the government proposes to charge this $3 billion against the old age security fund when it is merely the exercising of an actuarial option, and therefore proposes to raise $3 billion more in the old age security fund by taxation, this amount, in my opinion, has a much greater priority in other directions. So I think at least we should be told that this is to be the proposal. I do not know if there is an anomaly. Either the two reports do not jibe, or alternatively the proposal is to regard these accelerations as an expenditure rather than as a financial interchange. But if it is to be an expenditure it would seem to me that if Mr. Clarke's report relates to the bill as a whole, and I assume that it does, you should ask him to give you a run-down as to what the extra outflow is going to be under the amendment to the Old Age Security Act which is in the bill, which is creating these accelerated options.

If they are to be treated as an expenditure, I think you will want him to estimate what it will amount to, but if not, it will be a question of a little readjustment, and I think you should ask Mr. Bryce whether or not his model going through to 1985 should not be adjusted to allow for this additional $3 billion outflow. This has puzzled me very much, and I am sorry it has taken so long, But I hope it puzzles you just as much as it has puzzled me.

I think those are the only points I want to make at this time in regard to these matters.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you very much. Are there any questions. In any event I have a list. I have Mr. Macaluso.

Mr. MACALUSO: I pass.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Next I have Mr. Cashin.

Mr. CASHIN: In defining income transfers you suggest that veterans' allowances and workmen's compensation should be excluded.

Mr. ANDERSON: Yes.

Mr. CASHIN: Is that a stand which is generally taken?

Mr. ANDERSON: No, it is not, but I would comment on it: In the first place, with respect to workmen's compensation, I have taken the view that in Canada it should be excluded on the score that in a number of other countries workmen's compensation is conducted under the liability approach by private carriers, and therefore is not a government function. In Canada it is really a provincial monopoly. But it could be likened to the case of a crown corporation, so it does not seem to make sense to regard it as a transfer payment. If you gave a workmen's compensation board a slightly different structure and said that this is a crown corporation which provides workmen's compensation, then we could take it out of our transfer accounts, because we could then say that it was not a transfer payment.

In the case of veteran's benefits, I am inclined to make a distinction between veteran's pensions and veteran's allowances. Veteran's pensions are based on a disability concept and are really something that has been service connected, which goes back to the man's employment by the government as a member of the military forces. And I think as far as veteran's pensions go they are quite akin to workmen's compensation; that it, they are payments by virtue of the fact of the man having been employed by the government, which employment has caused the creation of the disability.

On the other hand, in the case of veteran's allowances, I would agree that preferably they should be in the transfer payment area. My further thinking leads me to this conclusion.

Veteran's allowances are to some extent means tested, if you wish, and certainly I think it can be said that the effect of the veteran's allowance payment has a direct impact on other assistance programs. In other words, if they were not there, then our other assistance programs would likely be more or less that much higher. Therefore, I feel that veteran's allowances should be classed as transfer payments, and I think that veteran's pensions could be regarded as deferred compensation.

Mr. CASHIN: You refer in your reasons for doing this to the practice of the international labour office and the European common market.

Mr. ANDERSON: When one makes international comparisons it is very desirable to try to get a denominator which is as common as possible.

Mr. CASHIN: In the case of the European common market or of the international labour office, for the purpose of international payments do they make the same distinction?

Mr. ANDERSON: There are two general patterns which are in use. One method is to keep them as close as they can to the pattern used by the I.L.O. The other is a pattern used by the people who keep the national accounts in the various countries. In both cases they have tried to keep patterns which are uniform throughout the world. I understand that they have tried to make the two sets of patterns as closely consistent as possible, but this does not mean that in a particular country, when it has a particular situation, that the general pattern which is used to determine what is occurring in different countries is necessarily the right pattern for it to use.

An example I mentioned earlier is one which exhibits the inconsistency of what is occurring. When a workmen's compensation plan is privately conducted by insurance carriers it does not appear as a transfer payment in the national accounts. But yet, in the I.L.O. comparisons my understanding is that workmen's compensation payments are classified as social security benefits, whether they are run by the state or run by private carriers. This is one of the problems of consistency that you run into. I think you must try to cope with the problem when you are studying your own country in the way which best seems to fit the circumstances.

Mr. AIKEN: Mr. Anderson, you have covered a good deal of ground, and we will all be very happy to cogitate after we read the evidence. There are several points I would like to have cleared up, however.

Mr. ANDERSON: Are you using the paper, Mr. Aiken?

Mr. AIKEN: No, I am using your stated comments of today.

The first interesting matter that I would like to discuss is the question of two accounts, or the so called windfall benefits. You suggested there should be an account for employers and an account for employees. I would assume from that that a self-employed person would be classified as an employee. Would this be so?

Mr. ANDERSON: I suggested that since our self-employed people are brought into the scheme on a basis of trying to make their position as consistent as possible with the employee, you would take the self-employment tax and break it in the same way as you broke the other tax and say "you are paying this part of the tax as an individual and you are paying the other part because you employ yourself." So you put this tax, broken in the same way, into the two accounts.

Mr. AIKEN: He would pay half and the employer would pay half?

Mr. ANDERSON: Yes, if the taxes are equal.

Mr. AIKEN: Then do I understand that the logic of doing this is to avoid a situation in which individual employees who may have a smaller benefit rate would in effect be paying the windfall to those who have a larger benefit rate?

Mr. ANDERSON: If you leave the system the way it is now; let us say I am lucky enough to get the full $1,250, the $104.17 a month, and the escalation, according to my calculations at the stage where I get it my employer and I will pay for about six per cent each. The other 88 per cent will be coming from someone else and I will break the 88 per cent because the system provides equal contribution. I will have to say 44 per cent is coming from other individuals and 44 per cent from the employers. I do not want to be put in the position where I am collecting 44 per cent of my benefit from the contribution of other individuals. I do not want to be accused of this. I do not mind collecting from the employers, but I think I am entitled to have the system described for me in such a way that it is clear that other individuals, some less fortunate than I am, are not having their contributions diverted to pay for part of my benefit. This has nothing to do with substance; it is a question of form.

Mr. AIKEN: I assume from this that the system presently proposed would bring about some unfairness or the appearance of unfairness to persons in the lower contribution bracket.

Mr. ANDERSON: That is right. I do not say that there would be any unfairness as long as you can demonstrate to me that for all time to come there will be enough employer money flowing into the system to provide for all the windfalls. I am describing windfalls here as benefit over and above what the combined contributions would purchase.

Mr. AIKEN: Have you made any estimate on the fact that the employer money would be providing the windfall, and how much?

Mr. ANDERSON: As I think I mentioned in the paper, my own estimate was that even long term, on reasonable assumptions—and I suppose the intermediate four per cent forecast is about the most reasonable or most likely of the assumptions—it looks as though the paid-for benefits, the benefits that can be bought from combined contributions, will be in the order of about 40 per cent of the total, and the windfall therefore will be about 60 per cent of the total. Even long term, if the employers are only putting in 50 per cent of the total the people who belong to the system are going to say, "Well, in some way or another my contributions are being used to help provide the windfall."

It is very simple to run separate accounts. My own employer has done this for years. We have always said we must have a separate account in our system for the employee contributions. It will be there and identified and segregated. In addition to putting it in as a separate account, we go further and make sure there is an explicit benefit component which will consist of what the employee contributions will buy. I think it has been described in your committee as a composite system. We say to the employee that we as the employer will provide you with the final average formula benefit which we will pay for. Then we say that, in addition, you will contribute and you will get what your own money will buy.

As you, Madam Chairman, will remember, I was involved in getting the Canadian Association of Social Workers to adopt this kind of pattern across Canada for a portable pension scheme, and it is a pattern that seems to me to work better than some of the other pension formulae I have seen.

Hon. Mr. MCCUTCHEON: It does imply at some stage a differential between the rate of the employer and the rate of the employee contribution.

Mr. ANDERSON: Yes. May I take a minute on this because it is relevant to the point, Senator McCutcheon?

At my last count we had 51 independent social security systems around the world that provide earnings related retirement benefits. Only two of those systems adopt the philosophy that the employee should put in as much as half the total, and those two systems are in the United States and the United Kingdom. I think there are 14 systems that have said that in order to clear up this problem they will supply the money from employers only.

I think it is worthy of interest that the two most recent earnings related schemes that have been adopted, Sweden and Finland, have both taken this attitude: "We are not going to ask for individual contributions. We are going to make it clear that the little fellow is not paying for the big fellow." But even without abandoning contributions from employees—which I think would be preferable in Canada but I conclude is too late to think about at this stage—even where you do have contributions from employees, most of the countries have them at distinctly lower levels and, as far as I can tell, they have them at a sufficiently lower level that the employee's percentage of the total input will never be any greater than that of the maximum paid-for benefits.

Perhaps I might state this the other way round. They seem to adopt a pattern where the employer share of the total input—remembering that some of them have government contributions—will at all stages be greater than the ratio of the earnings related windfalls to the total benefits. If you can design a system in that way, all well and good.

Let me put it in another way. If that is the kind of concept you want to apply, what you would do is to say that through transition the employers will pay 90 per cent and the employees will pay 10 per cent, and then as you go along you will alter this ratio so that eventually, when you get to around the year 2000, you will be on a 60-40 basis, the employers paying 60 per cent and the employees paying 40 per cent.

The way in which we are designing this system is this. We are saying that the tax is on the employer; that is, the contribution is payable by the employer. Then we turn around, just as they do in the United States and just as we do with unemployment insurance, and say "You have a statutory rate of recovery up to 50 per cent. We are not levying the tax directly on the employee."

I have read your evidence on this. The employee is not being taxed; he is being subjected to what you might call a statutory right of recovery of a defined portion of the tax that is being levied on his employer. So it does not seem to me that is is necessarily the case that at all times you should have to take the view that the division is 50-50. However, whatever is the division, I think the position becomes much more clear if you say that we have two separate accounts; into one we pay what is recognized as the employee's share and into the other what is recognized as the employer's share. The other thing we do is to make sure that any earnings related windfalls can only be drawn from the employer account. They can never be drawn from the employee account. This has nothing to do with the problem of how you invest the money. You do not have to have separate investment funds to have separate accounts, as almost anyone in the life assurance business will tell you.

I am sorry to have taken so long, Mr. Aiken.

Mr. AIKEN: Some employers, employers of smaller groups of employees, have told me that in effect this is really what is going to happen; they will be paying their own half share in any case and the employee's half share will in effect amount to an increase in wages and the cost of the goods, although indirectly it will come from the employer and from the public in the increased cost of production.

Mr. ANDERSON: I will go further than that with you, Mr. Aiken. Just the other day I talked to the pension fund manager of a large plan and one that has a very lush pension scheme, if I may use that word. When I say "lush" I mean it is a better scheme than the civil service scheme. I was asking him what he was going to do about the Canada pension plan. He said, "Well, the company is going to pay the taxes. We are going to pay the whole 3.6. We are not going to alter the employee's scale. All we will do is say that we will put in the 3.6 and we deduct from your pension what that 3.6 would buy if it went into our plan." I asked him whether he thought this was very good education for his employees and he said, "Well, it's just a nuisance to deduct".

Mr. AIKEN: He is not in the business of educating!

Mr. ANDERSON: No. He went on to say, "We are in the position that we want to fund our plan to a greater extent than we are now doing, but unfortunately we have not been able to get approval of higher input; this in effect gives us approval for higher input because we will put cash into the Canada pension plan, but we will be relieved of liability for that cash after the employees retire. So we now have a higher degree of funding."

In the case of my own employer, for years we have had in our plan—because we operate in other countries—the provision that if and when a government desires to levy taxes for the purposes of a pension plan we just reduce our contributions by the amount of those taxes and reduce our benefits by the actuarial equivalent of the reduction.

Hon. Mr. McCUTCHEON: By the actuarial equivalent of what?

Mr. ANDERSON: What they would buy if in our plan.

Hon. Mr. McCUTCHEON: But, you still give the benefit of some windfall?

Mr. ANDERSON: They get the benefit of all windfalls. We have never taken any part of the windfall from an individual. On occasion what we have done is modify our plan for new entrants where a new government plan is in operation. We say to ourselves, as far as new entrants are concerned, we will redesign our plan for them in the light of the government plan, but with existing people we say we are not interested in windfalls. We do not want to make a profit out of integration but we do think we have a satisfactory plan with a satisfactory cost level, so we reduce our contribution by the amount of the tax and reduce the benefits by what that reduction will buy. It is as simple as that.

Mr. AIKEN: Thank you, Mr. Anderson. I had other questions but I will wait to put them.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Will you proceed Senator Croll.

Hon. Mr. CROLL: I found it very heart-warming this morning when I heard your remarks about the way we are designing this system.

Mr. ANDERSON: Yes.

Hon. Mr. CROLL: But, there was more than that to its because on December 22, you are quoted as having said that: "Everyone has accepted the Canada pension plan although some are not yet willing to admit they have. I have become reconciled to it and all that can be done now is to work on the details."

Mr. ANDERSON: May I correct that quotation.

Mr. KNOWLES: You are just like the rest of us.

Mr. ANDERSON: I want to correct only the date.

Hon. Mr. CROLL: Well, that is the date.

Mr. ANDERSON: I made that remark to Mr. Ronald Anderson two or two and a half months earlier.

Hon. Mr. CROLL: But the point is just as good today as it was then; in fact, it is better. But, I am looking for some information and I am looking forward to obtaining it from you. I was concerned with the aspect of income maintenance which you covered in your brief. You mentioned about increasing the income in retirement and benefits graded by attained age. These are the two aspects you dealt with.

Mr. ANDERSON: I did not catch the first one.

Hon. Mr. CROLL: You set out in your brief the income maintenance, which was to be maintained, achieved or activated by increasing the income on retirement, and you have given us a paragraph in your brief in that connection. It is at page 4, I think.

Mr. ANDERSON: Which copy do you have, the mimeographed or the printed copy?

Hon. Mr. CROLL: I am sorry, it is at page 5. You mention increasing income in retirement. Then you went on to page 7 and you have a paragraph on benefits graded by attained age. Those are the two. In light of your attitude toward this plan which, of course, I appreciate very much, do you see any way that the age graded social security benefits can be revised or that the two plans can be complementary?

Mr. ANDERSON: Quite. Let me put it this way to you. If you can satisfactorily solve the problem of post-retirement increases for people already retired and make sure that people in retirement will have their incomes kept up to date—if that can be solved satisfactorily—then, quite naturally, you approach the problem of what do you provide them with initially. I happen to feel that as far as earnings related benefits are concerned, it is likely that most of the problem can be handled more satisfactorily without government action. There are very many people who feel differently; they say that more government action is needed in this area. So, my view has been that you take government action that relates to the earnings close to retirement because it is those earnings that are creating this problem of transition from active life to retirement. I will go farther and say you need not provide pensions for this.

For example, I find when I examine the Canada pension plan that the benefits provided through transition are the financial equivalent of saying to a man "for each year of coverage we will give you six months retirement leave at two thirds of your pensionable earnings". It means that if a man has 10 years of coverage he gets 60 months retirement leave at two thirds of his pensionable earnings, which, of course, means this carries him to 70, when he gets on to the old age security structure. His employer can defer the private pension so it will not start until age 70. This is one of the ways in which this problem for the individual of transition from activity to retirement could be handled satisfactorily by the government. They would say: "You have been earning so much close to retirement; during the post-retirement period close to that retirement, we will give you these extended retirement leaves." You would be delivering the same financial effect as the Canada Pension plan should an individual come along and take the retirement leave money in the form of a life annuity. But, this might be a more satisfactory type of procedure for people than insisting they have an earnings related pension.

Hon. Mr. CROLL: I gather from reading these paragraphs you mean something more than that, and I am not sure that I know what you mean.

Mr. ANDERSON: I think the problem that may be bothering you, senator, is the overtone, that with the progress in our community that is occurring, the average age at which work is being performed is about 39 and the average age at which retirement is enjoyed is approximately 74, and during that interval wage rates and spending roughly have quadrupled. I was making the point that an individual who wants to maintain the same relative position in the community when retired as he does when active must achieve pension levels that are away beyond anything that we have been thinking about so far either at the private or public level, or the two combined.

There is a statement at the top of page 5 that in the case of a typical worker with a dependant spouse who has enjoyed average wages and has raised a normal quota of children; in such a case retirement income will have to average twice the career average wage in order to maintain the same relative consumer spending position during retirement as that which obtained during the working years. This is what I was talking about. I am merely emphasizing the point, Senator Croll, that no matter how much we can do privately and how much we can do publicly I still do not think we are going to fulfil these goals, which are legitimate goals.

Hon. Mr. CROLL: I think you have covered that now. Earlier in your statement you said that the only answer is the escalation of the earnings index. Is that right?

Mr. ANDERSON: No.

Hon. Mr. CROLL: All right. In respect of price index and earnings index which do you suggest or which do you support, and for what reason?

Mr. ANDERSON: I would not use the price index for any purpose, and if I was going to use it I would not use this one. I say that on the authority of the Dominion Bureau of Statistics, who have said this is not the correct one to use for expressing incomes in real terms.

Hon. Mr. CROLL: But this is a method very much employed in other countries, particularly continental Europe.

Mr. ANDERSON: But, I am not sure what price index they use.

Hon. Mr. CROLL: Neither am I sure.

Mr. ANDERSON: If I were going to escalate on price I would say that one should use what they call an implicit currently weighted index, the one used in national accounts, and apply it not to consumer expenditure but to the kind that retired people engage in. That is academic. I think you have to do more than merely correct on price. Mr. Knowles has made this point within the committee. He said the upward movement in the standards of living is more important than the upward movement in price. They are more important in magnitude and from the point of view of the individual. We hope we are going to be able to keep prices from increasing but, on the other hand, hope that we will be able to enjoy a very rapid upward movement in our standard of living, and we should have some method of adjusting all of this so that retired people can participate in this upward movement in the standard of living.

Hon. Mr. CROLL: Is it your suggestion that we use escalation by earnings?

Mr. ANDERSON: It is almost exactly that. I suggest that the basis of escalation is, in effect, by earnings or, alternatively, by total consumer spending per person, but these two have almost exactly the same meaning because there is a ratio of long term stability between spending per person and earnings per worker. May I state this in simpler form and one that appeals to me. If you look at the series of earnings per capita, that is, take the total of earnings in the country and divide it by the population this is what the earnings would be in Canada if they were all divided up equally. If you look at that series, the movement in the series indicates the way in which retirement incomes must be moved. That figure for last year was $110 a month, and during the post-war years it has been moving up about $3 per month per year per person. In effect you say that if the increase in earnings in the country were equally distributed among everybody in the country this is what you would get as your share, and so, since you are no longer in the position of having access to earnings, we see that you do get it. It is almost as simple as that.

Hon. Mr. CROLL: I want to ask you one more question. You are so knowledgable on this matter that I think you can answer it. In your conclusion you say:

> Finally, may it be suggested that Canada should not copy pension patterns.

I will not read the rest, not that I disagree with it but it is not so relevant to what I want to ask you. My question is this: Is this something that has been done before? What I mean is what we are doing now, is this something that has been done before? What other countries have combined it in this way? What other countries have taken the flat rate and combined it with the pension rate for the purpose of making provision for its people?

Mr. ANDERSON: The United Kingdom has done it in this way.

Hon. Mr. CROLL: The United States did not have a flat rate; the United Kingdom had a flat rate. Did they add the pension aspect to it?

Mr. ANDERSON: They added an earnings related supplement to their flat rate.

Hon. Mr. CROLL: When?

Mr. ANDERSON: I think it was in 1958. This is what Sweden did around the same time, they added an earnings related supplement to their flat rate, and so did Finland recently.

Hon. Mr. CROLL: You say there is a precedent for what we are doing?

Mr. ANDERSON: There is a precedent for the principle of adding an earnings related supplement to a flat rate benefit. I think the United Kingdom, Sweden and Finland are pretty good countries to look at for precedents. In particular, if we adopted Finland's approach, we might have had this in operation by now.

Hon. Mr. CROLL: We have a different problem in this country from what they have in Finland.

Mr. ANDERSON: I have found by experience that the things the Finns do they do very well.

Mr. KNOWLES: Madam Chairman, I would like to direct my first question to what has been referred to as the philosophical basis of Mr. Anderson's paper. I realize that any attempt to oversimplify such an important statement is very difficult, but would I be on the same wavelength at any rate if I were to ask you, Mr. Anderson, whether you feel that the wages and salaries that people in our society receive do not necessarily reflect their contribution or their entitlement and that we are on good ground in going in for redistribution of income, and particularly on sound ground in trying to do that in the field of old age retirement?

Mr. ANDERSON: First of all, may I say, Mr. Knowles, that when you ask whether we are on the same wavelength, you and I have been on the same wavelength for years except that neither one of us has wanted to admit it.

Mr. KNOWLES: Thank you.

Mr. ANDERSON: The point you made is quite correct; we have the sort of economy that pours its productivity gains out through the earnings stream. Unfortunately, not everybody participates in the earnings stream. The most unfortunate group are the people who go for long periods without participating in the earnings stream. Socially we must find methods of putting them in the position and keeping them in the position where they would be the equivalents, if you like, of the dependants of earners, if not earners themselves. If we were still in the kind of old patriarchal economy we had, we would not be worried about this problem because the elders, the grandfather and so on, would be living with their children and thereby participating because their children are earning money. This is not the way in which we live nowadays. These people are cut off, and there must be a method of keeping them in step with the rest of us.

Mr. KNOWLES: You and I agree that in the attempt to provide adequate or even generous standards of living for old people we are not indulging in charity or trying to give the economy a ride, we are doing a sound, sociably desirable, thing.

Mr. ANDERSON: I might put the latter part of your remark in another form. What you are really looking at in any age group is not the destitute and not the wealthy. You are looking at the mass middle majority of the people. These are the people that have constituted the core of our working force. If you want to define it in other terms, I would say there are 25 per cent at the bottom of the income pattern where in general the needs tested benefits are about the only satisfactory solution. At the top there is another 25 per cent that are reasonably well off. If they have redundant flat benefits, we can arrange to see that they are reduced by income taxes. It is these people in the middle, the mass middle majority, who really constitute the core of the nation and who move to retirement under conditions which, if you do not do what you and I are talking about, will leave them standing still. My own opinion, of course, is that if you start out with this mass middle majority in the flat benefit type of structure you should ensure that it will increase as people get older. Whether we do it the expensive way in which we have done it over the last 12 years or do it by a method that I suggest which is much less expensive and much more sure and efficient, I do not care, but I feel we are going to have to do it. Every country has had to do it, has found that it has had to adjust the benefits of the people who have been in retirement for long periods. They may do it automatically or by an index. They often do it by legislation. Even countries that have index adjustments often have to legislate because indices do not do enough.

In general the upward movement of the average income of retired people born at the same time must be very close to the upward movement of the average consumer spending per person; this is the level of the upward movement that has to be carried through these long retirement periods. The question of whether each person enjoys an equal amount of movement or whether in some way you use percentage escalation on some or all of their other income is a different one. I take the view that among the people in the same age group the ones that have the lowest private incomes are likely to have declining private incomes after retirement, whereas the ones with higher private incomes are likely to have an increasing level of private income after retirement. I therefore think that the right answer is not to engage in a percentage escalation, and the best answer is to provide level flat increases for this mass middle majority because it is more in keeping with the objective we want to achieve.

Mr. KNOWLES: Maybe I should now stop speaking while I am winning.

Mr. ANDERSON: Do not forget, Mr. Knowles, that while you and I may agree on what to do, we may disagree on why we do it.

Mr. KNOWLES: So long as we do it it is fine.

I will be very brief. I will not go into my feelings about your desire to see the pension increased year by year. I think it is an excellent statement and I hope we get to this at some time.

I would like to ask this question: What about the base? You do propose in your paper $3 increases as people go up from the age of 70 to higher ages. What about the $75 base?

Mr. ANDERSON: In effect what I have proposed—I do not think I stated it explicitly in this way—is that there should be a part of the structure that provides $3 per month per year over and above some specified age. This might be an independent component of the structure, but in the light of that independent component you now look at the question of what are the benefits you have to provide.

Mr. KNOWLES: You would agree that the 73 year old this year should get a certain amount because he is 73, but if he is 73 years old 10 years from now he would, in the light of our philosophy, get more.

Mr. ANDERSON: Not necessarily, because the 73 year old 10 years from now can be expected to have brought into his retirement a private income level about 50 per cent higher.

Mr. KNOWLES: I mean more in totality.

Mr. ANDERSON: Oh, yes, more in totality but not necessarily more from the government.

Mr. KNOWLES: One of the things we may have to do is to adjust both or all the components of the retirement program.

Mr. ANDERSON: Look at it this way: From what evidence I can gather, the private incomes of each age group upon retirement will remain approximately level while they are retired. When I look at these very high age groups and examine their private income after deducting their pension I find that the average private income levels are about what the per capita income was at the time they retired. They appear to remain level for the people born at a particular time who tend to have a continuing level income from private sources, but since their total income has to move up about $3 per month per year in order to keep pace with the community, that means that in some way or another the public sources must provide $3 a month increases. We might possibly get to the stage where this is all that the public authority needs to do. If the people were generating relatively satisfactory private incomes to the point where when they retired the only thing that would remain necessary at the public level would be to provide the increases, we still would have to provide a needs test for the extremely low incomes, but you could move to a position where you provided nothing else except the post retirement increases. If I might explain this in another way, suppose that back in 1950 when you and I were discussing this matter before the King-Lesage committee—and Senator Croll was there too. I do not know whether there was anybody else.

Hon. Mr. CROLL: Senator Smith.

Mr. ANDERSON: Yes, Senator Smith. Suppose that back at that time we could have foreseen what was going to happen over the next 14 or 15 years and suppose we knew we were going to go through this 15 year period of rising incomes, no depression, no significant war problems and so on, and each group of people coming up to retirement each successive year was going to bring in higher resource levels, as they are doing now—suppose we could have foreseen that—I think what we would have done would have been to say let us start out with our $40 and anybody coming to age 70 gets $40 to start with, but once people are on the system they will get flat increases. We probably would have said $2 increases; if we had the foresight, that is what we would have done. This means the rate is $40 to start, but you get $2 per year after that.

The reason we did not do it was that when we looked at the people 70 and over back in 1950 and the fact that almost half were qualifying by means tests, it would not have made sense at that juncture. At that time we had come through a depression, a war, a post war inflation, and so on, and the committee was faced with the abnormal period we had passed through. However, today the situation is different. The information I get from the population sample study made at the time of the census indicates that back in 1961—leaving out old age security, old age assistance and the supplementation that goes with them—for the population aged 70 and over the average level of private income for all individuals excluding old age pension was $78 a month. Now, when you look at these people age group by age group, the people aged 70-74 had an average level of $94, the people 75-79 had an average level of $69, the people in the early 80's, had an average level of $59, those in their late 80's had $51, and those 90 and over $47. If you merely compare the early 70's to the late 80's, which embraces the great majority, you would see that for the early 70's it is $94 and for the late 80's $51. This is a drop of roughly $3 a month per year of age. This is the pattern which existed in 1961. If you had an age related system at $3 a month per year of age in operation, then you would find the totals all about the same and you would have had our old age population in a position where the average total incomes were independent of the age groups which I would think is a perfectly normal social objective.

Mr. KNOWLES: I welcome, as does Senator Croll, and others, the fact that you accept the Canada pension plan but suggest we should endeavour to make some improvements in it.

Mr. ANDERSON: I do not think I said I accepted it. I said I was reconciled to it.

Hon. Mr. McCUTCHEON: You accepted what you consider to be inevitable.

Mr. KNOWLES: You are giving us some suggestions.

Mr. ANDERSON: Yes.

Mr. KNOWLES: I would like to ask a question concerning the difference you found between Mr. Clarke's report and Mr. Bryce's report. Which way do you feel we should go in making these expenditures?

Mr. ANDERSON: I have said I do not believe in actuarial adjustment of windfall benefits. I do not think you should be translating benefits into other equivalent values when the benefits are not paid for. I do not think Canada should be engaged in the process of paying the reduced benefits at the earlier ages. I have said so. All I say is that if Canada does engage in this process and if we are going to let the age reduced benefits go into effect in the way proposed in the bill, this is not a revenue problem; this is merely an accounting problem. The question is merely one of anticipating and paying earlier what we would otherwise pay later; you are discounting a future obligation. If you are merely prepaying a future obligation, you set it up as an asset in the old age security fund or some place, because you do not need to get more taxes in to look after it.

I already have suggested to the government that in order to make this process clear it would make sense to authorize the government annuities branch to handle the transactions. In other words, all you need to do is say to the government annuities branch "we want people to be able to get actuarially reduced old age security". So, you go ahead and supply it to them. You use your own actuarial reduction formula.

Let us suppose the annuities branch says $75 a month is equivalent to $49; it does it and takes the other $2 from the old age security fund to bring it up to the $51 you say a man should have. They say, we are undertaking a payment of $51 now, but will draw back $75 from the old age security fund after he is aged 70. Now, the old age security fund in this transaction is not affected by the deduction; it is being handled in another place. The government annuities does not have to worry about the financing; they are setting off against a liability of about $1¼ billion. Surely up to that point they would have assets representing future claims on the old age security fund, or an equal amount, without worrying about how they will do their financing directly. After paying $1¼ billion worth of accelerated benefits out, we can look for another method to handle it. I think the insurance companies would be content to do this for the government; they are doing it with their own pension plans. We do it every day in respect of people who are retiring; they say we want to integrate, and we say we will pay you so much for five years and in return you will let us have this lower amount per month for the rest of your life.

Mr. KNOWLES: Thank you. I have further questions, but I will pass for now.

Mr. ANDERSON: Thank you for letting me answer in that way.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I presume the committee wishes to keep on sitting. I have four persons on my list now.

Mr. ANDERSON: Is that an admonition to me to try to be as brief as possible?

The CHAIRMAN (*Hon. Mrs. Fergusson*): No, but I thought that each person may not ask as many questions.

Mr. MUNRO: Mr. Anderson, I also am particularly interested in your paper and in your statement with regard to escalation and oversimplification attached to earnings rather than the cost of living price index. If you did adopt that form of approach, what would you say in respect of this being a contributing factor to inflation?

Mr. ANDERSON: This problem does not worry me at all. I cannot for the life of me feel that any kind of increases we are going to grant to people who have retired, no matter how we calculate or distribute them among the people, are going to be of such moment that they will have any important inflationary impact. The only thing which does worry me is, as I said earlier, that I do not like increases that are related to price; they are not the kind of increases which should be given and they do not do the job right. However, I say that once anyone says he is going to increase anything according to a price index and adjust it automatically you may run into a grave psychological problem. As soon as people say something is being adjusted by a price index, people are going to say this means there is going to be an inflation. Of course we did this in wartime; we adjusted our wages according to a price index, but then we had price control, so there was no danger of the psychological problem operating then. I think it is fair to say that among the countries that use price indexing one cannot form a very good opinion of the way they have been able to control prices in their own countries. Price indexing often is forced on a country. It is not just pensions. If you go to Israel you find that they issue government bonds with price indexing, and not just the coupons, but also the principal amounts.

Of course, the Israel life insurance companies issue policies which are price indexed, and they invest the money in price indexed government bonds and in price indexed corporate bonds, and nobody is concerned how the prices behave, because everybody is indexed out of inflation. That is what bothers me. Frankly I think that the use of an indexing device may have psychological effects which do not relate to the dollar effect.

I would like to underline a point I made earlier that it seems to me to be a more sensible attitude for a country to take to say: "We want to minimize the price index and maximize the productivity index". If I were becoming a retired person I think I would be more content with a method which made sure that I got the productivity gains that the rest of the people are getting. I suppose that if we are not able to maintain prices, this will be reflected in one form or another by necessary legislative change.

I admit the point however that if the basis of indexing is on earnings, then most of this argument disappears, because earnings, after all, contain the two components of rising productivity and rising prices, or alternatively, rising standards of living and rising prices. But as long as they contain the two components and you have wage indexing, you could say to the individual that if we can hold the prices steady, our wages will go up at the rate of productivity, and that the pensions will go up accordingly. Therefore, you have now happily said to the individual that we hope to be able to keep prices constant, and we hope to be able to have a standard of living in which, when it rises, you will be able to share in the process. But if you only look at the prices, you are saying: "It is true that we have to see that you do not starve if prices go up, but you are not going to share in any way in this progressive process". I think that psychologically price indexing is bad.

If you look at Sweden and Belgium which have price indexing both before and after retirement, you will see they adjust the pension entitlement accordingly. These are countries which have had, so far as I am aware, a considerably greater degree of price control in one form or another than we have had in Canada or are likely to have in the foreseeable future. Under conditions either through direct planning or through government control, if you have a fairly firm hand in consumer prices, then the psychological problem disappears. That is, the individual will say: "Well, it is the firm hand which determines what the prices are, and the adjustment is merely reflecting officialwise what the firm hand has already determined".

Mr. MUNRO: I take it your point is that if it is based on an earnings test it will contain the two components which are reflected in earnings automatically.

Mr. ANDERSON: Yes.

Mr. MUNRO: It will reflect also rising standards of living and increased productivity.

Mr. ANDERSON: Yes.

Mr. MUNRO: And the whole dollar volume would be bigger.

Mr. ANDERSON: Let me give you an example to make my point clear. In our company we face the problem from time to time of: What do you do about existing pensions when pensions get out of date? The government has had to face it in the case of the civil service. When we looked at the problem we said that we did not think we could increase pensions in payment at the rate of change of wages. This would have meant an increase in the order of from 4 to 4½ per cent per annum. When we looked at prices we said to ourselves that something of around this magnitude may be an appropriate rate of increase, but we are not going to express it in the form of a price index.

So what we did was to take the square root of the earnings index, to provide roughly one half of it. That is the way we made our adjustment. We in effect said that if earnings have moved up 44 per cent since you retired, then we will move your pension up 20 per cent.

Hon. Mr. MCCUTCHEON: And guarantee it too.

Mr. ANDERSON: Yes. Some question arose as to whether we should provide only the smaller "half", and possibly, we are going to do the same thing again shortly the other way around and pay for the bigger "half". If earnings move up 44 per cent we will say: "You will have to look after the 20 per cent and we will pay the 24 per cent". We are doing this deliberately because we do not want to make our adjustments on the basis of the price index, because we do not believe in it.

We felt in our study that in a country where the policy was one of holding prices stable, and of having increased productivity, we would see these conditions reflected in the earnings, so let us base our adjustment on the earnings. Actually in our case we also studied the movement of consumer spending per person, and we found that the earnings index and the consumer spending per person which embraces both the standard of living as well as the prices, moved about the same way over short and long periods. You can use either one, because each one represents a combined type of adjustment.

Mr. MUNRO: I shall ask one more question. I have several more, but I will let them go. Am I correct—not referring specifically to your brief—in saying that for the unemployed person, let us say, relating it to the Canada pension plan over continuous periods, there is less than $600 exemption a year, and that given an earnings related pension plan that such persons should not be considered in relation to such a plan in any event, and that there should be some type of governmental program designed to be aimed at the reason why there are such low earners?

Mr. ANDERSON: I am afraid I did not make a remark in quite that form. The remark I made was to the effect that in the short term, for the people in their late 50's or early 60's, the Canada pension plan benefits are only going to those who have earnings. But in the long term the Canada pension plan benefits will be going to people who had no earnings in their late 50's and early 60's.

Mr. LLOYD: In the long term.

Mr. ANDERSON: Yes, because they had earnings earlier. It may be true that they will be getting smaller pensions, but they will still be getting pensions because of earlier credits. I made the point that since the Canada pension plan is going to do nothing for the non-covered people in their late fifties throughout the transition term, possibly it would be better to look at them as an independent problem, and that you would have to deal with it through transition and possibly should deal with it permanently by other measures.

The point I made was this: Let us concentrate on the normal problems of the man who works in the years immediately preceding retirement. There will be problems for the man who does not work during those years, but they will not be solved satisfactorily by the Canada pension plan. They will have to be solved by other means. So perhaps we need not be as much concerned with earning credits through the Canada pension plan at the earlier ages as we must be concerned with credits later on. It has nothing to do with the $600 as such.

Mr. MUNRO: No.

Mr. ANDERSON: A major part of the problem is widowhood, and to some extent the Canada pension plan may tend to deal with it.

Mr. MUNRO: Generally speaking, but not specifically relating this to the Canada pension plan, when dealing with earnings related plans, when you get to those people who you say are not going to be covered significantly in your population, let us say the unemployed, and the very low wage earners certainly in the transitional period, it may be decided that there should be other types of programs entirely conceived to deal more adequately with this type of person.

Mr. ANDERSON: One part of it of course is the process of extending benefits to earlier ages, and, as I have said, in lowering the age for old age security. This disposes of the problem in part.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Now Mr. Lloyd.

Mr. LLOYD: Mr. Anderson, in reaching your conclusions I presume that you considered the possible recommendations coming from the Carter commission on taxation.

Mr. ANDERSON: Yes, Mr. Lloyd, that is true.

Mr. LLOYD: And in our desire to avoid government sponsored pensions with the means test, we attempt to keep them as simple as we can and have regard for administrative problems, and this is bound to create some inequities, windfalls, or abuses such as you have described.

You have also referred to it as an abuse—I mean the attempt to maximize income with an eye to the tax liability, and you went on to mention something about capital cost allowances which would put an individual in a preferred position. Now, you mentioned somewhere about some method either of avoiding windfalls. But if you could not avoid windfalls, how would you recover, or how would the government recover from these abuses which crept in? For example, if everybody will receive presumably a benefit from the Canada pension plan, then ten years from now at least at retirement age, as has been said here by others, he will receive a very substantial bonus. I think that was the term used.

Mr. ANDERSON: I do not like the word bonus.

Mr. LLOYD: Neither do I, but we used the word bonus. To receive a $1,200 per annum benefit and to have contributed only a very small amount of money to achieve that position—what do you think about a scheme of taxing back windfalls of that kind?

Mr. ANDERSON: Of course, we will be doing that anyway because the benefits will be income for tax purposes.

Mr. LLOYD: Tax them back at the existing rates?

Mr. ANDERSON: It may be the case that our method of taxing windfall pensions, as it now applies to old age security, is not severe enough. For example, I have advocated since the inception of the act that any person who is entitled to windfall benefit, whether flat or related, should not get the $500 extra exemption which is applicable at age 65. We should say, "All right, if you are getting a windfall that influences your taxable income you can lose $500 of your exemption." You might go further than that and say that windfalls are subject to double tax; this might sound severe and may not be very popular politically. But I think you are perfectly right that to the extent that windfalls become redundant—because the simplicity of the system says we have to do it that way,—there is nothing wrong in saying that in the tax system you will use a mechanism for reducing, or conceivably eliminating, the redundancy.

Mr. LLOYD: I pursue this because I want to get your opinion and reaction.

We are using the old tax machinery of government under the Canada pension plan to determine incomes and to make the calculation. Just because of the existence of income tax legislation we decide on this scheme of providing for pensions.

It is pretty certain to me after reading the *Financial Post* of January 9, at page 9, an article by Mr. Latimer, that the Carter commission will certainly be taking a look at the ability of taxpayers so to arrange their affairs in effect to gain substantial tax advantages in the provision of pension plans.

Mr. ANDERSON: You asked if I was familiar with the Carter commission and what it is doing. I indicated to you that I appeared before them. I know the chairman quite well and he has felt free to talk to me from time to time about a few of their problems.

The Carter commission is thoroughly alive to the fact that its own terms of reference are too narrow. In particular, it has not been allowed to study income transfers. That is, it has not been allowed to study transfer payments to people. I believe the Carter commission holds the view, as I do, that these constitute negative taxation.

I surmise that the Carter commission conceivably may recommend a fresh study in relation to the problems I mentioned in the first couple of pages of the paper. That is, how do tax payments and transfer payments relate to each other.

Mr. LLOYD: Will they be able to deal with the point that is mentioned here, and I quote from the article I mentioned in the *Financial Post*?

> In the case of closely-held corporations, the senior executives are usually the shareholders as well. By designing substantial past-service benefits, a very large past-service cost could be credited which is deductible under section 76. In some circumstances not only does this

past-service cost wipe out the entire undistributed income of the employer, but produces a trading loss which may be carried forward against future profits.

After the executive employee shareholders have accepted a very reduced salary for three years, the plan is terminated and the amounts held in the plan are paid out to the beneficiaries at no tax cost to the shareholders, or a very low tax cost.

Mr. ANDERSON: I am sure the Carter commission will make recommendations on such matters. One thing they are worried about, as I am, is the opposite problem; that is, under conditions of negative taxation such as we will get—the marginal negative taxation of the Canada pension plan—how do you dispose of the problem of overstatement of income? Are you going to make it an offense to overstate your income, and try to control it in that way? This is an awkward and difficult problem and you cannot escape it as long as you have earnings related windfalls. You can escape it if you put in big enough taxes so that the marginal combined effect disappears. Very briefly, through transition the marginal negative effect of the Canada pension plan is about 30 per cent. It is equivalent to a negative tax rate of 30 per cent.

If you said that everybody has to pay a minimal marginal tax rate of 30 per cent you would dispose of the problem, but I do not think most of us would like that.

Mr. LLOYD: I will end, Madam Chairman, with a word of appreciation for Mr. Anderson's contribution.

Mr. ANDERSON: Thank you.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Senator McCutcheon.

Hon. Mr. McCUTCHEON: Madam Chairman, I will be very short.

Mr. Anderson has said he was reconciled to the Canada pension plan. I will not quote any old proverbs with respect to reconciliation, but I think I understand what he means.

I thought I heard Mr. Anderson say during his testimony—and if so I want him to repeat it—that his own view was that wage related pensions should be provided through the private sector.

Mr. ANDERSON: Yes. To the extent that it is practical to do so, I think it is very much better to dispose of the problem in the private sector. For example, the kind of approach that Ontario was proposing of imposing employer liability had the effect of invoking compulsion but having the problem solved by private action.

I referred earlier to the new Finnish plan. This is exactly what Finland is doing. They are saying to very employer in the country, "You must provide a pension of 1 per cent of the final average pay of all service up to 40 years subject to an integrating device with the flat benefit." Finland is not operating any of its second deck; its employers are doing this. One of the problems, of course, is that when you want the action in the private sector you cannot get it very fast.

The Ontario committee faced this problem. They recognized that the action in the private secor more or less involved individual equity, and therefore slow maturity and so on.

Mr. KNOWLES: We have 10 provinces.

Mr. ANDERSON: It is not that point. The point involved here is that if you reach the conclusion that you have to find some relatively large benefits in the near future, I think you are driven to using public action because you cannot accomplish that result in the private sector owing to the linking up between input and output that must exist in the private sector.

Let us look at it the other way around. If you forced employers and said to them in Canada, "You fellows will have to form your own pool"—

Hon. Mr. McCUTCHEON: You could not force them to give backservice.

Mr. ANDERSON: Let us put it this way. If you forced the employers of Canada to form their own pool, then they could operate it on a semi pay as you go basis.

The point here is that the individual employer is mortal, but unless Mr. Knowles disposes otherwise, the private business system is not mortal; it is immortal. Even if he does dispose otherwise, he will still have a lot of crown corporations that are doing the same thing.

Mr. KNOWLES: Are you thinking of me as a socialist or as a minister?

Mr. ANDERSON: I am not sure, sir; you can take it whichever way you like.

I mentioned the point of the so called consortium of private employers. It is satisfactory for a consortium of private employers that is well based enough to ensure its perpetuity to have a pay as you go system at the private level, but no single employer can do it.

Hon. Mr. CROLL: Do you remember when I asked you the question, I said that this is something that has not been done and I said here was the fixed old age security plus the government pension, the combination? You said to me that it has been done, that Britain is doing it, Finland is doing it, and Sweden is doing it? I think as I understand the answer to Senator McCutcheon you now say that Britain is doing it, Finland is doing it and Sweden is doing it through private enterprise, not as government.

Mr. ANDERSON: I did not quite say this.

Hon. Mr. CROLL: You did not? Then I misunderstood you; I apologize.

Mr. ANDERSON: Let me cover the schemes, because these are the three major second deck schemes.

The United Kingdom is doing it by the process of giving wage related benefits in relation to wage related contributions that are in fact at the present time a very bad bargain. That is to say, the benefits in relation to contributions are less than you could get if you went out and bought them from anybody.

Hon. Mr. McCUTCHEON: Private industry opt out of that?

Mr. ANDERSON: They have given the employers the opportunity to contract out and run their own show, except they say that if an employer contracts out he must provide maximum benefits. In other words, they do not want to go through the agony of looking at partial benefits and so on. The British system, by their own admission, may not be viable in its present form if the second deck is substantially expanded. We will know in a year or so what is going to happen. I assume the Labour party, from what they have said, have some much bigger ideas on how the second deck should be handled. They are proposing to integrate backwards by taking the second deck money and investing it in the shares of private industry. But, the point is, to a large extent, that the United Kingdom method may be regarded as being operated outside the government, if you are willing to take the view that, once employers can contract out, the government, in effect, is handling the problem for the ones that do not. Now, in Sweden the action is done by the state.

But, of course, the Swedish do things differently anyway. The way the second deck is run, they have three funds for the second deck, one for the public employees, one for the employees of large employers and one for the employees of small employers, and each one of these funds is semi-funded and develops a substantial investment fund. The investment process is being operated in part by the employers themselves—that is, the fund for the big employers has employer representatives on the investment board—because, in effect, they are forcing this consortium on the employers. Quite a bit of the money, which they found embarrassing in Sweden, has been shipped to west Germany for investment.

In Finland, the government has said to the employers, in the same way that the province of Ontario proposed, "You must provide pensions according to this formula, go ahead and get your funds going and get on with the job."

Hon. Mr. CROLL: Am I not correct in saying that this has not been tried before in such a fashion?

Mr. ANDERSON: Let me put it this way. I do not know of a country that has tried it with as rapid maturity as the way we are proposing.

Hon. Mr. CROLL: I am not bragging but we all realize we are going to make mistakes and someone has to be tolerant with us for awhile. We are breaking new ground. I admit that you are tolerant.

Mr. ANDERSON: Well, what we are trying in Canada never has been tried in this particular combination but, nevertheless, when you examine the Canada pension plan bill you can take these different components and if you go over about 14 different countries you will discover all of the components in other plans. Now, the question that worries me is, can you take a dozen components out of a dozen different plans and lift them out of context and put them together in your plan and hope it works. I must confess that I am not like this. This is the kind of way the Japanese might do it because they are great imitators. But, I make the point in my paper that I do not think we should imitate, but innovate. I would hope that we are creative enough to go farther than copying a number of different other things and then putting them together in one package.

Hon. Mr. CROLL: Well, you are saying to me that we are innovating.

Mr. ANDERSON: No. A number of countries have done what we are doing, pulling components from other places and concocting their own plan.

Hon. Mr. McCUTCHEON: Mr. Anderson is repeating a conclusion that Senator Croll, for obvious reasons, did not want to read in full.

Mr. MUNRO: Madam Chairman, if I may interject, I was going to make a suggestion, through you, to Mr. Anderson, if the committee is agreeable. I understand there are other members who wish to ask Mr. Anderson questions. As we know, Mr. Meyers is coming at 2.30 this afternoon; Mr. Myers may be finished at perhaps 3.30 or 4 o'clock, depending on how many questions are put, and I was wondering whether Mr. Anderson would be prepared to come back this afternoon in order that any outstanding questions could be put to him.

Mr. ANDERSON: May I speak to what you are suggesting. I am grateful to Mr. Munro for making this suggestion. But, it so happens I am a close friend of Mr. Myers, and I was going to come back in any event. I also propose to come tomorrow morning because the Canadian welfare council is on. I have read their brief and I know the people who prepared it. Since I will be at both your sessions, unless I am upstairs with Mr. Guitard looking over the transcript, I would be very happy to leave myself in the position where you could recall me either this afternoon at your convenience or tomorrow morning at your convenience.

Mr. CHATTERTON: If it is not inconvenient to Mr. Myers may I suggest that for the sake of continuity we continue with Mr. Anderson at 2.30.

Mr. KNOWLES: I do not believe Mr. Myers has a brief.

The CHAIRMAN (*Hon. Mrs. Fergusson*): No, he has not.

Mr. ANDERSON: From what Mr. Myers told me, he is in the position where he is up here until Sunday because he has been attending the international Fisheries Commissions Pensions Society, I think it is. I think he would accommodate himself in whatever way you wish. But, since Mr. Myers is a visitor from abroad we should extend him every courtesy and allow him to come as scheduled. You do not mind me offering advice to the committee, do you, Madam Chairman?

The CHAIRMAN (*Hon. Mrs. Fergusson*): No. I am sure it is the wish of the committee that you come back. Am I right in this assumption?

Some hon. MEMBERS: Yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): We will adjourn until 2.30 this afternoon.

AFTERNOON SITTING

THURSDAY, January 14, 1965.

The CHAIRMAN (*Mr. Cameron*): Gentlemen, we have a quorum.

I think Mr. Chatterton wants to get some information. I suggest he lets us know at present what it is.

Mr. CHATTERTON: The sooner we can ask for it, the more time the staff will have to get it. I would like information suggested by the delegates yesterday with regard to the benefits of the Canada pension plan by the years 1971, 1981 and 1986, in the form of chart 2 in the brief presented by the Canadian Life Insurance Officers Association. If possible, Mr. Chairman, I would like to have the no benefit group broken down by whatever major categories there are that make up that group, if it is possible to get the latter information within the time available.

The CHAIRMAN (*Mr. Cameron*): Mr. Osborne assures me that that information can and will be obtained.

Mr. J. E. E. Osborne (Director, Research and Statistics Division, Department of National Health and Welfare): Excuse me Mr. Chairman, I assured you we will do our best to get the information.

Mr. KNOWLES: Mr. Chairman, I had a desire for something similar, but it is slightly different. May I put in my request at the same time? I would like to have information both for the years given by the Life Insurance Officers Association and the years asked for by Mr. Chatterton. I would also like this information to show percentages in relation to the persons who by age would have been eligible. I am sure Mr. Osborne gets my point, that a supplementary table excludes from the non-covered all those people who were too old to come under it anyway. I am not asking for a change in Mr. Chatterton's request but I am asking for a supplementary set of information.

Mr. MUNRO: Could I expand on Mr. Knowles's request, that that table be broken down three ways, or all ways, not only down to people now in retirement who will still be reflected in the table 10 years from now. I should like it to include widows now under 55 and the unemployed, as well as anybody else who could conceivably be included in there so that we could determine the accuracy of the table.

Mr. KNOWLES: We have not given the department anything to do for a while.

Hon. Mr. CROLL: If the department is looking for something to do, there is something I would like as well. Of the people of 70 and over, how many have pensions and what is the extent of the pensions? I understand that some of this information which was not available before is now available. I would like to know of those people in the labour force how many have pensions and what is the amount of their pensions?

Mr. OSBORNE: May I ask a question on that last request? By people in the labour force do you mean those who are contributing to pension plans?

Hon. Mr. CROLL: From among the number of people in the labour force I want to know how many are and how many are not in pension plans and what they are getting. Once you know how many are in pension plans you know how many are out.

Mr. OSBORNE: You want to know how many people are in the labour force who are presumably working and earning a living and are, at the same time, living on a pension?

Hon. Mr. CROLL: I am trying to relate the percentages. I want to know the percentage of people of 70 and over, and the percentage of people who are not in that category. Am I clear? Go on and ask me questions and I will see if I can make it clearer for you.

Mr. OSBORNE: I am not clear, Mr. Chairman, because, as I understand the term "labour force", these are people who are, for the most part, employed and earning a living. They are therefore not on pension but are contributing to a pension.

Hon. Mr. CROLL: That is the figure I want, the number of people contributing to a pension, those for whom a pension will be provided.

Mr. MONTEITH: There are one or two things which the delegation indicated we might get the officials to develop for us. I wonder if I might reserve the opportunity to bring these matters to the attention of the committee afer I have read the proceedings. I would like to delay my remarks.

Mr. CHATTERTON: I think we should ask our officers to check on the accuracy of chart 1. We want some confirmation from our staff as to the accuracy of chart 1 in the Life Insurance Officers brief.

Mr. FRANCIS: Mr. Chairman, I wonder if we could have a very short summary of Mr. Anderson's remarks of this morning. I know Mr. Osborne was given a lot of work but I would like to know about the three countries—Sweden, Finland and the United Kingdom—which have the two types of pensions. I would like to have some sort of document giving us the basic story of employer-employee contributions and the flat rate pensions and the supplementary pensions in these three countries.

Mr. OSBORNE: Mr. Chairman, I would like to refer Mr. Francis to the proceedings of the Senate of Canada special committee on aging, number 24, Thursday, December 10, at which Dr. Willard was the witness. In his testimony there is included a description of social security programs in several foreign countries including two of the three that were mentioned. It appears on page 1626 for Great Britain and page 1628 for Sweden. Finland is not included. We will do our best to get material on the Finnish program.

The CHAIRMAN (*Mr. Cameron*): Ladies and gentlemen, we have the great privilege and great honour this afternoon to have as our witness Mr. R. J. Myers, who is the chief actuary of the social security administration of the United States department of health, education and welfare. He is the vice-chairman of the permanent committee of actuaries and statisticians of the International Social Security Association. He has been a consultant to various congressional committees. He is an international expert in the whole field of social security. He comes here as our guest and is accompanied by his charming and beautiful wife who is seated to my right. I know we welcome them both sincerely to Canada.

Mr. Myers has prepared a short memorandum of some of the things he intends to talk about. Unfortunately, there are not enough copies for each member, but probably in due course this will be incorporated as part of the minutes of the proceedings, and you will all have the opportunity of reading it there. I think Mr. Myers intends to read a great deal of his brief this afternoon. I will now ask Mr. Myers to speak.

Mr. ROBERT J. MYERS (*Chief Actuary, Social Security Administration of the United States of America, Washington, D.C.*): Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, it is indeed a pleasure and an honor for me to appear before you today in connection with this most important subject. I shall be glad to give you any information that I can about social security programs and their financing generally, as well as any specific factual matters which relate to the old age, survivors, and disability insurance program in the United States.

First, let me state that my official position is chief actuary of the Social Security Administration, U.S. Department of Health, Education, and Welfare, and that I am a Fellow of the Society of Actuaries. I have held the position of chief actuary since 1947, and before that time, I held various actuarial positions in the social security administration and its predecessor organizations including the one that made the underlying studies for our program.

I should like to submit for the record a biographical sketch giving some of my other past professional background, as follows:

January 1965

BRIEF PROFESSIONAL BIOGRAPHICAL DATA ON ROBERT J. MYERS

Education

B.S. in Engineering Physics, Lehigh University, 1933. M.S. in Actuarial Mathematics, University of Iowa, 1934. LL.D., Muhlenberg College, 1964.

Professional Experience

Various actuarial positions with U.S. Social Security Administration since 1934: Chief Actuary since 1947. Actuarial consultant to various Congressional Committees and to Federal Judiciary. Missions of technical assistance in connection with Social Security programs of Bermuda, Colombia, Cyprus, Greece, Iran, Israel, Japan, Liberia, Nicaragua, Panama, Peru, and West Germany. Missions to study Social Security systems of Ceylon, England, Greece, Lebanon, New Zealand, Philippines, Soviet Union, Sweden, Turkey, and United Arab Republic.

Professional Relations with International Organizations

Committee of Social Security Experts, International Labor Office; Vice-Chairman, Committee of Social Security Actuaries, International Social Security Association; Pension Review Group, United Nations (1958-60); Committee of Actuaries, United Nations Joint Staff Pension Fund; President, International Fisheries Commissions Pension Society.

Professional Societies

Fellow, Society of Actuaries; Fellow, Casualty Actuarial Society; Fellow, American Statistical Association; Fellow, American Association for the Advancement of Science; Fellow, Royal Statistical Society (England); Corresponding Member, Spanish Institute of Actuaries; Associate, Institute of Actuaries (England); Member, International Union for Scientific Study of Population; Member of Council, Permanent Committee for International Congresses of Actuaries; President, Inter-American Association of Social Security Actuaries; Population Association of America.

Professional Awards

Distinguished Service Award, Department of Health, Education, and Welfare; Career Service Award, National Civil Service League.

Publication of Book

"Social Insurance and Allied Government Programs", Homewood, Ill.: Richard D. Irwin, Inc., 1965.

Military Service

Captain, Army of the United States; 1942-45; final assignment in Medical Statistics Division, Office of Surgeon General.

I should like to emphasize, however, that I am appearing today solely in a personal and professional capacity as an actuary and as a student of social security techniques and principles.

And accordingly I am not officially representing either the United States Government or my organization, the Social Security Administration.

As you will recognize, it would not be fitting for me to make any direct comments of opinion concerning the Canada pension plan that is now under consideration by your committee.

Although I believe that I can be of the most assistance to your committee by discussing specific questions that the members might care to ask, perhaps the best procedure would be for me to discuss briefly two very important subjects that I think are of interest to the committee—namely, (1) the general financing principles of social insurance as against those of private insurance, and (2) the question of contracting-out of social insurance systems.

And when I use the term "contracting out" I realize that in some instances this term is used differently as referring to the contracting out of a national pension system by a parallel pension system of a state or province. However, I will not get into that subject at this point.

As regards financing aspects, the basic difference between social insurance and private insurance is that the former—because of what may be assumed to be its perpetual nature, based on the continued existence of the government and the compulsory coverage features of the program—does not require the full actuarial reserves that are necessary under an actuarially-sound private insurance or pension program. This is not to say, however, that large reserves under social insurance are necessarily undesirable, but rather only that they are not required for financial soundness.

Under some circumstances in some countries, the desirability of capital formation and economic development might dictate that large reserves developing under a social insurance program could have an important and desirable economic effect if invested properly. When this practice is followed, it is paramount that the interests of the group covered by the social insurance system should be safeguarded in that the investments so made are sound and productive.

On the other hand, under certain circumstances, it may be economically undesirable to build up large social insurance funds, since the money drawn from consumer-purchasing channels might result in a so-called drag on the economy. The matter then of how much advance funding and accumulation of assets in a social insurance system should be done is not merely an actuarial problem, but also one of an economic, and even political, nature.

Now, let me turn to the financing basis underlying the United States old-age, survivors, and disability insurance system, which I will hereafter refer to as

O.A.S.D.I. There are many misconceptions about this matter. It is widely believed that at the inception of the program, the financing basis was a full-reserve one, similar to private insurance, and that subsequently it has changed to a pay-as-you-go basis and will so continue. Actually, this is not the case, because the original program was on only a partial-funding basis, and subsequent modifications in the law have moved it further toward the pay as you go basis, but by no means entirely.

I state this, however, with full recognition that in the past decade, O.A.S.D.I. has operated on more or less of a pay as you go basis, with income closely approximating outgo. Under present law, however, a substantial fund would be built up starting next year and particularly after 1967, when the scheduled increases in the contribution rates would occur. Under this basis, about 15 per cent of the cost of the program would be met by interest earnings, with the remainder, of course, coming from contributions of workers and employers. As you know, no direct government contribution to the system is provided.

At the moment, it appears quite likely, however, that the financing basis contemplated in present law will be modified. There has recently been considerable concern on the part of many economic planners that the contemplated growth of the O.A.S.D.I. trust funds, resulting from the scheduled contribution rate increases, which will produce significant excesses of contribution income over benefit outgo, is economically undesirable at this time because of withdrawing consumer-purchasing power. For example, during consideration of legislation last year, the secretary of health, education, and welfare stated to the Senate finance committee that, under a proposed revised tax schedule "the contribution rates would increase more slowly and gradually than under present law, so that excessive accumulations of funds in the next several years, with possible depressing effects on the economy, would be avoided".

Furthermore, in 1963-64, an advisory council on Social security financing established by law studied the O.A.S.D.I. program, and it has just issued its final report. This council recommended that the presently scheduled contribution rates should be adjusted "to avoid the rapid increase in trust fund assets that will otherwise begin with the rate increases scheduled for 1966 and 1968". The council then went on to express its belief that the long-range cost of the program should be recognized by a schedule of contribution rates in the law, but that a large fund should not be developed. Instead, the fund should be sufficient in size so that it can "meet temporary excesses of outgo over income due to relatively high benefit costs or low social security tax revenue in a particular period." The council believed that an adequate fund would be in the neighborhood of 1 year's benefit payments; this would mean that, over the long range, interest earnings would supply only about 4 to 5 per cent of benefit costs.

In my personal opinion, the position of the advisory council is sound, although I do not see any objection to somewhat greater funding than it proposes. Of course, full funding of a social insurance program would, undoubtedly, be not only undesirable, but probably impossible, considering the vast amount of funds that would be involved. As I indicated previously, the matter of the extent and degree of funding of a social insurance system can differ greatly as between different systems and different countries. Then, too, the situation is quite different for a program that is just beginning operations, with relatively little benefit outgo as compared with what will be the case in a decade or two, as contrasted with a system that has been operating for a period of time.

Now, turning to the matter of contracting-out of social insurance systems which provide pensions, I believe it is safe to say that in the United States, there is general unanimity of opinion that this is not desirable. When our legislation was initially enacted in 1935, consideration was given to this possibility, but it was rejected.

In my opinion, contracting-out of a national pension scheme might be technically feasible if workers were employed by only one employer during the course of their working lifetimes. But, this, of course, is not the case, and it seems to me that difficult problems of equitable treatment and transfer of benefit rights will arise if contracting-out of a social insurance system is permitted. Initially, this may work reasonably well, but as the social insurance plan is revised and modified to reflect changes in the social and economic life of the country, equitable coordination provisions will become overwhelmingly complicated.

I believe that by far the best procedure is to have the social insurance system as the basic floor of protection and then to have private pension plans supplement it. This has been widely done in the United States in connection with our O.A.S.D.I. program, and it is interesting to note that the coordinating methods involved have, over the years, moved away from closely-geared coordination to more general coordination.

I well recognize that in the part of the British national insurance scheme which provides earnings-related benefits, contracting-out is permitted and seems to be functioning well. In fact, the number of persons contracted out represents almost 25 per cent of the total who could possibly be contracted out. But, a large proportion of these are government employees for whom coordination provisions by law are readily possible. In the long range, I think it is quite possible that this contracting-out basis could produce great difficulties—as, for example, if the social insurance system were changed so as to be on a dynamic basis, with automatic adjustment of benefits to changes in the cost of living or in the earnings level. Under such circumstances, it might be difficult, or even impossible, for private plans to provide contracting-out benefits of comparable amounts, as they are required to do.

I would now be pleased to answer any questions that the committee may have about my presentation, or about any other matters that it might choose to inquire about.

The CHAIRMAN (*Mr. Cameron*): Mr. Prittie is first.

Mr. PRITTIE: Mr. Chairman, I have one question to ask Mr. Myers. Do the private insurance plans in the United States have some assurance, for a number of years ahead, in respect of what the level of deductions and payments for the government plan will be? This has been raised here as a personal objection on the part of some people who administer these plans. They would want to know that the percentage of payroll deduction would be fixed for a number of years. Is there some assurance for a number of years ahead in the United States?

Mr. MYERS: Really the answer to your question is yes and no. Since our system has been established we always have had the principle of having a complete long range schedule of contribution rates in the law. As you know, no one congress or parliament can bind the hands of the next one, at least in this respect since these are taxes—our contributions are legally taxes. Although there is this schedule in the law, from time to time it has been changed. You can say that planning could be made on the basis of this schedule for all years into perpetuity, but you cannot absolutely count on this as you can with an insurance company contract, because the next congress can change the schedule, for example, even lower the rates or else raise them when more benefits are provided.

However, I think our private pension plans have had some indication from these schedules as to how the future is likely to proceed with regard to contribution rates under the system.

Mr. PRITTIE: In your opinion does the practice of changing rates by subsequent congresses or parliaments present any real problem for the private plans in the working out of the changes they may have to make?

Mr. MYERS: I do not think it has presented any real problem. I think the areas in which the private pension plans have had more problems perhaps are in respect of earnings that are above the maximum that is taxed and credited—what we call earnings above the earnings base. Many private plans have been coordinated with the social security system by giving somewhat larger benefits on the higher earnings. I think what they have reconciled themselves to doing is changing this breaking point in their own formula whenever the social security base is changed. These changes are apt to occur in the future whenever wage levels move upward.

Mr. AIKEN: I understand the United States social security covers people who are employed at more than $200 a year and self-employed persons at $400 a year or higher. Is that a correct assumption?

Mr. MYERS: That is not quite correct. Let me give you the specific provisions. There are a number of different categories. For employees in industry and commerce, and several other categories of employment, there is no dollar amount whatsoever; in other words, a person who goes to work for a store or a steel mill and just works there one day is covered. Now, for employees who are in domestic service, the requirement is $50 of cash wages in what we call a calendar quarter, a three month period.

That would in effect be equivalent to $200 a year. The same requirement of $50 per calendar quarter applies to employees of what we call non-profit organizations such as in the charitable or religious field, like churches, hospitals, or private universities. Again, that would be the $200 per year basis. For agricultural labour or agricultural workers, the requirement again is different. It is $150 during a calendar year, or a minimum of 20 or more days of employment when the wages are paid on a time basis. Actually the requirement for most agricultural workers is $150 a year, and this excludes crop pickers or people who work for only a day or two for one farmer and who do not earn enough to make $150.

As to self-employed persons of all types, such as store owners, farmers, and even certain people who are considered to be self-employed, although they are not, such as ministers, the requirement is that they must have $400 of net earnings from their self-employment activities.

Mr. AIKEN: Could you tell us approximately how many, or what percentage of the working force is covered by this plan with the limitations which you have mentioned; that is, the minimum exemptions?

Mr. MYERS: On a typical day throughout the year about 87 per cent of the number of persons then working are covered by this system. This 87 per cent includes about one per cent who are railroad workers, who have a separate system; but it is in many ways closely co-ordinated with the O.A.S.D.I. system. You might be interested in the 13 per cent who are not covered.

Mr. AIKEN: Yes.

Mr. MYERS: About three percent of them could be covered by this system if they so elected to be covered, or if their employers elected that they be covered. This consists mostly of the employees of state and local governments, which must elect to have their employees covered by this system; and in certain cases the employees also must elect to be covered. This three percent also includes employees of non-profit institutions that have not elected to be covered, although most of them have. Ministers too have an optional right to be covered. That brings us up to about 90 per cent covered by the system either compulsorily or by election, including those who do not elect to be covered. Of the other ten per cent, about five per cent are either federal employees, most of whom are not covered by the system, or employees of state and local governments that have their own retirement systems. In fact the only federal employees covered under O.A.S.O.I. are those hired on temporary appointments. Regular civil servants have a separate civil service retirement plan. This five percent also includes state and local government employees who have their own system and are not in the O.A.S.D.I. system.

The remaining working force of the country not covered by the system includes primarily people of low income such as self-employed farmers who have very low cash income, subsistence farmers, migrant farm labourers, domestic servants who may work only a day or so for any particular employer, unpaid family labour, and in addition self-employed physicians who are the only profession not covered on a compulsory basis as self-employed.

Mr. AIKEN: I understand there is no universal retirement pension such as we have in our old age security for everyone. Is that correct?

Mr. MYERS: Yes, that is correct. We have an old age assistance system in all the states, but we have no national system comparable to your old age security program.

Mr. AIKEN: So these people who are not in the working force as you have just described it have no retirement coverage.

Mr. MYERS: They have none coming from the government.

Mr. AIKEN: Could you tell me what percentage of the heads of families is not covered in any way through your O.A.S.D.I., or who could not be covered?

Mr. MYERS: I think if you take the heads of families the percentage not covered would be a bit smaller than the figure I gave you, because among the five per cent who have no coverage at all would be many people who were not primarily in the labour market. In the long run we expect that probably 96 to 98 per cent of all persons aged 65 and over will be eligible for benefits because at some time or other during their or their husband's working careers they will have obtained enough covered employment to qualify. For example, even doctors, although they are excluded as self-employed persons, might be employed during a part of their working career and have established sufficient covered employment to qualify.

Mr. AIKEN: Has there been any change in the minimums established since the system was started?

Mr. MYERS: The minimum requirements for coverage, you mean?

Mr. AIKEN: What I refer to is your comparison. We have established a minimum of $600, but I notice that yours is quite a lot lower. I wonder if there is any experience in changing this minimum within the United States system?

Mr. MYERS: No, there have been no changes. But there is one thing I forgot to mention in regard to coverage. Eligibility for benefits depends on quarters of coverage which in general are $50 of wages paid in the calendar quarter. A person can contribute on less than $50, and he might do this without getting credit. But in order to get credit for coverage, he must have $50. That same $50 requirement has been continued unchanged in the law ever since it was established in 1940. Likewise the coverage required for self-employed persons, $400 of net earnings in a year, has not changed since 1950. So the simple answer to your question is that there has been no change in these requirements.

Mr. AIKEN: What has been your experience in seeking out and collecting from marginal persons, who, let us say, live on the land, or who live very close to the minimums which have been established? First of all, are they anxious to come forward to be covered, or do you have to make an effort in seeking them out?

Mr. MYERS: This is a difficult question to which to give a yes or no answer. Frankly, we do have difficulties in this particular area. I think our coverage of industrial and commercial workers has been virtually 100 per cent, as one might expect, and likewise in the coverage we have had of state and local government employees and non-profit institutions, there has been no problem.

But in the area of agricultural workers and domestic workers and of low-income self-employed persons there have been considerable problems of enforcement, although gradually over time we are getting more and more enforcement. Studies have shown that probably we are missing about 25 per cent of coverage among the agricultural and self-employment areas and probably also in the domestic service area. Many housewives do not want to bother to report for a maid who comes in occasionally, but who earns sufficient to meet the $50 quarterly requirement. However, for domestic servants working full time and living in, there is about as complete coverage as in the industrial or commercial field.

But we have made considerable efforts particularly in the agricultural self-employment area. In part it is a matter of education, for such people with low incomes do not realize that they should be covered, and also that it is to their very great advantage to be covered. These people generally do not have to pay income tax because there is a $600 per person exemption. A married farmer would have $1,200 exemption if he had no children. Often he does not realize that if he has $400 of net income he is not only eligible for social security but is also compulsorily covered.

Mr. AIKEN: Thank you.

Mr. CANTELON: Part of the answer I want has already been given in your answer to Mr. Aiken.

Just to bring this into focus, I hope you will not mind if I ask you to repeat some of it.

Schottland wrote a book called "The Social Security Program in the U.S." published in 1963, and in it he says this:

> Because the Congress did not want to require low income farmers to keep financial records which they ordinarily did not maintain, an alternative method for determining net earnings was established.

Will you tell us what this alternative method was?

Mr. MYERS: This method has undergone certain changes over the years. As was stated, particularly low income farmers, who perhaps really do not know what their net income is and who do not need to know what it is for income tax purposes because they do not have income tax liability, can simply take two thirds of their gross cash income and use that as a net income. In a sense that does permit some low income farmers to have optional coverage.

The way the provision specifically works is that a farmer can use this method if his gross income is $1,800 or less, or if his net income is $1,200 or less regardless of his gross income; then he can use two thirds of his gross income. For example, if a farmer has a gross income of $1,500 and a net income of under $1,200, he can take two thirds of that and use $1,000 as his reportable income for social security purposes despite what his net might be. He might have no net income or he might not know what his net income is.

In fact, even a farmer who is generally prosperous can sometimes use this method. Let us say he had a crop disaster in one year and, as a result, although he may have had a gross income of $3,000, he had no net income. He could use this method to report $1,200 of income and thus to some extent maintain his social security record.

Mr. CANTELON: That is what I was wondering about. He could maintain his social security record no matter what happened.

I understand, too, that the armed forces were not covered by the scheme until 1957 and then they were taken in. I might point out that our armed forces are not covered by our scheme. I wonder if you could give us any comments on just why the armed forces were then added to the scheme.

Mr. MYERS: Before 1957 there was a partial type of coverage for the armed forces on a gratuitous basis. People in military service in certain circumstances, such as honourable discharge or death in service, were given an arbitrary amount of wage credits of $160 a month as long as this was not used for military pension, and in some circumstances even if it was.

In 1953 the president appointed a committee to study the matter of co-ordinating the social security system with some 15 to 20 retirement systems for federal employees, both civilian and military.

The committee looked at all these systems and made recommendations for covering all federal employees under social security, with other systems being modified or co-ordinated accordingly.

In regard to the military, it was recommended that military personnel should be brought under the social security system, just like all other people in the country, and that the military retirement system should be left unchanged. In regard to civilian employees, the recommendation was generally that social security coverage should be extended but that the retirement systems should be adjusted downwards. The total benefit protection would be greater, but the amount coming from the separate pension plan would be reduced. The vast majority of people in military service leave after a few years and get no rights under the military system, and under this suggested plan—which was actually adopted—these people would at least have social security credits.

Mr. CANTELON: May I interrupt? Is this due primarily to the fact that you operate a draft system as opposed to a professional army?

Mr. MYERS: I do not know why the military were not included in your plan, but in ours this was a large factor, and particularly in connection with the enlisted ranks because they would go in for two, three or four year terms and never obtain the 20 years of service required for a pension.

In regard to the relatively few who stay through to 20 years and get a pension, it was still felt that this duplication of benefits was not as bad as it might at first seem. Those who serve for the 20 years to get a military pension very frequently retire from military service at as low an age as 40, or possibly not much higher than 50. They then get some other type of job and qualify for social security benefits anyhow. So it was felt that it is more advantageous for them to have a complete social security record for their entire lifetime than to get a social security benefit based on a short employment record, and thus at a relatively high level.

Mr. CANTELON: Thank you.

I am also very much interested in the fact that under our plan there are what I think are disadvantages to students. Are there any arrangements for students in your plan whereby their years of low summer earnings are excluded as contributory years as far as determination of the average monthly wage is concerned?

Mr. MYERS: Yes. The students who have summer jobs or part time jobs are covered by our social security program regardless of their age. We have no age limits either at the bottom of the scale or at the top of the scale, so the employer never has to ask the employee how old he is, or at least the employee does not have to prove it for social security purposes.

What happens to a student who works at low wages and then later on has relatively high wages? He is by no means penalized by these low earnings because these do not count for the benefit computation unless they happen to be relatively high years, in which case he can substitute them for other, lower years. At the same time, these wages help him to attain eligibility, so he is perhaps building up benefit rights.

For example, let us take a student who works during his 'teens and is acquiring coverage although he is obtaining a relatively low wage. If he graduates from college at, say, age 21 he might work for a couple of years at a good wage, and then perhaps he becomes disabled. For disability we have a requirement of five years of coverage in the last ten years. The time he worked as a student would help him to meet that five years requirement that otherwise he might not have met. The amount of his benefit, however, would be based on his average wage since he was 21, and he can drop out those low years while he was in school.

On the other hand, these wages might be used in a case such as this. A student graduated from college at, say, 21, and then went abroad and perhaps pursued his education in Europe for six years; and then he came back and started working again. These years of zero earnings from age 21 onwards could be replaced by some of the years with earnings he had before he was 21; they may not be very high, but they would be better than nothing.

Mr. CHATTERTON: These apply to students only?

Mr. MYERS: No, this applies to anyone. I was just giving an example of a student.

Mr. CHATTERTON: The 22 years applies to anybody, not just to students?

Mr. MYERS: It applies to anybody.

Mr. CANTELON: Can you give us some explanation why the tax rate for self-employed persons in the United States is not twice as much as that levied on the employee?

Mr. MYERS: This has been our basis ever since self-employed persons were first covered by the 1950 amendments. There is no actuarial reason for this. It was purely a matter of political compromise you might say—or diplomatic compromise!

We had an advisory council that considered the question of extension of coverage beyond the group initially in the program. This advisory council debated back and forth the matter of what the self employed person should pay. On one hand it was argued that, from a financing standpoint, the self employed person should pay the employer and the employee rate because for a given amount of wage credits the system should get the same contribution whether in respect of an employee or a self employed person. On the other hand, the argument was made, as I remember the case, that a man who owns a small barber shop and who has one or two employees and is making about the same money as his employees is going to get the same benefits as they get, so therefore why should he not pay the same contributions? That was the argument made for paying only the employee rate. The compromise was made midway between those two arguments so that it was decided that the self employed person should pay $1\frac{1}{2}$ times the employee rate.

Another argument was made, which I think was completely fallacious, although it appears in the literature. This argument was that many self employed persons derive income in part from capital, and perhaps on the average 25 per cent of self employment income comes from capital and therefore the contribution should be only on 75 per cent. The fallacious part, in my opinion, is that the self employed person is getting credit for benefits on the entire 100 per cent and therefore the contribution base should be the same.

I might mention that we have just had an advisory council complete its work and it recommended that the self-employed rate should be reduced, not absolutely, but rather the rate now in effect should stay unchanged, although the employee-employer rate may go up; so eventually the goal would be that the self-employed would pay a rate equal to 1 per cent more than the employee pays. In other words, for example, if the employee rate increased to

5 per cent, the self-employed should pay 6 per cent. The administration has not recommended anything like this in the bill presented recently to congress, where the same basis of three quarters applies.

I have personal opinions in this connection which I have expressed elsewhere. In principle, I think the self-employed should pay the full employer-employee rate because I look at systems from their financing point of view, and from that standpoint the system should get the same money from each of the two groups. In our particular situation in the United States what I would do, if I had the choice, which I do not have, would be to have an arrangement whereby the self-employed should pay the full employee-employer rate and that half of it should be considered as business expenses.

In the United States, you will recall, the employee cannot deduct his contribution for income tax purposes. Although in theory I think this is right for the United States, I do think that perhaps we will move the other way and come down from the present 1½ times the employee rate to a somewhat lower ratio. Also, I might mention that the trend toward the lower ratio perhaps will occur because as the system becomes more and more costly, as the contribution rate goes up, the impact on the self-employed, of course, becomes rather large, dollarwise, since the self-employed pay their income tax once a year. This can create quite a bit of consternation on the part of some constituents, and then they will write to their congressmen, particularly the farmers who are still a very potent group.

Mr. CANTELON: I do not like to use up too much of your time but I would like to put one more question. I understand that in the appeal procedure in the United States system there are some four steps. If I am correct in that assumption could you tell me what they are?

Mr. MYERS: This is one aspect with which I am not too familiar. But, as I understand the situation, a person can appeal first directly to the social security administration and say: "Will you please re-examine this; I think you made a mistake." But, he does not have to do that; he can make an appeal directly to the appeals council. This is one of our units which has a degree of independence from the rest of the administrative machinery. This unit will re-examine the case. In many cases it overrules the administrators. The other source I know about, to which the person, after he has exhausted that remedy, can go, is the courts. We have had numerous cases which have been taken to court and, occasionally, we even lose a case.

Mr. CANTELON: In any event, that would be three?

Mr. MYERS: That is three. I do not know of the fourth, although there may be a fourth.

The CHAIRMAN (*Mr. Cameron*): Would you proceed, Mr. Munro.

Mr. MUNRO: Mr. Chairman, I wanted to ask Mr. Myers a couple of questions in respect of an article by Raymond Moley. I gave Mr. Myers this article prior to the meeting. It appeared in the *Insurance Management Review* of October 17, 1964, a copy of which was put in our record, I believe, a few days ago. The questions I wanted to ask are in respect of quotations that appear in the article which, I think, are typical of some of the criticisms that have been levelled at the Canada pension plan. Now, you are quoted by Mr. Moley as having been quoted in the minority report of the ways and means committee on the 1964 house bill as having made the following remarks to which Mr. Moley has added his own comments. These are the remarks:

> "For those now on the rolls, it is likely that they would have paid, at most for about 10 per cent of the benefits actually payable to them." The fact is that people retiring today have by no means "purchased"

their benefits. To cite a hypothetical case, a man with wife of the same age who retires in 1964 will have paid into the system since 1937 $3,516. He will receive a benefit expectancy of $32,000.

This has been referred to as a bonus by some people who have appeared before the committee. I wanted to know from you how valid you think it is to place a present value on expected benefits when you are talking about a social insurance program.

Mr. Myers: I think from a mathematical standpoint these figures can be calculated, as I did. The question really is not on the mathematics of it but on the relevancy of the matter. For example, are the benefits strictly related to the contributions; in other words, if the benefits were closely related to the amount that could be purchased from the contributions, the system then would not be doing the job it would be intended to do and it would not be a social insurance system. I think for a social insurance system to be effective it must pay benefits that at least bear some relationship to the social adequacy needs, and thus necessarily in the early years of a system relationships like this will develop.

Mr. Munro: In other words, would you say that any talk along these lines would be more relevant to private pension plans, as we know them, on a fully funded approach rather than a social insurance program? Would it be fair to say that?

Mr. Myers: I think that the interpretation of what this means would be much more relevant to a private pension plan. The point is that when a statement like this is made I think the author intends to point this out as a horrible example. But, you could point this out as a desirable characteristic of social insurance; that it pays adequate benefits in the early years, rather than benefits in proportion to what the individuals paid in, because they did not have the opportunity of paying in many years. It is a way of giving past service credit. And, the same type of comparisons would show up in private pension plans which have been newly established.

If an employer who has been in business many years were to establish a pension plan today, in virtually all cases—at least, in all well planned pension plans—he would give credit for past service for his older employees. So, a person retiring shortly after the inception of the plan would have contributed very little and yet the pension paid would be many times greater in value than the contributions made since the plan started. The employer does this for the very reason he establishes the plan; he wants to retire people with adequate pensions. He is not interested in the dollar relationship between the money coming in and the money going out. His objective is to have a plan that is effective in taking care of his superannuated employees.

Mr. Munro: I would like to ask you one more question, sir, in respect of that article. Mr. Moley is quoting Mr. Ray M. Peterson as having made the following statement:

> "Will an employer ask a private insurance company whether he can obtain larger benefits for new employees with the same joint employer-employee contributions? If he should ask me, this is what I would have to say. 'About 80 per cent of joint employee-employer taxes involving your new employees is for old age benefits for the employee, his wife or widow. The remaining 20 per cent is for survivor and disability benefits before retirement. Depending upon the marital status and the sex of your new employees and the rate of earnings, this 80 per cent of taxes would buy under an equitable group annuity contract at our present rates, 40 per cent to 60 per cent more in old age benefits than are provided under the OASDI system'."

Do you believe it is correct that the Equitable Life Assurance Society in this case could provide substantially better benefits than your O.A.S.D.I. system?

Mr. MYERS: The numbers are correct but the analysis is based on an entirely false premise. What is being done in this analysis is to say that the employer and the employee contributions are completely assignable to each individual employee, and this is sort of walking on the other side of the street from the first point that you inquired about. In a social insurance system if adequate benefits are to be paid in the early years of operation to those reaching retirement age—and this is necessary for such a system—this group will be paid more in benefits than they and their employers will have paid in contributions. Where does the money come from? Obviously, no social insurance system has any magic machine for turning out $10 when $1 is put in. Money must come from future employers. So, for the younger employees you must assume that part of the employer contributions is being used for the benefit of the initial older group and, therefore, you cannot assign the employer contribution for the younger group to these particular younger employees. If you could, these results of Mr. Peterson would come out. But, you cannot use the same money twice.

This same situation prevails in private pension plans. If an employer establishes a private pension plan and, let us say, on the average his cost will be the same amount as the employee contribution rate, actually, generally speaking, he is not putting in the same amount for each person; he is putting in much more for the older employee and he might be putting in no money for the younger employee.

There is still another point where he says that the Equitable could come in and give much more benefits to the younger employees. He could also say the same thing about a private pension plan. Let us suppose that X insurance company has insured a pension plan for a certain employer, and the employer's average rate of contributions for both the older and the younger employees is, let us say, 8 per cent of the payroll. Another insurance company—for example, the Equitable—could come in and say "We can do much better for you. Just let us insure your younger employees and we can give you a rate of 5 per cent". They can do this because if the plan were divided into two groups, the younger and the older employees, then the younger employees might have a rate of 5 per cent while the older employees might have a rate of 15 per cent. When you average them out, it will come to the 8 per cent figure which I hypothesized.

In the same way, in a social insurance system, the heavy cost for the initial generation of older people must be met by somebody, and by whom in essence is it met? By the employers of workers of all ages.

Mr. BASFORD: I am interested in this point, Mr. Myers. When you were speaking of financing you mentioned that the United States social security had originally been a pay as you go plan but that it was now becoming a partially funded plan, that you were building up a fund. I was wondering what the reasons for that were.

Mr. MYERS: I am sorry. What I tried to say was that originally our plan was drawn up on a modified funding basis and later it approached more toward a pay as you go basis. There are many people, at least in the United States, who say nowadays that when the system was originally established it was just like a private insurance company, that is, fully funded. I was trying to bring out that this was not the case; it was always a partially funded system and over the years it has moved in the direction of a pay as you go system although it is not now that completely, and I do not know whether it ever really will be. Under the present law it is not intended to be a pay as you go system.

Mr. BASFORD: I am sorry; I misunderstood you.

I have one other short question arising from some remarks made by your good friend Mr. Anderson this morning about self-employed persons. I am wondering whether you have the problem of people making an overstatement of income in order to make higher contributions and therefore receive higher pension benefits. How do you avoid this problem?

Mr. MYERS: I do not know of any studies that have been made on this. At least one element that would prevent people from doing this would be that it is collected in the same way and on the same form as their income tax, so they would have to pay more income tax. However, I will quite readily agree that for many people, particularly those who were older when the system started, it would be advantageous from a financial standpoint to have over-reported their income for social security purposes and paid more income tax because the value of their additional benefits would far exceed this. However, I do not believe that many people were sufficiently aware of the actuarial aspects of this possibility to do it, and generally people have the desire to try and cut down their income tax. I think we have been reasonably safe in that direction.

Hon. Mr. MCCUTCHEON: Mr. Myers, I believe that you have recently prepared two papers relating to the O.S.I.D.I. system: one explaining the avoidance of indexing in determining benefit settlements and benefits in payment, and the other describing a feasible method of automatically adjusting the covered earnings ceiling by reference to your own system of accounting records. Could you say a few words on those two points of view, and tell us why you feel that they relate to two independent problems?

Mr. MYERS: Yes, Senator McCutcheon. I have prepared two such papers recently. One paper dealt with the question of automatic adjustment of benefits, and then, of course, adjustment of the entire system, to changes in either wage levels or price levels. I examined the pros and cons of the subject, of which there are plenty on both sides. As in many things dealing with social security systems in different countries, there is no single right answer. What might be right for one country might be wrong for another, and in fact several different approaches may be equally right or proper for a given country. At any rate, in this first paper I did examine the pros and cons of automatic adjustment, and the conclusion to which I came was a purely personal opinion that in balance it was better not to have an automatic adjustment of benefits.

I would say the principal reasons why I had this view were that I believed a system would be established on the basis of the economic and social conditions prevailing at a given time. In the future when conditions changed, such as when wage levels rose, any financial resources coming to the system as a result of wages going up and thus generating additional funds available for benefit increases should be studied and utilized by the parliamentary or congressional body in a way that it saw fit.

In other words, I believe that in an automatic adjustment system the whole benefit structure would become frozen and would have to move up automatically with changes in wage levels, whereas under such circumstances it might be desirable to change the system in some other way rather than just to increase everything uniformly. To give you an example of this, suppose that it were decided to place more emphasis on dependants' benefits than on primary benefits. In a system that was not automatically adjusted, when the additional financial resources became available it would be possible to make the changes so as to give more money to the dependants and the survivors than to the primary beneficiaries, while, on the other hand, if a system were automatically adjusted everything would have to move up together.

Still another example, I think, is that in regard to some dollar amounts, such as the earnings test or retirement test, if it is decided that the test has been too liberal in the past, then as wages rise, that dollar figure can be left unchanged and adjustments can be made in other parts of the system. In other words, you have quite a bit more flexibility without automatic adjustment.

Now, the other paper that was referred to was more of a technical paper. In it I examined the question of how we could adjust the maximum taxable earnings base, which is $4,800 under our present law, comparable to the $5,000 that I believe you are considering in the Canada pension plan. The problem was how this base figure could be adjusted to changes in the earnings levels, and especially how this could be done from the records of the system. I tried to write my paper very carefully so that it was made clear that I was not exactly advocating that this be done, although I think I perhaps suggested in the paper this might be desirable. My main emphasis rather was on how it could be accomplished technically. The problem arising is that, since we do not tax anything above $4,800, the covered earnings records that we have and from which we compute averages are limited by the $4,800 ceiling; so if we just use our average covered earnings for an entire year, the rise in it is not really indicative of the true rise in wages.

For example, as a rough indication, if all wages in the United States were increased last January 1 by 10 per cent, our covered earnings would probably increase by only about 5 per cent because so many of the people are, in large part, above the $4,800 ceiling. The solution to this problem that I proposed was to consider only our first quarter's earnings, that is, the earnings that are reported just for the first three months of the year, since so few of these are affected by the $4,800 ceiling.

In our accounting procedure we get an exact count of these wages by quarters, so that we do have readily available without any further work the means for an automatic adjustment along the lines I indicated in my paper.

Hon. Mr. McCutcheon: Mr. Chairman, I have not seen these papers, I have only heard about them. I am wondering whether, with the consent of the committee, I might ask Mr. Myers if he would let you have copies which might be incorporated in our proceedings because they deal with two rather important subjects.

Mr. Myers: I would be very glad to send you copies.

The Chairman (*Mr. Cameron*): Is that the agreement of the committee? It is agreed.

Hon. Mr. McCutcheon: In your statement you spoke just now of the retirement test. Correct me if I am wrong, but I understand that our proposed retirement test is similar to that currently being used under the O.A.S.D.I.

Mr. Myers: Yes, senator, that is correct. In fact, it is noteworthy that the retirement or earnings test in the British system also bears a certain similarity to it. I might describe it just briefly so that you will see the similarities. Our earnings test applies to all beneficiaries, except disability beneficiaries. Thus, it applies to the survivors and the dependants such as the wife or children of a retired beneficiary. However, it applies only up to the age of 72. This test really has two parts to it; first there is an annual test. If a person earns $1,200 or under during a calendar year he can draw full benefits; if he earns over $1,200 a year his benefit is reduced by $1 for each $2 of earnings for the first $500 of earnings in excess of $1,200. In other words, if somebody earns $1,700, $250 would be deducted from his annual benefits. If his earnings are in excess of $1,700, there is a $1 for $1 deduction.

However, overriding this there is the second part of the test which says that in any month, regardless of the annual earnings the individual has, if he has wages of $100 or less and if he does not engage in substantial self employment, he will get the benefit for that month. Let me give you an example. Suppose somebody works and earns a considerable sum, perhaps $4,000 during the year, but only works for eight months during that year, the other four months he will get benefits. This is an advantage to seasonal workers and it also is a necessary provision to take care of the case of the year of retirement; in other words, people might retire in the middle of a calendar year who have had very substantial earnings up until the time that they retire, and yet from that time on they are completely retired. We pay them the benefits for the subsequent months. On a family basis, the earnings of the husband reduce the entire benefits that flow from this record. If the wife works it affects only her benefit. If a widow goes to work she might lose all her benefits, but the children's benefits continue regardless.

Hon. Mr. McCUTCHEON: You are applying this to survivors and dependants, whereas we are not proposing to do it under our scheme.

Mr. MYERS: That is correct.

Hon. Mr. McCUTCHEON: I understand your benefits are not subject to income tax?

Mr. MYERS: That is right.

Hon. Mr. McCUTCHEON: Would your present form of retirement test be viable or effective if the benefits were subject to a tax so that all a person would be losing would be the marginal benefit after tax.

Mr. MYERS: I have not particularly thought about that, but I think what you say is correct.

Hon. Mr. McCUTCHEON: Has there been any pressure to reduce your retirement test below 72 or to a lower age?

Mr. MYERS: Yes. I might give some history of this. Originally the retirement test had no upper age; then in 1950 when the self-employed were brought into the system, some of the people who argued against this said that many self-employed people work for their entire lives and would never receive any benefits. So, as a compromise measure a limit of age 75 was put in the law. Then, in 1954 when farmers were covered this same argument was brought up again and the age was moved down to 72.

From time to time there has been talk of lowering this age to 70 or 68, but there has been no active move in this direction other than there have been some bills introduced to do so but they have not been bills which have great significance behind them. The advisory council to which I made reference stated in its report that the retirement test as it was operating seemed to be satisfactory, although it would always need to be examined. In essence they said that age 72 was satisfactory.

Hon. Mr. McCUTCHEON: The retirement test will be a factor in determining whether or not actuarially reduced benefits are taken at an earlier age, I assume.

Mr. MYERS: I think many people who take reduced benefits at an earlier age do so because they just do not have any substantial employment. As it turns out, however, if a persosn takes a reduced benefit at age 62 and then returns to work, the retirement test operates; he does not receive a benefit, and when he reaches 65 then immediately the actuarial reduction is recomputed to allow for the time the individual actually did not receive benefits. If a person retires at age 62 and then after retirement finds that he does not like it and returns to work at age 63½ and works through to age 65 and then retires again, or at any point after age 65, the actuarial reduction then is based not on the original three year period but on the one and a half year period.

Hon. Mr. McCUTCHEON: There is a recalculation every time they move in and out of the labour force.

Mr. MYERS: No. this re-computation is done only at age 65. This is not done from the standpoint of equity, but is done in terms of administrative feasibility.

Hon. Mr. McCUTCHEON: The actuarial reduction can be taken at age 62 subject to the retirement test.

Mr. MYERS: Yes.

Hon. Mr. McCUTCHEON: As I understand it the O.A.S.D.I. is administered under two statutes. One statute levies the taxes and the other handles the trust fund and benefits. Would you explain the system and tell us how it arose.

Mr. MYERS: Really we have two separate acts; one is the Federal Insurance Contributions Act which is the taxing act and then there is title II of the Social Security Act which contains the benefits and trust fund provisions. The reason it arose that way is that when the law was being considered in 1935 there were grave doubts about the constitutionality of the measure; nobody really knew—it was an uncharted area. Moreover, about this time there had been a separate railroad retirement act enacted, I think the year before, which had been declared unconstitutional. So, this added to the fear that there might be constitutional problems and it was decided to put the two measures in separate acts and, moreover, to have complete separability.

There was some language to the effect that there were to be appropriations to the trust fund each year in an amount sufficient as an actuarial premium to meet the benefit obligations. In practice what was done in those first years of 1937 and 1938 was that the amount put in the reserve account was the estimated tax collections under the operating tax act less the administrative expenses of the various government agencies which administered the system; that is, both those collecting taxes and paying the benefits. There was a case testing the constitutionality of the program and when this was brought before the supreme court, the decision was that the system was perfectly constitutional. In fact, the decision made it clear that there would not have needed to have been quite the degree of separateness that there actually was.

When our 1939 amendments were enacted a lesser degree of separability was introduced in that the contributions or the taxes, although still being collected under a separate act as part of the internal revenue code, in essence were appropriated 100 per cent automatically into the trust fund. The language in title II says that an amount equal to 100 per cent of taxes collected under this separate tax act should be deposited currently into the trust funds, and this same basis has continued from thereon. At present, not only benefit payments but also administrative expenses are paid directly out of the trust funds so, in essence, there is a completely self-contained accounting, whereas the original act was a little vague on this.

Hon. Mr. McCUTCHEON: So, the funds raised under the taxing statute are earmarked funds.

Mr. MYERS: Yes.

Hon. Mr. McCUTCHEON: A number of European countries are moving from the corporate tax, as we know it, to the so-called value added tax as a basis for taxing corporations. I believe it has been suggested by the committee for economic development in the United States that serious consideration might be given to the United States moving in that direction? Whether or not it now appears to have been necessary, have you given any consideration to a completely separate taxing statute as opposed to a statute that both imposes taxes and grants benefits; would that facilitate the integration under a value added tax system.

Hon. Mr. CROLL: Would you explain what this is? It is new to me.

Mr. MYERS: I was about to disclaim all expertise on this subject myself.

Hon. Mr. CROLL: I am in the same boat.

Mr. MYERS: Senator McCutcheon may be able to tell us more about it. I do not know enough about general tax structures and relationships to give you any authoritative answer.

Hon. Mr. McCUTCHEON: Members of the committee do not like me to give evidence.

Mr. KNOWLES: We have been waiting for days to get you on the stand.

Mr. MUNRO: We would appreciate it if you would give evidence.

Hon. Mr. McCUTCHEON: Not this afternoon. Thank you, Mr. Myers.

Mr. LLOYD: Be careful, senator; they are speaking about evidence and not comments.

Mr. FRANCIS: I would like to ask Mr. Myers whether he has had an opportunity to look at the bill which is before this committee. I am thinking particularly of the provisions for the collection of the employers' contribution.

Are they substantially similar to those which operate under the O.A.S.D.I. system in the United States?

Hon. Mr. CROLL: I have no objection to Mr. Myers answering the question, but he does have to go back to Washington today and he has to live with our own department here, too.

Mr. FRANCIS: All right. All I was asking was whether or not there are differences in the procedures adopted. What is the procedure for the collection of employer contributions in the United States? I did not intend to ask a loaded question.

Mr. MYERS: The way that we collect the social security taxes or contributions differs among the different classes of coverage. Let me deal with them in turn. For the major group of employees in the industrial and commercial field the way the law reads is that the employer is responsible for the employee's contribution, and he is authorized by law to deduct it from the wages of the employee as he pays them. So what is customarily done is that the employer withholds the contributions from the employee each pay day. We do not have the feature which is in the Canada pension plan concerning the first $50 month, or $600 a year, because we start right away from the first dollar until the employer has collected on $4,800 in a year, whereupon he ceases to withhold.

Mr. FRANCIS: Let us take an extreme case. Suppose this contribution was reached in the first quarter, I mean the entire employer contribution in respect of that employee. It is then all collected in that quarter.

Mr. MYERS: It would therefore cease for the rest of the calendar year.

Mr. FRANCIS: Have there been any complaints from employers in regard to administrative complications with their payroll records?

Mr. MYERS: No. I think that generally employers have been able to handle this quite well. But there have been several complaints along those lines over the years. One complaint occurred many years ago during 1937 and 1938 when we had a provision that there would be no contribution collected after a person reached the age of 65. This created all sorts of complexities because particularly in the 1930's many employees did not give their correct ages to their employers. But this provision was eliminated. I think the employer organizations took a position in favour of it, and ever since we have had no age limit. We do occasionally have criticism from some employers in regard to cases where the employee may work for more than one employer during the year.

Mr. FRANCIS: That was going to be the next point I was intending to ask you about.

Mr. MYERS: Whether such dual employment is done concurrently, or one after the other, employers at times have said that since the employee does not have to pay on more that $4,800, because he may get a refund on his income tax as a credit for anything he has paid over and above $4,800: Why do we not get some sort of refund as well? I think our answer has been that as a practical matter it would be extremely difficult to try to decide just how to allocate the money. If you said that the first employer during the year should pay it, it would not seem fair; and if you tried to prorate it, there might be difficulties too. Also, any such procedure would invade the employee's privacy. He might not want his employer to know that he is moonlighting. So with all the complexities involved, I think we have generally been able to convince employers that although there might be some grounds for claims of equity here, nevertheless that on balance this is the only reasonable way to do it.

Hon. Mr. McCUTCHEON: They have become reconciled.

Mr. MYERS: Possibly.

Mr. FRANCIS: Thank you.

Mr. MYERS: The various categories of self-employed pay after the end of the year on their income tax return. For those who are self-employed and also have wages it is a very simple matter. They just pay on the difference between the wages they have had and the $4,800 limit. If they have wages of more than $4,800, they are not covered as self-employed persons.

As far as the employer in the industrial and commercial field is concerned, he withholds the money from the pay. Then, except in the case of some small employers, the contributions must be deposited with the government at the end of every month, and every three months the employer turns in a detailed statement listing the names of the employees, their account numbers, and the amounts of wages and the total taxes for the three month period, and this is reconciled with the deposit he made previously.

For the housewife with domestic servants, we have a short reporting form which we hope will ease the burden on her, in which, each quarter, she reports the wages paid and the amount of contributions that are due. In actual practice in the United States virtually all housewives pay the employee's contribution as well as the employer's contribution.

For those people who are in non-profit organizations, where there is no contribution liability until they have earned $50 a quarter, but then on that $50 too, it is up to the employer to administer it. The employer may pay the $50 and not withhold until the $50 is reached, or he may withhold on the entire $50 as it is paid; but for most employers that $50 limit does not mean anything. The same thing applies to domestic servants. Another reason the housewife usually pays the employee tax is that if she does not deduct it from the pay, until the pay reaches $50, and if she then deducts it all out of one pay, it will look like a very large payment. So it is much simpler for the housewife to pay it herself.

Hon. Mr. McCUTCHEON: She wants to keep her maid.

Mrs. RIDEOUT: I wonder if I might ask Mr. Myers whether the disability benefit provisions in the American program have been successful.

Mr. MYERS: I think they have been reasonably successful. We pay benefits to approximately 800,000 disabled persons each month. I am not using this as a sign of success or lack of success, but just to indicate the magnitude of the program. The wife of the disabled worker receives a benefit payment only when she is either over 62 or, in most cases, when there are dependant children present. The payments on the average run about $90 a month for the worker, and roughly half again as much for each dependant up to a certain maximum.

Our definition of disability has been a very strict one. We get complaints about it very frequently. We also get many appeals about it, and some law suits too. But in essence it is intended to be a definition for total and permanent disability, and the benefit is paid only after there is the equivalent of a seven month waiting period during which the person must have been disabled. Our experience has been reasonably favourable despite some very dire predictions.

In the very beginning, in the first few years, when we examined our experience, it seemed to be extremely favourable because we had people becoming disabled at so much lower a rate than we had estimated. We had been particularly pessimistic about the likely experience for the fair sex, where we thought that disability would be from 50 to 100 per cent higher than for men. But to our surprise we have not had that result as yet.

The rates of becoming disabled for women have turned out to be 25 per cent lower than for men. As a result of this initial experience with the rate of people becoming disabled, we reduced our cost estimate some and liberalized our program in various ways. Then we found later that the rate that people were staying on the pension roll was greater than we had anticipated. In other words, people were not dying off or recovering quite as rapidly as we thought possible. It was rather embarrassing. We had to raise our cost estimates. Accordingly, the amount that was originally allocated for this program now has to be increased. Originally we had thought that one half per cent of the payroll from the employer and employee combined would finance the program adequately.

We now find that it would have financed the original program, but with the way it has been extended we now find we need something like .65 per cent, or roughly two thirds per cent of payroll to be allocated to operate the system. Legislation is pending which I think will be approved to accomplish this.

Mrs. RIDEOUT: Could you pinpoint any particular area of difficulty?

Mr. MYERS: The disability program is, I think, quite obviously more difficult to administer than the retirement or the survivor programs because, of course, both age and death can be proven fairly readily. The earnings test is on the whole not too difficult to administer in regard to the people who have retired. Of course, for the survivor cases there are not many problems, but the determination of disability is frankly difficult.

Mrs. RIDEOUT: You have had to be very firm?

Mr. MYERS: We have been very firm despite, sometimes, congressional pressure!

Congress itself, both in the law and in the committee reports, emphasized that we should be very strict on this; and this has been re-emphasized over the years.

Mr. AIKEN: This does not apply to individual congressmen, I assume.

Mr. MYERS: No, we could find cases where a congressman has made very strong statements in general about this matter of strict definition of disability, and at the same time in the case of a particular constituent he may have felt rather unhappy that we had turned the case down.

Mr. KNOWLES: It would be quite different up here!

Hon. Mr. CROLL: In earlier evidence before the committee it was indicated that in the 30 years of the existence of the plan—and you were there at the beginning, I believe you told us—

Mr. MYERS: Yes.

Hon. Mr. CROLL: —the government has had a look at it about every two years on average, correcting it, changing it and what-not. Is that the history of the plan?

Mr. MYERS: To quite an extent, that is the case.

Let me describe the history of the congressional consideration. The program was established as a result of studies made by the committee on economic security in 1934 and 1935. In 1937 and 1938 an advisory council was established by the Senate finance committee and the executive branch jointly. The important amendments of 1939 resulted.

During the war years, of course, there was no real consideration of the program, and only certain minor changes were made, except for the fact that the tax rate was frozen at the initial level.

Following the war, a study group was established by the house ways and means committee. This group made an extensive study in 1947. In 1947 an advisory council of outside citizens, as are all advisory councils, was established, and it looked at the program in 1947 and 1948.

In 1949 and 1950 some very important amendments were developed that brought the program up to date following the war, and every two years thereafter through 1960 congress itself looked at the program, and amendments were passed in every even year—1952, 1954, 1956, 1958 and 1960.

At the same time in 1953 an advisory group studied the coverage of the program, and again in 1958 there was an advisory council which just studied the financing of the program.

In 1961 there again was legislation, and since then there has been no significant legislation, although congress has been very extensively considering the program in connection with hospital and related benefits for beneficiaries aged 65 and over.

Finally, in 1963 and 1964 there was another advisory council appointed which studied all aspects of the program, and that has just submitted this extensive report that I have mentioned several times.

Hon. Mr. CROLL: The advisory council? Do you differentiate between that and the congressional group? The advisory council is an outside group?

Mr. MYERS: It is an outside group authorized by law to be appointed by my department.

Hon. Mr. CROLL: From the inception of the program it has been under constant examination either by congressional committees or by committees made up of civilians appointed by congress? It has been under constant study all that time?

Mr. MYERS: Yes, that is correct, Senator Croll. That is a summary of what I said at great length.

Hon. Mr. CROLL: Have you in your mind the percentage of the people who take the security at an early age?

Mr. MYERS: You are referring to workers who retire between the ages of 62 and 65?

Hon. Mr. CROLL: Yes.

Mr. MYERS: In just the last two years, rather surprisingly, this has run very close to 50 per cent. For women this could be expected, I believe, because as you are aware many women will work part of their lifetime in industry and commerce and the rest of the time they will work at home, but of course the latter does not count under the system. For example, a woman might have worked during world war II for three or four years in a war plant and she may never have worked since. Under our system, she would qualify for benefits, and in most of those instances as soon as she reached the age of 62 she would take the benefit immediately rather than waiting a few years for a larger benefit at 65 or for a wife's benefit when her husband retires. However, for men it is rather surprising to us that as many as half of the recent claimants have been taking the reduced benefits. This to a certain extent is a result of unemployment due to automation, such as the close down of the Studebaker plant, but it is a matter that deserves very serious study and consideration. Our advisory council, although taking no action in the direction of either reducing the actuarial reduction or lowering the retirement age, has urged that the administration shall watch this closely in the next few years so that the next advisory council may perhaps act in that area.

Hon. Mr. CROLL: Can you pull out of the air a figure for the percentage of those under the security plan who are members of private pension plans?

Mr. MYERS: Yes, I think that of the people covered by our program who are employees, approximatley 30 per cent, or one third, are under private pension plans at the moment. How many of these people will actually draw benefits from those private pension plans I could not say. I think it is very close to the situation here in Canada.

Hon. Mr. CROLL: One third?

Mr. MYERS: Yes.

Hon. Mr. CROLL: You do not trouble with age groups, do you, under your plan?

Mr. MYERS: I have no information available. I do not believe there is any information on the coverage under private pension plans by age groups.

Hon. Mr. CROLL: You just have the over-all coverage, and from what you say it is about the same as ours.

Mr. MYERS: Yes, it is an estimate and I think a fairly good one.

Hon. Mr. CROLL: I wonder if you can help a little more. What is the average amount they will draw under one of those plans?

Mr. MYERS: At the present time I think there is somewhat over a million persons who are actually drawing private pensions, and I think the average pension they are getting is somewhere around $75 per month, but I am not completely certain.

Hon. Mr. CROLL: That is $75? It is $900 a year?

The witness is such a fund of information that I cannot let go, and I have one other point that is troubling me which I would like to put to him. This may be an administrative problem and you may not have faced it. I would like to put forward the position of a man who is drawing public assistance and who is out of employment today, a man who has been in employment until seven months ago when he became unemployed. This man needs some help and he draws public assistance. He is old enough to draw his pension. In the case of your plan does he have to draw his pension rather than accepting public assistance? Will they force him to draw his pension? I do not know whether I am putting the case clearly.

Mr. MYERS: I think the problem you are pointing out is that of a person, for example, who has only a small social security benefit and who has to obtain public assistance anyhow. You are asking whether the public assistance authorities require him to draw his social security benefit?

Hon. Mr. CROLL: Exactly.

Mr. MYERS: This, of course, is a state matter, but I am quite certain that virtually all states insist that the individual shall collect his social security benefit and count that as part of his income before they supplement it with public assistance.

Hon. Mr. CROLL: I was afraid you were going to say that.

Mr. AIKEN: May I ask a supplementary question?

Mr. FRANCIS: I have a supplementary question.

The CHAIRMAN (*Mr. Cameron*): There are two supplementary questions, and I also have Mr. Monteith on my list. Mr. Francis will be first, then Mr. Aiken and then Mr. Monteith.

Mr. FRANCIS: I was very interested in the percentage of those drawing benefits prior to 1965. Does the witness have percentages for people affected by the retirement test? I am referring to beneficiaries who are affected by the application of the retirement benefit.

Hon. Mr. CROLL: Yes, at the present time we have between one million and one and a quarter million persons over the age of 65 who are eligible for benefits but who are not receiving them because of the retirement test.

Mr. FRANCIS: This is a total disqualification?

Mr. MYERS: The type of figures we have for this are, for a typical month, that 8 per cent of the people who could draw benefits are not doing so because of the retirement test.

Mr. FRANCIS: But, there also would be a group drawing reduced benefits because of the partial application of this sliding scale arrangement.

Mr. MYERS: The 8 per cent figure is supposed to represent the net effect of the partial benefits.

Mr. FRANCIS: In other words, 8 per cent is a dollar figure?

Mr. MYERS: Yes, that would be a better way to put it. In other words, we would be paying 8 per cent more benefits if it were not for the earnings test.

The CHAIRMAN (*Mr. Cameron*): Would you proceed, Mr. Aiken.

Mr. AIKEN: I would like to clarify one point, Mr. Chairman. Am I correct in assuming that a person who takes the benefit at an earlier age, say at age 62, at a lower rate of benefit continues at the lower rate throughout the rest of his lifetime?

Mr. MYERS: Yes, that is correct, with the exception that I mentioned; if he returned to work then the amount of the reduction is recomputed. If a person goes on to the roll at age 62, the benefits are permanently reduced by 20 per cent; in other words, if the regular benefit at age 65 was $100, we pay $80 at age 62, and if the beneficiary continues on the pension roll the rest of his life, he will continue on at $80.

Hon. Mr. CROLL: Even though at age 66 he obtains a job which pays twice as much as he had before, and contributes?

Mr. MYERS: That would be an exception. If the earnings after age 65 are large enough to increase the benefit we would then have the benefit recomputed.

Hon. Mr. CROLL: But you make one computation from age 62 to age 65.

Mr. MYERS: Yes.

Hon. Mr. CROLL: And you make another computation after age 65 if he is still in the labour field?

Mr. MYERS: Yes. There is a general provision for recomputation of the benefits if an individual has earnings after age 65; if the earnings are higher than in some of the years before that age he can substitute such a year for one of the poorer years before 65 and we make a benefit recomputation. Under the present law a man has to claim that recomputation, but under the administration bill that has been introduced recently there is a provision, which is of a technical nature, to the effect that this will be done automatically. With the electronic data equipment we are now using we can do it automatically for these people.

Mr. MONTEITH: May I proceed now, Mr. Chairman.

Mr. CANTELON: Mr. Chairman, I have a supplementary question on this same subject.

The CHAIRMAN (*Mr. Cameron*): Would you proceed.

Mr. CANTELON: If 50 per cent are taking the benefits at between ages 62 and 65, have you any figures whether the people who are taking it are in low or high income brackets?

Mr. MYERS: From the study we have made these are people who are generally in the lower income groups and they are claiming the benefits, it seems, primarily because they do not have current employment. It is not that they have, generally speaking, retired voluntarily at those ages. As well, many of them might be partially disabled people who cannot meet our tests for total and permanent disability and yet they really cannot do very much of a day's work.

Mr. CANTELON: Would not this impose a problem in future years when the cost of living goes up, because if they took smaller benefits they would not be in nearly such a good position as they would if they waited until age 65?

Mr. MYERS: Yes, this is a problem, and the advisory council recognized it. It was felt that more study was needed to see if this was, more or less, a temporary condition or whether it would prevail in the future to people coming along at age 65.

Mr. MONTEITH: May I put my question now, Mr. Chairman?

The CHAIRMAN (*Mr. Cameron*): If I may interrupt, Mr. Monteith, there is a problem in respect of the printing of the brief of the Canadian Life Insurance Officers Association, particularly in respect of the two charts. If it is your wish to have these two charts duplicated in the evidence it will delay the printing of the evidence for two days. Are you agreeable to that?

Some hon. MEMBERS: Agreed.

The CHAIRMAN (*Mr. Cameron*): I am sorry, Mr. Monteith, but would you proceed now.

Mr. MONTEITH: Mr. Myers, I believe you indicated you operate your system under two different pieces of legislation and that you deduct your costs of administration from the legislation governing your contributions.

Mr. MYERS: This was the original procedure until our 1939 amendments, but because the supreme court had given such a favourable decision on the constitutionality of it there seemed no question but that we could adopt the present procedure, in which 100 per cent of the taxes are put into the trust funds and then the administrative expenses are taken out.

Mr. MONTEITH: Could you give me the percentage of administrative expenses in respect of the contributions?

Mr. MYERS: Yes. For the system as a whole, in the last five years the administrative expenses have represented about 2¼ per cent of either the contributions or of the benefit payments, since the two have been very close to each other. Perhaps I should say that we have two separate parts of the system, one for old age and survivor benefits and the other for disability benefits. Each has its own separate trust fund, for reasons I will give later. As I think was indicated by one member, the disability benefits are more difficult to administer, and this shows up in the figures for the two branches separately. In the disability portion the administrative expenses run around 5 to 6 per cent of the benefits or the contributions, whereas in the old age and survivors insurance portion they run around 2 per cent. So for the two together the average would be 2¼ per cent.

Mr. MONTEITH: I presume that these expenses include your share of income tax collections and so on from various offices of the Department of Internal Revenue.

Mr. MEYERS: Yes. I think it is a fairly complete inclusion of all administrative expenses traceable to the system, including the expenses of the treasury department for collecting the taxes and issuing the benefit cheques, the expenses of the social security administration for record keeping purposes, benefit adjudication purposes, payments for salaries, machine supplies, reimbursement to the post office department for mailing expenses, and so on. One expense it does not include is for the time that congress spends considering the social security legislation.

You might be interested to know why there are two separate trust funds. As I said, we have an old age and survivors' insurance trust fund and a disability insurance trust fund. The disability fund is allocated a certain part of the taxes and the rest goes to the other fund. At present the disability fund gets one half per cent from the employer and employee combined and three quarters as much in the case of the self-employed.

When the disability benefits were considered in 1956 there was considerable opposition to them, and it was pointed out that the difficulties of administering this portion of the system might endanger the solvency of the whole system, and that many of the old folks would not get pensions; so, the advocates of disability benefits got the idea of two funds, and this separate fund was set up for our disability benefits. If ever we should run out of money in the disability fund, for example, we would not be able to pay benefits. So, theoretically at least these arguments have certain validity. However, I feel certain if the disability fund got down to such a point that it appeared likely that we could not pay benefits during the next one or two years congress would take appropriate action. It is for this same reason in respect of the proposed hospital and related benefits that are being considered we would set up a third trust fund.

Mr. CHATTERTON: You said that in the case of farmers who have no income tax liability they have the option of taking two thirds of their gross and counting it as net. This figure seems high to me. What was the reason for the two thirds figure?

Mr. MYERS: Originally it was one half but the legislators, particularly those interested in the farmers, suggested that two thirds might be a better ratio. Of course, this is just an optional procedure; the farmer can use his net, if he wants to. And, he could change the basis from one year to the next; for example, it is conceivable a farmer could operate on the two thirds of gross basis until he retires and if his net is very low he might shift over to his net after age 65, as that is what counts for the retirement test.

Mr. CHATTERTON: I know we cannot relate any questions to the Canada pension plan but, in general terms, is the optional retirement age of 62 based on an average retirement age?

Mr. MYERS: No. I will explain the way this developed. Initially, we had age 65 for both men and women, and when the legislation was being considered in 1956, there was considerable pressure brought to have a lower age. The argument made was that the wife is usually younger than the husband and also that a woman who is widowed when she is somewhat under 65 has a hard time getting a job. So, we arrived at the age of 62 sort of by compromise; this was about the average difference in age between husband and wife. And then since there was a lower age for wives and widows, the women workers said that they too should be able to receive benefits at age 62. Accordingly, the law was changed so that the woman worker too could get benefits at that age. Then, subsequent to 1956, as there became more unemployment, particularly in certain industries, there was pressure to the effect, why not let men obtain benefits at age 62, especially if this does not cost anything on a long-range basis since it is on an actuarially reduced basis. So, in 1961 an amendment was put through whereby the age was reduced to 62 for men as well.

Mr. CHATTERTON: Does this add materially to administrative difficulties?

Mr. MYERS: I do not think we had any great administrative problems there. Actually I think many of the beneficiaries do not completely understand the benefit calculations involved, but they realize there have been some reductions. Most of them take their benefits at the age of 62 because they are no longer working, and they want their benefits then instead of a larger benefit later.

Mr. CHATTERTON: When a country enters into a social insurance scheme based on earnings, is it desirable to have a retirement age at a reduced rate which coincides with the average retirement age? Let us put it this way, if the statutory requirement is, say, the age of 65, you cannot get a pension before that. If the average retirement age is less than that, do you think in general terms it would be desirable to allow a reduced retirement age?

Mr. MYERS: I would say under circumstances where the average retirement age was lower than the planned normal retirement age, the normal retirement age should be lower. Under our plan, at least in the early years of operation, the average retirement age was around 68 for men, and 67 for women. Why we selected the age of 65 to start off is an interesting matter. I think the reason was that it was a nice round figure. Seventy seemed too high because most people did not work until the age of 70; while the age of 60 which was advocated by some people, the Townsend plan among others, was far too low from a cost standpoint, so 65 was found to be a nice round figure. I think in the future in the United States if our experience is that many people will be forced to retire before the age of 65, or cannot find jobs when they get to be near that age, we might have to lower our normal retirement age; in other words make it 62 without a benefit reduction. This involves a considerably increased cost, but if such circumstances arise, this cost may have to be borne by the economy.

Mr. CHATTERTON: In speaking about maturity in the social insurance plan you indicated that there would be justification for a windfall for those approaching retirement based on the principle that they have given past service. Would such an obligation not extend to those who had already retired at the time the plan came into effect?

Mr. MYERS: This is a matter that can be debated, of course. It is not a mathematical matter. In my own personal opinion it is highly desirable to make a plan fully effective as soon as possible. In the United States we did not do it. There were a number of people who argued that you should bring in what we called the non-insured aged and blanket them in, at least, for the minimum payment. There were strong arguments for this, and it was considered very seriously but was never adopted by the congress. At our stage of maturity where our system has been operating for 25 years, this remaining non-insured group that would be blanketed in is relatively small; it is probably somewhere in the neighbourhood of two million people at the present time. Many of these people are receiving old age assistance, so if we gave them a minimum payment, maybe a third to a half of them would just have that taken away from their assistance, and not much would be accomplished.

However, speaking along this line, you might be interested to note that our hospitalization benefits proposal contains such a blanketing in recommendation, so that this group of two million people, whether they are on old age assistance or not, would get the same benefits as the insured group. These benefits would be paid from the general fund; they would be paid through the hospital insurance trust fund but the money would come from general funds.

Mr. CHATTERTON: Do you think it is desirable in a social insurance scheme based on earnings in an economy such as Canada's that the benefits relate directly to the average earnings of the person involved? If it is a social insurance scheme should it be related directly, or should there be some modification or adjustments for those who are in the high income brackets?

Mr. MYERS: I think that is a question I had better pass by.

Mr. LLOYD: Mr. Myers, earlier I think you referred to disability matters. If I recall it correctly, you said there was no earnings test for disability payments.

Mr. MYERS: That is correct. I should have explained that. It was considered anomalous by the congress that anybody who is stated and proved to be totally and permanently disabled could have any earnings; therefore to put an earnings test in would seem to be inconsistent. It was recognized that some disabled people might, in the process of vocational rehabilitation, have substantial earnings, and we do have a provision that permits the continuation of benefits for a year while the person is undergoing vocational rehabilitation, and if their earnings exceed whatever the limits are, this is still permissible.

Mr. LLOYD: Was this within the context of section 535 of your handbook? I am trying to reconcile that with your statement.

Mr. MYERS: You see, the presence of such earnings serves as evidence, but it may not be conclusive so that we would not automatically cut the person off if he had earnings of more than $100 a month. There might be, as I say, unusual circumstances such as vocational rehabilitation. If he was in a training course and was earning more than this, we would not reduce the benefits, but when we see that someone is earning more than $100 a month as shown in our earnings records, we flag that case and investigate it to see whether in fact he has recovered.

Mr. LLOYD: So that this just shows an ability to earn. Thank you.

Mr. GRAY: May I ask Mr. Myers a general question about administration? Are cheques sent out monthly?

Mr. MYERS: Yes.

Mr. GRAY: How many cheques do you send out every month?

Mr. MYERS: We have 20 million beneficiaries on the roll. However, we do combine some cheques because, for example, the cheque for a husband and wife is combined unless the wife objects, then we send two separate cheques. We do, of course, have cases where the wife is the primary beneficiary and the husband is a dependant, and also in cases of survivor families the widowed mother virtually in all cases gets a single combined cheque for all the children. I, therefore, do not have the specific figure regarding the number of cheques we issue, but I would think that they would be somewhere in the neighbourhood of 15 or 16 million a month.

Mr. GRAY: Do you have any figures indicating how many of these people receiving cheques come to the administration with complaints about their cases?

Mr. MYERS: I cannot give you any specific figures on that. We have some 600 district offices all over the country and the beneficiaries can and do come to these offices with questions about their benefits rights and why they are not getting payments, or why the payments are not as large as they believe they ought to be.

Mr. GRAY: Do you have any information to indicate if there is widespread dissatisfaction with the scheme?

Mr. MYERS: I do not think there is. In general we have excellent relations with the public and I think we generally hear very favourable comments from the congress about this. For a United States government agency we have taken a rather aggressive position in going out and informing people of their benefit rights, and we have a very widespread informational program. Sometimes government agencies feel restricted in certain ways, and quite properly so, that they should not go out and get people to press claims against the government. We have always viewed our program as a somewhat different situation. We go out and inform the beneficiaries when we know a claim exists.

Mr. MUNRO: And we all saw what happened to Goldwater.

Mr. GRAY: Is there any widespread movement in the United States to scrap this system and substitute for it, for example, a flat rate old age security system such as we now have?

Mr. MYERS: I would say there is virtually no movement in this direction. I know of no organization that is pushing this. I might change this statement a little bit; perhaps there are some politically oriented organizations of relatively small size that want to do away with the whole social security system, but I do not think there is any substantial portion of the population that would want to do this. I could state that as a matter of fact in the past political campaign the position of the republican nominee changed during the campaign from a position of making the system voluntary to one of supporting the system in its present form, and in fact he suggested that it should be improved, which I do not think would mean changing it to a flat benefit system.

Hon. Mr. MCCUTCHEON: Do you have a minimum benefit?

Mr. GRAY: Just a minute, senator. I do not interrupt you when you ask questions.

Mr. Myers, I realize you do not have a situation similar to our flat rate benefit, but is there a minimum pension payment for all or most of those on your O.A.S.D.I.?

Mr. MYERS: We have a provision which says that the minimum benefit for a retired person at age 65 is $40. If he retires earlier a reduction applies, so he would only get $32 at age 62. This minimum payment I think is made to approximately 5 per cent to 7 per cent of the retired workers. The reason the figure is even as high as it is, is not that so many workers are low income persons but rather that many of the persons receiving the minimum benefit have had sporadic earnings records. An example is the case I gave of a woman who worked during world war II for two or three years in a war plant and never worked since. If she were "retired" today at age 65, she would almost certainly receive a minimum benefit of $40.

Mr. GRAY: I may not be using this term correctly, but what would you say would be the average figure so far as the size of payment is concerned?

Mr. MYERS: The average payment now for a retired worker is about $75 for those on the roll, while for those currently coming on the roll it is about $80. This includes all types of cases from the person coming on with a minimum benefit of $40, because he had a very sporadic wage history, to the full time worker who has been in the system every year since it began at relatively good wages—a person who perhaps is getting $100 or $105 a month.

Mr. GRAY: That is the arithmetical average.

Mr. MYERS: We have worked out averages for various types; we have worked out an average of what we call the full time male worker, and that comes out to somewhere around $105.

Mr. GRAY: You may have answered this previously. Could you tell us what the initial transition period was when the system first went into effect before maximum benefits were available?

Mr. MYERS: I did not mention anything like that. This is a little difficult to answer in respect of the system as it originally was, because when we first paid benefits in 1940, this was three years after contributions had been collected and at that time benefits were related primarily to the person's average wage, but there also was a factor which related to the length of contribution. Accordingly, in a sense, we did not pay the maximum benefit at the start.

To answer your question further, I think we could consider the situation in more recent years, such as when farmers were first covered in 1954. Farmers could get full benefits within two years; so, in that case we had only a two year transitional period.

Mr. GRAY: I believe certain changes either are pending or have just been passed.

Mr. MYERS: Pending, I believe.

Mr. GRAY: If they should be passed this year, how long would it be before the full extent of these changes would be available to the beneficiary?

Mr. MYERS: The pending legislation this year, which is in the general area of benefit amounts similar to what was considered by congress last year and which passed both the house and the senate but died in the conference between the two bodies, would have increased benefits of all now on the roll by a certain amount. In addition it would have provided for higher benefits in the future because it would have raised the earnings base from the present figure of $4,800 to $5,600. Under the currently pending legislation a person cannot receive the maximum benefits based on the $5,600 base, which would be close to a benefit of $150 a month, for many years.

Let me explain this. If a person were to retire at age 65 he could not get this maximum benefit until some 40 years from now because he would have to count some of the wages in the past at $4,800 which would pull down his average. However, because of the provision that you can substitute a year of high earnings after age 65 for a low year before age 65, a person who worked in the future for about nine or ten years after age 65 at a wage of $5,600 could draw the maximum benefit. Specifically, a person who reaches age 65 this year or before could, by working for nine years into the future, with the new higher earnings base proposed, draw the maximum benefit.

Mr. GRAY: What about a person reaching age 55 this year; would he get the maximum benefit?

Mr. MYERS: Not unless he kept on working beyond age 65; he would have to count some of the past years at $4,800 rather than at the new maximum of $5,600.

Mr. GRAY: What has been the trend of personal savings in the United States since your social security system has been put into effect?

Mr. MYERS: I do not have at my finger tips any information on this, but when you consider that the system started in the depression period of the 1930's, I would think there would be much more personal savings in force now than there were then; certainly in dollar terms, and probably also in relative terms.

Mr. GRAY: Thank you.

The CHAIRMAN (*Mr. Cameron*): Mr. Knowles, I missed you on the first round. We now are starting on the second round.

Mr. KNOWLES: The members of the committee probably will be glad you did miss me on the first round, because most of my questions have been asked. Mr. Myers, generally in this country our Canada pension plan has been regarded as a very complicated piece of legislation. I think the more we hear about yours, the simpler our proposal looks. However, if we have a committee every two years for the next 50 years, it probably will become just as complicated.

I believe in your initial statement you mentioned contracting out. As I understand it you do have contracting out of a form in the United States.

Mr. MYERS: No. When the act was first studied we considered it and there was quite a fight over it at that time, but it was not adopted. I think virtually all parties now are in agreement that it was desirable there should be no contracting out.

Mr. KNOWLES: I will have to alter my question; I misunderstood you earlier. I take it that the question is not a difficult one for you. You recognize this is one of our problems here; that is, the problem of integration. Do you agree it is better to have a plan that is universal and leave it to other plans to integrate as they may wish rather than allow for contracting out?

Mr. MYERS: Yes; that has been my position when I have considered social security systems of other countries. It always has been my personal view that the national social insurance system should be of as broad and widespread application as is possible and that any private pension plans, either developed by employers alone or by employers and employees jointly, should be built on top of it.

Mr. KNOWLES: It has not been too difficult for these other plans in your country to make the necessary adjustments.

Mr. MYERS: No. There have been some technical problems involved, but I think the evidence is that when our system was started there were only 500 to 1,000 pension plans in the country and now there are about 30,000. In our case of course it is a different situation. The social insurance system in essence came first and the other plans were built on top of it. That, of course, is not the same situation as having many private pension plans which must be modified to recognize the introduction of a national social insurance system.

Mr. KNOWLES: One of the points which sometimes is raised here is the fact that the total percentage an employee might have to pay would get a bit high. For instance, he may pay 6 per cent on a plan, something somewhere else, and 1.8 on our plan. There are cases in this country where these combinations add up to a fairly high percentage. Does that create any difficulty in the United States?

Mr. MYERS: There are many private pension plans that are built on top of the social security system where the over-all contribution rate for employer and employee combined comes at a fairly high level. For example, you can consider our present O.A.S.D.I. program as having a cost of roughly 9 per cent— 4½ per cent for the employer and 4½ per cent for the employee. There are many private pension plans which have contributions rates jointly between the employer and employee as high as 12 per cent or possibly more. So, the total contribution rate for pension purposes might run as high as 20 per cent.

The CHAIRMAN (*Mr. Cameron*): I have four more names on my list. We do not wish to impose upon you, Mr. Myers. It is now five o'clock. The questions may be short on the second round.

Mr. MORISON: I have not asked one on the first round. May I have an opportunity now?

The CHAIRMAN (*Mr. Cameron*): Yes.

Mr. MORISON: Could you give us the total contributions to the O.A.S.D.I., please.

Mr. MYERS: In the calendar year 1963 the total contributions to the old age and survivors insurance portion were $14.5 billion. And for the disability insurance portion it was $1.1 billion or a total of $15.6 billion.

Mr. MORISON: That was in 1963?

Mr. MYERS: Yes, just for that one year. Now, for 1964 it would be perhaps $700 million or $800 million more than that, the reason being that the contribution rate went up in 1963 so that some of the collections in 1963 were at the lower rate applicable to the previous year.

Mr. MORISON: Just offhand, you would not know what percentage that was of the gross national product, just as an estimate?

Mr. MYERS: I think it is about probably four per cent.

Mr. MORISON: Is there not roughly a figure of about six per cent of the gross national product which goes into public welfare in the United States?

Mr. MYERS: Yes, I think that is right, approximately.

Mr. CÔTÉ (*Longueuil*): Would you have a figure for the benefits which were paid?

Mr. MYERS: Yes. The old age and survivors' insurance benefits in 1963 were $14.2 billion. The disability benefits were $1.2 billion. So you see that in the combined system the contribution income and the benefit outgo were very closely in balance in that year.

Mr. CÔTÉ (*Longueuil*): It was a pay as you go plan?

Mr. MYERS: Yes. For the last decade I think the system has been operating more or less on a balance of income and outgo basis.

Mr. CANTELON: I have two questions. The first one is statistical more or less along the lines of those just asked. I understand that from 1937 until 1949 the employee paid one per cent. I wonder if you could give us the dates and the rates that have taken place since that time until today?

Mr. MYERS: Yes, I could do that, I have it before me. The table reads as follows:

Past and Future Financing Provisions

Period	Maximum taxable earnings base	combined employer-employee tax rate	Self-employed tax rate
1937-49	$3,000	2%	*
1950	3,000	3	*
1951-53	3,600	3	$2\frac{1}{4}$%
1954	3,600	4	3
1955-56	4,200	4	3
1957-58	4,200	$4\frac{1}{2}$	$3\frac{3}{8}$
1959	4,800	5	$3\frac{3}{4}$
1960-61	4,800	6	$4\frac{1}{2}$
1962	4,800	$6\frac{1}{4}$	4.7
1963-65	4,800	$7\frac{1}{4}$	5.4
1966-67	4,800	$8\frac{1}{4}$	6.2
1968 and after	4,800	$9\frac{1}{4}$	6.9

*Self-employed not covered in this period.

Mr. CANTELON: We are to understand that self-employment coverage was one and one half times what the single employee was covered for.

Mr. MYERS: That is correct.

Mr. CANTELON: I have one other question concerning the trust fund which might be considered supplementary. I understand that the 1959 advisory council recommended that the investment of trust funds should be retained in federal government bonds, the same as had been done in the past. I wonder if you would care to comment on why none of this had been put into state bonds?

Mr. MYERS: As you have indicated, ever since our system began, according to law these investments were required to be made in federal government bonds, or in investments guaranteed by the federal government. In practice we had never used the latter category, and all our investments had been in federal government obligations in one form or another, either special issues or public issues. Occasionally we have had questions as to why our funds were not invested elsewhere. I do not recall a suggestion ever having been made to put the money into state and municipal bonds, but rather to invest it in home mortgages or to put it into productive enterprise by buying stocks and bonds. Of course, when people make this suggestion it is quickly pointed out to them that we might end up owning a great deal of the economy of the country, and then they have backed away from that suggestion.

But to my knowledge there has never been a suggestion of going into municipal and local government bond areas. Most of those bonds are highly desired by certain wealthy investors, because the income from them is exempt from federal income tax. I would personally take a position against any investment other than in government bonds, at least for the United States, and because of the great problems involved.

If we invested in private industry, it would mean control of a large segment of industry by the federal government. There would also be a problem that if we did this, and if we should decide that one company was not a very good investment, the word would get around and there might be a panic in the stock market in regard to that particular company. We would not want the federal government to be placed in the position of becoming a rating organization on the value or reliability of private investments.

As to going into a government type of investment, whether it be state or local bonds, or the bonds of some other country, I just would not see any reason to do this. Again we might run into a problem in the United States by being selective if we should say that the bonds of state "X" or of municipality "X" might be a good and sound investment, so let us buy them. That would be fine. But if we did not achieve equal distribution among all places we might get into trouble with congressmen from a particular area, so that it would seem to me to serve no real purpose as far as the trust fund is concerned.

The rate of interest on our state and municipal bonds is fairly low. We can get a much better rate of return on federal bonds which are now at about four per cent, whereas most municipals average about three and one third per cent. So there is just no reason to do it.

Mr. CANTELON: I asked you the question because a lot of this money is expected to go to the provinces for investment and I wondered if there was any advantage in putting the money into the hands of the state rather than leaving it in the hands of the federal government.

Mr. MYERS: I can see where this might be so in regard to some countries, such as some developing countries that I have visited. There was an advantage in those countries in investing funds in the economy which is projected. My view always was that expenditures for such purposes should not come directly from the social insurance fund but rather come indirectly through loans by the social insurance institution to such agencies as the economic development bank, or something of that sort.

Mr. BASFORD: Mr. Myers, it has been urged on this committee that we should build into the Canada pension plan, or into the universal old age security which we now have, some system of past retirement increase in benefits not related to the price index or wage index but rather related simply to the attainment of age. As they grow older they would receive more money. That is not in your system, but I wonder if any of your advisory committees have considered this for social security, and what their considerations have been?

Mr. MYERS: I do not believe that any of our advisory councils have ever considered this idea, nor do I know of any other active consideration of it in the United States.

Mr. BASFORD: I was wondering if you think the idea has any merit.

Mr. MYERS: This, of course, depends upon the particular circumstances of the country, the income and assets of the people, considered by age. Also, I think you have to take into account the material needs of the people as their age increases. There are many factors involved, including what provision there is from a governmental standpoint for medical benefits. Medical costs rise with age, and countries which have medical care provisions would have a different situation in respect to graduated benefits with age than countries which do not have such provisions.

Mr. BASFORD: Do you feel that as citizens grow older they should receive more social security by reason of their age?

Mr. MYERS: I would not say solely because of their age. Consideration would need to be given to the income position as age advanced and whether their needs decreased or increased as age advanced. I have not made any studies of this and I do not know of any studies that have been made; but I would think they would have to be made before such a proposal would be put into effect.

Mr. CHATTERTON: In general terms, are people in the low income brackets throughout their life in a poorer position to provide for their post retirement pay? Let me put it in this way: Is a lesser percentage of their income allocated for retirement purposes?

Mr. MYERS: I would think so, and it is for this reason that we have what we call a weighted benefit formula. The lower-earnings people get a relatively higher proportion of their pay as a retirement benefit. Of course, I appreciate that under your proposal this same sort of thing would result to some extent because you have a flat benefit plus an earnings related benefit. It is a matter of two different ways of achieving the same general result of putting weighting into the computations.

Mr. KNOWLES: The $600 deduction also has that effect?

Mr. MYERS: Yes, that is true.

Mr. LLOYD: It identifies the principle only.

Mr. AIKEN: I wonder if Mr. Myers could tell us what is the percentage cost of the administration of the fund.

Mr. MYERS: At present the cost of administration—and this is the complete cost including collecting taxes, paying benefit cheques and keeping records—is running at about 2¼ per cent of both contributions and benefit payments. At the moment, contributions and benefit payments are closely in balance.

The CHAIRMAN (*Mr. Cameron*): I think we have had a wonderful afternoon. I think, Mr. Myers, we must thank you very sincerely.

Mr. GRAY: There is just one question I would like to ask Mr. Myers. I would like to know how this compares with testifying before a congressional committee.

Mr. MYERS: I will avoid that question by saying that it has its similarities and also it has its differences.

Mr. KNOWLES: Civil servants are the same on both sides of the border, too.

The CHAIRMAN (*Mr. Cameron*): If I may sum up in a few words, you have been wonderfully generous, Mr. Myers, and the information you have given has been of tremendous advantage to us. We thank you very sincerely for your courtesy in coming, and we hope you have enjoyed as much as we have your presence here this afternoon.

It is now 5.15. We will meet tonight at eight o'clock, when the Retail Council brief will be presented.

EVENING SITTING

THURSDAY, January 14, 1965.

The CHAIRMAN (*Mr. Cameron*): Mrs. Fergusson and gentlemen, it is just a few minutes after 8 o'clock; I see a quorum so I think we should get started.

I have been handed a submission on behalf of the Retail Council of Canada in respect of a couple of errors in their brief; if you want to take a note of these corrections you may do so at this time. At page 8, paragraph 25 (b), line four, delete the word "both". At the same page and paragraph, line 6, insert period after the word "plan"; delete the words "because of the merits of this method of financing."

Mr. KNOWLES: And, does not the word "and" come out as well?

The CHAIRMAN (*Mr. Cameron*): They do not say but if, grammatically, it should come out, take it out.

Mr. LLOYD: It is left dangling, if you do not.

Mr. A. J. MCKICHAN (*General Manager, Retail Council of Canada*): Mr. Chairman, it comes out.

The CHAIRMAN (*Mr. Cameron*): Mr. McKichan is the general manager of the Retail Council of Canada. He is a very well known Canadian, of course, and he is head of a most important organization. Mr. McKichan will be the main spokesman for the Retail Council of Canada, and he will introduce the other members who are here with him. These other members will also be prepared to support him and answer any questions that members of the committee may wish to ask.

Mr. MCKICHAN: Thank you, Mr. Chairman. On my immediate right, sir, is Mr. E. C. Went, vice president of Dominion Stores Limited, Mr. Went is chairman of the council's employee relations committee. On Mr. Went's right and behind the table is Mr. R. H. Hyndman, president of Charles Ogilvy of Ottawa. Mr. Hyndman is a director of the Retail Council of Canada and also a member of the executive committee of the board. On Mr. Hyndman's right is Mr. Lawrence Freiman, who is president of A. J. Freiman Limited, Ottawa. Mr. Freiman also is a director of the Retail Council of Canada.

Mr. Chairman, I have a short statement and if it is the wish of the committee I would be happy to read it.

The CHAIRMAN (*Mr. Cameron*): I wish you would.

Mr. MCKICHAN: Hon. Senators and gentlemen:

> The council feels privileged to appear before this committee today. The Canada pension plan is one of the most important schemes of social welfare which has ever been proposed in this country. Because the trade in which our members are engaged is so heavily labour intensive, all programmes affecting employee welfare and/or calling for employer contributions are of particular significance. The council, of course, is also concerned regarding the impact of the scheme on the national economy.
>
> In our submission, we state that the council is in favour of the concept of a uniform, contributory pension plan providing benefits to retired persons, widows and disabled persons. The council does, however, query whether sufficient study has been undertaken on the ability of the national economy to support this plan and in addition, the other desirable social welfare projects which have recently been proposed. The council has particularly in mind the recommendation of the royal commission on health services regarding the introduction of a national comprehensive health plan. It is the council's recommendation that introduction of the plan should wait upon a determination of priorities

and a close review of whether the national economy can afford a plan of this magnitude at this time. The other major points we make in our submission are:

1. That it would be most unfortunate if the province of Ontario were to withdraw from the Canada pension plan. The council believes that the hesitancy of this province is induced because it will have only partial control over that part of the fund representing the contributions originating in Ontario. It is suggested that reversion to a minimally funded plan might ensure Ontario participation. The more separate plans which are introduced, the greater will be the overhead cost and the larger will be the burden placed upon interprovincial employers;
2. That possibly there is too great a disparity between the level of benefits proposed under the Canada pension plan and the level of benefits available to beneficiaries under old age security.
3. That every possible step should be taken to reduce the clerical burden on employers. The council suggests, for instance, that contributions on behalf of employers be made initially on an estimated basis with final determination being deferred until after the end of the year. The council also suggests that in the evolution of collecting and reporting procedures, the government consult frequently with trade groups.
4. That the federal and where appropriate, the provincial governments use their influence to ensure that employers are not prevented from integrating existing pension arrangements with the Canada pension plan because of employee pressures.

All of which is respectfully submitted.

The CHAIRMAN (*Mr. Cameron*): Mr. McKichan have you any particular recommendations you want to make on some of these matters which you have mentioned?

Mr. MCKICHAN: Mr. Chairman, I did mention what we considered to be the most important parts of our submission within that statement. We will be happy to elaborate on any specific point upon which the committee wishes further information.

The CHAIRMAN (*Mr. Cameron*): The meeting is now open for questions.

Mr. AIKEN: Mr. McKichan, you commented upon employers deductions and I believe this is the first time we have heard this particular suggestion with regard to that. Would it be your thought that the employer would remit just once a year on the estimated deductions and then at the end of the year within his own organization readjust the accounts and remit the balance. Is this your thought behind the employer's remittances?

Mr. MCKICHAN: Mr. Chairman, we did not make an exact determination of what the actual mechanics would be but we were concerned that at the moment there is no provision for excess employer contributions being returned to the employer. A system could be worked out in which there was only one, or perhaps more frequent contributions. If these could be made on a remitted basis, and if at the end of the year an exact determination should be made from the employee's return, perhaps at this time a reckoning could be made with the employer and he would be paid back or have to pay more, as the case may be, as a result of his obligation. We had in mind that a system similar to that used for income tax returns, with the T-4 slips, could be used. Perhaps it would be necessary to make the employer contributions more frequently than once a year; it may be done on a quarterly basis or even on a monthly basis.

Mr. AIKEN: Would it actually relieve you of any book work? I assume you still would have to take the deductions off every employee's pay. Would that not be the idea?

Mr. MCKICHAN: Our concern was twofold. First of all, we felt it is unreasonable that an employer should not be able to get back that portion of his overpayments. This would be particularly important in a retail industry where, traditionally, there is a high turnover in employees and where there are a great many part time employees who may not, in fact, at the end of the year become eligible for the plan, with the result that record keeping for an exact determination within a year would be very difficult.

Mr. AIKEN: I have one other question and it is purely a question of interest. Have you any connection whatever with the Retail Merchants Association.

Mr. MCKICHAN: This is a parallel organization; on many matters we co-operate and on others we agree to differ.

The CHAIRMAN (*Mr. Cameron*): Have you a question, Mr. Lloyd.

Mr. LLOYD: You have made a reference in your summary to the matter of priorities between the comprehensive health plan and the Canada pension plan. Are you taking any position of priority on this matter? You are not putting a priority on the health plan over the Canada pension plan, are you?

Mr. MCKICHAN: No, that was not our intention.

Mr. LLOYD: I just wanted to emphasize the fact that you are fearful of both plans coming at once.

Mr. MCKICHAN: We are fearful of both being introduced at once because, together, they may prove more than the economy conveniently can stand.

Mr. LLOYD: Then you mentioned the matter which Mr. Aiken referred to. I presume that you know our difficulty in this respect. This would apply particularly to your type of operation, where, according to your brief, you have a large number of employees and a large turnover among them, and the deductions have to be made as you go along, and remittances made. But, the difficulty is sorting out which employer the refund should be made to and in what proportion. You mentioned that perhaps the same kind of thing as is done in respect of the Income Tax Act might be helpful, but there you have an entirely different purpose being served. Do you think that your system would work under the provisions of this plan, or do you have any other step by step procedure that might be an improvement on what is proposed?

Mr. MCKICHAN: It was our belief, sir, that there would be a record maintained of the individual contributions of every employee, and that part of this record would be a note from the employers for whom that employee worked. With these two pieces of information we thought it would not be an impossible task at the end of the year to determine to which employers a refund should be made in respect of each employee.

Mr. LLOYD: Are you concerned with the factor of cost which might fall on you because there are no refunds? Is it the cost factor that concerns you or is it the administrative work?

Mr. MCKICHAN: There were two problems: There was the cost of the extra contribution, then there was also the cost of an exact determination of the employer's liability during the course of the year.

Mr. LLOYD: You mentioned some concern about having the fund under this plan and you suggested that the hesitation of the province of Ontario in participating in the federal plan may arise from the fact that they only have partial control over a substantial part of the accumulated contributions in the fund. What do you mean by partial control? What would you consider would be full control?

Mr. McKICHAN: I consider full control if Ontario operated the scheme, a scheme in which the federal government did not participate.

Mr. LLOYD: Assume they would want to co-ordinate their plan with other possible provincial plans, and that others opted out as well, it would certainly be reasonable to conclude the provincial governments would want to co-ordinate their contribution scales and their benefit scales in order to meet this great challenge of portability. Assume that this is so, then would the volume of funds which they would generate be different from that of the Canada pension plan?

Mr. McKICHAN: I imagine, sir, that first and perhaps most important is the fact that the investment policies of the federal scheme on the one hand and a provincial scheme on the other could be significantly different.

Mr. LLOYD: May I put my question this way. Are we in agreement in our understanding of the plan? As I understand it, the funds available for investment are offered first to the provinces in proportion to the funds obtained from each province, and in this respect the funds are available to the provinces for investment by putting its debentures into the fund. Does that not meet your criticism substantially?

Mr. McKICHAN: We had this in mind, sir. It was our thought that because the control or the participation of the province of Ontario in determining the future conduct of this scheme is one which it shares with all the other provinces and with the federal government, it might, for this reason, feel it was more remote that it would be were it in greater control of the fund itself.

Mr. LLOYD: That would be more of a psychological condition than a real one, would it not?

Mr. McKICHAN: It is perhaps a psychological condition but one which would influence perhaps the people of Ontario and through them the government.

Mr. LLOYD: There might be other reasons, which we would not want to discuss here, why political strategies might be involved in the question, but when you get down to dollars and cents the contributions levied for the purpose of this fund would come into the hands of the Canada pension fund. In proportion to those contributions each province receives the opportunity to use them for investment purposes, so there is no real advantage.

Mr. McKICHAN: We had one other consideration in mind. We understand that reciprocity provisions are contemplated between the Canadian fund on the one hand and the United States fund on the other where both the funding arrangements, the contributions arrangements and the benefit arrangements are all different. Conceivably, if this can be contemplated between the United States and the Canada plans, reciprocity could also be worked out between the provincial plan and the federal plan even though there were substantial variations in policy between the plans.

Mr. LLOYD: So in essence you share our views, certainly you share my view, that every effort should be made to have one universal plan in Canada.

Mr. McKICHAN: We are of this opinion.

The CHAIRMAN (*Mr. Cameron*): Gentlemen, you have noticed this delegation of young, handsome ladies and young men who have just come in. I understand they come from Mr. Maurice Moreau's riding of York-Scarborough. They are here to look over and see what we are doing in connection with the Canada pension plan. May I tell you, boys and girls, that we are now dealing with a brief submitted by the Retail Council of Canada, and Mr. McKichan, their general manager, is their spokesman. We welcome you to our meeting and we hope that you will enjoy it. We also hope that you will get some benefit from it.

Mr. CANTELON: Mr. Chairman, Mr. McKichan, I am afraid Mr. Lloyd has pretty well exhausted the subject with which I wanted to deal. However, perhaps I might make one comment. This afternoon we listened to Mr. Myers discussing the United States plan. He said that the matter of adjustment between the pension plans was a comparatively simple thing, that all that had to be done was to make a financial calculation, and that this was a simple thing to do. I was wondering if you would agree with this.

Mr. MCKICHAN: I am not quite clear, sir, on what he was referring to. Was he referring to arranging reciprocity between the United States plan and the Canada pension plan?

Mr. CANTELON: No, he was not. He was referring to integrating private plans, but I felt that the principle would carry on to the discussion of provincial plans and the federal plan.

Mr. MCKICHAN: It is my understanding, sir, and I am not an actuary and I am by no means an expert on the subject, that integration can range from a fairly easy operation to an extremely complicated and difficult operation. Perhaps some of my colleagues would like to speak on that.

Mr. CANTELON: I was not implying that the benefits would be identical in both plans, they obviously might not be, but I was implying—and I think I am repeating what he said—that at least it can be done as far as the financial provisions are concerned by a mere calculation, so that one person can move to another plan readily enough by making some calculations.

Mr. MCKICHAN: I am not sufficiently expert on this subject to answer you. I know that so far as the integration of private plans with the federal plan is concerned, it would in some instances present very serious difficulty.

Mr. CANTELON: That is my opinion also but I wanted to know what you thought about it.

In your brief, at the top of page 5, you say that the maximum combined pension plan and old age security monthly provision for a married couple aged over 70 contemplated under existing legislation in Canada is $254. You also said the similar provision in the United States amounts to $190. I would gather from this—perhaps I am wrong but again I would like your opinion—you feel this is a rather high figure for Canada in relation to the income of the Canadian society today and to our ability to bear the load.

Mr. MCKICHAN: This was our intention in inserting these two figures. I might mention that we are aware that we are perhaps comparing two unlikes because we are comparing the figure proposed for Canada 10 years or 11 years hence with the figure in the United States today. It is possible there may be an amelioration in the United States figure. Even so, keeping in view the fact that the Canadian economy is considerably less buoyant than the United States economy, it was our conclusion that perhaps the Canadian scheme erred on the side of generosity of benefits.

Mr. CANTELON: It might be worth mentioning here that the figures of the contributions in the United States today and what they expect them to be in a few years show a considerable upward trend.

I also notice that on page 7 you are concerned with the administrative difficulties with which you may be involved in the matter of overpayments. I am wondering if you know that the system that is being followed in the Canada pension plan was apparently modelled on the United States system.

Mr. MCKICHAN: I was not aware of that, sir.

Mr. KNOWLES: Mr. Chairman, I have one or two questions which I would like to address to Mr. McKichan. I notice that in paragraph 16 on page 5 of your brief you draw attention to the fact that certain disparities will arise between, on the one hand, persons who have only old age security and, on the other hand, persons who have both old age security and a benefit from the Canada pension plan. You conclude that paragraph with this sentence:

> There would seem to be merit in adjusting benefit levels so that disparities become less pronounced.

I wish you had gone on. Which way do you propose to adjust benefit levels; would you propose to raise those of old age security or reduce those of the combined pension?

Mr. McKICHAN: We were inferring, at least in the first instance, that the levels proposed under the Canada pension plan should, perhaps, be reduced. Possibly at a later date the economy might be able to stand an increase in the other, but this would have to be determined in the light of economic conditions at the time.

Mr. KNOWLES: You realize that what you have in mind here would not obtain, to any marked extent, for 10 years.

Mr. McKICHAN: We appreciate that.

Mr. KNOWLES: So in effect the lessening of the so-called disparity is built into the operation of the plan and the disparity in eight or nine years will not be very much.

Mr. McKICHAN: The initial disparity will be small, but it will be increasing afterwards.

Mr. KNOWLES: You disappoint me. I had hoped you would say that the time had come to raise old age security.

The other question I would like to ask has to do with your comments on the integration of existing plans, as set out in paragraph 23 of your brief on pages 7 and 8. I want to choose my words very carefully, because there is something in here which I find does not go along with my thinking. However, I want to give you an opportunity to explain what you have in mind. You seem to be suggesting that federal and provincial governments should put some kind of pressure on unions when there are negotiations regarding integration. I know you would not be very happy if federal or provincial governments were to put pressure on employers in the same situation. I wonder whether you really mean this; I understand your concern about integration, but do you really mean it when you ask the federal and provincial governments to put this kind of pressure on unions?

Mr. McKICHAN: It is our feeling that the aim of the Canada pension plan is to provide a reasonable level of retirement benefit for all Canadians. In certain instances pension plans already are in existence which, in some cases, do provide adequate and in some very adequate levels of retirement benefit. It was our feeling that it would distort the purpose of the Canada pension plan if it simply were used as an instrument for increasing those benefits which already were adequate or partially used for this purpose. It was our feeling it would be a waste of our resources, to some extent, and that this was not the aim which the proponents of the Canada pension plan had in mind.

In our wording I do not think we used the word "pressure". I think we said the governments concerned might use their influence. This may be by persuasion or by pointing out the facts of the situation, or by various other means.

Mr. KNOWLES: I would like to say that I recognize the validity of your contention that where a group of employees, as a result of collective bargaining, has a particularly good pension plan there is something to be said for the employer not being asked to increase that at the expense of something else in the employer-employee relationship. My thought, and my only reason for raising the question, is that where there is collective bargaining this is one of the purposes of negotiation—to obtain a pension plan, health plans, other fringe benefits, wages, hours, and so on. I would think you would like it better if all this were left to the free process of collective bargaining.

Mr. McKICHAN: Realistically we feel there are occasions where employers may have a pistol put to their head and then they have to accept a provision which they do not consider reasonable and which in fact may not be reasonable in the interests of national economy, and it is our hope that these situations would be minimized.

Mr. KNOWLES: It is also the hope of some of us that when this kind of integration takes place that if, because of the contributions under the Canada pension plan, there is a cut-back in benefits, that the cut-back in benefits will be only to the extent that the contribution would buy benefits under the private pension plan.

Mr. McKICHAN: I think this is a very reasonable position, sir.

Mr. KNOWLES: Good.

The CHAIRMAN (*Mr. Cameron*): Is that all for now, Mr. Knowles?

Mr. KNOWLES: Yes. I am sure Mr. McKichan and I understand each other on that point. We are emphasizing that dollar for dollar the money put into the Canada pension plan buys a better rate of benefit than is the case of most private plans and that if employers do not want to be taken advantage of on this point, I would hope that the employees would not be taken advantage of in the way suggested.

Mr. BASFORD: Mr. Chairman, relative to your earlier remarks, I might point out that Mr. Moreau is a very valued member of this committee, but because of the force of work he had to be absent this evening.

Mr. Knowles has asked some of the questions I wished to ask. I would be interested in hearing some comments from Mr. McKichan relative to the cost of this plan and whether or not the existing old age security payment should be increased. Would you agree that someone living on $75, $100 or $125 a month, received through his old age pension, is spending all of his money on food, which should please the Dominion Stores, and on clothing which should please Mr. Ogilvy, and every cent of this is used on consumer goods in retail outlets.

Mr. McKICHAN: Mr. Chairman, the report of the economic council, which was published only recently, I think had something quite appropriate to say in this area. I paraphrase the words, but they were generally to the effect that the most important item of social security is to ensure that the economy is buoyant, moving ahead, and so on. If social security payments are increased to the point where the welfare of the economy is endangered, then obviously the first prerequisite is not being ensured.

I do not feel briefed to argue whether or not the unions can withstand a higher payment for old age security; but certainly the most important thing to do is to study very closely the health of the economy and make a judgment in respect of whether or not it can withstand a higher payment. I should add the council has not considered the question of whether or not at this particular moment in time old age security payments should be raised.

Mr. BASFORD: I know it has not been considered, but what I am suggesting to you is that payments of old age security are really transfer payments; the economy is not losing any money that is being spent on it, and every cent spent by government on such payments is being spent or poured into the economy and to a great measure is being poured by old age security recipients into the retail council of Canada.

Mr. McKICHAN: If your question is, is the retail council in favour of the concept of old age security payments, the answer is yes. With regard to the exact level at which this payment should be established, I would hesitate to give you a definitive answer. I doubt whether any of my colleagues would feel inclined to do so either.

Mr. KNOWLES: That chair on which you are sitting seems to be wired that way. We heard the same statement from the life insurance officers the other day.

Mr. MCKICHAN: I did not hear their evidence.

Mr. BASFORD: You are the first employers' group we have had before this committee I believe. Obviously some of your members have private pension plans and I take it these are group plans managed by insurance companies or sold to you by insurance companies.

Mr. MCKICHAN: I would say this would be the case in many instances, yes.

Mr. BASFORD: And you make an employer-employee contribution to these plans?

Mr. MCKICHAN: I would assume so, sir. I cannot speak specifically about any one member or indeed I cannot tell you what the situation within our membership is, because we have something like 90 members all of whom have different types of arrangements.

Mr. BASFORD: I am wondering whether, when the insurance companies made proposals to your member companies for the establishment of a pension plan calling for contributions from your members they informed you that this might impede that member's ability to compete?

Mr. MCKICHAN: I am sorry, but I wonder if you would mind repeating the last part of your question.

Mr. BASFORD: Obviously if you have a member who has a retail outlet, it is going to cost him money in order to establish a pension plan in his store.

Mr. MCKICHAN: That is correct.

Mr. BASFORD: I wonder if the insurance companies when selling you these plans told you that this would impair your members' ability to compete with other retail outlets?

Mr. MCKICHAN: I could not tell you whether they did or not. Perhaps some of the other members of our delegation can speak to it.

Mr. E. C. WENT (*Vice-President, Dominion Stores Limited*): It is not precisely a point which they would emphasize. However, I would think that any management taking on a pension plan would recognize that the cost of it would be a factor in his load, and that the companies which have pension plans have recognized the need for a pension plan as being the greater of the two.

Mr. BASFORD: If the existence of such a plan has not impaired their ability to compete?

Mr. WENT: No, I would not say that that follows.

Mr. BASFORD: You have carried on business, so obviously you have been able to compete.

Mr. WENT: Well, you can carry on business with your ability to do so impaired to a degree.

Mr. BASFORD: Thank you.

Mr. KNOWLES: I wonder if I might ask a supplementary question? I wonder if the delegation would have any statistics regarding the number of members covered; that is, those persons with retail outlets? You say in your brief that some 800,000 persons in Canada are directly engaged in the trade on a regular basis. And you say that at peak periods the labour force expands to over one million persons. Have you any statistics of how many of them are covered?

Mr. McKICHAN: No, I have not. In this figure of 800,000 only between 250,000 and 300,000 are actually employed by members of the retail council, while the others would be employed by non-members.

Mr. KNOWLES: Have you any figures concerning them?

Mr. McKICHAN: No, but it might be possible to develop some.

Mr. KNOWLES: You would have no notion of the percentage?

Mr. McKICHAN: I have no accurate knowledge of the percentage.

Mr. KNOWLES: If you do not have a great many integration problems, then you are not worried very seriously about it.

Mr. McKICHAN: I imagine that in the case of the members of the council most companies would have a pension plan.

Mr. KNOWLES: But retail outlets outside the council may not have them.

Mr. McKICHAN: I would hesitate to say.

Mr. MORISON: I wonder if the insurance companies in selling pension plans to you told you that the increase in cost might make it more difficult to compete? Did they suggest to you that the employee under a pension plan would not be troubled by financial problems in the future and thereby would be a better salesman and a better producer for you, and therefore you would profit thereby? In other words, would you agree that an employee under a pension plan was a better producer for you?

Mr. AIKEN: May I ask a further supplementary question along the same line? I wonder about the casual employees. You said there was a large number of casual employess within your own organization. Would you know in general whether these casual employees are covered by pension plans?

Mr. McKICHAN: I think the general rule is that temporary employees are not covered by pension plans, and that there usually is a waiting period of varying length in most group pension plans.

Mr. AIKEN: So with the pension plans which are now in existence they would be more or less permanent employees?

Mr. McKICHAN: That is correct, sir.

Mr. AIKEN: Would it be fair to ask you whether the pension plans now in payment are in general adequate, or whether the Canada pension plan payment should go on top without overprovision? Perhaps I might explain that by saying we have had it stated that in some employment, such as railway employment, the civil service, and various other forms, employees are said to be retired at almost 100 per cent of their final year's earnings, and others are said to be retired at very low or inadequate pensions. Could the ones in between in many cases afford to have the Canada pension plan placed on top of that for another 3.6 per cent without it being unreasonably high? Are you able to make any comment on it in general terms as to your members?

Mr. McKICHAN: I would assume that every company would consider its own pension plan to be adequate, otherwise it would do something about it. If it does not consider it adequate, then it must consider it to be all right at that particular point in time. I imagine that most employers would feel that the Canada pension plan should form the basis of their pensions, and that any additional rates should go on top of it, not as a duplication but as a supplement to it, if this is considered to be appropriate.

Mr. AIKEN: May I ask another question? With respect to employee's organization and in regard to your members generally, are your employees represented by unions?

Mr. McKICHAN: Some are, and some are not.

Mr. AIKEN: This depends, I presume, basically on the size of the organization?

Mr. McKICHAN: That would be one of the problems, yes.

Mr. AIKEN: Could you tell me if there is one union or more than one union which represents those who do come under it?

Mr. McKICHAN: There would be a considerable number of unions.

Mr. AIKEN: They would have application to each business, perhaps?

Mr. McKICHAN: There are different unions for various specialities, and different unions extending horizontally across the trade.

Mr. AIKEN: So in some cases you would have a union organization to negotiate with in connection with the Canada pension plans and in other cases you would not.

Mr. McKICHAN: That is correct.

Mr. AIKEN: Have you given any thought to the approach to the two different types of organizations, the unionized and the non-unionized?

Mr. McKICHAN: This is a situation in which the council as a council would not be involved because the circumstances of our members are so different, and each of our members would make his own decision which would be appropriate, and carry out his own bargaining with these people.

Mr. AIKEN: The reason I follow this line of argument is that it has been stated on various occasions that some types of business, in which there are not a large number of employees, are going to consider that they might just as well be in and get it, because all they have to do is to add it to the cost of the goods as a premium.

Mr. McKICHAN: This, sir, I think must be an individual decision for each company, and no doubt in making it they will be considering the welfare of their employees as well as their competitive position within the industry.

The CHAIRMAN (*Mr. Cameron*): I do not think that was a very good supplementary question.

Mr. AIKEN: I may consider keeping quiet for the rest of the evening.

Mrs. RIDEOUT: Might I ask Mr. McKichan to refer to page 7, paragraph 22, section (*a*). I wonder if the council could tell me what is meant by matching overpayment of employers? Is the council aware that when an employer pays more than $79.20 for an employee in a year, he may claim a refund?

Mr. McKICHAN: Our concern was for cases where the employee at the end of the day is found not to be eligible to make contributions, and that the employer has already made contributions in respect of that employee. It is our understanding that at this point nothing can be done under the present arrangement about the employer's position. It is understood that arrangements may be made for a refund for the employee in such a situation.

Mr. CHATTERTON: Does that also apply in the case where the employee changes his employment, and the employer has paid his contribution for the first employee and then has to pay his contribution for the second employee? Does that apply also?

Mr. McKICHAN: I am not quite sure that I follow you.

Mr. CHATTERTON: As I understand it, if an employee leaves, let us say, after five months, and the employer has paid the employee's share as well as the employer's share, and then another employee comes along and takes the place of the first employee, the employer has to pay over again without getting a refund. Does that apply to that also?

Mr. McKICHAN: No, we were not taking exception to contributions being made, even though the employee changes employment in the middle of the year. We were concerned with cases where an overpayment was made simply because the employee did not fall into an eligible group.

Mr. CHATTERTON: You are not concerned with the employer having to pay for two employees in the same year and not getting a refund?

Mr. McKICHAN: If the contributions are made only in respect of the period for which the employee is working for the employer then we are not concerned, but my understanding was that this was not the intention of the scheme. If the employer has to make a payment for part of the time during which he was no working for the employer, then I would consider this would be unfair and that the employer should be refunded that part of the contribution.

Mr. CHATTERTON: I want to clarify this point. As I understand it, the employer could pay for the employer's full share of the liability for, say, five months for that employee. That employee leaves and another employee takes his place, and the employer again pays his share. That employer gets no refund by having paid twice for that position.

The CHAIRMAN (*Mr. Cameron*): Is Mr. McKichan's position not that if they pay tax for an employee then they want to get it back, period? They do not think it is fair that that should stay in the fund and not be refunded to them. I do not think Mr. McKichan is giving evidence as a departmental official on how it is to be done.

Mr. CHATTERTON: I am trying to find out how it is going to affect the small merchant.

The CHAIRMAN (*Mr. Cameron*): He just wants his money back.

Mr. McKICHAN: We certainly do not want to pay twice for one amount of work, but we are not objecting to paying for time worked by an employee whether it is employee A or employee B.

Mr. KNOWLES: The only case in which you are asking for it back is when the employee has got it back.

Mrs. RIDEOUT: I wonder, Mr. McKichan, if you have noticed clauses 8 and 9 in the bill which provide that if the employee earns less than $600 he is exempted from any contribution, and the employer is refunded if he has made deductions. So in effect that would answer your argument there.

Mr. McKICHAN: It was our understanding, Mr. Chairman, that a situation will frequently arise in which an employee is earning at a rate greater than $600 per annum and he may move to another position where he is being paid less than this, or he may discontinue work later in the year. In this event, it was my understanding that no provision was made for refund to employer after the event.

Mrs. RIDEOUT: It is my understanding that the employer is liable to contribute for all employees earning over $50 a month for whom the employer has not yet paid $79.20 during the year.

The CHAIRMAN (*Mr. Cameron*): We have Mr. Sheppard here and he may be able to answer you, Mrs. Rideout, and Mr. McKichan at the same time.

Would you care to enter this debate at this time, Mr. Sheppard, and explain how the bill proposes to deal with this matter?

Mr. Sheppard is the deputy minister of national revenue, and he is in charge of collections.

Mr. D. H. SHEPPARD (*Assistant Deputy Minister, Department of National Revenue, Taxation Division*): Let us assume that all the employees are working on a monthly basis. The plan under which the contributions are made is that from the wages paid to such an employee in a particular pay period you deduct $50 for that month, and then a contribution is made on the remainder at 1.8 per cent for the employee contribution and another 1.8 per cent for the employer contribution.

If there is any error in the calculation of the employee's contribution or the employer's contribution they are both refundable.

It is true that at the end of the year you aggregate all the employee's contributions together for the whole year, deduct the $600 exemption and then see whether or not there is an overpayment. In those circumstances, he might be entitled to a refund but the employer would not. The amounts involved for the employee earning less than $5,000 a year are only those amounts that relate to the portion of the exemption which was not claimed. If he worked six months it would be 1.8 per cent of $300, which is $5.40.

I do not know whether that is the point you were worrying about or not.

Mr. McKichan: No, our concern, sir, was where at the end of the year it was found that the employee had not earned $600 and so was not liable to contribute at all.

Mr. Sheppard: If for example he had made $500 in the year over two months, then the employee would receive a refund of his whole contribution, but the employer would not.

Mr. McKichan: This was our concern.

Mr. Sheppard: The amounts involved in that case are 1.8 per cent of $400, which is $7.20.

Mr. Lloyd: May I ask a supplementary question on this point?

The Chairman (*Mr. Cameron*): If Mrs. Rideout will give you permission.

Mrs. Rideout: I am delighted to do so.

Mr. Lloyd: Mr. Sheppard, Mr. McKichan referred to the Income Tax Act under which you can adjust the tax liability at the end of the year if there has been variation in the earnings. Very often the salary of an individual working for one employer for the full year will result in an adjustment of the tax liability. It may be deducted at a higher rate, and then he transfers somewhere else or he works for the same employer until the end of the year for a lower rate for some reason—maybe he has not the same number of hours' work. In that case, the only thing with which you are concerned is the individual's tax liability for the income tax department. It does not involve the employer in any way, shape or form, does it, in the case of income tax?

When we come to the Canada pension plan, let us assume an employee who works for a full year for the employer and does not go to any other employment, that is his only employer, it would be only in the cases where he had received a reduction in salary that there would be any refund question arising, would it not?

Mr. Sheppard: If he only worked for one employer there could be no occasion when he had overpaid unless he did not work every month in the year, and then the amount of the refund would be related to 1.8 per cent of the part of the $600 exemption not obtained.

Mr. Lloyd: To the employee?

Mr. Sheppard: That is right.

Mr. Lloyd: There is no provision for a refund in the event of the circumstance which you have described? He works at a high rate for part of the year for one employer and then he lays off for a couple of months and does not work for anyone else but comes back and works for the remainder of the year, and while he is entitled to a refund he has only worked for the one employer and there is no refund for the one employer?

Mr. Sheppard: That is right because, as far as the employer knows, he may have worked for someone else and claimed his full exemption.

Mr. Aiken: May I ask one supplementary question?

What is the justification, Mr. Sheppard, for not refunding the employer's share in a situation like this? Is it a tax on doing business or too much paper work? Why is the employee's share refunded and not the employer's share?

Mr. SHEPPARD: The reason there is no provision made for a refund to the employer is that, so far as the employee's contribution is concerned, you would have to aggregate all his contributions for the year from all employers, and you cannot really relate the overpayment that the employee might have to a variety of different employers. To be able to apportion the refund between the employers you would have to tell the employer what this employee made from another employer, and that would not be desirable for many reasons; and the amounts involved are not great.

The CHAIRMAN (*Mr. Cameron*): Let us get back to Mrs. Rideout's questioning.

Mrs. RIDEOUT: I have completed my questioning, Mr. Chairman.

Mr. CÔTÉ (*Longueuil*): You seem to be very concerned that the province of Ontario might opt out of the plan. One of the reasons you give for this is that they want full control of the fund, or that they might want a bigger share or the whole of the fund.

On page 8 of your brief in paragraph 25(*b*) you say:

> The council would favour a substantial reduction in the size of the fund contemplated under the plan because this action would seem likely to encourage the participation of the province of Ontario in the Canada pension plan.

How do you reconcile that?

Mr. MCKICHAN: Sir, we felt that the main reason the province of Ontario wished to establish or might wish to establish a separate fund was because of the existence of the fund under the Canada plan in which it would only have an indirect control. For reasons of prestige, if you like, or of various political feelings, it might wish to be able to say that it had complete control both of the fund and of the conduct of the plan itself. We felt a means of reducing the anxiety which the province of Ontario might feel would be to revert to a minimally funded or small funded plan.

Mr. CÔTÉ (*Longueuil*): Mr. McKichan, in paragraph 5 on page 2 you say:

> By 1985, the plan will require to be collecting contributions at the rate of between 4 per cent and 4.8 per cent of earnings to remain on a "pay as you go" basis.

How could we reduce it at the present time so that we will not have to make it a "pay as you go" basis?

Mr. MCKICHAN: It is my understanding that the reverse to a minimal funded plan would involve heavier contributions at the mid point of this period, and the council was prepared to contemplate this if this was the price for securing the participation of the province of Ontario.

Mr. CÔTÉ (*Longueuil*): One of the main reasons for Quebec opting out of this plan is that the ratio of old age persons in the province of Quebec is one of the lowest in the country and, because of that, they will not have to pay benefits as long as the other provinces. Also, the fund will be bigger for a longer time. The ratio of the old age persons in the province of Ontario is one of the highest in the country and their fund would be exhausted very much earlier than that of the province of Quebec.

Mr. MCKICHAN: In making this suggestion, sir, we realize there probably would be certain difficulties in arranging for reciprocity between the Quebec fund and the Canada fund but we did hope this would not be insupportable. We were encouraged in this belief by the statement of the minister when she said possible arrangements for reciprocity could be worked out with the United States funds.

Mr. Côté (*Longueuil*): Do you think the province of Ontario would receive more by staying in the federal plan than embarking on their own plan?

Mr. McKichan: I think it would be self-evident that the cost of administration would be lower if the province of Ontario stayed within the federal plan. I do not feel competent to give an opinion as to the merits or the demerits from the economic point of view of the province of Ontario in respect of staying within the federal plan or remaining outside of it.

The Chairman (*Mr. Cameron*): Have you a question Mr. Basford?

Mr. Basford: Is the council prepared to make representations to the province of Ontario to stay within the Canada pension plan?

The Chairman (*Mr. Cameron*): I do not think that is a good supplementary question, however interesting it may be.

Mr. Basford: I think it is a perfectly good supplementary question.

The Chairman (*Mr. Cameron*): Well, if the witness wishes to answer it, it is up to him, but I do not think he should.

Mr. McKichan: The short answer is that as a council we have not made a decision in that regard.

Mr. Basford: Well, judging from the opinions expressed in your brief I would assume that the council is prepared to make that decision.

The Chairman (*Mr. Cameron*): Would you proceed, Mr. Munro.

Mr. Munro: On page 2, paragraph 5 of your brief you state:

> By 1985, the plan will require to be collecting contributions at the rate of between 4 per cent and 4.8 per cent of earnings to remain on a "pay as you go" basis. Increased contributions would be required if the fund is to be used to produce further moneys for provincial investment.

I wonder if retail interests were aware that in this actuarial report that you were quoting from it was indicated that by 1985 the incoming moneys from contributions would be matching outgoing benefits, which would result in the setting of that rate of between 4 per cent and 4.8 per cent. I wonder if there were not any figures shown in the actuarial report which pointed out this example of the interest on the fund that would be built up. And, I wonder if you are aware that it may not be necessary to actually charge this 4 per cent or 4.8 per cent. This would be only a calculation, if you do not take into account the interest on the fund that is built up, which you earlier referred to in your report.

Mr. McKichan: I was not aware of that particular provision of the report, but I am interested to learn it, sir.

Mr. Munro: I would like to refer to another paragraph in your report. In paragraph 15 you are comparing the Canadian system with the American system, and you say:

> A comparison of particular significance is that between the level of benefits now proposed in Canada and those available in the United States under that country's social security program. the maximum combined pension plan and old age security monthly provision for a married couple aged over 70 contemplated under existing legislation in Canada in $254. The similar provision in the United States amounts to $190.

I wonder if the council is aware that in the example you have used here the United States system pays their benefits much earlier than we do, and a couple aged 65, under your particular example, in Canada would not get the benefits you referred to until 1976, and at age 65 would not get $254 but $206.

Mr. McKICHAN: I brought out the fact that this was a projected figure some 10 or 11 years hence, in answer to a previous questioner. We were aware of this fact.

Mr. MUNRO: You would agree the comparison should be $190 to $206? Would that be fair, rather than $254?

Mr. McKICHAN: The figure is $206 for 19—

Mr. MUNRO: 1976 in Canada on a comparable basis to the example you quoted here.

Mr. McKICHAN: For a couple aged 65?

Mr. MUNRO: Yes.

Mr. McKICHAN: Yes, I will acknowledge that, sir.

Mr. MUNRO: The other thing I was going to ask you is this. You indicated some concern earlier about whether the economy could take care of the contribution rate, and you felt that there is some concern on the part of the retail council in this regard, and that it was very important to worry about a buoyant economy and increased purchasing power in the hands of aged people. That is what I took from your remarks to be your concern.

Mr. McKICHAN: I mentioned the council shared the view that has been expressed recently by the economic council in its first report, that the most important social security scheme of all perhaps is an assurance of a buoyant and healthy economy, yes.

Mr. MUNRO: In our system our contribution rate is 3.6 per cent. We had Mr. Myers here this afternoon and he indicated the present contribution rate under the United States system, which you have compared to ours in paragraph 15, is 9 per cent. Have you any comment in this connection?

Mr. McKICHAN: I think perhaps it is significant that United States income runs somewhat in the region of 30 per cent higher than Canadian average income and that this extra 30 per cent, I suppose, must be considered as extra disposable income, so the disparity in the varying contribution rates is probably less significant than one might think at first glance. I would think that an economy stronger by 30 per cent would be in a very much better position to pay a very substantially higher contribution than that now being contemplated in Canada.

Mr. MUNRO: The contribution rate would be substantially higher than 30 per cent on the basis of 9 per cent versus 3.6 per cent.

Mr. McKICHAN: I am not suggesting the distinction be limited to 30 per cent; I am saying because the 30 per cent consists of disposable income the contribution perhaps could be 20 per cent and there still might be good grounds for it with an economy of that strength.

Mr. KNOWLES: I wonder if Mr. Munro, in all fairness, would not admit that if we are going to compare like with like we have to remember we have taxes for old age security in this country that should be added to the 3.6 per cent, when we are comparing Canadian benefits with American benefits.

Mr. McKICHAN: Thank you.

Mr. KNOWLES: I just wanted to be fair about this.

Mr. MUNRO: Someone else is on the same wave length.

I will now refer you to paragraphs 5 and 6.

Mr. BASFORD: A typical N.D.P. position, all things to all men.

Mr. KNOWLES: It is just a matter of being fair, and that is all.

Mr. MUNRO: I am referring to the last sentence of paragraph 5 in your report, which reads as follows:

> By 1985, the plan will require to be collecting contributions at the rate of between 4 per cent and 4.8 per cent of earnings to remain on a "pay as you go" basis. Increased contributions would be required if the fund is to be used to produce further moneys for provincial investment.

Then, in paragraph 6, you say:

> As originally conceived, the plan was to have a fund of only modest proportions. An amendment to the original plan had the effect of substantially increasing the size of the fund.

The two sentences do not seem to be reconcilable. It seems to me that in one you are indicating a concern that these contributions will be required within 20 or 30 years—according to what is said here in 1985—and in the other you are worried about the fund being too large.

Mr. MCKICHAN: In this first sentence beginning "increased contributions" etc. we were not suggesting that this be done; we were simply stating what we conceived the position to be if it were desired to produce further moneys for provincial investment. We did not suggest that that would be a desirable course necessarily.

Mr. MUNRO: Are you concerned with the size of the fund under the Canada pension plan?

Mr. MCKICHAN: We were primarily concerned about it because we believe it is the size of the fund which is causing Ontario to have doubts on whether or not it should participate in the Canada pension plan.

Mr. MUNRO: On page 8 of your brief you say:

> In situations where a union adopted an inflexible attitude, the Canada pension plan would simply become an additional and expensive fringe benefit for which there could be no social justification.

I suppose that sentence to be fair. I realize it relates to your earlier contention that where private pension plans are in existence unions may not be agreeable to any integration but would rather want the private pension plan to be on top of the Canada pension plan.

Mr. MCKICHAN: This was our point, sir.

Mr. MUNRO: I suppose you are further concerned that they may not want any increased contribution as the result of one being placed on top of the other. Is that so?

Mr. MCKICHAN: This is one of our concerns, but we are also concerned that they would require a higher absolute or total contribution from employers.

Mr. MUNRO: In other words, they would want the employer to make his contribution under both plans.

Mr. MCKICHAN: Yes, sir.

Mr. MUNRO: I suppose that this concern that you have shown here would depend on the calibre of the private plan that was in existence and on its generosity with respect to the benefits concerned.

Mr. MCKICHAN: This of course would be a matter of degree, but one assumes that the level of the present plan, if it is a negotiated plan, is a level which the company feels it can afford. If an additional contribution is to be made to the Canada pension plan on top of this, then it would seem you are getting to the point where you have exceeded the company's likely ability to pay.

Mr. MUNRO: I believe you might have been asked this question earlier, but as far as the retail council is concerned do you have any figures—not precise figures but rough figures—of what would be the average wage of the employees hired by your members?

Mr. MCKICHAN: Published figures are available. I do not have with me the latest figure but I would be very willing to supply that.

Mr. MUNRO: Do you have an approximate idea of the average figure?

Mr. MCKICHAN: The average estimate for male employees is about $70 per week for the industry as a whole. This takes in regional variations, but I would be very happy to provide you with the exact figures.

Mr. MUNRO: Seventy dollars a week would I think come to approximately $280 a month, approximately $3,500 a year. If that is the average I would think that that would take into account the high wage levels of the executives of the various firms concerned. Would they be included in that average?

Mr. MCKICHAN: No. This is the average labour income in the industry.

Mr. MUNRO: I am not so sure whether this question has been asked, but you had no precise figures on the number of employees that were covered by private pension plans on the part of your members, did you?

Mr. MCKICHAN: No, sir.

Mr. MUNRO: Could you give me a rough estimate without giving me the precise figures?

Mr. MCKICHAN: The number of employees employed by our members is somewhere between 250,000 and 300,000. I would think the great majority of these employees would be covered, perhaps over 80 per cent would be covered. This is a figure I am pulling out of thin air but I know most of our members do have pension plans.

Mr. MUNRO: I was always more or less under the impression that somebody earning $3,500 a year, which would be the rough yearly figure of the average income of employees of your members who would be participating in the private pension plans, of necessity could not provide very rich benefits because I would think that with a wage of somewhere around $70 a week they could not afford to pay a very high contribution rate. Would you agree with that?

Mr. MCKICHAN: I would assume that the pensions presently enjoyed under the present pension plans are fairly modest in scope.

Mr. MUNRO: When you say modest could you translate that into an approximate dollar figure?

Mr. MCKICHAN: No, sir. I think the conditions of the plan are too varied for me to be able to give you a meaningful estimate.

Mr. MUNRO: Would it be fair to say that if they were modest, then there could be social justification for adding that particular private plan on top of the Canada pension plan for an employee making $70 a week?

Mr. MCKICHAN: This depends on the ability of the company to pay, and if such an extension impaired the ability of the company to pay, then obviously this would be an undesirable event.

Mr. MUNRO: I think you did indicate earlier that the companies who would have private pension plans would be the larger companies with the larger number of employees.

Mr. MCKICHAN: Yes, sir, and of course when you mention the larger companies in the context of the membership of the retail council you account for the larger percentage of employees who are employed by our members.

Mr. MUNRO: But the larger companies certainly would not be the marginal retailers.

Mr. McKICHAN: No, sir.

Mr. MUNRO: Then there would not seem to be too much question as far as their ability to pay is concerned in the context of a modest pension plan.

Mr. McKICHAN: I would like to add that the figure I quoted you for an average retail wage level was an industry figure, not the figure paid by the members of this council. I think it would be fair to say the average wage paid by the members of this council would be very considerably above the industry average.

Hon. Mr. SMITH (*Kamloops*): Mr. Chairman, earlier on I had a question to ask of Mr. McKichan, before we got to far away from paragraph 1. May I refer him to his statement in describing the council where he says:

> Its members perform some 30 per cent of the retail "store" business in Canada.

I presume that he means 30 per cent of the dollar value of the retail store business across Canada.

Mr. McKICHAN: Yes, sir.

Hon. Mr. SMITH (*Kamloops*): No doubt we will have here delegations from other organizations who enjoy the other 70 per cent or some part of it. Having that in mind I wondered whether yours is more or less the major league in the retail business. Did you say your membership numbered 90?

Mr. McKICHAN: We have some 90 odd members.

Hon. Mr. SMITH (*Kamloops*): I was wondering just how national your organization was in its interests. Do you draw your members from all the provinces?

Mr. McKICHAN: We have members in every province.

Hon. Mr. SMITH (*Kamloops*): And you enjoy 30 per cent of the total retail business across the country. I suppose that is approximate. Would it vary much from province to province just as the interests of your members vary from province to province? How close would you come to enjoying 30 per cent of the retail business in each and every province?

Mr. McKICHAN: I think it is a fairly even distribution, but with perhaps more emphasis in the province of Ontario than in the other provinces. This is only a matter of degree. We have a fairly even spread of distribution.

Mr. CHATTERTON: Mr. Chairman, I am sorry I was a little late, the cold got hold of me, or rather of my car.

If my question has been answered, please excuse me. I am referring to paragraph 16 of your brief. You are concerned with the disparity in benefits between certain persons and others. We have figures presented to us to the effect that by 1965 some 76 per cent of retired people would benefit by the Canada pension plan. This is not quite borne out by the statement made in your paragraph 16. You indicate concern about disparity. Do you feel this disparity should be taken care by the Canada pension plan itself or by some subsequent legislation by parliament.

Mr. McKICHAN: It was our suggestion, sir, that because the Canada pension plan would offer a considerably larger benefit to those enjoying the full benefits under it and that because there would be a natural pressure to increase the old age security payment, which the government might not be able or might not feel inclined to resist, that because of this it would be realistic to set a somewhat lower level for the benefits under the Canada pension plan.

Mr. CHATTERTON: Lower benefits all around would reduce the disparity?

Mr. McKICHAN: Yes.

Mr. CHATTERTON: Would that include those already retired and that there should be some benefit to them by way of the Canada pension plan. Is that what you have in mind?

Mr. McKICHAN: No, sir. It was our suggestion that the future benefits under the Canada pension plan be reduced in anticipation of having to pay a larger share of the national output into the old age pension fund because we feel that with the existence of the Canada pension plan there is bound to be some upward pressure on the old age security.

Mr. CHATTERTON: Are you suggesting, according to paragraph 16, that those who are already retired or who are close to retirement and who would not receive pensions under the Canada pension plan should be provided for under the Canada pension plan by way of contributions from earnings. Is that what you have in mind?

Mr. McKICHAN: No, sir. We felt that almost certainly these people would in fact be helped by increases in the old age security provisions.

Mr. CHATTERTON: Do you mean by way of the index?

Mr. McKICHAN: No sir; by a higher old age security provision. We were forecasting this; we did not advocate it.

Mr. CHATTERTON: You feel that is the way all those who are in trouble now or who will be should be helped?

Mr. McKICHAN: We foresaw this as the way they would be helped. We felt, so that these increases in the old age security payments would not be too excessive, that the levels proposed under the Canada pension plan should be lowered so that there is a smaller gap to fill.

Mr. CHATTERTON: An evening out.

Mr. McKICHAN: Yes sir.

Mr. MUNRO: May I ask a supplementary question. I appreciate your point about the levelling out, but are you also recommending any increase in the old age security pension?

Mr. McKICHAN: We are not recommending it, sir. We can see there will be pressure for it. We do not feel competent to weigh whether or not the economy at this point can afford increases in the old age security payments.

Mr. MUNRO: So you are not prepared to say there should be an increase. Is that a fair way of putting it?

Mr. McKICHAN: That is correct.

Mr. MUNRO: So, the manner in which you would sort of level this out would be to lower the benefits under the Canada pension plan?

Mr. McKICHAN: Yes, sir.

Mr. CHATTERTON: You say lower the benefits: are you thinking of lowering the benefit to those who receive the most in the transition period; is that what you have in mind?

Mr. McKICHAN: We have in mind both during the transition period and during the eventual top benefit.

Mr. CHATTERTON: Giving something to those who are retired now; is that what you have in mind?

Mr. McKICHAN: We did not suggest it be given to the beneficiaries of old age security payment. We simply suggested that if the levels under the Canada pension plan were lowered, then the difference between the two would be lesser and that therefore it would be unlikely we would be spending as much on pensions for both categories, or both together, as we would if we left both plans as presently conceived.

Hon. Mr. DENIS: In your summary of conclusions on page 8, in paragraph (a) you say:

> The council approves the general concept of a uniform contributory pension plan, but it queries whether sufficient study as to the ability of the national economy to support this and other desirable social welfare projects.

And in paragraph (b) you say it would be most unfortunate if the province of Ontario did not participate. How do you reconcile the two? First of all you say we have insufficient study and, secondly, it is unfortunate that the province of Ontario would not participate.

Mr. McKICHAN: Our first conclusion is that we think the people of Canada wish to have and probably should have a contributory pension plan, but we are somewhat concerned about the timing of its introduction. We are not sure whether it should be introduced now, two years hence, or three years hence, and we are not sure whether it should be introduced parallel with a national health scheme or with further expenditures, or what proportion of the gross national product should be devoted to any one of these schemes, and in what ratio the available money should be divided. We are suggesting that some system of priorities and some system of allocation of funds in general terms should be worked out.

Hon. Mr. DENIS: In this paragraph (a) you say we are not ready for that plan and, in (b), you say it would be most unfortunate if the province of Ontario would not participate.

Mr. McKICHAN: We did not want to convey the attitude that we were not ready for it; we are saying we might be ready for it if this study decides this in fact is the case; but if this study decided we were ready for it, then we believe it would be desirable if the province of Ontario were to participate.

Hon. Mr. DENIS: In paragraph (c) you draw our attention to those who are contributing and those who are not contributing. You say there is a disparity between the level of pension to be received by the contributors under the plan when it is in full operation and a person solely dependant on old age security.

Mr. McKICHAN: Yes, sir.

Hon. Mr. DENIS: We have heard many people here say that this is not a welfare piece of legislation. Would you say that this is a kind of welfare piece of legislation?

Mr. McKICHAN: It was our feeling that there will not be a clear division between the source of the payments under the old age security plan and the source of the payments under the Canada pension plan and that inevitably there will be strong pressure from the group receiving payments only from the old age security plan to have those payments increased.

Hon. Mr. DENIS: But in paragraph (c) you admit that people who are not contributing will receive too much compared to those who are contributors.

Mr. McKICHAN: No, sir; this is not our position.

Hon. Mr. DENIS: You say, a person solely dependant on old age security benefits. The old age security is a part of this piece of legislation, because it is a flat benefit plus so much if you contribute to the fund. So, would you not agree with me that this piece of legislation, so far as the flat benefit is concerned and in so far as those who are not pensionable will receive too much, according to your conclusions, is a kind of welfare plan in some ways.

Mr. McKICHAN: We are suggesting that the total received by those who are in receipt of the full amount of the old age security plus the Canada pension plan probably will be too great in comparison to those who are receiving only the old age security payment.

Hon. Mr. DENIS: Would you agree that this piece of legislation includes the old age security; I mean it is combined?

Mr. MCKICHAN: Your suggestion is that the two schemes be combined into one?

Hon. Mr. DENIS: Yes.

Mr. MCKICHAN: This is a suggestion on which the council did not take a firm view. I do not feel competent to advance an opinion on it.

Hon. Mr. DENIS: At the end of this paragraph (c) you say that the gap or the disparity should be lessened. To what extent?

Mr. MCKICHAN: This again is a matter of degree. I would hesitate to suggest the actual levels at which this should be set.

Hon. Mr. DENIS: But the matter of degree belongs to you, because you tell us it should be narrowed. I do not know to what extent.

Mr. MCKICHAN: I think it would require to be a matter of judgment and I would suggest it be narrowed to a point where it seemed unlikely there would be a strong pressure for a future increase in the old age security payment.

Hon. Mr. DENIS: Do you agree that those who are too poor to contribute are given too much compared to those who are contributing?

Mr. MCKICHAN: No, sir this was not our position.

Hon. Mr. DENIS: No, it is not your position, but it is my question.

Mr. MCKICHAN: Well—

Hon. Mr. DENIS: What I want to ask is whether you think this is a piece of legislation in which welfare, or social security is provided for poor people.

Mr. MCKICHAN: We believe in a certain amount of flat rate pension.

Hon. Mr. DENIS: You agree that there is a certain amount of flat rate in this legislation?

Mr. MCKICHAN: Yes, and we agree with the principle.

Hon. Mr. DENIS: You agree that those who are not contributing at all should receive $75 at the age of 70, without contributing anything?

Mr. MCKICHAN: Yes, and we endorse that principle.

Hon. Mr. DENIS: Does the United States plan have the same thing?

Mr. MCKICHAN: I understand that it is an entirely contributory plan. That was my understanding, but I am not sure about it.

Mr. CASHIN: In answer to Mr. Munro's question on the average income or wage of your employees, you estimated a figure of $70 a week. You are not sure whether or not this includes executives or management.

Mr. MCKICHAN: It is my belief that it does not include management.

Mr. CASHIN: So we are not really sure of the group it includes, whether or not it would include stenographers, for example.

Mr. MCKICHAN: Yes, sir.

Mr. CASHIN: It works out to $3,640 a year, and this is for the industry as a whole. You have acknowledged that there is a large number of people in the retail industry who earn, let us say, between $2,000 and $4,000 a year?

Mr. MCKICHAN: That is correct.

Mr. CASHIN: But you do not know how many of this group are now covered by pension plans. Did I recall your saying that the private pension plans were modest, but you do not know how many of the 800,000 employees you refer to are now covered by those private pension plans?

Mr. McKICHAN: No, sir.

Mr. CASHIN: Would you say that the number was lower than one third?

Mr. McKICHAN: I would think this would probably be realistic, sir.

Mr. CASHIN: Do you find that those in the low income groups who are covered by a contributory pension plan like the idea, and that this is something these people wanted themselves, and was not something forced on them?

Mr. McKICHAN: What is that, please?

Mr. CASHIN: I refer to those of your employees who are now covered by pension plans. You think it was not something forced upon them?

Mr. McKICHAN: No, sir.

Mr. CASHIN: You think this was something they wanted?

Mr. McKICHAN: Yes, sir.

Mr. CASHIN: Do you feel that the majority of employees earning between $2,000 and $4,000 a year would want to be in a contributory pension plan?

Mr. McKICHAN: I would consider that they would, yes, sir.

Mr. CASHIN: I am asking you these questions because I may ask the same questions of another gentleman, who has a different view of these things, when he comes before us. So I appreciate the answers. Does your council agree that the Canada pension plan will in the long run benefit the retail trade by extending the propensity to consume among a large element of the population?

Mr. McKICHAN: That is quite a difficult and involved question. One has to weigh the possible inflationary effects that increased spending power would probably bring about. But I think the general consensus of our members is that eventually the plan will increase sales, and to that extent it will enhance the prosperity of the industry, provided, of course, that the costs of the plan are not detrimental to the whole national economy.

Mr. CASHIN: You have made a statement that the best social security is to have a healthy economy.

Mr. McKICHAN: We used words to that effect, yes.

Mr. CASHIN: Would you agree that an economy or system which cannot afford adequate social security is not a good economy or a very healthy or prosperous system?

Mr. McKICHAN: This is somewhat like the question of which comes first, the chicken or the egg. I certainly think that an economy must be healthy in order to support a fairly elaborate social security plan, and I think that a fairly elaborate social security plan is probably desired by most of our population if we can afford it.

Mr. CASHIN: That is all. Thank you.

Mr. LLOYD: I would like to go back to your quite proper concern about the impact of social measures on the economy of Canada. Have you had an opportunity to study the report of the finance department economists of the government to this committee?

Mr. McKICHAN: What is that?

Mr. LLOYD: Have you had an opportunity to examine an appraisal of the implications of this plan economically to Canada as set forth in the proceedings of this committee?

Mr. McCUTCHEON: Yes, sir.

Mr. LLOYD: Do you disagree with any of the conclusions drawn in any particular, or have you and your advisers disagreed in any respect with the conclusions drawn by our advisers in the economic field?

Mr. McCUTCHEON: We realize sir that they are of course only estimates, and we realize that they were considered in relation to other measures of social expenditure which may be adopted in the next two years. Our concern is in regard to the cumulative effect of various social schemes.

Mr. LLOYD: So far as the application of this plan is concerned, we do not have any legislation before us on other matters at the moment, and we do not know what other provinces may do at the moment. But in so far as the Canada pension plan is concerned, you do not have any reason to disagree with the general conclusions drawn by our economists.

Mr. McKICHAN: That is the point which we bring out in the submission regarding the level of the plan in relation to the level of social security payments.

Mr. LLOYD: I was hoping that somebody would say that possibly 25 per cent was a cautious approach to a plan. But we have not had anybody come before the committee to say it. I think it is a cautious approach, if I may offer a comment. You were also expressing concern about our reaching into, or about our disagreement with the commitments that we were undertaking with respect to the benefits under the Canada pension plan compared with those of the United States plan.

Mr. McKICHAN: Yes, sir.

Mr. LLOYD: In your study did you make allowance for the fact that there are upper limits for contributions in both Canada and the United States?

Mr. McKICHAN: We are aware of that, yes, sir.

Mr. LLOYD: And you were aware that the figure in the United States at the moment is $4,800, and that we heard today that possibly it might go to the region of $5,600.

Mr. McKICHAN: I do not recall the exact figure.

Mr. LLOYD: Canada's proposal is $5,000. So you have to take this upper limit of contributions in making comparisons of any over-all figures of disposable income in the hands of the residents of both countries.

Mr. McKICHAN: I think in respect of that, it is a fact that the American wage earner does have a larger disposal of material resources, even allowing for the upper limits.

Mr. LLOYD: I know that you are most anxious to put your views forward and are equally anxious to get all the facts straight just as we are, too. It is only in the spirit of co-operation that I put forward these proposals. I am not criticizing your general concern. Furthermore, do you in your appraisal of this plan take into account the refunding of the incidence of the cost of contribution with tax provisions?

Mr. McKICHAN: We appreciate that this is a factor.

Mr. LLOYD: May I give you an illustration: Let us assume the proportion of the annual payroll of one of your members liable for contributions, bearing in mind the $5,000 limitation per years, and bearing in mind that the payroll liable for contributions is $500,000 that the employer's portion would be at the rate of 1.8, and that his immediate cost would be $9,000.

Now, if he is in the 47 per cent tax bracket, plus the 3 per cent for the old age assistance tax, and if he takes his proportion as a tax reduction, then he reduces his direct cost from $9,000 to $4,500; and if he happens of course to be in a bracket below the profit margin of $35,000, then he reduces his tax liability of $4,500 by some $1,800 to approximately $2,700. Were you aware of these impacts?

Mr. McKICHAN: Yes, sir.

Mr. LLOYD: Were you aware of the extent of the refunding of your direct liability in the field of tax reduction?

Mr. MCKICHAN: Yes, sir, but I would add this, that particularly in the retail industry one is dealing with something like 160,000 or more small employers who are at a very low level of income and consequently of tax. So perhaps less in the retail industry than in any other industry is this shift going to take place. This is not particularly true of the members of the retail council.

Mr. LLOYD: In the light of the comments I have made, we now come back finally to your concerns about having a universal plan, with which I think you agreed earlier when I questioned you.

Mr. MCKICHAN: Yes.

Mr. LLOYD: If this kind of plan does not go into effect—and we will suggest that provinces should revise the idea of legislation compelling all employers to have private pension funds in accordance with the conventional practice of such funds—then your contributions would be much higher, would they not, because you have all of those private pension funds funded? So in effect—and this is what I am trying to get over to you—this kind of scheme really for the immediate future of the economy, short term, has less impact than would the other kind of plan.

Mr. MCKICHAN: I think the question is answered, sir, by the fact that in our submission we do endorse the concept.

The CHAIRMAN (*Mr. Cameron*): Mr. Aiken, do you have a question?

Mr. AIKEN: No, Mr. Chairman.

The CHAIRMAN: (*Mr. Cameron*): Mr. Basford?

Mr. BASFORD: No.

The CHAIRMAN (*Mr. Cameron*): Mr. McKichan, Mr. Went, Mr. Hyndman, Mr. Freiman, we have appreciated very much your presence here tonight. We appreciate the trouble you have gone to in preparing this brief, which will form part of the record of the committee.

We thank you, Mr. McKichan, and those who have answered questions for the full and frank expressions of your opinions; they will be of great benefit to the committee when we have to prepare our report. Thank you very much.

The committee will meet tomorrow morning at ten o'clock to hear the brief of the Canadian Welfare Council, and Senator Fergusson will be in the chair.

Mr. MCKICHAN: I would like to thank you, Mr. Chairman, and the committee for the very courteous hearing you have given us.

APPENDIX A7

REDISTRIBUTION OF PERSONAL INCOME IN CANADA
(W. M. Anderson)

(prepared originally for presentation, November 24, 1964 at the Annual Meeting of the Canadian Tax Foundation in Montreal, Quebec)

Submitted for discussion on January 14, 1965 to the Special Joint Committee of the Senate and of the House of Commons Appointed to Consider and Report upon Bill C-136 An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

REDISTRIBUTION OF PERSONAL INCOME IN CANADA

The purpose of this paper is to discuss some of the problems related to the system of income transfer payments which operates between the personal and government sectors in Canada's economy. Special stress is laid upon the segment of the system designed to provide retirement income, the present and proposed methods of financing this part of the system and the level, pattern and trends of the retirement income benefit structure.

As a general premise it is assumed that income security payments by government to the individual are negative personal income taxes or, alternatively, that personal income taxes are negative income security payments. On this premise it is the net difference between these two opposite sets of transfers which constitutes the system of personal income redistribution and, therefore, the level and pattern of personal disposable income as compared with personal income before income taxes and income security payments. The general effect is one of taking the stream of personal economic income (i.e. earnings and investment income) which is divided among individuals according to the economic system of the country and re-dividing the stream with substantial regard to social adequacy in the resultant net income flows. The result is one where lower income groups in the community receive net transfer flows from the government which tend to vary inversely with their economic incomes, while the government receives net transfer flows from the higher income groups which tend to vary directly with their economic incomes.

Definition of Redistributional Income Transfers

In defining the transfer flows which affect personal income distribution, care must be taken to eliminate those which have other purposes. On the tax side the important flows are personal income tax and employee social security contributions (e.g. for unemployment insurance). Other direct taxes related to consumer expenditure (e.g. motor vehicle licences) or to transfers of wealth (e.g. estate and gift taxes) are not regarded as influencing income distribution directly. On the benefit side the major income transfers in Canada are Old Age Security benefits, Family Allowances, Unemployment Insurance benefits and categorical and general assistance payments. Grants to private non-commercial institutions (and by analogy donations by corporations) are not regarded as income transfers on the score that they are not made to individuals as disposable income but operate rather to modify consumer expenditure in a similar way to the direct provision of services by government. Payments by government in its capacity as an employer are disregarded and, therefore, civil service pension contributions and benefits do not form part of the redistributional pattern. By analogy, the same reasoning is extended to veterans' programs which can be regarded as of the nature of an employer responsibility relating to services rendered in the past. This reasoning also operates to exclude Workmen's Compensation, which is financed purely by employers even although it involves compulsion and government administration.

It is also highly important to exclude from consideration the systems of financial transfers which are fully contractual in form such, for example, as government bonds and government annuities. In these cases there are transfers to and from government at different points of time which are connected by a formal relationship of equivalent value and, therefore, it is permissible to net these transfers and to regard them as not part of the process of income redistribution. Indeed, this principle can be carried through into situations where payments to and from the government form part of a single structure. Thus, that portion of a tax which is refundable can be regarded as a contribution which is not part of the process of income redistribution. Similarly, that portion of a benefit which can be identified as an equivalent value refund of a contribution previously made can also be regarded as non-redistributional in character. This offsetting characteristic of contributions and equivalent refunds merely carries through time the principle of netting at any one time the offsetting transfer flows to and from government.

During the post war years in Canada much of the discussion of income redistribution has centred around the provision of adequate retirement income. This problem has received active and continuing consideration by various interested groups in the community, both public and private. Indeed, the provision of adequate retirement income has emerged as an increasingly complex and massive element in the Canadian scene and, in turn, this problem has largely determined the totality of the process of income redistribution in Canada.

Access to Earnings

As a matter of background it should be observed that our socio-economic structure is not such that earned income is the main channel whereby the fruits of rising productivity are transferred from the business sector to the personal sector of the economy. Neither consumer prices nor investment incomes seem to reflect economic progress in any important degree while wage rates have an upward trend equal to that of productivity and price combined. In this context current access to labour income has become of decisive importance in determining whether an individual or family can keep pace with the upward movements in standards of living and consumer prices. This situation has been accentuated sharply by the rapid emergence of the small two-generation family, dependent on money wages, as the dominant social unit in an industrialized and urbanized economy.

From the foregoing it follows that the small minority of individuals and families who suffer from lack of adequate access to current earnings have incomes which, in general, are considerably less than half of the levels enjoyed by members of the labour force and their depedents. This lack of earnings gap is fairly uniform across the country and much more important than the income differences which exist as between provinces or as between urban and rural populations. Furthermore, the gap prevails in spite of the massive transfer payment programs which are directed very largely to persons and families who lack adequate earnings, and in spite of the widespread use of private savings and insurance mechanisms which operate to transfer income from working periods to non-working periods.

Labour Surplus and Savings Shortage

In looking at the problem of lack of access to current labour income, two other factors emerge. First, we have been faced with a chronic labour surplus which can be attributed in considerable measure to the attractiveness of the possession of a job. Prospectively, this problem appears to be growing due to increasing mechanization and automation. Its solution may require a process of reducing the relative supply of labour through making jobs less attractive as well as various measures to increase effective labour demand. Second, we suffer from a chronic shortage of personal saving to the extent that we must rely continually on the importation of external capital. This shortage may be attributed to an excessive reliance on means-testing in our social assistance programs (which operate to nullify the effect of prior saving), and to the fact that adequate savings targets in a progressing community are beyond the limits of private savings capacity because of the inability of the savings mechanism to provide for the rising standards of living which result from gains in productivity.

Because of our chronic labour surplus and chronic savings shortage, the following courses of action seem desirable:

1. Further encouragement of long term personal saving through expansion of the tax shelter now enjoyed by private pension plans and registered retirement savings plans and through other measures designed to make the savings process more attractive.
2. Conversion of the means test to an earnings test in connection with categorical assistance programs and extension of an earnings test to all public transfer payment programs through the range of working ages. (Apart from its administrative convenience, an earnings test has the important merit of avoiding any penalty on saving and of making work less attractive. Of course, it would be expected that earnings tested transfer payments would rank as income for tax purposes so that, in the case of persons with significant unearned income, the benefits would bear tax at the applicable marginal rates.)
3. Major use of taxes on earnings as a method of financing transfer payments to non-earners. Obviously such taxes are more efficient for the purpose than taxes on investment income or consumption. In addition, there is the further point that, to the extent that such taxes depress earnings, the possession of a job becomes relatively less attractive.

Earnings Taxes

In observing the use of taxes on earnings to finance transfer payments to non-earners, the question arises as to the division of burden as between employer and employee and as to the pattern of tax in relation to earnings. To the extent that the taxes are pure, in the sense that they do not give rise to tax-related or earnings-related elements in the transfer payment structure, it would seem that there is little difference in the effect of taxes falling on the employer or employee, provided that the latter are deductible for income tax purposes. However, any elements of progression which are desired in the tax pattern are more easily achieved through taxes of employees' earnings rather than through payroll taxes on employers.

While earnings taxes of a pure type have as yet been used rarely, it should be observed that personal income taxation approximates to this position in Canada since about 90% of the tax can be traced to the presence of earned income in the income totals. In addition, value added taxes levied on labour intensive industries in countries using this form of tax provide an impact approximating that of employer payroll taxes.

Earnings taxes are commonly used to finance self-supporting transfer payment programs where the benefit structure is related to the taxes or to the taxed earnings. Where individual taxes and benefits are closely linked in value, the system becomes an insurance or savings mechanism and the taxes may properly be characterized as compulsory contributions. However, in the common situation where the benefit structure is dominated by the principle of social adequacy and the close linkage in value between taxes and benefits disappears, the taxes tend to lose their contribution attribute and must be placed within the context of taxation as a whole. Similarly, the benefit structure must be considered in the context of the total system of transfer payments.

Employee and Employer Earnings Taxes

At this point a dichotomy arises as between earnings taxes levied on employees and employers. The general pattern of personal income taxation and transfer payments is such that it is not defensible to finance earnings-related benefits by earnings taxes on employees unless high regard is paid to individual equity. The reason for this statement is that if the system operates to provide the greatest windfalls for the highest earners, it tends to operate against the general intent and effect of personal income taxation and transfer payments while, if the system provides downward directed windfalls, the employee taxes or a major portion of them should form part of the general income taxation system.

Employer payroll taxes, on the other hand, no matter how they are computed in detail may be regarded as, in effect, a global tax on global payroll. The emerging benefit structure, if earnings-related in nature, becomes a deferred augmentation of payroll. Since such a mechanism can be operated by a group of employers acting voluntarily in concert, it may be assumed that a state system of earnings-related benefits financed by employer payroll taxes in the equivalent of a compulsory consortium of employers and that the emerging benefit pattern can be in similar form to that which might have been developed by employers or groups of employers in the absence of compulsion.

The dichotomy which exists as between earnings taxes on employees and employers suggests that there should be separate benefit structures for each type of financing. Thus employee taxes might be used to provide individual benefit components within the limits of the value of individual contributions, giving the process the characteristics of a compulsory savings system. Alternatively, and more efficiently, employee taxes could be applied directly to the provision of flat benefits unrelated to earnings. On the other hand, employer taxes could be used to provide earnings-related benefits, to help raise low benefits to minimum levels and to provide for the refunds of employee contributions. It should be noted that this approach implies that neither the level nor the pattern of earnings taxes on employees and employers need be the same and that radically different funding might be used for each type.

The Retired Population

Within the general problem of income provision for people who are neither earners nor dependents of earners, the situation of retired persons requires special consideration. The retired population (about 6% of the total) constitutes nearly half of those people who lack adequate access to current labour income. In general, retired people have been without current labour income for an average of about 10 years and are removed from the mid-point of their working years by an average of about 35 years. Having regard to the long term upward movement of earnings per worker and consumer spending per person, this means that the consumer spending levels of the community during retirement will average about 50% higher than those prevailing at the point of retirement and more than 3 times as high as the average levels prevailing through the working years. Indeed, it is no exaggeration to say that the average level of consumer spending *per person* during retirement will exceed the average level of earnings *per worker* during the prior working years. This means that in the case of a typical worker with dependent spouse who has enjoyed average wages and has raised a normal quota of children, retirement income will have to average more than twice the career average wage in order to maintain the same relative consumer spending position during retirement as that which obtained during the working years. Quite evidently, the break-up of a family structure in which children supported retired parents, the lengthening of retirement periods due to increasing longevity and lower retirement ages and the continuing upward movement of personal incomes and consumer spending have combined to produce a problem of provision of retirement income which is far beyond the capacity of most individuals to solve, either through their own efforts or in concert with their employers. Also, quite evidently, massive government transfer payment programs are an essential element in the solution of the problem of providing adequate retirement income.

The question of the aggregate magnitude of government transfer payments to retired persons (as in the case of other non-earners) is a compartively simple one. Surely it is the consensus of opinion in the community that the small minority of non-earners should enjoy income levels (including their private income resources) which are appropriately commensurate with the income levels of the great majority (after making allowance for expenses laid out to obtain earnings, the impact of taxes, and savings versus dissavings both in intangible form and in the acquisition and use of consumer durables). More complex are the problems related to the form and pattern of transfer payment programs rather than their magnitude.

Increasing Income in Retirement

It appears that the emergence of typically long retirement periods has come upon us so rapidly that we have failed to appreciate fully some of the underlying implications. In the first place, it is becoming clear that level retirement incomes for long retirement periods do not fit in with the changing circumstances of a progressing community characterized by rising incomes per worker and spending per person. After having been acclimatized for 40 or 50 years to a rising income, the retired person with level income stagnates in a progressing community. Not only does he lack access to rising living standards, but rising prices operate to depress his own living standard under the constraint of level income. The resulting feeling of restraint and frustration is not confined to the retired population but is communicated to younger relatives, friends and neighbours and breeds a lack of confidence in their own future retirement prospects.

It seems evident that regular increases in income must be provided for retired people. In theory, many people might be able to arrange for these increases themselves by the provision of increasing annuities or pensions or by saving in the early years of retirement to provide for dissaving later but, even in theory, it is difficult to provide in advance for an upward movement whose magnitude and incidence is uncertain prior to retirement. In practice, the task of providing initial retirement income which approaches adequacy is so massive that for most people the provision of level retirement income is the most that can be hoped for. Nor can post-retirement pension adjustments by former employers be relied upon except in the relatively rare cases of long prior service with a very stable employer. There is little doubt that the great bulk of the burden of providing adequate post-retirement increases in income must fall upon the public transfer payment programs and this conclusion is borne out by the fact that in all progressing industrialized countries with typically long retirement periods, public retirement benefits in payment are increased at relatively short intervals, either by formula or by legislation.

It seems proper that the cost of adequate post retirement increases should be borne very largely by public programs since these adjustments represent a continuing sharing in the productivity gains of the community (plus insulation against price changes) under conditions where the retired individual has been cut off from the normal process of sharing in the community progress through earnings. In this light, post retirement increases should be uniform in amount for all retired people rather than being related either to current need or to current benefits (whether earnings-related or not). In this connection it may be observed that, among retired people, there is a tendency as time goes on for low incomes to fall (primarily due to dissaving) and for high incomes to rise (through saving, equity investment and inheritance). The provision of uniform increases thus operates to counteract this tendency of retirement incomes to drift apart and in the process tends to minimize the number of persons requiring needs tested supplements and to stabilize the size of these supplements. At the other extreme, income taxation of benefits makes their net effect vary inversely with other income.

Size of Post-Retirement Increases

If post-retirement increases are to fulfil the role of keeping the retired individual's total income position compatible with that of the progressing community, the size of the increases must approximate to the upward movement in consumer spending per person (about $3 per month per year per person in recent years) or, in other words, about one third of the upward movement in average earnings per worker since the non-agricultural earnings levels are about three times consumer spending levels. On the other hand, if the average income of all retired persons is to remain compatible with that of the community as a whole, this average should be advancing at the rate of about $3 per month per person per year. However, the average of private income resources of the retired appears to be rising by about $2 per month per person per year (due to the relatively rapid influx of newly retired persons with higher average incomes since, as pointed out earlier, private resource incomes can, at best, be expected to remain level during retirement). It follows that the public transfer payment programs for retired people should only be increasing by an average of about $1 per month per person per year to keep average total retirement incomes in consonance with the community as a whole. However, this trend in the average should be made consistent with a pattern which produces individual increases at the rate of about $3 per month per year.

The dilemma presented by the necessity of providing adequate post-retirement increases is well illustrated by the record of Canada's Old Age Security program. In slightly less than 12 years, benefits have been increased (in four erratic steps) by $35 monthly (i.e. from $40 in January 1952 to $75 in October 1963). The average benefit change of $3 per month per year has given each retired person increases compatible with the upward movement in consumer spending but irregular in the incidence of increase. On the other hand, the average upward movement in benefit level of about 6% per year, when combined with a 3% annual growth in number of beneficiaries, has produced a 9% expansion rate in benefit totals and has necessitated major changes in financing structure (two changes in the earmarked tax rates and an expansion of the sales tax base effective in January 1965). The present tax structure (including the expanded sales tax base), if in effect during the history of the system, would have produced revenues which grew by about 5% a year (i.e. sufficient to look after expansion of beneficiary population and to increase average benefits by about 2% annually). Furthermore, no tax base of the general character now in use can be expected to produce revenue growth at a significantly greater rate than the growth rate of Gross National Product. In other words, if the $3 per month per year increases which are necessary for the retired individual are to be provided by an upward movement in a universal flat benefit level, fiscal stability for the system could only be secured under conditions where the current benefit level was about $150 per month rather than $75, with earmarked tax rates at about twice the current levels.

Interestingly, there is a way around the dilemma which has not been thoroughly explored. If the retired population were divided into year of birth cohorts and if the flat benefit for each cohort approximated to the difference between the current consumer spending level and the average private income resources of the cohort, the average benefit level for all cohorts would decline to the extent that the average private income resource levels of all cohorts advanced. Assuming that this latter change is about $2 per month per year per person, this would leave room to increase the average level of individual benefits by about $3 per month per year (by formula and/or legislation) without endangering fiscal stability. Unfortunately, this approach envisages a highly complex continuing compilation of private income resource levels by cohort with due regard to the problem of inter cohort consistency and cannot be regarded as a feasible technique within the near future.

Benefits Graded by Attained Age

An alternative approach which produces similar results with greater simplicity and certainty consists of a uniform grading of the flat benefits by attained age. For example, if the present Old Age Security system provided increases of $3 per month per year of age beyond the 75 level at age 70, the individual would receive increases in income merely by growing older and without reliance on either formula adjustments of benefit or the caprices of legislative change. On the other hand, since the average age of all beneficiaries is not changing significantly (the present level is between 76 and 77), the average benefit for all beneficiaries (i.e. about $94 monthly) would remain constant in the absence of legislative change and the system would be fiscally stable.

The case for differentiating benefits by age is strengthened by the fact that age is the only benefit criterion which is beyond the control of the individual and which changes equally and automatically for all individuals as time goes on. Age is now used as a qualifying factor for Old Age Security and other programs and as a differentiating factor in Family and Student Allowances. Furthermore, benefit increases with age tend to be politically neutral since they are prospectively available to all persons. Nevertheless, the size of benefit differentiation by age depends for its validity not upon the convenience of providing necessary increases in income through such a process, but upon the degree to which private income resource levels tend to vary inversely with age among retired people. It seems quite evident that this inverse relationship should be present. The oldest retired people worked at earlier periods than those less old. Therefore, their earnings were at lower levels and, consequently, their savings capacities and the private retirement incomes which they were able to generate. Any tendency for private retirement incomes to decline after retirement would operate to accentuate this situation. In addition, advancing age means lessened access to labour income.

The size of the inverse relationship of income to age in the retired population may now be judged for the first time from age breakdowns for the non-farm population taken from the sample study of incomes conducted in conjunction with the 1961 census. From this study it would appear that a benefit grading of about $2 per month per year of age could be amply justified for the population age 70 and over since there would be no resultant overall tendency for average total incomes to increase by attained age at any one time. On the other hand, a benefit grading of as much as $3 per month per year of age could only be justified on the assumption of sharply higher expenditure levels for the very high ages or on the premise that the community wished to provide very liberal treatment for the very old in the light of their fewness in number and their short expectations of life.

Benefit grading at the rate of $2 per month per year of age beyond an initial level of $75 per month at age 70 would result in a stable average benefit level of $88 per month. The financing structure could be expected to support further flat increases in all benefit levels of about $1 per month per year, so that the necessary post-retirement increases of about $3 per month per year per person could be achieved without fiscal strain. Furthermore, the age grading of $2 per month would represent the minimum increases in consumer spending per person which might be contemplated, while the timing of legislated increases could coincide with upward fluctuations in the changes in consumer spending. However, since the private income resource levels of newly retired persons have a significant upward movement and since transitional adoption of earnings-related benefits would accentuate this movement, it appears that initial Old Age Security levels may already be too high and should decline rather than increase in the near term future. Politically, such a decline can hardly be contemplated but, in order to avoid the difficulty of granting redundant legislated increases to newly retired people, it would be preferable to contemplate age grading at the rate of $3 per month per year of age for most of the retired and thereby avoid potential further legislative change for the near term future.

Benefit Commencement Age

The design of appropriate age grading also involves a solution of the problem of the abrupt transitional point at age 70. The current legislative proposals envisage a progressive lowering of the minimum commencement age to 65, with a benefit rate reduced according to age of comencement ($51 monthly commencing at age 65) and with benefits payable independent of a means test or earnings test. The process is based upon the concept of approximately equal expected benefit totals, regardless of commencement (in effect, actuarial adjustment at a zero interest rate). Little has been said about the process of adjustment if and when the level of Old Age Security is increased, and the emerging future situation where benefits may be as much as 32% below normal (merely because of earlier commencement) has been given scant attention indeed.

It seems to have been overlooked that the process of actuarial adjustment is a facet of the principle of individual equity which requires equivalence in value between individual contributions and indivdual benefits and, therefore, equivalence in value between alternative benefit choices. Actuarial adjustment lacks validity in the case of individual benefits in excess of the limit which individual contributions can purchase. Such benefits must be financed collectively and their structure depends upon the principle of social adequacy (i.e. the benefit pattern must be related suitably to the relative positions of the beneficiaries in the community at the time of benefit payment). Any attempt to alter the pattern of a socially adequate benefit structure through actuarial adjustments in the time of payment of benefits interferes directly with the social adequacy of the pattern. Furthermore, actuarial adjustment is superfluous in cases where the individual can arrange for a corresponding alteration in the incidence of income flows from his private resources and where these resources are so meagre that this is not possible, alteration in the incidence of supplementary needs tested assistance is a more efficient instrument than actuarial adjustment of Old Age Security benefits.

A much more satisfactory downward extension in the Old Age Security commencement age could be contemplated under a system where benefits were graded by attained age and were subject to an earnings test until age 70. As an illustration, suppose that basic Old Age Security benefits consisted of $3 per month per year of age beyond age 50, thus amounting to $30 at age 60, $45 at 65, $60 at 70, $75 at 75, $90 at 80, $120 at 90 and $150 at 100. Prior to age 70, benefits would be subject to a suitable earnings test applicable to the individual (and to the spouse as well in the case of married couples). Persons deferring commencement of benefit to age 70 would continue to be entitled to $75 from age 70 to 75 inclusive, with $3 increases commencing at age 76. Transitionally, minimum commencement ages might be lowered in stages from age 70 (perhaps more rapidly for women) but direct implementation might be contemplated for all persons qualified for means tested or needs tested assistance since benefit costs would be offset by reductions in other programs. For all persons age 70 and over, the increases beyond age 75 would operate to raise the average benefit level to about $84 but this level could fall to about $80 if most people commenced taking benefits below age 70. The resultant system would be one where the retired individual received increases in income compatible with the upward movement in consumer spending, where the average income of all retired persons moved up at about the same pace because of the upward movement in other income sources due to rapid turnover in the retired population as a whole and where the fiscal margins emerging from a constant average benefit level could be used effectively to finance the impact of downward extension in initial commencement ages. The combined merit of giving the retired individual rising income within the context of a fiscally stable transfer payment program should warrant intensive consideration in the discussion of pension problems and of the allied situations relating to disabled persons, widows and orphans.

Proposed Earnings-Related Pension Plans

Predominant in recent discussions of pension problems have been the several proposed versions of the Canada Pension Plan and the Quebec Pension Plan and, in particular, the most recently proposed joint version. Among the major criticisms of the proposed structure are the following:

Discrimination against persons lacking labour income

1. No benefits are proposed except for contributors or their dependents, although it may be presumed that if the plan had been in effect in the past, virtually all of today's non-earners would have been contributors or dependents of contributors. Thus the plan excludes all persons who lack access to current labour income, either directly or as dependents, and will continue to exclude these persons as long as the lack of access to earnings continues. In this sense the plan not only discriminates against current non-earners, but may be expected to operate to aggravate the chronic labour surplus by making the possession of a job more attractive than it now is.

Upward movement of new benefit awards

2. During the ten-year transitional period, initial benefit entitlements at retirement will move up very sharply, with the result that for many years to come there will be a comparatively sharp downward slope by attained age in the income levels of retired contributors in the transitional year of birth group extending from 1896 to 1911. This problem will continue to exist after transi-

tion because the upward movement in initial retirement entitlements will continue to exceed the limited post-retirement adjustments contemplated.

Upward movement of windfall content

3. Through the transition period the plan contemplates the provision of benefits worth many times the contributions, since the latter will have a value of not more than about 10% of that of the benefits promised. Furthermore, because of the method of relating benefit entitlements to adjusted average earnings, there does not appear to be any point, even in the far distant future, when the contributions by or on behalf of an individual will have a value exceeding about 40% of the value of his benefits. As well as this, the unpaid for benefits or windfalls (i.e. the portion of the benefits beyond the level which the contributions would purchase) can be expected to continue to increase in average absolute size for new retirements in each successive year after transition, even although they may be declining as a proportion of the total new benefits awarded. Thus the system will always be promising greater future windfalls than those which it is currently delivering.

Windfalls related to earnings

4. For persons retiring in any one year, the system proposes to grant the greatest windfalls to those persons with the highest adjusted average earnings records (i.e. the very persons who presumably have had the best opportunity to make other provisions for retirement). While it is true that as between persons with differing adjusted average earnings the additional windfall benefit is uniformly 25% of such difference (less the portion purchasable by the difference of contributions), a windfall pattern of this character is, as pointed out earlier, incompatible with the concept of financing through employee contributions (or general taxation, for that matter) and can only be defended if it is clearly financed by payroll taxes levied on a consortium of employers either by agreed assessment or by compulsion.

Index adjustment of benefits

5. The system proposes post-retirement adjustments in relation to the movement of the Consumer Price Index (with an upper limit of 2% per year cumulatively). Such adjustments would operate to widen differences in benefit in the course of time under conditions where the differences in other income resources of the beneficiaries were also widening presumably. This situation does not seem to make sense (particularly with reference to the windfall portion of the benefits) since the system as a whole admittedly purports to provide only a portion of retirement income and for many years to come will confine its benefits to a minor part of the retired population.

Index adjustment of earnings

6. The proposed adjusted average earnings upon which benefits are based are calculated by a process which is equivalent to accumulating actual covered earnings at the rate of change of the yearly maximum contributory earnings (i.e. at the rate of change of the Consumer Price Index, with a 2% per annum cumulative limit, during the 10-year transitional period and at the rate of change of an average general wage index thereafter). After allowing for the prescribed drop-out period, the annual average of the earnings so accumulated becomes the amount of adjusted average earnings. Because of the accumulation factors involved, greater weight is given to the more remote earnings histories so that, after the system has been in operation for a considerable period, the adjusted average earnings at retirement will in many cases differ very considerably from the earnings close to retirement. (In general, it may be estimated that ultimately about 70% of the individual's benefit will be determined by earnings during the first half of his contribution period and only about 30%

by earnings during the latter half.) If the benefit formula were devoid of windfalls, the process would make sense since it is tantamount to a money purchase formula, with the rate of change of the contributory earnings ceiling used in lieu of an interest rate to accumulate contributions. But in a system possessing massive earnings-related windfalls, it must surely be the case that the windfalls should always be related to the earnings close to retirement. Whatever case can be made for earnings-related windfalls in a public pension system revolves around the problem of transition at retirement from a recent relatively high earnings level to a more modest retirement income level. Windfalls related to more remote earnings histories are completely irrelevant since, by definition, they cannot rest upon individiual equity and they can have no connection with social adequacy. It should be noted that an earnings-related pension formula confined to recent pre-retirement histories (as in fact is proposed under the Canada Pension Plan in the short term) does not deal with persons who have had little or no earnings in the immediate pre-retirement years. However, the problems of these people should be dealt with under programs related to the reasons for their inability to work since there is no difficult transition at or about normal retirement age caused by loss of access to earnings at that time. It should be further noted that in a system of earnings-related windfalls determined by the earnings record during years close to retirement, adjustment of covered earnings by the proposed method of the Canada Pension Plan has less significance but still contains the unfortunate bias of depressing the relative importance of the earnings closest to retirement and the defect of widening the differences in promised windfalls by reason of the effect of the adjustment process.

Survivorship and Disability Benefits

7. The ancillary provisions in the Canada Pension Plan relating to disability, pre-retirement widowhood and orphaned children all contain flat rate components and, in addition, earnings-related components or limitations. In principle, it is difficult to understand the rationale whereby flat rate benefits are limited to the dependents of contributors and further restricted in some instances by the covered earnings record. Surely it would make more sense to universalize these flat rate benefits and to extend them immediately to all dependent persons affected by the contingencies of death or disability as defined, subject to suitable earnings tests applicable in all cases. Once the principle of using earnings taxes to finance non-earners' benefits is accepted, it does not make sense to confine flat rate benefits to dependents of earners with a contribution record (nor to restrict such benefits by reason of either the period or the magnitude of covered earnings). The earnings-related components of the proposed disability and pre-retirement widowhood benefits constitute an arbitrarily defined insurance structure since they are proportionate to a defined level of adjusted average earnings and, in turn, differences in benefit levels are proportionate to differences in adjusted average contribution levels, these latter differences being ample to provide for the insurance contingencies involved. Since insurance against the contingencies of death and disability is available from many sources and is widely provided for in Canada, and since insurance proportionate to earnings presents no problems related to ability to pay the required premiums and is not dependent upon the long term accumulation of savings as in the case of private retirement incomes, the introduction of earnings-related benefit components in the case of death and disability, at a low level in relation to earnings, seems quite illogical and in addition involves administrative complexity which is unwarranted under conditions where most of the covered persons will have to continue to provide for additional coverage through private sources. The question may well be asked as to whether earnings-related death and disability benefit components have any logical place at all in a general public transfer payment program unless dif-

ferences in benefit levels are sufficiently large in relation to differences in earnings levels (e.g. the case of Workmen's Compensation) so that most people do not need to provide additional voluntary coverage. However, the magnitude of problems where adequate government action is essential for effective solutions is so great that extremely low priority must be given to government action in areas where solutions at the private level are feasible and attainable (either voluntarily or possibly in some cases through compulsion).

Coverage of the self-employed

8. Both Canada and Quebec Pension Plans propose compulsory coverage for the self-employed at the combined employer-employee contribution rate. However, the point seems to have been overlooked that most self-employment income is a mixture of investment income which is independent of continuing activity and earnings which are directly analogous to wages and salaries. Correspondingly, rental income may contain a significant earned income component for services performed by the owner. It would seem to be much more equitable to regard self-employment income as consisting of investment income up to some appropriate level (e.g. 6% per annum) in relation to the net worth of the activity, with only the excess beyond this level defined as earnings. Additionally, this aproach should present less administrative difficulty in the determination of contributions since comparatively few contributors would not be income taxpayers.

Funding and its implications

9. The Canada Pension Plan proposes to fund the excess of income over outgo and to invest this fund by lending to the provinces at interest. An immediate question arises as to whether funding is legitimate unless there is a prospective future net liability (i.e. an excess in present value of future outgo over future income). Under the conditions of a progressing economy with rising population and using the open group technique which embraces future earners as well as present ones, it would appear that at no time in the future will the situation arise when the outflow of paid-for benefits (i.e. that part of the individual benefits which could be purchased by contributions made by or on behalf of the individual) will amount to more than about 50% of the concurrent income at the proposed contribution rates. It follows, of course, that any prospective excess of outgo over income is traceable solely to the continuing rising pattern of earnings-related retirement income windfalls. Apart from the illogical character of a long term pattern of increasing windfall promises, the concept of providing for them in advance (and even prior to the point where they commence) is not in keeping with any sense of social adequacy in a retirement benefit structure and, of course, has no meaning from the point of view of individual equity since the windfalls are defined as benefits beyond the level which contributions could purchase. It would make much more sense to transfer the excess of income over outgo in the Canada Pension Plan to the Old Age Security Fund, to reduce correspondingly the earmarked taxes (particularly the earmarked portion related to personal income) and to transfer the tax sources relieved of earmarking to the provinces. Such action would avoid the undesirable implication of funding in advance for high future windfalls and at the same time would avoid the possible consequences of the creation of provincial financing sources other than taxation and open market borrowing.

Suggested Government Action

Against the foregoing background and comment, what kind of constructive suggestions emerge in relation to governmental income security programs in general and the Canada Pension Plan proposals in particular? Assuming that taxes on earnings can become a major revenue source for income maintenance benefits, that adequate post-retirement income increases are essential from the combined point of view of equity as between year of birth cohorts and fiscal stability and that publicly provided earnings-related pension components are necessary (at least in the short run), the following points appear to be highly relevant:

Reform of Old Age Security

1. Old Age Security should be reformed as rapidly as is feasible to provide for appropriate upward benefit movement by attained age (e.g. $3 per month per year per person) and to provide for downward extension in initial commencement ages with the same grading system by attained age and with earnings tested qualification for current benefit until age 70.

Separate employee and employer taxes

2. The tax proposals under the Canada Pension Plan should clearly separate the employee and employer taxes (with appropriate sub-division in the case of the self-employed) and provide separately for the disposition of each tax source (to be referred to later). An implication of this suggestion is that the two tax sources need not necessarily be the same in either level or pattern.

Initial avoidance of formula adjustments

3. The initial Canada Pension Plan legislation should contain no reference to formula adjustment in benefit entitlement or benefits based on either a price or a wage index. Apart from the arguments already advanced, it should be noted that the proposed adjustments have very mild short term effects but most profound long term implications. There will be ample time to study whether such adjustments should be provided for once contributions have commenced, particularly since it would be more responsible legislation to base formula adjustments on the actual operating records of the system rather than on statistical indices which by their nature are subject to varying types of error in their construction. In the particular case of the proposed $5,000 contributory ceiling, a fixed level in the initial legislation can have no material effect on the growth in contribution income in the early years since currently average and modal wages are well under this level. It is true that the ceiling will have to rise in the course of time to maintain an appropriate level of contribution income but the provision of a legislated formula for this purpose should await the generation of actual contribution data for the system in order to secure proper design of a formula adjustment. Here again, it may be expected that it will be some years before average wages reach the proposed ceiling so that there will be ample time to give this problem adequate consideration, rather than engaging in long-term abdication of legislative responsibility in the manner which has been proposed.

Refunds of employee contribution accumulations

4. A separately identifiable component in the Canada Pension Plan benefit structure should be the repayment in equivalent benefit form of the employee's own contributions based upon accumulation of the employee contributions at specified rates, and conversion to benefit form by specified factors (in both cases within the limits which could be obtained through alternate channels). This equivalent value refund of employee contributions should be available within specified limits on a lump sum basis at or after death, disability or retirement and no other lump sum benefits should be provided by the system. Appropriate instalment and annuity options should also be available and these refund benefits should not be subject to earnings tests except to defer current payments to provide additional benefits of equivalent value at a later time.

Earnings credits at age 55 and later only

5. Earnings-related pensions should be specified as 2½% of the best ten years' covered earnings in 1966 or later) at or after the attainment of age 55, with earliest initial commencement scaled down through a short transition period from age 69 to age 65 and with appropriate earnings testing in relation to pension payments prior to age 70. It should be noted that through the proposed transitional period to 1976, this formula has about the same effect as the Canada Pension Plan formula of 2½% of adjusted covered earnings (the absence of the adjustment of covered earnings being approximately offset by the refund benefit from employee contributions referred to previously). However, in the longer term the concentration of the earnings-related benefit formula on the covered earnings record at and after age 55 ensures that the benefits will always be suitably related to recent earnings and, therefore, to the problems of transition to retirement. In order to mitigate the sharpness of the transitional period, it is also suggested that for the transitional years 1966 to 1975 covered earnings could be credited even although the individual had reached age 70 or being below age 70, had commenced pension (in this latter case the earnings test might deny current benefits but the earnings would augment future entitlement). In addition, it should be permissible for any person born in 1910 or earlier to submit authenticated earnings records (preferably income tax returns) relating to the years 1965 or earlier but at or after the attainment of age 55 and, subject to payment of employer contributions, to have such earnings records (up to the $5,000 per year limit) recognized as creditable for any or all of the years 1966 to 1975 inclusive. The effect of these procedures would be that all persons with earnings records close to or beyond retirement would have the opportunity to engage in a transitional build up to provide full earnings-related pensions by 1976. By this technique the full benefit structure (rather than merely the new pension awards) could be regarded as fully mature at the end of the ten-year transition period.

Implications of earnings credits from age 55 on

6. It is important to observe that restricting the earnings-related benefit formula to earnings at or after age 55 not only relates the benefits more satisfactorily to retirement transition problems but also avoids the pitfalls of long-term windfall promises. In addition, the process preempts the field of pension credits related to current covered earnings from age 55 on. This means that private pension plans would have a very easy integration problem (i.e. omit from the private plan current service credits for the best ten years of covered earnings at or after age 55). Because of the costly character of providing appropriate funded pension credits in these years, such integration might very well encourage marked expansion in the private plans. However, they would still have responsibilities related to wages and salaries above the ceiling and to final average adjustments in relation to prior service. Important by-products would be that relief from the high funding costs of the immediate pre-retirement years would remove a barrier to the employment of older workers and would considerably lengthen the period between input and output in the private pension funds, thus making them relatively more efficient suppliers of long term capital for investment and, in particular, making equity investment more suitable to the funding objectives.

Post-retirement widow's benefit

7. For the reasons cited earlier, the Canada Pension Plan should not provide earnings-related components in the benefit structure for disabled persons or pre-retirement widows. However, with a post-retirement widow's benefit of 60% of the husband's benefit, it would be logical to extend this formula to all widows where the husband had died after attainment of age

55 and to provide a widow's benefit of $1\frac{1}{2}$ of the husband's best ten years of covered earnings at or after the attainment of age 55.

Flat survivorship and disability benefits

8. Flat benefits for disabled persons, orphaned dependent children and their dependent mothers and widows of advanced age should be provided on a universalized basis, regardless of prior contributory history but subject to suitable earnings tests (on a family basis where appropriate) and with due regard for the necessity of providing for uniform and regular upward movement by reference either to attained age or to duration of benefit.

Roles of employee and employer taxes

9. In order to distinguish clearly the essentially different roles of employee and employer contributions, close consideration should be given to the respective ways in which each revenue source is applied to the provision of benefits. For example, it would be entirely appropriate for *employee* contributions to be paid into an expanded Old Age Security Fund along with appropriately revised earmarked taxes in order to provide for, on a pay-as-you-go basis, the various types of flat benefit. On the other hand, the *employer* contributions might be used exclusively for the purpose of providing for earnings-related pension windfalls together with the refund benefits related to employee contributions. Since this benefit structure would not reach maturity for many years, it should be operated on a funded basis to the extent necessary to stabilize future contribution rates. If this fund is invested through loans to the provinces, it is suggested that the loans should be restricted to the purpose of financing educational facilities. The reason for such earmarking is two-fold. First, the life cycle pattern is such that the combination of educational capital expenditures and pension requirements should tend to remain stable in relation to total earnings from the long term point of view and, second, in a long term public funding system, the necessity of providing for truly productive investment, in a real sense (other than merely in financial terms), probably can be more closely fulfilled by investment in education than in any other area.

Summary of Objectives and Action

This discussion may be summarized by citing the following underlying objectives:

1. A public flat benefit transfer payment structure should be spread as broadly as possible among all those people who are neither in the labour force nor dependents of members of the labour force, with wide-spread use of earnings tests at the boundary of eligibility.
2. The benefit structure should ensure that uniform and regular upward movement in individual benefits occurs through the passage of time, but in a manner which also ensures fiscal stability in the financing structure. This upward movement should be defined in the form of flat, universal dollar amounts rather than as percentage adjustments in benefit components.
3. The structure should not use any type of legislated formula adjustment based on statistical indices and should avoid any type of formula adjustment of contributions before the structure has generated adequate internal accounting data and also any type of formula adjustment of benefits while the structure is immature.
4. Major reliance should be placed on earnings taxes as a financing base but with a sharp distinction between the role of employee and employer taxes.

5. Employee taxes should be used directly to finance current flat benefits but should also be made refundable in order to distinguish them from other direct personal taxes and, therefore, to permit the employee contribution pattern and level to be determined independently of other taxes.
6. Employer taxes should not be identified with individual employees and should be pooled for the purpose of financing pension benefits relating to covered earnings close to retirement and to provide for employee contribution refunds.
7. Because of the immature character of the benefit structure financed by employer earnings taxes, this part of the structure should be funded to the degree necessary to stabilize future tax rates and to best ensure the long term purposes of this fund, investment should be confined to the area of educational facilities.

Conclusion

Finally, may it be suggested that Canada should not copy pension patterns which may be appropriate in countries with highly socialized economies, in countries with low levels of private retirement saving, in countries with rapidly rising price and wage levels, in countries with a large and clearly marked gulf between the rich and the poor or in countries with marked economic differences due to segregation problems. Canada possesses none of these dubious qualities and her policies should relate to the central problem of the major differences in the level and pattern of income resources which exist as between those who have current access to earnings and those who have not. Put in somewhat different words, Canada's problem is one of achieving a compatible relationship between a strong desire for social solidarity and an equally strong desire for economic freedom coupled with responsibility. Good political action entails a process of complementary merger between these desires to the advantage of both and to the detriment to neither.

APPENDIX 8

SUBMISSION TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS ON CANADA PENSION PLAN

by the

Retail Council of Canada
Toronto 1, Ontario

January 14th, 1965

The Honourable Senator Muriel Fergusson,
Mr. A. J. P. Cameron, M.P.,
Joint Chairmen,

The Special Joint Committee of the Senate
and of the House of Commons on Canada Pension Plan,

Ottawa, Canada.

Gentlemen,

1. Retail Council of Canada represents most of Canada's larger retailers and a substantial number of its medium-sized and smaller retail organisations. Between them, its members perform some 30% of the retail 'store' business in Canada. It welcomes this opportunity of presenting its views on Bill C-136 to the Committee. Circumstances in relation to the Canada Pension Plan have been changing with considerable frequency. It is possible that certain of the remarks contained in this submission will have become outdated by the time it is considered by the Committee. It is however necessary for us to attempt to crystallize our position at some particular point of time. If material changes in circumstances occur, the Council hopes it will be afforded the opportunity of making a supplementary submission to the Committee.

2. The industry in which our members are engaged is particularly sensitive to changes in legislation affecting employee working conditions because of its labour intensive nature. Some 800,000 persons in Canada are directly engaged in the trade on a regular basis. At peak periods the labour force expands to over 1,000,000 persons.

3. The Council is in favour of the concept of a contributory uniform pension plan, providing benefits to retired persons, widows and dependents and disabled persons. The Council believes that a majority of the citizens of this country hold similar views. The Council does, however, have considerable reservations regarding the present form of the plan and the timing of its introduction.

Priority of the Plan

4. Since the intention of the government to introduce the Canada Pension Plan was made known, the report of the Royal Commission on Health Services recommending the introduction of a national comprehensive health plan has been published and there have been indications that the pressures for spending on education and other social services will increase. At the same time, the Federal and Provincial Governments have decided to review the division of their respective sources of tax revenue. Implicit in this latter proposal is the suggestion that Provincial tax sources will be expanded at the expense

of Federal sources. In the light of these developments, there would seem to be considerable merit in the suggestions which have been made advocating the delineation of priorities in the social expenditure field. It seems appropriate that this delineation be a co-operative venture between the Federal and Provincial Governments. It is the Council's recommendation that however desirable the early introduction of a comprehensive contributory pension plan may be, its commencement should wait upon this determination of priorities and a close review of whether the national economy can afford a plan of this magnitude at this time.

The Financing of the Plan

5. The recently published actuarial report indicates that contribution rates at the levels contemplated will ensure the establishment of a fund having a value of some $5 billion by 1975 and which will reach a peak considerably above that level in the early 1980's. (This estimate assumes participation by the Province of Ontario.) By 1985, the Plan will require to be collecting contributions at the rate of between 4% and 4.8% of earnings to remain on a "pay-as-you-go" basis. Increased contributions would be required if the fund is to be used to produce further monies for provincial investment.

6. As originally conceived, the Plan was to have a fund of only modest proportions. An amendment to the original Plan had the effect of substantially increasing the size of the fund.

7. The Council assumes that the decision of the Province of Quebec to operate its own Plan is final and the Council does not propose to argue the merits of that decision. The Ontario Government has recently indicated that it is considering withdrawing from the Federal scheme and establishing its own Plan (presumably with reciprocity provisions similar to those agreed with the Province of Quebec.) It appears that at least one of the motives influencing the Province of Ontario to contemplate such a decision is the fact that it is not to have direct control over the capital of its share of the fund and the conduct of the Plan as a whole in the future.

8. The Council had not intended to reopen the question of the respective virtues of a fund of modest proportions and a fund of the very considerable dimensions proposed under the present legislation. It appeared that establishment of a sizeable fund was the price of provincial co-operation. However, if the Council's assumptions regarding the attitude of the Province of Ontario are correct, then this subject may very well be worth reopening.

9. In the view of the Council, it would be most regrettable if there were to be three, or if Ontario's example were followed by any of the other provinces, an even larger number of separate Government pension schemes being operated in Canada. Apart from the increased administrative costs of the schemes themselves, a substantially increased administrative cost burden would be placed on inter-provincial employers. Again, although arrangements for reciprocity in coverage for employees moving from one province to another would no doubt be achieved, it seems quite likely that with the passage of time, regional considerations might induce one or more governments to alter contribution rates or benefits or both. In this event, the encouragement to labour mobility which the original concept of the Federal and the Quebec Plans appeared to promise, would be lost.

10. For these reasons, the Council believes that every effort should be made to so amend the design of the Federal Plan that participation in it becomes acceptable to the Province of Ontario. If, as the Council believes, the present hesitation of the Province of Ontario in participating in the Federal Plan is induced by fears that it will have only partial control over the substantial part

of the accumulated contributions in the fund which originated in Ontario, the most readily apparent way of allaying these fears would be to revert to the concept of a minimally funded plan.

11. It has recently been suggested by the responsible Minister, the Honourable Judy LaMarsh, M.P., that negotiations be opened between Canada and the United States for the purpose of achieving reciprocity in the pension/social security coverage of the two countries. If reciprocity can be contemplated between two schemes of such divergent construction as those of the United States and Canada, achievement of reciprocity between a minimally funded Federal Plan and an extensively funded Quebec Plan would seem to be well within contemplation.

12. If, however, it is decided that the Federal Plan should proceed with or without Ontario Government support on the present basis of funding, the Council believes that every effort should be made to ensure that the existence of the fund does not induce extravagance in the establishment of benefit rates in the future. A well-known Canadian economist stated recently:

> "There is of course always the risk that a fund of considerable size will be a standing temptation to raise benefits beyond what current contributors would be willing to pay if they knew the long-run cost. The need to educate the public on the financing of the programme is very great and this will be a never-ending task, always worth doing well."

("An Economist's view of the Canada Pension Plan" by Dr. Robert M. Clark, published in "Symposium of Views on the Canada Pension Plan", CCH Canadian Limited, at Page 39.)

The Council endorses Dr. Clark's sentiments.

13. If a substantially funded plan is in fact introduced, the Council does not quarrel with the decision to make a proportion of the reserves available for investment by the participating Provinces. It simply is anxious that the integrity of the Plan as it presently is contemplated be maintained. In making this observation, the Council is mindful of the recent history of the Unemployment Insurance Fund. Possibly the fact that amendments to the Plan require agreement between the Federal and a prescribed proportion of the Provinces gives some assurance that future Governments will be constrained to adhere to the principles on which the Plan is based.

The Cost of the Plan

14. The cost of the Canada Pension Plan and the relationship this cost will bear to the gross national product can be projected with some reasonable degree of accuracy in the course of the next few years. As the actuarial report has revealed, possible changes in the Plan, actuarial uncertainties and uncertainty as to the rate of future growth of the economy make any such estimates of doubtful validity for the long term. It has been demonstrated that both in the immediate and long-term future, the costs involved will be substantial. It is clear that, in the view of the Federal Government and its economic advisers, and presumably in the view of several of the Provincial Governments and their advisers, the nation can afford the present plan. "Afford" in this context is used in the sense that increases in cost of doing business and the reflection of these costs in prices will not prejudice our foreign trade position, nor, domestically, materially affect the standard of living of those who will not benefit from the Plan and who at present have limited income or do not enjoy income derived from labour.

15. A comparison of particular significance is that between the level of benefits now proposed in Canada and those available in the United States under that country's Social Security Programme. The maximum combined Pension Plan and Old Age Security monthly provision for a married couple aged over 70 contemplated under existing legislation in Canada is $254.00. The similar provision in the United States amounts to $190.00. These figures must be considered in the light of the fact that in recent years, the average of Canadian personal income has been 70% of the equivalent American figure.

16. Also relevant to the consideration of the proposed level of pensions is the comparison which will inevitably be drawn between the Old Age Security payments received by, on the one hand:

(*a*) Persons now in retirement,

(*b*) Those who will retire prior to the introduction of the Plan,

(*c*) Those who retire in the early years of its operation, and on the other:

The payments to be received by those who retire when the Plan is matured. It would seem realistic to assume that strong pressures will be felt from those retired persons who will not benefit from the Plan or who will benefit only to a limited degree, to bring their income closer to that enjoyed by those who are full beneficiaries under it. The recently announced amendments to the basis of paying Old Age Security while ensuring that the gap between the two classes of retired persons will not widen further, will not diminish this gap. There would seem to be merit in adjusting benefit levels so that disparities become less pronounced.

17. The Council approves of the principles embodied in the legislation:

(*a*) that periodic reports on the anticipated revenues and expenditures of the Plan will be made by actuaries and studied by an advisory committee, and

(*b*) that special actuarial reports must be made to estimate the long-term costs of any proposals to change the benefits or other major features of the Plan.

18. Because the Canada Pension Plan and the Old Age Security Plan will be separately financed, it will be difficult for the average citizen to appreciate the actual costs of the combined programmes. It is considered that it would be desirable for Canadians to be able to arrive at this figure because now, and in the future, they will be expected to make intelligent decisions between the desirability of spending in the pension area and spending in other fields or indeed in obtaining relief from some part of the taxation burden. The Council recommends that a means be devised of quoting the actual total combined costs of the two plans to the public.

Coverage

19. The Council endorses the principle that coverage be extended to persons in all types of employment where it is administratively practicable to collect contributions. The Council notes that part-time and occasional employees are to be covered by the Plan provided their age level and annual earnings bring them within the eligible class.

20. The retail industry in one of the largest employers of occasional labour. A large proportion of such employees are married women who look primarily to their spouse to provide for them at the termination of their working life and often are more interested in present income than future security. Other categories of temporary employees and those who frequently change their

place of employment, might also prefer to contract out of the Plan if this option were available. The Council believes, however, that whatever the wishes of individuals in such groups, participation should be obligatory for all such employees whose earnings bring them within the scope of the Plan. It seems probable that the transient or unskilled person who can least afford to provide for his old age, is precisely the type of person who would be most likely to opt out of the Plan if this opportunity were available. Purely voluntary participation would also give administrative problems and presumably detract from the economies of scale which the Plan promises.

Employers' Part in Operation of Plan

21. In the past, various of the social security measures which have been introduced by governments have placed a considerable burden of unremunerated clerical work on employers. It is hoped that, when consideration is being given to the mechanics of operation of the Plan, full consultation will take place between the Government and employer groups with a view to devising procedures which place a minimal burden on employers. Possibly it would be of assistance if a Department-Trade Committee were established to review the details of reporting procedures and coverage, etc. Representatives of the Council would be happy to make themselves available for the purposes of consultation.

22. While detailed regulations for the handling of reporting procedures are not yet available, and indeed may not yet have been framed, the wording of the relevant sections of the Bill itself causes concern that employers may be involved in considerable administrative difficulties. The following problems immediately present themselves:

(*a*) It seems that while overpayments by employees can be refunded to them, no means of refunding the matching overpayments of employers is provided for;

(*b*) Employers will have considerable difficulty in ascertaining the correct amount of contribution to be made by each of their employees. Difficulty will also be experienced in determining which employees are obliged to contribute (because of the basic exemption provisions and the minimum age requirements). These problems will be particularly acute in the retail industry where the percentage of part-time workers is high and where there is a very high turnover in the labour force.

(*c*) Varying periods of employee payment may cause difficulties, particularly where employees change employers.

For these reasons, the Council believes that there would be merit in establishing a system of contribution payment similar to that used for collection of income tax. In other words, estimated contributions (calculated as accurately as circumstances would allow) would be made on behalf of employees with matching contributions being remitted by employers, but final determination of an employer's liability would be deferred until after the year end. The final contribution determination might conveniently be combined with the employee's personal income tax liability determination when 'T.4' slips were available. Appropriate assessments on refunds could then be made to both employers and employees.

Integration of Existing Plans

23. The Council believes that employers may experience particular difficulties in attempting to integrate existing pension plans with the Canada Pension Plan, where the terms of the plan emerged as a result of the collective

bargaining process between employer and employees. The Council is apprehensive that sections of organised labour may be reluctant to agree to any alteration of existing pension schemes which would involve a reduction of future employer contributions despite the fact that the reductions in future contributions and benefits were to be compensated for by the benefits provided by the Canada Pension Plan. In situations where a union adopted an inflexible attitude, the Canada Pension Plan would simply become an additional and expensive fringe benefit for which there could be no social justification. The Council believes that while it may not be possible to frame legislation which would prevent the unnecessary duplication of pension benefits, the widest possible publicity should be given to the Government's desire to see labour in the industries within Federal jurisdiction act responsibly in this context. The Federal Government might also consider discussing with Provincial Governments the wisdom of their following similar courses.

Federal/Provincial Liaison

24. The Council noted with approval the recent decision of the Provincial Governments to seek uniformity in their legislation dealing with the regulation of existing plans. It seems apparent that if in the future a jungle of conflicting Federal and Provincial legislation is to be avoided, continuing co-operation in the pension field must take place. This Council, representing as it does many inter-provincial companies, certainly endorses this concept.

Summary of Conclusions

25. (*a*) The Council approves the general concept of a uniform contributory Pension Plan, but it queries whether sufficient study as to the ability of the national economy to support this and other desirable social welfare projects which have been proposed has been undertaken.

(*b*) The Council believes that it would be most unfortunate if the Province of Ontario were to withdraw from the Canada Pension Plan. The Council would favour a substantial reduction in the size of the fund contemplated under the Plan because this action would seem likely to encourage the participation of the Province of Ontario in the Canada Pension Plan.

(*c*) Attention is drawn to the disparity which will exist between the level of pension to be received by contributors under the Plan when it is in full operation and a person solely dependent on Old Age Security benefits. A comparison is also made between the benefits to be enjoyed by contributors to the Plan and contributors to the United States Social Security Programme. The Council proposes that the gap between the benefits available to beneficiaries under the Plan and recipients of Old Age Security be narrowed.

(*d*) The Council suggests that to facilitate clerical procedures and to reduce the burden on employers close Government-Trade consultation take place and a system of reporting be adopted similar to that in use for employees' income tax.

(*e*) The Council recommends that both Federal and Provincial Governments use their best endeavours to ensure that the employers are not prevented from integrating the Canada Pension Plan with existing pension arrangements because of pressures from organised labour.

All of which is respectfully submitted,

RETAIL COUNCIL OF CANADA
A. J. McKichan,
General Manager.

Ottawa, Canada
January 14, 1965

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964-1965

SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS

Appointed to Consider and Report upon Bill C-136, An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

Joint Chairmen: Senator Muriel McQ. Fergusson and Mr. A. J. P. Cameron (*High Park*).

MINUTES AND PROCEEDINGS AND EVIDENCE

(Meetings held during the adjournment of the Senate and of the House of Commons, as of January 12, 1965.)

No. 15

FRIDAY, JANUARY 15, 1965

WITNESSES:

Messrs. Robert J. Myers, Chief Actuary, Social Security Administration, U.S.A.; J. E. E. Osborne, Technical Adviser to this Committee, W. M. Anderson, F.S.A., Chairman of the North American Life Assurance Co. of Canada, Toronto; and Mrs. Helen Weir, National President of The Congress of Canadian Women, and Miss Ethel Neilson, Chairman of The Senior Women's Committee for Pension Increase.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

21742—1

MEMBERS OF THE COMMITTEE FOR THE SENATE

Honourable Senator Muriel McQ. Fergusson, *Chairman,*

and Honourable Senators:

Blois
Boucher
Croll
Denis
Flynn
Lang
Lefrancois
McCutcheon
Smith (*Queens-Shelburne*)
Smith (*Kamloops*)
Stambaugh
Thorvaldson

MEMBERS OF THE COMMITTEE FOR THE HOUSE OF COMMONS

Mr. A. J. P. Cameron, M.P. (*High Park*), *Chairman*

and Messrs.

Aiken
Basford
Cantelon
Cashin
Chatterton
Côté (*Longueuil*)
Enns
Francis
Gray
Gundlock
Howe (*Wellington-Huron*)
Knowles
Laverdière
Leboe
Lloyd
Macaluso
Monteith
Morison
Munro
Perron
Prittie
Rhéaume
(Mrs.) Rideout

(Quorum 10)

Maxime Guitard,
Clerk of the Special Joint Committee.

(Meetings held during adjournment of the House)

MINUTES OF PROCEEDINGS

FRIDAY, January 15, 1965
(27)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan met at 10:09 o'clock a.m. this day. The Joint Chairman of the Senate section, Senator Fergusson, presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Fergusson, Lefrançois, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh—6.

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Gundlock, Howe (*Wellington-Huron*), Knowles, Laverdière, Leboe, Lloyd, Monteith, Morison, Munro, Prittie—20.

In attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee, and from the Canadian Welfare Council, Miss Marian Murphy, Secretary of the Committee on Aging, and Messrs. B. M. Alexandor, Q.C., President; Eric Hardy, of Eric Hardy Consulting Limited, of Toronto, Chairman, special Canada Pension Plan Committee of the Canadian Welfare Council; Horace S. Racine, M.L.A. for Ottawa East, Canadian Welfare Council Board of Governors; Reuben C. Baetz, Executive Director; Brian J. Iverson, Executive Secretary, Public Welfare Division of the Canadian Welfare Council and Secretary to the special Canada Pension Plan Committee; Dr. R. E. G. Davis, former Executive Director.

The Joint Chairman introduced Mr. B. M. Alexandor, Q.C., who, in turn, introduced the members of his delegation.

Mr. Alexandor read a prepared statement and Mr. Hardy presented a summary of the brief submitted previously for distribution. The witnesses were questioned thereon.

On motion of Mr. Munro, seconded by Mr. Francis,
Resolved,—That the brief, previously submitted by the Canadian Welfare Council, be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix A9*).

The examination of the witnesses being completed, the Joint Chairman thanked them.

On motion of Mr. Munro, seconded by Mr. Knowles and agreed unanimously,
Resolved,—That a vote of thanks be extended to the delegation of the Canadian Welfare Council for its contribution.

At 12:45 o'clock p.m. the Committee adjourned until 2:30 o'clock p.m. this day.

AFTERNOON SITTING

(28)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan reconvened at 2:38 o'clock p.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (High Park), presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Denis, Fergusson, Lefrançois, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh—7.

Representing the House of Commons: Mrs. Rideout and Messrs. Aiken, Basford, Cameron (*High Park*), Cantelon, Cashin, Chatterton, Côté (*Longueuil*), Francis, Gray, Knowles, Laverdière, Leboe, Lloyd, Monteith, Morison, Munro, Prittie—18.

In attendance: From The Congress of Canadian Women, Mesdames: Helen Weir, National President; Violet Dewhurst, National Secretary; Alice Magis, from the National Executive; Gertrude Lakso, representing the Finnish Women; Mary Prokop, representing the Association of the United Ukranian Canadians; Blanche Gélinas, representing, as Chairman, La ligue des femmes canadiennes and from the Senior Women's Committee for Pension Increase, Mesdames: Ethel Neilson, Chairman; Margaret Bradly, Secretary Treasurer; Ilda Murray, member and Messrs. G. N. Watson, F.S.A., Robert J. Myers, Chief Actuary, Social Security Administration of U.S.A.

Also in attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee.

The Joint Chairman introduced Mrs. Helen Weir who, in turn, introduced the members of her delegation. The witness then read a prepared statement and was questioned thereon.

On motion of Mr. Chatterton, seconded by Mr. Monteith,

Resolved,—That both the brief previously submitted for distribution, by The Congress of Canadian Women and a Statutory Declaration of Mrs. Violet Dewhurst, be printed as appendices to this day's Minutes of Proceedings and Evidence.

(*a*) Brief submitted by The Congress of Canadian Women, (*See Appendix A10*).

(*b*) Statutory declaration of Mrs. Violet Dewhurst, (*See Appendix A11*).

The examination of the witness being completed, the Joint Chairman thanked the delegation and Mrs. Weir who retired.

Then Miss Ethel Neilson, Chairman of Senior Women's Committee for Pension Increase, spokesman of her delegation, was called. She read a prepared statement and was questioned thereon.

The Committee agreed unanimously that the brief previously submitted by the Senior Women's Committee for Pension Increase be printed as an Appendix to this day's Minutes of Proceedings and Evidence, (*See Appendix A12*).

Having completed her evidence, Miss Neilson and her delegation were thanked by the Joint Chairman and they retired.

Finally, Mr. W. M. Anderson, F.S.A. was recalled and questioned thereon.

His examination being completed, Mr. Anderson was thanked by the Joint Chairman and he retired.

At 5:15 o'clock p.m. the Committee adjourned, until 10:00 o'clock a.m. on Monday, January 18, 1965.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

FRIDAY, January 15, 1965

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mrs. Rideout and gentlemen, we have a quorum.

As you know, we have the representatives from the Canadian Welfare Council before us this morning, and their brief will be presented. The brief, of course, has been circulated to all of you.

I do not suppose the Canadian Welfare Council needs much introduction to a group like this. But, I would like to say that they are a voluntary association made up of members not only of private and public agencies but of church and citizenship groups, business organizations and labour organizations which are affiliated with them. These are mostly people who are interested in social welfare in Canada.

Mr. Alexandor, the president, is going to present the brief. I would like to tell you that Mr. Alexandor is an outstanding member of the Ontario and Quebec bars. He has been made a Queen's counsel in both provinces. In addition to this, Mr. Alexandor has been very active in local and national organizations which have charitable or cultural objectives.

I will ask Mr. Alexandor to introduce the rest of the members of his group. I am sure, Mr. Alexandor, that you do understand how this committee usually operates. We have read the brief and at this time we would like you to give a summary of it rather than read it. You can bring out the highlights in your brief. Then we would ask that you permit yourself to be questioned by the members of this committee. Perhaps you will introduce the remainder of your group at this time, Mr. Alexandor.

Mr. B. M. ALEXANDOR, Q.C., (*President of the Canadian Welfare Council*): Thank you very much, Senator Fergusson. Ladies and gentlemen, for convenience I think I will introduce these gentlemen in the order in which they appear. On my immediate right is Mr. Eric Hardy, a member of our Board of Governors. Mr. Hardy is from Toronto. He was chairman of the special committee of the Canadian Welfare Council set up to study Bill No. C-136. Next to Mr. Hardy is Mr. Brian J. Iverson, executive secretary of the public welfare division of the Canadian Welfare Council. Then follows Mr. Ruben C. Baetz, the executive director of the Canadian Welfare Council, and then at the corner, Mr. Horace S. Racine, member of the board of governors of the Canada Welfare Council, a member of the executive committee, and a member of the legislature of the province of Ontario.

Mr. KNOWLES: Madam Chairman, I wonder if Mr. Alexandor could give us the names of those in the bleachers.

Mr. ALEXANDOR: Mr. Dahl, information officer of the Canadian Welfare Council; Dr. Hamel, who performs many functions in the Canadian Welfare Council; Mr. Gamble, director of administration; Miss Murphy, who also performs various functions on the staff, and Miss Godfrey, a member of the Special Project Branch. Sitting behind Miss Godfrey is Mr. Davis, who for 17 years was executive director of the Canadian Welfare Council. Mr. Davis is here as a private citizen, and we do not know whether or not he supports us now.

Madam Chairman and Mr. co-chairman, ladies and gentlemen;

The Canadian Welfare Council is gratified to have received an invitation to present its views on the Canada pension plan. Our recognition of its fundamental importance has been recorded in the written submission which I believe was circulated some days ago to each member of the committee.

The task which your committee faces is certainly not an enviable one. As has been widely acknowledged, Bill No. C-136 is one of the most complex pieces of legislation to have appeared in recent years. It requires the most careful study not only if one is to understand the inner workings of the pension plan but particularly if one is trying to assess the long-term implications. As you will have noted from our submission, we believe that it is essential for the joint parliamentary committee to undertake such an intensive review in order to ensure that the Canada pension plan fulfils the high objectives envisaged for it.

The submission which you have before you is, I believe, self-contained and self-explanatory. I do not intend taking the committee's time to review it in detail although I would like to draw your attention to the council's basic position, and at the same time highlight certain changes which we have proposed. Our position is quite straightforward—we believe that the Canada pension plan can become a basic pillar—perhaps the basic pillar—of social security in Canada providing a number of modifications are made. In according the Canada pension plan this status we are not, of course, losing sight of other important programs such as family allowances, unemployment insurance and public assistance, as well as the whole area of medical care, all of which contribute to the security of individual Canadians and about which the Canadian Welfare Council has advanced proposals from time to time.

The modifications which we see as being necessary if the plan is to fulfil its social objectives are also straightforward—the extension of coverage, directly or indirectly, to as many Canadians as possible irrespective of their present status—and benefit levels which take into account social needs as much as equity among contributors. We believe that imaginative planning and modern-day techniques of administration make our proposals feasible once the necessary policy decisions have been made.

You will readily see that the specific recommendations we have made stem in large measure from the Canadian Welfare Council's obligation to those Canadians who are least likely to be able to provide for themselves and who are, therefore, the most likely to fall prey to the hazards of the modern industrial state and, for that matter, to even purely personal misfortunes.

We have noted that within the range of earnings covered by the plan the greatest degree of income security is provided for those at the upper end of the scale. We believe that the levels of benefits which will become available must be high enough to guarantee a socially-adequate standard of living for all beneficiaries, whether or not they had high or low earnings during their working lives. We recognize that to achieve this objective considerable subsidization will be necessary which, in turn, may require the use of general tax revenue. Our brief points out, however, that general revenue is already supporting the various public assistance programs, and that by providing for a greater number of Canadians under the Canada pension plan, there will be a reduction in the cost of public assistance which, in turn, will reduce the net additional cost of the modifications we have suggested.

Unfortunately, time and resources have not permitted the Canadian Welfare Council to measure precisely how many Canadians will be excluded from the Canada pension plan, although from our knowledge of the public assistance caseload and the number of Canadians earning less than $1,000 per year, it is clear that a significant portion of the population is affected. As you will see from our submission, we have advanced certain proposals which we believe would minimie this undesirazble situation.

As I have already suggested, Madam Chairman, it is not my intention to review the submission in detail. I am sure that committee members will have questions they wish to direct to us. I would be remiss, however, if I did not draw your attention to a particular recommendation which appears in the document. I am referring to the recommendation found in paragraph 14. page 5, namely; the need for a comprehensive review of social security in Canada. As many honourable members will recall, the Canadian Welfare has been advancing this recommendation since 1958. We have carefully examined developments since then before deciding to urge once again that a royal commission or similarly-constituted review body be established to examine all facets of social security in this country. When the Canada pension plan is actually in operation, Canada will have most of the basic elements of a sound social security program. It is apparent, however, that in order to achieve the maximum benefit there will be an even greater need to relate the programs one to another—integration, if you will—in order that efficiency be ensured, gaps discovered, in short, the whole program rationalized. We do not know precisely at this point the form that such integration should take. In some cases, no doubt, new approaches through legislation wil be called for: for example, a federal public assistance act replacing the four pieces of federal legislation which now exist in this area. The four statutes are the Unemployment Assistance Act, the Old Age Assistance Act, the Blind Persons Allowance Act and the Disabled Persons Allowance Act.

In other cases, administrative agreements between the federal and provincial government may be required. We must not lose sight of the coordination needed between public and voluntary efforts, nor, indeed, between the field of welfare as we know it and other activities directed to social betterment: health, education and labour, for example. We are convinced that in a rapidly-changing society these questions are as vital as they are complex, and can only be studied appropriately by a review body which can command and enjoy the cooperation of all responsible governments and organizations. You will realize therefore, Madam Chairman, that far from apologizing for advancing this recommendation for a study again at this time, we are putting it forward in the strongest possible terms.

Finally, Madam Chairman, in saying again how pleased we are to be meeting you, I do want to emphasize that the views we have attempted to express in our submission, and the proposals and recommendations that have been made, have arisen from our desire that the Canada pension plan be made an even more effective social security program for an even larger number of Canadian citizens.

Mr. Hardy will be prepared to summarize briefly the proposals we make in our submission and after that representatives of the council will be quite prepared to answer, correctly, I hope, any questions you may have.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you, Mr. Alexandor. Would you proceed, Mr. Hardy.

Mr. ERIC HARDY (*Chairman, Special Canada Pension Plan Committee of the Canadian Welfare Council*): Senator Fergusson, ladies and gentlemen. We have not prepared a written summary of this submission, believing that the submission has some points of merit which are scattered through it. We hope that you have read the brief completely.

Madam Chairman, I would like to say one word before I start on the main content of the brief. It must be apparent to you that it is difficult for an organization like the Canadian Welfare Council to put together a brief which contains a number of points of substance inasmuch as the council includes representation of such diverse sources on its board and various divisions.

Now, in a short period of time we got together a committee which contained spokesmen for the various interests concerned, and in my opinion we succeeded in reaching unanimity on a considerable number of important points because we shared a common interest in the welfare aspects of this measure, and that is emphasized in the brief, as Mr. Alexander has already stated.

In asking that there be a further review of the whole field of welfare after the Canada pension plan has been dealt with, we had in mind that it would not be constructive for the Canadian welfare council to be so critical of the Canada pension plan as to seem to suggest that it should not be amended and brought forward. But, on the other hand, we feel that the Canada pension plan picks up one aspect of welfare needs in Canada and leaves still untouched in a public sense a number of other welfare matters which, in the view of the council, have equally high or higher priority. It is in order that these other priority matters may be given prompt consideration that there is this proposal in the brief for a subsequent review body. We therefore say, on page 5 of the brief, that the council is in general agreement with the main objectives of the Canada pension plan as set out in the government white paper.

Then we go on to deal with a number of features of the plan, and in our criticism of the particular features of the plan we do not want you to lose sight of our general opinion that the plan has much merit and that we think it should go forward.

We deal with portability, and we say it is perhaps an obvious thing that a national plan inevitably involves portability. This is one reason for the council taking the position it has on the national plan because by inclusion in the plan proper or by the establishment of parallel machinery in particular provinces, we think that the kind of portability which the national effort makes possible is most important in a society in which we will be living.

Next we deal with the escalation feature in the plan, and we not only say that escalation is a good idea but we like to see the plan go further. When the scheme, as it is now laid out, comes into force, you will have an earnings index playing a part in the plan and you will have a pensions index which is a modification of the consumer price index. It is the contention of the Canadian welfare council that the earnings index should be used throughout as the escalation feature on the grounds that one is concerned not only with how much it costs a family to live, but with our expectations respecting how a family will live in society in relation to those in the earnings group.

We recognize subsidization in the plan as it is drafted, and we think that it is necessary and desirable. The council has not really concerned itself very greatly and very strongly in its submission with the semifunding method of bringing the plan into being other than in its implications for dispensing welfare to the people of Canada; but we do say that here, in the sorting between present and future contributors, there is an element of subsidizing, as we see it. There may be an element of subsidization if the plan does not continue to be self-sustaining from its own revenue sources; there may be then a general subsidization from the public revenues.

We are also aware of two other aspects of subsidization; the subsidization involved in the fact that there is a basic earnings exemption, and further that there are flat rate payments to orphans and that his constitutes a subsidization component, and there is a flat rate component in the graduated benefit to widows and disabled persons.

We are not quarrelling generally with all these elements in the scheme, but one thing that has concerned us as a council is the implication of the $5,000 ceiling. We deal with this further along in the brief. We do not suggest that the $5,000 ceiling is inevitably an unsatisfactory feature of the plan, but we think that the plan as it now stands requires some modification of that $5,000 ceiling so as not to constitute a negative aspect in he whole scheme.

Nex in the brief the council goes on to deal with gaps in coverage and to support the general objective, which I am sure the members of the committee will share, that gaps in coverage should be progressively narrowed as one can find ways of doing this and that specific and orderly attention should be directed to this need. It should not be left to some chance future agency to pick this up, but that this should be looked at as one of the responsibilities to be met if the Canada pension plan is brought into being.

In considering this we took a look at those left out of the labour market. We say that eventually widows with children will come into a public benefit system under the plan, but not immediately, and it will be a long time before such families pick up the level of benefits that is envisaged eventually under the plan. This is a product of the quasi-funding method of introducing the plan, and it means that you can have families which, over a long period of time, will have to look to other means of public support, family allowances and the like. We wonder if there could not be some effort made to bring these people in more quickly than is envisaged in the plan as it is now drafted.

The council then expressed its concern with the position of low earners, of which there are a sizable number, who are below the minimum set for the plan. We do not say that you can operate such a contributory scheme without minimum earnings levels for admission to the plan, but we wonder if there are ways of bringing that minimum lower by perhaps some sharing of the contribution to the pension for those in an even lower level of earnings than those set out in the plan today. We say this is a matter for further study; we do not say that we, in the kind of work our committee has been able to do, have the answer.

The committee was concerned with the $75 flat rate pension. It has been aware of the special Senate committee on aging and of the evidence which has been brought before this committee indicating, in the opinion of responsible people, that $75 a month is not an adequate sole source of income for all people in all parts of Canada. There are a couple of ways in which one might go about modifying this. One thing which the Canadian welfare council has tried to emphasize is a focusing of attention on the family concept of welfare responsibility.

Perhaps there might be a modification of benefits for married couples from the summation of the husband and wife benefits, but in the same way there might be a raising of the minimum beyond $75 a month where you have single people in high cost of living areas. So again the council thinks this is a matter for further study.

It is not possible for a body like the Canadian Welfare Council to deal thoroughly with the question of excepted employment and to rule definitely on such a matter. On the face of it, one thing that seemed unfortunate to us was the intention to exclude the Canadian armed forces and the R.C.M.P. At the provincial and local level the police forces which are not provided by the R.C.M.P. would not be given this kind of special treatment.

We say to ourselves that Canada, as the sponsor of the plan, ought to be most specially concerned not to create groups of excepted employment which are not absolutely essential, if it wants to avoid the multiplication of excepted employment down through the provinces and into other parts of Canada.

The council is also concerned with something which is of interest to groups other than a welfare organization, namely, the proper integration of private pension plans with the Canadian pension plans. While this is not a central objective of our brief, we thought we ought to mention the point and present one example to make clear that we are not differing in our view from others who will, I am sure, present this point of view to you.

On page 14 we set out an example of the problem of integrating a private pension plan with the Canada pension plan. At the bottom of that page we say:

> Many private employers expect their female workers to retire at age 60. Unless such people are ready and able to obtain new employment elsewhere,—

And this is, for most, rather a remote possibility if looked at realistically—

> —they are denied the opportunity to make five to ten years' contributions to the Canada pension plan. In the transitional stages of the plan these contributions would yield much more than an actuarial return and the emloyer will therefore be blamed for the substantial loss in benefit if he requires the scheduled separation at age 60 to take place.

The next section deals with the adequacy of benefits. We acknowledge that this subject does not lend itself to easy and thorough analysis. We are concerned with particular categories of people, as they are affected by it. We are concerned with those at the low end of the income scale and whether their benefits are adequate.

We think it is natural that this scheme should not attempt to make the first retirement provision for people in high earnings brackets. There is reference to a cut-off point in the earnings level covered by the plan. It is the lower end of the scale with which we are concerned. We think there ought to be consideration given to a greater degree of subsidization into the lower earnings level, but not out of the contributory income in support of the plan.

We draw to your attention a number of such cases—the person who retires and has a dependant spouse of younger age in which case the dependant spouse would not be eligible for a pension benefit immediately; those who withdraw from the labour market before age 70. People do not necessarily make a free choice in respect of the time of their withdrawal from the labour market or the time at which they feel they must accept the pension plan.

The council makes a recommendation on page 17 that the full amount of the basic old age security payment, currently set at $75 per month, be made available to those who retire between ages 65 and 69, and to their dependant spouses provided that, on an earnings test basis there is no reduction called for in the wage related portion of their pension. So, the $75 payment would be confined to those who are out of the labour market and whose earnings are limited as defined in the Canada pension plan. Not only is this something which becomes particularly important in the transition period, but the Canadian Welfare Council suggests that it is an alteration which would make sense as a permanent feature of the plan after it has become fully operative.

We also have doubts about this whole concept of rdeucing the amount of Old Age Security pension available if you bring the age back downwards from 70 to 65.

Let us look at what we see as a trend of public benefit coverage in the fund; we see the age itself being lowered in the future from the age of 70, and we think it would be undortunate if by opening up the earlier age at a reduced level you slowed down the other process of the bill—the full benefit as an available form of pension benefit at a lower age—if this becomes possible in future years.

Then the council goes on to question the adequacy of benefits for those qualifying for the disability pension under the Canada pension plan, and similarily for the orphans' benefits, where it is the belief that there should not be a limitation on benefit according to family size.

Now, earlier I mentioned the $5,000 ceiling, and the fact that the Canadian welfare council had some concern about the implications of setting this as a limit not only on benefits but on contributions. In our consideration of this subject the suggestion was made that one might like to eliminate the $5,000 earnings as a limit on contributions but not on benefits. This is not easy to work out. What we have in mind as a practical approach to this is to see that there are certain elements of equity in the Canada pension plan, if further benefits are built in for those who have lower earnings and special dependant requirements, so that a portion of the cost is made from general revenue and hence from general taxation. If you identify a portion of your total cost to be financed in this manner and if we continue to have a personal income tax with a progressive rate structure, in effect you are doing what is wanted here; you are putting the additional cost of this on persons with high personal earnings, but you do it through their general income taxation rather than in the earmarked contribution of the plan itself.

Then the council goes on to concern itself with the review procedures. At the bottom of page 20 we propose that the phrase "the state of the Canada pension plan investment fund" be deleted. The reason for proposing this deletion is that it seems to the Canadian welfare council that it would convey the wrong concept in respect of the composition of the committee if this point is picked out and stressed. We think this requirement will and must be made, but ought not to be linked with the composition of the committee members.

In relation to review, it is suggested that more precise provisions be made for the presentation of review material by the advisory committee and that a more careful wording be incorporated in the legislation with relation to the composition of that advisory committee. Then we mention the problem of the appeals procedure as it applies to the person without resources, without money to obtain the best legal help. Perhaps we are getting into the ombudsman here, but we think one of the functions of this advisory committee should be to look at the appeals procedure in an effort to ensure that there are not hardship cases which are not dealt with.

Finally, the council deals with the need for complementary programs—public assistance programs of various sorts—and it sets as an objective that such complementary programs should endeavour to be complete, adequate, and deal with Canadians with dignity, as we believe the Canada pension plan can and will do if modified in the directions which our brief proposes.

I think, Madam Chairman, that this is a sufficient summary to lead into the questions.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you very much, Mr. Hardy. The first person who has informed me he wishes to ask questions is Mr. Knowles.

Mr. KNOWLES: Madam Chairman, I am glad I have this opportunity of expressing, not only on my own behalf but on behalf of all members of the committee, our appreciation of this excellent brief which has been presented to us by the Canadian welfare council.

Like you, Madam Chairman, and like other members of the committee, I am aware of the processes through which this council has had to go in drafting a brief such as this. To those who know this process this brief is made all the more significant because of the position it takes.

My first question relates both to what Mr. Alexandor and Mr. Hardy have referred to as the most important point they are making, namely, the request that there still be undertaken a thorough review of the whole problem of social welfare and social security in Canada along the lines of the statement that your council adopted in Montreal on June 2, 1958.

Am I correct in taking it that you feel very strongly about it and definitely want to have it done, but you are not suggesting that the Canada pension plan be delayed until that review has taken place?

Mr. ALEXANDOR: That is correct. We do not say that the committee will have time or resources to carry out such an extensive review or survey, as we have recommended and continue to recommend.

Mr. KNOWLES: For my part I am hoping that we may take advantage of it and pass the Canada pension plan in some form, and that it will not act as a delay.

Mr. HARDY: Within the range of Canadian welfare requirements covered by the Canada pension plan we hope you will undertake a thorough review through this committee. We do not want this committee simply to hurry through its work and then ratify a plan. We think a thorough review is needed to cover the remaining welfare field, and to integrate it with the accomplishments of the Canada pension plan when adopted.

Mr. KNOWLES: I could not agree with you more. Now I would like to ask a question about the sentence in your brief which I think is the most important one. I may say that I read this brief in bed last night, and it was to me a moment of great excitement to find this sentence in paragraph 23, which reads as follows:

> Those in receipt of retirement or supplementary pensions should be assured a share of the increasing productivity of this country.

I was pleased to note that both of you gentlemen laid emphasis on this and pointed out that the cost of living index in your view is not a sufficient basis for increasing pensions. Mr. Anderson, who has had many years of service on your welfare council, took a similar position yesterday. Am I correct in drawing attention to this a moment as an important part of your thinking about old age security?

Mr. HARDY: In so far as the committee was concerned, we spent a lot of time on this subject and discussed it quite thoroughly. It was very important to the committee which produced the brief, and I have no reason to believe that the executive committee of the council felt differently when we cleared it with them in a session lasting three or four hours.

Mr. KNOWLES: This takes me back to my final comment which I think is very significant, and I hope the committee pays attention to it. I would couple with it the views you expressed under the heading of subsidization in paragraphs 25 and 26, and your support of the principle that there should be a redistribution of income. May I ask you about paragraphs 34 and 35 where you refer to the question of the adequacy of the $75 a month retirement pension which is provided under old age security? Although you do not specify an exact figure higher than $75 a month, am I right in interpreting your position as believing that there should be an increase in the basic flat rate pension?

Mr. HARDY: Yes, this was the position of the council. We felt that there should be something more than $75, we felt there should be an increase. We were afraid that this objective might get lost in the adoption of the Canada pension plan which ties the thing to the current $75 a month to start with.

Mr. KNOWLES: Let me assure you that there are members of this committee who will see to it that it does not get lost. I welcome this statement. There have been suggestions made before this committee to the effect that there will be too wide a gap between this and old age security for those who are on both old age security and Canada pension plan benefits. Some even suggested that the gap be narrowed by reducing the Canada pension plan benefits. But I like your suggestion much better. There are many other sections on which I would like to comment but I now defer to other members of the committee after confining myself to one more question relating to your proposal in paragraph 45 on the effect of the full amount of the old age security which is currently $75 a month. I take it that that reference leaves the door open to raising it.

Mr. HARDY: Yes, indeed.

Mr. KNOWLES: With respect to making it available to those who retire between the ages of 65 and 69, I do not need to say that I welcome this suggestion, but I would like to be made clear about this point. You seem to be saying that you would like $75 a month paid to persons at the age of 65, provided that they are getting Canada pension plan benefits at the same time and are not suffering any reduction in their Canada pension plan benefits on the basis of the earnings test that is in the plan. What I would like to ask you is this: Would you not agree that persons who retire at 65 who are out of the labour market but who are not getting anything from the Canada pension plan might also get $75 at age 65? Would that not come in effect under your definition, even though you have not specified it, provided that they meet the earnings test of the Canada pension plan?

Mr. HARDY: I would think that this is our general position, yes; that this is the direction in which the legislation ought to move.

Mr. KNOWLES: And you would also include dependant spouses in this case. Would that apply to a dependant spouse who might be of a younger age?

Mr. HARDY: Yes.

Mr. KNOWLES: These answers are so good that I think I shall pass now, Madam Chairman.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Before we go on with the questioning, for which we have a list of people who wish to speak, let me say that I overlooked a suggestion when Mr. Alexandor and Mr. Hardy had concluded their presentations, that the brief presented to this committee be made part of the minutes today.

Mr. MUNRO: I so move.

Mr. FRANCIS: I second the motion.

The CHAIRMAN (*Mrs. Hon. Fergusson*): It has been moved and seconded that the Canadian Welfare Council brief be made part of the minutes of today's meeting. Is it agreed?

Motion agreed to.

Mr. PRITTIE: Unlike my colleague, Mr. Knowles, my bedtime reading does not consist of briefs, especially when I have as much trouble as I had last night in trying to get to sleep. But I have one question of the delegation, and before I ask it I would like to ask you a question. I was most impressed with the section of the brief which dealt with gaps in coverage and the adequacy of benefits. Perhaps I should know this, but I am not quite sure of the terms of reference of this committee. It seems to me that some of the problems which the welfare council has pointed out in earlier delegations cannot be handled within the scope of the Canada pension plan, even though some changes are made. There are other general welfare measures such as the flat rate old age pension to be provided for people at a lower age. Might I ask if this committee is competent to make recommendations concerning matters which are not covered by the bill before us?

The CHAIRMAN (*Hon. Mrs. Fergusson*): I do not think so. Would you like to have the terms of reference read?

Mr. PRITTIE: Perhaps it might be well.

The CLERK OF THE COMMITTEE: The orders of reference read as follows:

MONDAY, November 16, 1964.

Resolved,—That a joint committee of the Senate and the House of Commons be appointed to consider Bill No. C-136, to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors;—

Mr. KNOWLES: That is pretty wide.

Mr. MONTEITH: Is that last part not merely a description of Bill No. C-136 presumably?

Mr. PRITTIE: There is some scope there, but I think the fact that these things are pointed out in the brief of a national organization is of value here.

Mr. KNOWLES: May I be permitted to say that in 1950 the committee on old age security had terms of reference which seemed to be tied to old age security, yet in our report we included a section dealing with other needs to which we thought parliament should give consideration. So as a model, we might look to it.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I am sure we have already had other evidence which did not seem to be within the terms of reference of this committee, but we thought that it was of some interest to us.

Mr. LLOYD: I would like to observe here that I do not see how you can possibly comment in any report to the House of Commons in any comprehensive fashion without observing other areas of activity in social welfare. I think it is in this way that we may get ourselves involved in a proper relationship of the Canada pension plan to the other areas of social welfare. Therefore, I think it falls within the scope of our examination. We cannot precisely recommend what should be done in other areas of effort, but certainly we can comment on the relationship of the Canada pension plan to them.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you.

Mr. PRITTIE: I suppose this could be a matter of discussion after the delegations are finished.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, this is not the time to discuss it.

Mr. PRITTIE: I am not quite clear about the $5,000 ceiling. You rather plainly suggested that perhaps people who earn over $5,000 should make greater contributions and thereby derive greater benefit than that which is proposed at the present time.

Mr. HARDY: No, this was not the position of the committee. Perhaps I misled you in my opening remarks.

We considered a number of alternatives in relation to some dissatisfaction with the $5,000 ceiling as it now stands and applies to both contributions and benefits, and as it relates to a plan which seems to leave some inadequacies and gaps in coverage.

Our thought was that if one identified areas of subsidization to those in the low earnings sector or to those with particularly high living costs, one might then lift that cost or part of it out of the contributory scheme financing and pay for it from general revenues, which would have the effect of putting a substantial proportion of the burden upon those with high personal incomes; and that was our reference.

Mr. PRITTIE: By means of income tax?

Mr. HARDY: That is right.

Mrs. RIDEOUT: Madam Chairman, I would like first of all to say that it was very refreshing to hear that the Canada pension plan has merit and should go forward. I agree.

I would like to refer to paragraph 51 in which the council expresses concern at the level of benefits that may be payable to widows, and I share your concern.

Does the council not support the government's objective in leaving some scope for private insurance companies in private pension plans so they may operate, too, and does it believe the Canada pension plan should try to provide all the income a survivor or a retired or disabled contributor might need?

Mr. BRIAN J. IVERSON (*Executive Secretary, Public Welfare Division, Canadian Welfare Council; Secretary to the Special Committee on the Canada Pension Plan*): Madam Chairman, perhaps I may attempt to answer this question by saying the tenor of the brief in respect to the adequacy of the benefit levels reflects the council's view that the levels provided in all cases—and I believe this was referred to by Mr. Hardy—should be adequate to ensure a reasonable standard of living. This, I think does not preclude the opportunity for private planning.

Mrs. RIDEOUT: What is your interpretation of a reasonable standard?

Mr. IVERSON: Something other than $39 a month.

Mrs. RIDEOUT: That is the minimum.

Mr. IVERSON: We could not see the point, in the committee examining this, of introducing an amount that would not enable recipients to live at a reasonable level. Therefore we argued that throughout the plan the floor had to be adequate to the related portion, and we mentioned this also in respect of the $25 a month flat rate payment to orphans.

In itself, this guaranteed amount, so to speak, does not provide a minimum reasonable standard of living, which was the objective of the government as set forth in the white paper. We may have interpreted it somewhat differently from the plan, particularly at the lower end of the earnings scale.

Mr. HARDY: It seems to me there is a distortion in suggesting you need to get into a contributory scheme where you provide a substantial public pension provision opportunity for those earning $5,000 a year and yet you have widows with this degree of benefit flowing out of the plan. There is a distortion in priorities and objectives.

If you feel you must have a contributory scheme that goes this far in one direction, that is taking business away from private pension plans there; yet on the other side you can point to these cases where people without an opportunity to make their own provision in a private way get such a small amount of benefit under the public plan.

Mrs. RIDEOUT: You are suggesting then, that there should be provision for a much higher benefit for a widow.

Mr. HARDY: We would say higher, certainly, yes.

Mr. MUNRO: I would like to reiterate the thoughts of Mr. Knowles and say what an excellent brief the Canadian Welfare Council has presented to the committee, and I would also like to endorse Mr. Knowles' position as far as discussion of old age security is concerned, because I think if we were ever in a position where any discussions pertaining to old age security were not relevant it would be a very severe stricture indeed on the committee in a proper consideration of this bill. I think the old age security provision and the evolution of old age security and what it may be in the future, and perhaps what it should be in the future, was a prominent consideration in the minds of the framers of this particular legislation. So I certainly have no objection to the recommendations and consideration by the welfare council of old age security.

The welfare council, Madam Chairman, as I understand it, has been advising the government on welfare needs over the years, and their helpfulness has made a great contribution.

One thing does occur to me as a result of the questions Mr. Knowles asked regarding the recommendation of the welfare council that old age security benefits should be increased. I understand in answer to Mr. Knowles they said they felt that $75 should be available to those between ages 65 and 70.

Mr. KNOWLES: Those who are retired.

Mr. MUNRO: Yes, to those who are retired.

I wonder if you can tell me whether the welfare council at any previous time has advised the government in this connection.

Mr. HARDY: Yes, the 1958 statement on social security for Canada took that position, and that was placed before the government.

Mr. MUNRO: What was old age security at that time, in 1958? It was $46 and $55.

Mr. HARDY: In 1955 it was raised to $55.

Mr. MUNRO: And then since the old age security was raised from $65 to $75 a year ago has the welfare council recommended a further increase to the government?

Mr. HARDY: No, but you must look at the recommendations which are here, of course. These are recommendations to the government.

Mr. MUNRO: When the pension was at $65 did the welfare council at that time indicate to the government that it should be raised above $65 to the current level of $75?

Mr. HARDY: There was no recommendation for an amount above $65 but the need for review and upward revision from time to time was recognized.

Mr. ALEXANDOR: At that time we said in our third recommendation that provision should be made for a continuing review and periodic consideration of adjustment in the amount of the universal flat rate pension, on the basis of adequate statistical data, related to such important considerations as minimum needs and relevant expenditure of older people.

Mr. MUNRO: Well, we have been raising the old age security in line with the recommendations. I think you will agree with that.

Mr. HARDY: Yes.

Mr. MUNRO: On page 15, paragraph 41, the welfare council has brought out this point, and I quote:

> Within the range of incomes which come fully within the plan, the Canada pension plan provides the greatest degree of effective income security to those at and toward the upper end of the earnings scale.

That, I take it, is speaking in dollar terms. I agree that element should be considered.

I also wonder if the council have worked this out in percentage terms. I am speaking of percentage terms of retired income as a result of a combination of old age security and the Canada pension plan with the income of the particular individual during his earning years.

Mr. IVERSON: Madam Chairman, the answer is no; we did not work this out in detail except to make certain observations which were reflected in the brief.

I think you will notice that at one point we recognize that a combined pension of $101 a month available to someone with an earnings record of $200 may be considered substantial in relation to his previous economic worth, which I think is getting at your question. Our argument, of course, is that this may be only barely adequate for his social need.

The second part of your question, I believe, relates to the relative cost of the benefit to previous income, and it is true, and it is noted, that because of the $600 exemption the person at the lower end pays a smaller portion towards his benefit than the person at the $5,000 end although, as Mr. Hardy has pointed out, beyond that the proportion of income going into the plan from anyone over $5,000 starts to decrease, and from the point of view of subsidization a regressive relationship starts to take over.

Mr. MUNRO: This conclusion has been reached as a result of combining the old age security and the benefits of the Canada pension plan?

Mr. IVERSON: In all cases.

Mr. MUNRO: In using your $101 example you are taking a single man at $200 at age 65.

Mr. IVERSON: I am sorry, Mr. Munro, but I did not hear your question.

Mr. MUNRO: In respect of your $101 example you are taking a man, say, earning $200 a month average earnings up to age 65, who retires and gets $101 a month. Is that right?

Mr. IVERSON: That is correct. Madam Chairman, I think one point needs to be made here; in presenting views involving dollar amounts you have to decide whether or not you will look into the future and calculate your escalation. We have not done this; we have taken 1965 dollars and prices and, therefore, used the data available in the official publication of 1964 white paper and so forth. But, we have combined both the proposed prorated old age security of $51 plus the 25 per cent wage related benefit, which assumes a 90 per cent satisfactory earnings record at $200 a month.

Mr. MUNRO: In your example, this $51 retirement would be 51 per cent of his average earnings during his lifetime.

Mr. IVERSON: That is correct.

Mr. MUNRO: Since the council has dealt with this area of proposed benifits favouring the higher income earnings I would like to quote some examples here and then get your information. You were using the 65 year age; in my examples I am going to use the 67½ age of retirement, assuming that may be a fair medium. My figures would indicate that a single man earning $100 a month, retiring at age 67½ years, would receive, combining old age security and the Canada pension plan, $88, or 88 per cent retirement pension compared to what his average earnings will be in his lifetime; a man earning $200 a month would received $113, or 57 per cent retirement compared to what he was earning during his lifetime; the man earning $250 a month would receive $126 or 50 per cent; a man earning $300 a month would receive $138 or 41 per cent, and a man earning $400 would receive $163 or 41 per cent.

I would like to do the same for the married couple, assuming both retired at age 67½. A man earning $100 a month, counting his wife, who is not a wage earner—I am just taking the man—would be receiving $151 a month or 151 per cent of what he was earning during his lifetime; a man earning $200 a month, counting his wife, would be receiving $176 or 88 per cent of what he was earning during his lifetime; a man earning $250 a month would receive $189 or 76 per cent of what he was earning during his lifetime; a man earning $300 a month would receive $201 or 67 per cent of what he was earning during his lifetime, and a man at the top of the scale, earning $400 a month, would be receiving $226 a month or 57 per cent of what he was earning during his lifetime. Now, those figures would indicate to me that by combining the old age security and the Canada pension plan there is considerable weighting in favour of the lower income group. But, I would like the opinion of the council whether they felt this was adequate, or whether they agree with these figures and these percentages or, perhaps, whether they feel there should be changes in them or that they should be increased.

Mr. HARDY: I wonder if we should begin this way, in dealing with Mr. Munro's question. In respect of this paragraph and talking about the position of those in the lower and upper ends of the earnings scale within the range covered by the plan—that is, up to $5,000—we are accepting the position that even though this is a contributory plan this is, in effect, a public plan to meet a basic need of Canadians, and one would believe that many people will supplement this plan with their own private arrangements. We are not suggesting that there is less wrench of adjustment for those in the upper income portion of the scale covered, the $5,000 end of the scale, if they have not made any other private provision, than there is at the lower end of the scale. Our concern is to look at actual cases of inadequacy of provision under the public plan affecting those individuals and families who are less likely to be able to supplement the public plan provision with private arrangements beyond them. So, we are not trying to make the point that the relationship to past earnings is going to be satisfactory to us in the upper end if they do nothing else. We do not believe this is so.

Mr. MUNRO: In your comments I think your words were that by a summation of the old age security and the Canada pension plan principles this end that you have in view, could be accomplished by minimizing, I think was the word you used, the benefits at the higher level. Did I misunderstand you?

Mr. KNOWLES: That was last night.

Mr. HARDY: I do not remember that one coming from our delegation.

Mr. MUNRO: Well, I made a note of it, when you said it, on the brief. That is what I took from your comments. But, I might have been wrong.

Mr. HARDY: That certainly was not indicated. I do not believe that was mentioned.

Mr. MUNRO: I hope the members of the committee do not mind me pursuing this point but I would like to get to something more specific in the sense, say, of a man earning $200 a month, and I would like to know what the welfare council's recommendation would be. Take the one example, a man and wife, assuming they retire at age 67½; the figure would be $176 or 88 per cent of what their average earnings were during the man's lifetime. In respect of that particular example how does the council feel?

Mr. HARDY: I think you are asking us to present as a council decision a precise response to a detailed question which we have not had an opportunity to put before our council. We have tried to state a general position, to state the general areas where we think there is inadequacy and the areas where we think further study should be undertaken and modifications ought to be introduced. I do not think I could say that our special committee, and I do not think that Mr. Alexandor could say, that the welfare council has a precise opinion on the last example you quoted to us, Mr. Munro, and I do not think this can be expected of us in the timing of this operation.

Mr. MUNRO: I just want to say that I am not indicating any disagreement at all with the recommendations of your council in respect of its conclusions, but I think it could be said that if the Canada pension plan went through as it is, with increases in the old age security, as you have recommended, this would be a further weighting factor in favour of the low income groups, which would increase this 88 per cent considerably. Do you agree with that? That would be, in effect, the end result of the recommendations you are making today. Is that what you would recommend?

Mr. IVERSON: Madam Chairman, I think it is obvious, if I might say so, that any increase in the flat rate component, depending on your point of departure, provides a higher degree of subsidization for those at the lower end of the scale, which has been one of our main arguments in respect of where we see the need for improvement.

Mr. MUNRO: Madam Chairman, I would like to turn to paragraph 32 of the council's brief in respect of low earners, which says:

> It would seem self evident that those with earnings below the Canada pension plan minimum are most in need of added old age and other forms of security. The Canada pension plan is based upon the as-

sumption that people should be afforded supplementary provision for old age beyond the flat rate benefit of the old age security payment and that, over a period of 10 years, this development would be brought about.

Now, I presume when you are referring to the older wage earners there, as far as the Canada pension plan is concerned, you would be referring to those income earners who would be earning less than $600 on the outside scope of the plan during their working lives— that is, less than $600 a year—or, in the case of the self-employed, less than $800 a year.

Mr. HARDY: That is correct, and you could have people who are in that position until their retirement time.

Mr. MUNRO: Is it fair to say then in that example that these people would be earning less than $600 during their earning lives and yet under the Canada pension plan when they became 70 they would be receiving $900, $300 more than their earnings during their lifetime?

Mr. HARDY: Well, the concept of earnings is such that they might, in effect, have more coming into them than the $600. There is a monetary earnings concept in the plan.

Mr. IVERSON: I think Mr. Munro is pointing out a fact that has been before this committee at least once and was written into the evidence, namely that a $900 a year old age security is better than $600 a year casual earnings, and the council would certainly acknowledge this fact and say, "So what" from the point of view of social adequacy. I do not think that as Canadians we are particularly proud of the fact that many Canadians are required, for a variety of reasons, to exist during their working lives on cash earnings of $600 or less.

May I also just say that there is one other group with which we are concerned. This is mentioned in our brief only in passing. I am speaking of the group of low earners who may qualify over a period of years but not consistently. As we understand the bill as it is drafted, a situation could arise where there would be contributors under the plan who would not be entitled to all the benefits where there are particular eligibility tests. I am thinking, for example, of the recentness of contributions—so many years out of the last 10 years. You could have a group of low earners who are technically and actually under the plan but are still not fully protected. Of course, our concern here has been that, in addition to the retirement, which has been the main topic of this discussion, there are these important new elements of insurance for widows, the disabled and for orphans. Our committee was very concerned that the largest number of Canadian families receive this type of insured protection against these risks.

Mr. MUNRO: I agree with your comment "So what?" I think a man who receives $900 on retirement may have had earnings somewhere in the vicinity of $600 or considerably less during his lifetime. I certainly would not deny him the $900, but I would like the council's opinion on this. Perhaps your ultimate concern in that particular case should be for programs designed to deal with the problem of why this man has been such a low income earner during his lifetime. Any effort to deal with those people would have priority.

Mr. HARDY: Perhaps you have to recognize that this has supposedly been a priority program for a long time, and we still have such phenomena as the very short season of the winter port at Saint John and people sitting in the park through the summer enjoying their unemployment insurance. These conditions are not going to be eliminated in a crash program in two years or anything like that time. You are, therefore, going to have a considerable period of time when this other program will continue to exist.

Mr. MUNRO: I have one final question, Mr. Chairman. I will refer you to paragraph 28 of the brief.

> There are four groups that will not benefit at all from the plan as it is presently designed:
>
> 1. those who, for a variety of reasons, are unlikely to become attached to the labour market;
> 2. those who, while attached to the labour market, do not earn enough to be eligible to participate;
> 3. those persons (and their dependants) who have retired from the labour market; and
> 4. those excluded by reasons of being in excepted employment.

Have you any breakdown as to the numbers involved here?

Mr. HARDY: No, this was something we were not able to get together.

Mr. MUNRO: I take it you are not suggesting that all these people, especially those in 2 and also perhaps in 1, would be earning throughout their earning lifetime under $600 a year and therefore will always be outside the ambit of the Canada pension plan.

Mr. HARDY: No, but I think we are drawing a parallel to the principle which has been recognized repeatedly with respect to unemployment insurance that you want to broaden your coverage as much as possible. You do not want groups left out of any scheme of this sort. We do not know the number of those left out or the extent to which this will shrink after the pension plan has been in effect for a number of years, but it will be greater in the early years than later on. We are suggesting that these are areas which ought to be looked at. We are not suggesting that we can define precisely the numerical content of the problem.

Mr. MUNRO: I have one concluding statement to make. I would think these are the people to whom other programs should be aimed which would deal with the problem of why they are in such a category.

Mr. HARDY: Again our thought is that you have to look at two sides of the coin in all these cases; that is, you have your other program in which you are attempting to narrow down the group concerned. You know you will not be completely successful in that other program and therefore you have to continue in the area of a welfare measure to look at the people who will fall through the provisions. They are the people in trouble.

Mr. CANTELON: As a result of Mr. Munro's statement, I wonder if Mr. Osborne could get us some information at this point. Mr. Munro was quoting the income of husband and wife at an average age of 67½. I would take it that the average age of husband and wife is 67½.

Mr. MUNRO: I think that is correct.

Mr. CANTELON: What I am wondering is whether there is not an average difference between the ages of husband and wife across the country, and if it would be possible for us to obtain that information.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Osborne will get this for us. When do you want it?

Mr. CANTELON: There is no hurry, we do not need it this morning.

Mr. LLOYD: Madam Chairman, so much by way of detail has now been dealt with that I would like to go back to reiterating, if I can, some of the over-all approaches that the council makes to this effort of the Canadian government to establish an opportunity for Canadians to obtain pensions relating to their earnings. From reading your brief my immediate reaction is this: You say to us,—those of you who were involved in trying to maintain a family unit concept in our society—"Be sure you do not do anything in the Canada pension plan that will create a road block to the achievements we are trying to accomplish with social case workers in Canada". You say, "We do not ultimately want social workers operating in the field as cheque writers". You want them to get down to applying their training in the field which they were designed to undertake. I think this is fundamentally what you are saying.

I see a confusion arising here between what we are trying to accomplish with the Canada pension plan, which is to provide an opportunity for any heads of families who have a sense of responsibility, who are quite willing to endeavour to provide through savings, if they possibly can, some security for an independent old age, and your approach when you say you find this field is not adequately and fully covered through the very laudable efforts of those in the private sector. However, when you look back to the 1960 report of the dominion bureau of statistics and you see that only 34 per cent of the labour force are members of private pension plans, you immediately recognize that a wage related scheme must be made available to heads of families right away.

What you have said throughout your brief is this: A shift in society has taken place; the government now provides the resources. A whole variety of agencies are involved in social case work and they need the tools with which to do their jobs. You say, "Be sure that you do not allow resources to be allocated to pension schemes without leaving us room, as it were, to devote something from all of the resources of the nation and from all those with incomes making contributions to those in need". This is really what you are saying, is it not?

Mr. HARDY: Yes, and I think we say one more thing, Mr. Lloyd. We say that one of the objectives of the Canada pension plans, or any other measure of this sort, must be to meet the straight financial need of an ever increasing group of families, even if they have the social need, a case work problem need, which has yet to be dealt with. It would be helpful if you could take a group of such families out of your problem area in so far as dollars are concerned.

We hope that the plan will be studied and revised in an effort to increase the extent of coverage of people in the lower income area. We certainly support your view that you must always complement any dollar distribution scheme with a social work plan.

Mr. LLOYD: I gather from all of the suggestions that you have made here, that there are a number of things that you propose; that is, there could be a greater and more refined effort in the general assistance field from general tax sources.

Mr. HARDY: Yes, but I think we see these people thrown into relief by the Canada pension plan in the first draft, if you will.

Mr. LLOYD: You have said, and I think I can only reiterate what you have said earlier, that the pension plan does represent a very laudable first step only. To further improve the field you need continuous involvement with the problem, and to make sure that you are on target continually you need two things. First of all you need a royal commission to bring you up to date as to where you have gone. You say this not only to the federal government, but you say this to all governments in essence, the federal, the provincial, and the municipal governments. You also say that with a royal commission you may be able to bring yourself up to date; that is, after you had this part of the effort in the pension field attended to you would be able to bring yourself up to date, but because of the changing nature of the element of our political economy and social arrangements in this country you say we must have a very vigorous and active advisory council to continue working with government in these fields.

Mr. HARDY: Yes. We also say because of the nature of the plan and its method of amendment with provincial concurrence, it is important that the plan as it first becomes law is not sharply deficient in any particular area. It is on this basis that we recommend you move to the earnings index from the pension index before the bill becomes law.

We say you are putting into law something which will have a degree of rigidity which could be crippling if one is not able readily to meet the remaining need in ways in which the avenues of action are open.

Mr. LLOYD: If, for some other reason, we could not agree to the use of an earnings index along the lines you have proposed, do you say that at least we should not commit ourselves to price indexing at this stage; do you say that?

Mr. HARDY: We did not consider that alternative. If I were to comment on this, I would give you nothing more than a personal opinion. I think, perhaps, I will leave it at that.

Mr. LLOYD: Reflected in this report is an awareness that the resources of Canada are accumulated from all parts of Canada, because you talk about ability to pay for these social assistance programs. If a nation vests in a national government responsibility for contrilling the economy, imposing tariffs, regulating the banking and credit facilities of the nation, getting involved in international defence, and so on in essence you really are saying—and all of us, I think, agree—that in the social assistance field all the earners in Canada must be contributing to flat rate assistance in the social assistance program.

Coming from the maritime provinces, I am naturally very much concerned about this aspect of our approach to this problem. We share the view that we hope we can maintain this start in a national look at social assistance programs and that opting out by provinces would be disastrous to us. Would you care to comment on this aspect of our approach to this problem?

Mr. HARDY: I think we should have had you, Mr. Lloyd, on our committee because you, obviously, have given some thought not only to the content of the brief, but also in respect of how the subject matter might be put.

I would say this; the council always is and always must be aware of the dual responsibility in the federal, provincial, and by implication municipal levels for welfare measures in this country. Taking that as one's proviso, I think one can go on and say that the council does not object to federal leadership in the field in conformity with these conditions.

In respect of the question of opting out we, as a committee, did not look at opting out as such, but we did look at the Canada pension plan. As I mentioned, we considered portability to be something which happens automatically through a national scheme, but which has to be engineered, if it is in compartmentalized regional schemes which differ from the national scheme.

To that extent I think our committee dealt with this matter. I am not sure we discussed this fully in these terms before the executive committee of the council. Therefore, what I am giving to you in effect is some of the background thinking which developed and which is in a brief which was ratified by the executive committee of the council.

Mr. LLOYD: I want to make clear—I think Mr. Knowles has done this, but there is no harm in repeating it—that this federal nation of ours can discharge its function in the social assistance field only if there is uniformity across the nation with regard to our objectives. Is that a correct statement?

Mr. IVERSON: May I comment on that? I think an important new element has been introduced in both Mr. Lloyd's and Mr. Munro's remarks when, in discussing our brief, they mentioned that we stress the need for complementary programs. I think it might be observed that the council would take the position that the complementary programs are not only in the areas of public assistance and social service generally, but also in the broader social programs. I am thinking, for example, of the manpower consultative service, recently established, which in effect will have the responsibility, among its other responsibilities, to assist in the creation of a healthy type of socio-economic climate which can support this or any other plan. There is the whole matter of a healthy economy, and certainly I do not think the council would want anyone to think we support this or any other measure in a vacuum.

We stress the need for a healthy society over-all in which these other things are fundamentally important. In the last two days we have read a report in which it is noted that 1,500,000 new jobs will be required by 1970. I think all of us would agree that this will take some doing, and that it is our job as Canadians to see that this is done. That has to develop if this or any other type of plan is going to function well.

We see this in the whole context of a total system and not just in the context of welfare and assistance. I think this is an important point to be made.

Mr. LLOYD: Thank you.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Is that all, Mr. Lloyd?

Mr. LLOYD: I realize that this morning I may be making some pretty general observations, but as a maritimer I am concerned about the preoccupation by certain levels of government with their parochial problems and their ambitions to in plant about ten governments in Canada where one would be most adequate for some things.

Mr. CHATTERTON: I hope we will hear from you on the opting out bill.

Mr. LLOYD: So far as I am concerned, I feel that any attempt to opt out is going backwards. We should find means of working as a national government in Canada.

Mr. CHATTERTON: Are you—

Mr. LLOYD: I would like to answer—

The CHAIRMAN (*Hon. Mrs. Fergusson*): Order.

Mr. LLOYD: I think—

Mr. KNOWLES: We are on Bill No. C-136.

Mr. LLOYD: Madam Chairman, I would like to make an observation in view of the comments and objections made. I think the council has made it clear to us, from their references to the kind of tax resources you should employ and where you employ them, that no comprehensive scheme of social assistance and pension can be achieved in any other way except on a uniform basis throughout Canada.

Mr. HARDY: If we are looking at the job which our committee did, and if we are looking at what the council is presenting before you, the committee did not discuss questions like opting out. Therefore, I do not think it is fair to read into our statement that we have dealt at length with this subject matter. The committee said something positively in respect of the Canada pension plan and the degree of coincidence of that plan with long stated objectives of the Canadian Welfare Council. That is what we dealt with and that is what we have put before you this morning.

Mr. CASHIN: The is a very good statement.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes; I think it clarifies the subject a great deal and the attitude of the Canadian Welfare Council.

Mr. CHATTERTON: Madam Chairman, we have had evidence that there perhaps is a greater need in respect of age beyond 75. You have mentioned the $75 should be made available at page 65. Have you considered an increase in the old age security, whatever it might be, at ages beyond 70.

Mr. HARDY: We have not recommended that. I can tell you this was a point brought up in the committee's discussion. However, the position we took was to make the recommendation with regard to the earnings index. We did not recommend an increasing level of benefit as age increases.

Mr. CHATTERTON: You made some very interesting recommendations. You recognized the fact that under the Canada pension plan there are higher benefits to those in the higher income brackets. I think you said you recognize that those who consistently have been earning very little are in a poorer position to provide for retirement.

You suggested that those earning over $5,000 be brought into the scheme by way of income tax and a subsidized pension plan. Can you give us a forecast as to how it could be done, and on what basis it would be distributed to recipients under the Canada pension plan?

Mr. HARDY: What we are suggesting is that at least part of the special subsidization proposed for people with low credits and high requirements should be identified and financed from outside contributory plans as such although it might be called part of the plan, and it might be recognized that you would pour into the funds of the plan, from into the general treasury money to meet certain of these special requirements which it is not reasonable to meet on a contributory basis because there is too much transsubsidization involved if you did. But as to how it is paid in, it is paid for out of general revenues which we suggest stresses the personal income tax in this country.

Mr. CHATTERTON: Has your council made any kind of study of what the effect of the Canada pension plan will be assuming that the main purpose of the Canada pension plan is to help those retired, and other benefits, and what effect the Canada pension plan will have on those who do retire some years hence, or at the present time?

Mr. HARDY: Well, if I understand the question I think the answer is no, but I am not sure that I understand the question.

Mr. CHATTERTON: You have talked about gaps. It has been shown that in 1976 of the 1,880,000 Canadians who retire at the age of 65, te n years from now, 66 per cent of them would not benefit at all under the Canada pension plan. We would ask for confirmation from our own staff and for other periods as well.

Mr. HARDY: No, I think it is obvious that we have not undertaken studies of that sort, because we are not in a position to do so.

Mr. CHATTERTON: Your recognization is that old age security be dropped to 65, and that it would not affect the Canada pension plan but it would solve the problem of the high percentage of people included in that 66 per cent.

Mr. HARDY: We make that recommendation in two parts, and I think it should be recognized. We make a recommendation which might be called an immediate short-term goal of dealing with the whole condition of the labour market at 65, and of those who meet the earnings test; and we make a long-term recommendation that the question of the lowering of the age generally be looked at, and that consideration be given to the extent to which you might tie yourselves from lowering the general age by permitting the general pension to be taken earlier at a reduced amount. Those are the two points we make.

Mr. CHATTERTON: Your recommendation it seems to me fills certain big gaps in the Canada pension plan, particularly your recommendation to use the earnings index also, and if these recommendations are not accepted, I am interested in your recommendation No. 14 for the over all review of the whole social security set up in Canada. And if this recommendation and other recommendations should not be accepted, is there not a danger that if the government of Canada puts this plan into force there would be less cause and less pressure in the future to meet these gaps which are not met by the Canada pension plan? Do you not think it might have been better to have passed a comprehensive pension and social assistance plan which would substantially fill these gaps? In other words, do you not think it would be better to have an investigation made in advance of the passage of such important legislation, and would not the passage of this plan tend to hide the difficulties of those still not covered by the plan?

Mr. HARDY: In part of what you said you seem to be paraphrasing the 1958 statement of the Canadian Welfare Council on social security. It was repeated as recently as 1961 or 1962 that there should be this comprehensive review of the welfare fabric of our country, and that this might take place before major decisions were taken in any sector of the welfare requirements for the country. We think it would be a negation today to continue to press for that objective, and therefore we say that in indicating support for the general developments in the Canada pension plan, which is implied, we want the government not to lose sight of the remaining objective respecting the other welfare requirements. We think in fact that this is something which ought to be reported in the strongest terms right now as the Canada pension plan is going through, as something that ought to happen next. We do not think that this recommendation on page 5 should be left to be dealt with only until after the Canada pension plan is law and has settled in. We think this could be dealt with now even though the timing of the action and recommendation is after the plan is through.

Mr. CHATTERTON: Do you not think that there is wide public acceptance of the pension scheme and that it meets the needs—I do not say the total needs, but of the major needs—of a very large number of people in Canada? Would this not be of concern for those not covered, if such a large group of Canadians are reasonably satisfied? Do you not think it represents that danger?

Mr. HARDY: There are two things I might say here. First of all, in introducing this submission we stress one recommendation to which Mr. Alexandor referred, as contained in paragraph 14, and we will not be unhappy if the press picks this up and recognizes it as a major point of stress in our submission to the government; and secondly, the Canadian Welfare Council has a continuing life. I believe you can count on their coming back to governments from time to time to remind them of things.

Mr. CHATTERTON: Neither of the previous governments seem to have accepted your previous recommendations.

Mr ALEXANDOR: In 40 years of making representations to government I think we can say that many of our recommendations have been implemented, not necessarily through our own efforts solely, but certainly from expressing a view which is shared by a large number of people in the great progress we have made in social welfare legislation in Canada over the last 40 years, and that this is a reflection of the efforts by people such as ourselves and others to see that the gaps are filled. We think that with the enactment of this legislation a big gap will be filled.

Mr. BASFORD: Thirty four of those years were Liberal years.

Mr. CHATTERTON: There is no doubt that the Canadian Welfare Council is one of the most powerful influences in this field.

Mr. MONTEITH: He simply said that the most active years were Conservative years.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are those all of your questions, Mr. Chatterton?

Mr. CHATTERTON: Yes, In paragraph 44 you indicate the case of a person who retires at the age of 61, when the pension he would have, including old age security, would be $101 a month, and that this would be 50 per cent of his earnings. Mr. Munro has repeatedly pointed out that the percentage that a man gets of his average earnings is considerably higher in the case of a man who has earned more than that including the O.A.S. percentage of his pension at the time he retired in relation to his average earnings and he referred to fifty per cent. Has it been the experience of your council that a person lives better on a percentage than on dollars?

Mr. MUNRO: I also pointed out the dollars, but Mr. Chatterton did not quote them. Would you like to hear them again?

Mr. CHATTERTON: I learned them all by heart.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Is that your last question?

Mr. CHATTERTON: Yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you.

Mr. BASFORD: Now that Mr. Lloyd has given evidence I do not have very much left. As a member of the council I know the answer to that question, but I think it might be useful to have it placed on the record so that the maximum weight might be given to the your recommendation. I think it would be useful to have it on the record in more detail than we have had it in the past as to just who and what the council is.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Would you like to have this supplied? Do you wish to ask them to make a statement and have it put in the minutes?

Mr. BASFORD: I think I would like an enlargement of paragraph one.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are you prepared to give that?

Mr. ALEXANDOR: Mr. Baetz will deal with that.

Mr. BAETZ: Madam Chairman, though I could go on for the next two hours telling you what the council is, I can perhaps say very briefly that the council is a voluntary agency. It has a membership of some 500 agencies across the country in the social welfare field, in its broadest sense, including of course corrections, delinquency, family and child welfare, public and private agencies. I do not know whether the federal government would see itself as a member of the council, but it certainly contributes to the council and makes an annual grant, as do all the ten provincial governments on the basis of a population formula, as do some 60 municipal governments, as well as close to 500 private agencies. In addition, we have some 1,200 individual members who we like to think are opinion leaders in this country. There are some 350 national corporations which are members of the council.

As far as our work is concerned, the council has four major divisions: the division of public welfare; the division of family and child welfare; the Canadian corrections association, which works very actively with your Department of Justice; and the community funds-in-council division which is really the national association of all the community chests and united appeals throughout Canada, some 112 of them.

We have a commission on education and personnel which works very closely with the Department of National Health and Welfare in the personnel field, personnel training, for both public and private service. We have, in addition, a committee on aging, of which your co-chairman here has been the long time chairman and honorary chairman. This committee at the present time is sponsoring and organizing the first national conference on aging which will take place in Toronto one year from now.

Our council has a research department which undertakes various research projects on various aspects of social welfare. We have what we would like to think of as a department for public education, because we do believe that social legislation in the first instance is built on attitudes; and attitudes must change if social welfare is to change. So we see this as a very important part of our work.

In financing we receive roughly one third of our income from public bodies; that is, from municipalities, the ten provinces and the federal government. One third of our financing comes from the community chests and funds in the country; and one third comes from national corporations and membership agencies. We like to think that this one third, one third, one third split guarantees for us some degree of autonomy and independence.

Madam Chairman, this is perhaps a very very brief outline of what the council is and does. I might say, of course, that we always count on and hope for continued support from the federal government, financially as well as in other ways.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you, Mr. Baetz, I think it is very good to have this on the record.

Mr. MONTEITH: Is that a plea for an increase in this year's estimates?

Mr. BAETZ: We have just received an increase, and we are delighted to have it.

Mr. KNOWLES: I may add that if any members of this committee are not members of the council they can become individual members.

Mr. BAETZ: Yes.

Mr. BASFORD: Thank you, Mr. Baetz. I wanted this on the record because I wanted your recommendations to be given the maximum weight possible. I think it makes it somewhat difficult for some of the other groups who come before this committee to disagree with your recommendations.

You were discussing with Mr. Chatterton your executive committee's consideration of the changing of old age security to provide an increased benefit with increasing age. You considered it but did not make any recommendations. I am interested in knowing why you did not make any recommendations on that.

Mr. HARDY: I think it is a little difficult for me to try to read the minds of my committee members on this. I would say that we achieved more ready agreement in another direction than in this direction and that is the way in which we moved. But I cannot say why this idea was not picked up and treated with more enthusiasm than in fact it was.

Mr. BASFORD: I take it, then, that on the part of the members of the committee there was a good deal of reservation about the idea.

Mr. HARDY: Let us say that when we moved on to another course of proposed recommendations those people who had raised this idea did not pursue it.

Mr. BASFORD: I have just one other question.

You are concerned that the implementation of the Canada pension plan will be used by some as an excuse to say that we do not need to go any further and that we have all the answers in old age security. Would you not agree that certain of the experience in the United States with the establishment of social security has pinpointed the very gaps that social security leaves and has demonstrated the very areas where further action is needed?

Mr. HARDY: I am not qualified to answer that question on United States experience. I do not know whether any member of our delegation feels so qualified.

I think we will pass on that.

Mr. BASFORD: In answer to your concern, is it not reasonable to say that implementation of the Canada pension plan, which we all agree leaves some people unprotected, will itself show up those people who are unprotected, and will very clearly demonstrate the people for whom further action must be taken?

Mr. HARDY: I do not think it is automatically made clear who are the people in the gaps and coverage areas because you put certain measures into effect. This has not been my experience, and this is not the view, I take it, of the Canadian Welfare Council. They say you should consciously study and identify the gaps in coverage, and this is a continuing requirement.

I mentioned earlier that the council had hoped that there would be an over-all survey of the welfare need in Canada for the Canada pension plan, and it is a matter of shifting the timing. We think a positive line of action to identify and decide how best to deal with remaining gaps in coverage is a real responsibility of the Canadian people.

Mr. IVERSON: I wonder if I might observe also that there will be an important by-product from the advisory body in this respect, particularly if it is constituted as we have suggested, with particular responsibility to look at the plan in terms of people. Certainly that committee, either as a primary or secondary responsibility, automatically should bring to light the exclusions and shortcomings; and it would no doubt have advice to give the country on that point.

Mr. CHATTERTON: May I ask a supplementary question?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Chatterton.

Mr. CHATTERTON: We understand from other witnesses that very recently —within the last few weeks, I think—figures have been published by the dominion bureau of statistics. I wonder if we could ask if the welfare council could perhaps consider this matter. I think most of us are interested in this question of increasing needs with age. Your council perhaps could consider that before the passage of this bill.

Mr. BAETZ: I could only answer through you, Madam Chairman, that we certainly will take this under consideration because we do believe, as you do, sir, that this is an area that does need exploration. Certainly, this is something that might be explored and that might come out of the planned conference on aging, which will take place soon. It may also be the case that this is a field at which the Senate committee on aging has already taken a look; I do not know. I do not know how one asks, Madam Chairman, for some information on this point to a person in the room who I know could answer this.

Mr. KNOWLES: I suggest we read the paper that was presented yesterday. I assume we are both referring to Mr. Anderson.

Mr. BAETZ: No, I was referring to Mr. Davis.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I am sure Mr. Davis could answer, and as he is so closely associated with your group he may be considered as one of your witnesses.

Mr. R. E. G. DAVIS (*Consultant to the Senate Special Committee on Aging*): Madam Chairman, thank you for the privilege of speaking before this august body.

I think this question is well worthy of consideration but I do not think we have the facts on which to reach a decision at this point.

It is true that the dominion bureau of statistics has made some recent breakdowns which indicate average income age levels beyond 70, but even these figures are not very completely analysed. Even if you had the figures on income you have still the other side of the coin, namely the need. Are the needs of the man of 90 equivalent to the needs of a man of 70? We have made no studies in this country of living costs as they relate to older people. The Americans have done better in this regard than we have. We have no suggested budgets for old people. That whole field of living needs and costs has been absolutely neglected in this country up until now. I suggest this is an element here as well as the income side which you have to take into account in reaching a decision on this matter.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you, Dr. Davis. For the information of any of the members of the committee, as Mr. Alexandor told you, Dr. Davis has been executive director of the Canadian Welfare Council for a very long time. For about 18 months, I think it is, he has been the consultant, for the committee on aging in the Senate. As Mr. Alexandor says, there is no one more knowledgeable, I suppose, in Canada than Dr. Davis.

Would you proceed, Mr. Basford.

Mr. BASFORD: Do I take it, from your remarks, Dr. Davis, that we do not have nearly sufficient information on this point to make any sort of intelligent recommendation at this time?

Mr. DAVIS: That would be my view.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Would you continue, Mr. Baetz.

Mr. BAETZ: Madam Chairman, further to what Dr. Davis said, certainly you can get a picture, although an incomplete one, of the needs of these people in this old age bracket through statistics. You can get some picture, but the only way to get a real picture of their needs is to get, as we would call it, a slice of reality, that is, to interview people. This requires field work and a team of interviewers. Actually, you are getting into a research project, which we certainly would like to consider provided, of course, the funds are available.

Mr. MUNRO: Madam Chairman, if I might interject for a moment, I realize we will be going on for a further 15 minutes or so. However, this afternoon we have the congress of Canadian women before us. I do not believe their brief is too lengthy. Obviously, there are a great number of members who still have many questions to put, and I am wondering if the welfare council could be asked to come back at 2.30 this afternoon along with the others.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Would you suggest hearing the brief of the other group first.

Some hon. MEMBERS: Yes.

Mr. MUNRO: I think perhaps it might be advisable.

The CHAIRMAN (*Hon. Mrs. Fergusson*): You wish to know if representatives of the Canadian Welfare Council will be prepared to come back so that when we do finish with the other group we will be able to continue with them.

Mr. CASHIN: We already have another gentleman whom we asked to return.

Mr. MUNRO: I may be wrong but I do not think the congress of Canadian women will take very long.

Mr. KNOWLES: If you have only four more questioners on your list, Madam Chairman, perhaps it will not take too long.

Mr. LEBOE: Madam Chairman, I will not be too long.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I would like to make a comment at this time on what we have been discussing for quite a long time. It would appear to me that what the council is saying is that they realize there are gaps and they realize the committee's needs but they would feel it a very negative attitude if we, the government of Canada, said we will not do anything because we cannot do everything. Is that not right?

Mr. HARDY: Very much so.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Would you proceed, Mr. Leboe.

Mr. LEBOE: Thank you very much, Madam Chairman.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I am sorry, Mr. Francis was next on the list.

Mr. LEBOE: He is younger than I am; go ahead.

Mr. FRANCIS: I will allow you to precede me, Mr. Leboe.

Mr. LEBOE: Madam Chairman, I have a couple of questions to put. Do you think it is possible to keep this plan as a pension plan and, as you suggested, I believe, take care of all these other cases in other ways or under a complete welfare policy? I am thinking of the possibility of separating the pension plan and leaving it as a pension plan, and then dealing with this other matter, the old age security program, and then filling the gaps as is needed by a welfare policy. I am thinking of three stages.

Mr. HARDY: Well, if I might make a comment in that connection, the Canadian Welfare Council sees in the proposal which is now before your committee and which has been before the house a plan which involves some degree of subsidization built right within the plan and financed from contributions. We think if you extend subsidization substantially to certain groups then at least you ought not to finance this part of the program fully from contributions. Further, we think that if you can deal with people in a category handling with a kind of streamlined processing such as the Canada pension plan involves that there is an advantage in taking care of as large a portion of public need as you can do in this manner in fairness to the people concerned. Therefore, if part of this supplementation, if you will, was to be taken outside the plan we think it ought, in fact, to be a parallel to the plan; it ought to run in double harness with the plan. We think it can operate inside the plan if you recognize the need to pour some money in from general revenues and do not meet the whole burden from contributions.

Mr. LEBOE: I do not believe you got the point I was trying to make. Perhaps if I put it as an observation you will be able to see what I am trying to put forward.

As an observation, it would seem to me we should be dealing with the Canada pension plan as a pension plan. We have the old age security plan already. We could make these increases in that plan. We could have a pension plan aside and separate from it and, as I say, make the necessary increases in the old age security. Then, as the Canada pension plan moved along it would diminish those that were not taken care of under plans which come under welfare. Then, we would have the three different things, as you say, all in the same harness or, in other words, on the same double-tree, but each one carrying its particular load as required at any particular time.

Mr. HARDY: Yes. One thing that concerns us here is the length of time over which the Canada pension plan becomes fully operative in terms of benefit because of the quasi-funding concept and, therefore, we think that certain problems that would result in this transitional period, if you will, ought to be identified and dealt with as an adjunct to the plan.

Mr. LEBOE: Rather than separating it or departmentalizing it as we have in the past. The old age security program has been in existence now for a good number of years and it seems to be working very, very well. Do you not think that the Canada pension plan could operate as a parallel to rather than being mixed up with the old age security plan?

Mr. HARDY: Well, I have used the word "adjunct" to the plan, and I think you could say that such measures might operate within the plan in the terms of a legal definition or outside the plan, but they ought to be devised and implemented in the same timing as the plan.

Mr. LEBOE: Thank you.

Mr. IVERSON: Could I add a word to that answer?

Mr. FRANCIS: Madam Chairman, I wanted to pursue this. It occurs to me that one of the great virtues of the brief is the balance in it. It has looked not only at the advantage of a social insurance measure but it also has said, for example, that the standards of public assistance must be looked at and reviewed. The brief itself has indicated that no social insurance measure can stand on its own feet; it has gaps. There are universal benefit programs; there is public assistance, and then, of course, there is the means testing, and so on. You will recall many criticisms of social insurance measures; it is not what it is but what it is not.

In paragraph 52 you are recommending the removal of the ceiling on total benefits that can be paid to any one family in regard to a flat rate benefit for orphans. This is a social insurance program which has a maximum contributory benefit of $104 a month. Say, we were to adopt this $64 widows benefit and $25 a month for orphans; if there are 10 children, for example, this would be $250, and $64 for the widow. How far can we go within the framework of social insurance and still maintain any consistency within the benefit structure? It seems to me that such things as Mr. Leboe was speaking of have to be considered in the brief. I wonder if any member of the council would like to pass a comment on this. It seems to me that this is inherent throughout the criticism.

Mention is made of the people who are under $600 a year earnings and then you say $75 is not adequate for them. That adds up to $900 a year or $51 a month, $612 at retirement. There is the whole question of adequacy and its relationship to social insurance benefits. I hope I have interpreted the comment which was made a moment ago correctly.

Mr. HARDY: I will start with a partial comment and hold Mr. Iverson in reserve for another minute.

It would seem to me that there is something essentially wrong in the concept that your financial provision for a family where orphans are left has a certain degree of adequacy if the number of orphans is three and quite a different degree of adequacy if the number of orphans is 10. While it may not be possible to finance this in an actuarial sense or in a contributory sense under the plan per se, I see nothing wrong with identifying such cases and saying, "We feel that where the contributory method of financing is not appropriate to meet the full cost we will regard this as part of the responsibility of the plan to be met from general revenues". The reason for doing so is that the handling of this family's need is in the terms of the Canada pension plan. This has to be the least cumbersome method of handling the family's financial need.

Mr. FRANCIS: If this is so, how do we approach adequacy, because at every point where we ask what is an adequate benefit, you say that either it is more than $39 a month, or whatever it is. The welfare council, however, does not give us any method of approaching the problem of what is an adequate benefit. As you concede in your brief, it varies from place to place. Does anybody in Canada set any standard of minimum adequacy to which we can point? Can you tell us how we determine the procedure of adequacy? It is highlighted very specifically in the case to which Mr. Hardy has referred where there is a widow and children. You say that $300 a month is approaching adequacy because there are enough children perhaps, but obviously this reduces it to the form of a subsidy. Can universal benefit measures approach adequacy in this kind of situation?

Mr. HARDY: I have one further brief comment which I should like to make on this. I think one must be aware of provisions in the plan which expose the differing proportions of adequacy and the very sharp differences. If one is trying to ask what is adequacy, this involves a study. We think it involves a study of the family. We suggest that one might have a different figure in relation to a couple to that of a single retired person, for example, and also the sum of two single retired persons. I think it would be presumptuous for us to say we could answer it here this morning.

Mr. FRANCIS: Is this not an area where social or public assistance still has a contribution to make?

Mr. HARDY: We have recognized this point, but we also say that it is unfortunate if there is an apparent coverage of a financial need in the plan, but the degrees of adequacy vary so much by such things as your ceiling on the payment to orphans that you in fact take marginal cases out of ready access to the alternative means of aid because it is thought they are dealt with here under the Canada pension plan.

Mr. FRANCIS: Has the welfare council any statement from the government in which the government has said that the minimum benefits under old age security, or old age security and the Canada pension plan, are minimum adequate benefits? Has the government ever taken this position to your knowledge?

Mr. IVERSON: Madam Chairman, there may be a problem of interpretation or misinterpretation. Of course we did look at the government statement in the white paper.

Mr. FRANCIS: Which I think is very careful.

Mr. IVERSON: Reasonable. It may be, as I say, a case of different interpretations of that word.

May I perhaps comment very briefly on this general line of questioning? I believe Mr. Hardy, in his original summary, pointed out one of the fundamental motivations behind this brief, namely, that in the council's view the means tested assistance approach should be a residual measure. Within that context, we advance a number of, what we hope are, positive recommendations.

Mr. FRANCIS: You did very well.

Mr. IVERSON: Therefore, it follows from that premise, we are arguing, that all the risks and protections and degrees of social adequacy that can be built into the central pillar should be built in. For example, in the committee's discussion the observation was made that it seems somewhat inconsistent to be able to provide for a dependant spouse and children if a contributor dies but not be able—I am looking at it now mechanically from your point of social insurance—to provide for the dependants, either spouse or children, of a contributor who becomes disabled, either from the point of view of what is good social policy or what is possible and proper under a social insurance approach.

So, as you will have noted in the brief, we tended to be less precise in making a separation between those complementary provisions which we think could be, or perhaps even should be, financed from general tax revenue and those which could be brought in under the contributory financing. The example I have just given might be appropriate for use in contributory financing, whereas the plan for getting in present day widows and children might be more appropriate for an infusion of general tax dollars. We have not attempted to spell out precisely which of these recommendations should go into contributory dollars or which should come out of the general tax dollar. The principle is to make this an inclusive plan where social adequacy has an even stronger force than the concept of equity amongst contributors.

Mr. FRANCIS: In relation to the concept of adequacy itself, I would like to just put one last bit into the record.

In paragraph 21 the welfare council states that:

> The council has been unable to find evidence that the 25 per cent of prior earnings ratio resulted from a careful study which demonstrated that that particular ratio would result in actual benefit levels appropriate to the objective of ensuring a socially acceptable level of income for those relying on the benefits, including the flat rate pension, as their sole means of support.

I would like to refer briefly to what I think might be a reasonable explanation of the 25 per cent figure in the figure quoted by Mr. Munro a minute ago. Mr. Munro called to my attention that he misread one figure. For $300 per month earnings, $138 benefit single, or 36 per cent of previous earnings, instead of 41 per cent.

Briefly speaking, a yardstick has to be use at some point. One might suggest that the yardstick that was used was for an average of payroll earnings of something like $3,600 per year to provide a benefit at retirement of roughly two thirds of the earnings for a husband and wife retiring at 67½ years—which is as nearly as we can determine the actual age at which most retirement does in fact take place.

There is not much statistical evidence on this, but where you can find evidence this seems to be an acceptable age—two thirds of the earnings at 67½ years retirement, at an average payroll of $3,600 is $200 benefit and $201 is provided, which is 25 per cent of the benefit which comes from the earnings related Canada pension plan component. The remaining 42 per cent of the benefit comes from the $63 a month which should be available to husband and wife, assuming they were the same age. If the wife is a year or two younger, as Mr. Cantelon pointed out, the percentage will drop, but not very much. This is a rough yardstick, a starting point.

A social insurance measure has to be somehow related to some standard of previous income prior to retirement or it does not serve its purpose as a social insurance measure. I certainly welcome the attention to the gaps and possible extensions that have been pointed out very ably by the people speaking, but it seems to me a good deal of the criticism that has been directed at the program said, "We blanket in here, we blanket in there". The basic question to which I come back is as follows: On what basis do we blanket in, on a universal benefit old age security type of approach? Do we blanket in perhaps through a strengthening and improving of a much more pinpointed type of assistance? I wonder if the members of the delegation would like to comment on this? When they speak of blanketing in, could they be a little more specific on the kind of measures they are recommending?

Mr. Hardy: I find it very hard, Madam Chairman, to be more specific than we have been. We have discussed this point in response to a number of questions. We have tried to suggest alternative mechanical means of relating supplements to what is contemplated is available now either within the plan, but with financing from general revenue, or as an adjunct to the plan devised but in a legal sense outside the plan. To try and take it any further would be misrepresenting the amount of time we have had to go into this, the amount of work we have been able to do on the subject.

Mr. Côté (*Longueuil*): My question is very relevant to this, Madam Chairman.

Mr. Hardy, you were recommending in your first statement that subsidization would be forwarded for people in the lower brackets or for people whose earnings are not high enough to participate in the plan. You also said that these subsidizations should not come from the funds of the plan because you think that would not be fair to take it from there.

Mr. Hardy: When you have a contributory scheme there would seem to be a limit to the extent to which you can give special aid to special groups within the scheme and expect others on the contributory basis to have their returns scaled down in order to convey these special benefits to others. There is already an element of this in the plan. The council has not criticized this element in the plan; the council has supported it. However, I think that the viewpoint is that there is a limit to the extent to which there can be a redistribution pattern within a contributory scheme.

Mr. FRANCIS: That is right.

Mr. LLOYD: We all agreed to that.

An hon. MEMBER: With the external subsidization.

Mr. HARDY: With the external subsidization.

Mr. CÔTÉ (*Longueuil*): Maybe the suggestion you would make would be that the old age security payment should be increased for the people who cannot participate or who are in the very low bracket.

Mr. HARDY: We have put our point on that in our statement. I do not think we have anything to add.

Mr. CÔTÉ (*Longueuil*): Do you recognize the fact that this plan is fair and that it now is impossible for us in this plan to make payment for people who did not particate, or who are in the very low bracket of earnings; that is, it is almost impossible through this plan.

Mr. IVERSON: I think recognition, in general terms, is given to the point now being made, when the brief suggests that they may be directly or indirectly involved. We believe that this should occur in the general context of the Canada pension plan. A point which I do not think has been made and which certainly appeals to me as someone in public welfare is the psychological value of the social insurance approach. This is a point in passing.

Mr. CÔTÉ (*Longueuil*): Do you recognize that through this legislation it is impossible to increase the old age benefits for people who did not participate. It would take an amendment to the old age security to provide for these people.

Mr. HARDY: I think we must be careful here that something is not being put into our mouths which is not contained in our brief. We have indicated we favour certain modifications within the plan; we have indicated we recommend certain supplementation to the plan. We do not say that you cannot make changes; in fact, we advocate changes. However, we do suggest there are limits to what, in fairness, ought to be done within the plan, and we suggest that some of the dimensions of the shifting ought to be the product of further study.

Mr. CÔTÉ (*Longueuil*): But not through this plan, because you say subsidization should come from another source.

Mr. HARDY: We think we have covered our view on that in saying we think certain things ought to be an adjunct to the plan either within or outside its formal legal terms.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Do you have any other questions, Mr. Côté?

Mrs. Rideout and gentlemen, we have only one more name on our list, Mr. Cashin.

An hon. MEMBER: He will take an hour.

Mr. CASHIN: I will not be an hour. We have heard a good deal of criticism to the effect that the benefits are higher for the higher income group and low to the low income group. Do you accept the principle that the lower income groups should have an opportunity to contribute, bearing in mind two things; first, that so far as maintaining their retirement income in proportion to their earned income in their lifetime is concerned, it is a higher proportion; and, second, as their incomes increase, as we hope they would, they then would have a greater opportunity to prepare adequately for their old age than they would if they were excluded from the opportunity of joining a contributory plan.

Mr. HARDY: The Canadian Welfare Council has indicated general support for the Canada pension plan which is a contributory scheme.

Mr. CASHIN: Even though it has been pointed out that the higher benefit is in the higher income group, in fact the man who earns under $900 or $1,200 a year still gets 100 per cent of his income on retirement. It seems to me, if we were to agree on a figure, that $1,500 is the minimum needed on retirement and that perhaps we should make provision for a guarantee of $1,500; but, having done that, we would still find instances, if we accepted the contributory pension plan, of cases where the higher income bracket receives higher benefits.

Mr. IVERSON: As I believe Mr. Hardy has pointed out, we do not question this except in so far as it has what we consider to be the negative result at the lower end of the scale.

Mr. CASHIN: My point is that if this were raised to $1,500 or $1,200 instead of $900, or $1,500 instead of $1,200, you have to provide a minimum, and then you would still have the higher income groups with higher actual earnings. Do you feel that with a plan of this nature we really are laying the groundwork for a sort of balanced approach to social security which hitherto has been unknown in this country and that now we will have an opportunity to review in a balanced light the whole problem of social security?

Mr. HARDY: I wonder what sort of an answer you expect us to give to this question.

Mr. AIKEN: May I ask a supplementary question? Mr. Hardy, you are approaching this plan as a contributory plan and not as a welfare plan, and on that basis I assume you are approving of it in your brief; is that correct?

Mr. HARDY: For its social welfare implications.

Mr. ALEXANDOR: Madam Chairman, I wonder whether Mr. Cashin's last question might be answered by quoting the statement of the Minister of National Health and Welfare which was made in the House of Commons when she introduced this legislation in July, 1963. She described the Canada pension plan as the next natural step in providing rounded welfare legislation in Canada.

Mr. CASHIN: And this is only a step.

Mr. ALEXANDOR: We think it is a very substantial step.

Mr. CASHIN: But, because we do not have all the answers now, do you think we should stop?

Mr. ALEXANDOR: Oh, no.

The CHAIRMAN (*Hon. Mrs. Fergusson*): On behalf of the members of the committee I would like to thank you very much, Mr. Alexandor, and through you all the other members of your delegation. Also, I think I should express my appreciation to many of your staff members who were not on the delegation for presenting a very interesting and worth-while brief. I think it is apparent, from the searching questions which have been asked, that the members of the committee are deeply interested in what you have had to say and that they are anxious to take it into consideration. I do want to thank you very much for the work which I know had to be done before this brief could be presented here; also I would like to thank you for taking the time to come here to be with us.

Mr. MUNRO: Madam Chairman, I would like to move a motion to express our thanks to this delegation for their co-operation in being here.

Mr. KNOWLES: I second the motion.

Mr. BASFORD: Madam Chairman, I wanted to point out to Mr. Alexandor that the other day we had before us representatives from the Canadian Life Assurance Officers Association who expressed great concern about the poor of this country but who, on examination, had never heard of the work the Canadian Welfare Council is doing for the poor. On being examined on this by me, they offered to make a contribution.

Mr. ALEXANDOR: One distinguished member of the Canadian Life Assurance Officers Association who is in this room is very well aware of what the Canadian

Welfare Council is doing, Mr. Anderson, a former chairman of our executive committee.

The CHAIRMAN (*Hon. Mrs. Fergusson*): We will meet again this afternoon at 2.30 in this room.

AFTERNOON SITTING

FRIDAY, January 15, 1965.

The CHAIRMAN (*Mr. Cameron*): Gentlemen, we have a quorum. The first brief we have for this afternoon will be one submitted by the Congress of Canadian Women. Mrs. Helen Weir is the national president. I wonder if she would mind coming forward and introducing herself along with the members of her delegation to the committee and explaining her organization, and then proceeding with her statement.

Mrs. Helen WEIR (*President of the Congress of Canadian Women, Toronto*): Mr. Chairman, and ladies and gentlemen, I would like you to meet the members of our organization. First of all, I am the president of the Congress of Canadian Women, and here we have Mrs. Kerttu Laakso, Mrs. Mary Prokop, Mrs. Alice Maigis, and Mrs. Violet Dewhurst. In addition we have Madame B. Gelinas who is a member of the family league, which is an organization affiliated with the congress.

Our organization has been conducting a campaign on the question of old age pensions specifically, and the question of the pensionable age. You have already received copies of our brief on this question, and you have been able to study it. But I would like to make a few introductory remarks.

We have come before you to make one main point with respect to the proposed Canada pension plan, namely, in connection with the old age security portion of it.

We believe that in order that the plan have a sound foundation it must be firmly based on today's realities and at the same time look ahead to developments that are in process.

You have already received and we hope studied the brief which we prepared. In the brief we propose that the age at which all Canadian women will receive the full and unconditional old age pension be lowered from the 70 years as at present to 60 years without a means test.

The stresses and strains of modern living and working in an intensely speeded-up economy lead to exhaustion at an earlier age. In this situation women are under a particularly heavy strain—in their triple role of mother, citizen and worker. Many women of 60 are either unable to keep on working or forced to continue despite impaired health. Many others because of their age, cannot find work or are laid off with little or no hope of re-employment. This is particularly so today when new techniques and automation are displacing more and more workers: when ther is chronic mass unemployment and when every year great numbers of young people are coming onto the labour market.

We take pride in the fact that society has progressed and advanced knowledge cuts down on the labour power needed to run our industries and our country. But we feel that all of our people should benefit from this fact.

January 11 press stories of the report of the Economic Council of Canada states that by 1970 Canada needs 1,500,000 new jobs. This fact too accentuates our claim that it is necessary to make it possible for people to retire at an earlier age, that is, generally. Mugh Garner, writing in the March 21, 1964, *Star Weekly* said and I quote:

> Thousands of Canada's old age pensioners are the forgotten poor of our affluent society, living in mental hospitals, poorhouses, nursing homes,

garrets and flophouses, or with children who are often fed up with them. They are almost all desperately lonely, and many of them are actually hungry. They exist rather than live, through each 24 hours that bring them closer to death.

We may have conquered most diseases, and be on the threshold of interplanetary travel, but we know and care less about taking care of our old people than do the most ignorant African tribesmen...

The elderly citizens of this country, are as individual now as they were as young people, good, bad, friendly or cantankerous. They refuse to be lumped together under a catch-phrase, and many refuse any help that is offered them—if it threatens their independence as people. As one old woman told me, 'I am not a senior citizen, I am an old woman.'

In 1963, 962,884 Canadians were receiving old age security pensions from age 60; 103,106 others, between 65 and 69, were receiving old age assistance, after a means test. Together they number well over a million or one out of every 18 citizens. Here I am speaking only about those old age pensioners who do not live with their children, in hospitals, nursing homes or homes for the aged, but by themselves enjoying as long as they can the individual freedom and independence they have striven for all their lives. They eke out a bare existence on $75 a month plus up to $20 from municipal and provincial governments. We think we are doing a great thing when we give them reduced admissions to movies, a few matinee seats at a theatre, a picnic or a bingo game. What most of them really want, and need desperately in most cases, is a monthly pension big enough to give them their dignity, a means to companionship and a better life, and the respect, both of the public and of the government, they deserve. Most of our poor old age pensioners did not form the companies, buy the bonds, or invest their incomes in this wide, rich forgetful country of ours. They did other things just as important however. They swung the picks and felled the trees and ran the threshers and laid out the railroads, dug the mines, and built our towns and cities. And the women raised their children on pre-union level wages, taught them morality and religion and what passes for the decencies of living. And most of them soothed away our fears, bathed us, bandaged our fingers, and wiped the very noses that made us the people we are today. We, in our gratitude, throw them an extra $10 a month now and then as an election bribe, or to assuage our lack of interest or our guilt.

We feel that Canada can afford to lower the pension age and to increase pensions. The vast accumulated and growing wealth of our country rests on the labour of succeding generations of working men and women.

We have circulated a petition asking to have the universal pension age lowered to 60 for women to obtain a sampling of opinion across the country. We conducted a campaign for signatures. We have thus far secured to date 3,960 signatures in support of these proposals.

This affidavit from a notary public verifies this statement. In addition hundreds of postcards have been sent to the Prime Minister.

Needed funds for an extended pension plan in keeping with our highly industrialized economy and great national wealth can be made available.

(a) by levying a proper tax on the great accumulations of private corporate wealth and profits which have come out of the labour of Canada's working people.

(b) by a drastic cutback in the sums now spent on armaments and using part of the money thus saved for pension purposes.

Let us make it possible for our older citizens to enjoy a well earned measure of comfort and decency in their declining years.

Lower the universal pension age to 60 for women and to 65 for men.

The French organization is currently conducting a campaign as well on the question of reducing the pensionable age to 60. They intend to continue with it and to be able to present a report to our government. The affadavit I refer to is from a notary public and it verifies the statement In addition hundreds of postcards have been sent to the Prime Minister concerning this question. I am sure many of you know about this fact. The important part of the argument is where are the comments coming from? This, ladies and gentlemen, constitutes my introductory remarks on this question.

The CHAIRMAN (*Mr. Cameron*): Thank you very much. May I have a motion that the brief of the Congress of Canadian Women be made part of the minutes of today's proceedings?

Mr. KNOWLES: I so move.

Motion agreed to.

The CHAIRMAN (*Mr. Cameron*): What is the wish of the committee in regard to this affadavit? Shall it be filed as part of our library?

Mr. KNOWLES: It is only one page, and perhaps it could be included in the appendix along with the brief—I mean a copy of it, of course.

The CHAIRMAN (*Mr. Cameron*): Our usual custom at this time is to throw the meeting open for questions by the members. I presume you and your colleagues will try to answer them. The first on my list is Mr. Chatterton.

Mr. CHATTERTON: Referring to your brief I recognize that your comments are directed primarily towards the old age security part of the bill.

Mrs. WEIR: Yes.

Mr. CHATTERTON: On the first page of your brief in the second last paragraph you say:

> We welcome the proposal of the government to introduce in the present session of parliament an extended Canada pension plan—a plan that is to be made up of the $75 old age security pension payable to all Canadians at 70, and the maximum contributory pension of $100.

We thought this could be read as if you implied that all Canadians should in future receive the maximum pension under the Canada pension plan. Is that so?

Mrs. WEIR: Well, actually we refer to the proposal and we feel that anything will be an improvement. For example, while now the pension is $75, if our older citizens at the age of 70 could get $100, that definitely would be an improvement for them. We thought that today we should deal with only one specific aspect of the old age security plan, and that is the lowering of the age. We are not against a greater pension, not at all. In fact if it were $100 or more it would be beneficial. I am getting a little older myself and I am looking to the day when I can retire. But I believe that if we could lower the pension plan age we believe it would be of great advantage to the women of Canada if it were lowered to 60 years of age. When I get to be 60 years of age I want to know that I can get $75 or $100, or whatever is the current rate of the old age security pension. Whether I work or whether I do not work, whether I baby sit with my grandchildren or not, I want to know that I have that security on which I can fall back. This is the approach we take.

Mr. CHATTERTON: I take it you have not made any study of what the Canada pension plan will do for those who will retire in due course.

Mrs. WEIR: I must admit that we have not made a thorough study of all the provisions in the Canada pension plan. I think there will be one aspect of it that will be very definite, and that is in the old age security aspect.

Mr. CHATTERTON: Has it been brought to your attention that, for instance, in 1976, which is ten years after the Canada pension plan comes into operation if it is passed now, of the 1,888,000 Canadians who retire at age 65 over two thirds will receive not one penny out of the Canada pension plan? Has that been brought to your attention?

Mrs. WEIR: No.

Mr. CHATTERTON: We have asked for these figures to be checked by our own auditors.

I would like to refer to page 2 of your brief where you say:

> We refer specifically to that part of the plan dealing with old age security, that is the proposal that the universal pension age at which every citizen receives the old age pension at 70 years and at 65 with means test.

Are you aware that the proposal in the bill with regard to the Old Age Security Act is to make old age security available in future at 65 without a means test but at the reduced rate of $51?

Mrs. WEIR: Yes, we are aware of that but we do not think that is adequate. We think women should receive the old age pension at 60 years of age at whatever is the going rate of pension, and that men should receive it at 65. We do not approve of the plan in that it says that at 65 you will get $51 rather than $75 as when you reach the age of 70.

Mr. CHATTERTON: Let us say that the government does not accept your recommendation or even the recommendation that has been made by others that the $75 should become available at the age of 65 without a means test. Let us say the government does not accept that. Would you be in favour of the proposal that a reduced amount be made available at a lower age?

Mrs. WEIR: At 65? Would we agree to the $51? Yes, that is better than waiting until the age of 70, and we would agree provided that when one reached the age of 70 one received $75 and not $51.

Mr. CHATTERTON: The proposal in the bill is that when you choose to take $51 at the age of 65 that amount stays with you until you die.

Mrs. WEIR: That is a bad aspect of the proposal because in that case one is talking oneself out of a great deal of assistance when one gets to the age of 70. You might live until you are 90 if you are lucky, and if you draw this at the earlier age you forfeit a great deal of security because you take only $51 a month. The amount that you draw at the earlier age does not compensate for what you forfeit. If a person is forced by circumstances beyond their control to ask for a pension at that age, without the means test, they will be penalized in the long run.

Mr. CHATTERTON: At one point in your reply you referred to "your plan". I would just like to correct what might be a misapprehension. I am not a member of the government.

Mrs. WEIR: I stand corrected, I mean the proposed government pension plan.

The CHAIRMAN (*Mr. Cameron*): Mr. Basford.

Mr. BASFORD: I wonder if Mrs. Weir would care to comment on the rather good scientific evidence that women are stronger and hardier than men.

Mrs. WEIR: I think that is true scientifically, and we are happy for it; and I am not being smug when I say that. But do the gentlemen realize that a woman really works a double shift all her life? If she happens to have to go to work as a professional woman, an industrial worker or a floor scrubber, a woman has a double burden to bear. She is the bearer of children; she plays the part of nursemaid, housewife, and companion to her husband. Actually, a working woman is burning up her energy on two fronts, and if she is socially minded she will be active in the church, in the home and school organizations and so on, and then she is working a triple shift and is therefore pretty well burnt up by the time she is 60. Although the medical evidence is that women live longer, believe me they are hardened to live longer because they have to work harder. That is true.

Mr. BASFORD: I was looking at your considerations on page 3 in respect of the universal old age pension being reduced to age 60 for women. Those considerations really apply, do they not, to spinsters and widows who have to support themselves?

Mrs. WEIR: Widows and spinsters are really in a position in which they have to earn their bread and butter, but many many Canadian women, hundreds and thousands of them, are forced to go to work today to help to supplement the family income because the cost of living has gone up tremendously, as has the cost of education, and so on. Therefore, in most cases you will find that families are supported by the income of both father and mother. Sometimes the woman is working at a part time job, but sometimes it is a full time job, and actually the need for their work is an economic one for their families. They need the extra money for their families to bring them up properly and to give them an education and so on. So women really need that security.

Not only that, but we go further and say that even the average housewife, who probably will not come under the pension plan as such since she will not be making the contribution in the same way towards it, deserves an old age pension just as much as I, who have been working, or any other woman who has been working in a profession or in an office or anywhere else. The plan we present is for every woman, regardless of her occupation, regardless of whether she is a farmer's wife, a housewife or an industrial worker, a teacher, a professional worker, a politician or anything else. When they get to 60 years of age Canadian women should have this security, and the men should have it at 65.

Mr. BASFORD: Why do you differentiate between men and women and say the men should have it at 65? Surely the man who has been in the bush logging all his life is pretty wel burned out at age 60 also.

Mrs. WEIR: As I said before—and I was not being facetious—we fell that women do have an extra burden to bear, and they are physically and morally tired people by the time they are 60. Added to that is the fact that it is much more difficult for a woman to seek employment nowadays. When you go to look for a job at age 35 or 40 you are told you are too old for a job.

Mr. BASFORD: Those are considerations which apply surely to the spinster and the widow, with whose lot in life I have a great deal of sympathy.

An hon. MEMBER: That is because he is a bachelor.

Mr. BASFORD: Surely, whether the average housewife requires a pension or not depends upon the means of the head of the household.

Mrs. WEIR: Regardless of whether he has $2 million in the bank, when she is 60 years of age she is entitled to the old age pension.

We want to remember all the other arguments about the affluent society, the advent of automation, the need for more jobs for younger people coming into the labour market with each advancing year, and so on. By the time 1967 or 1970 rolls around we will need a lot more jobs for the young people who are coming into the labour market, and if we retire people at an earlier age we will make room for the younger people coming into the labour market.

Mr. BASFORD: Those are considerations which apply to a woman supporting herself, but they do not apply to the average housewife.

Mrs. WEIR: They apply to every human being.

Mr. BASFORD: I disagree.

Mrs. WEIR: My mother was only an ordinary housewife, but she needs that old age security now. I think that situation applies to countless thousands of people.

Mr. BASFORD: You do not increase employment opportunities by giving pensions to non-working housewives.

Mrs. WEIR: You have a point there, but when I made my point about the need to make available more jobs for younger people, I had in mind that when people know that at age 60 they will have a certain security they will retire more gracefully, they will not force themselves to continue a job because they have to or otherwise starve to death because they have no security.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Do you have any more questions Mr. Basford?

Mr. BASFORD: I have finished, Madam Chairman, thank you.

Mr. AIKEN: Mr. Basford was asking questions along the line I had in mind, but I wonder if Mrs. Weir can tell us whether her group has made a study of the needs of the married woman as against the single woman and widow at age 60? It seems to me, as it does to Mr. Basford, that there is a distinction here. A social need exists for a person who does not have another source of income and who has no one to provide for her. We have to take the people in greatest need first, and I wonder if you have made any study to find out whether there is a difference in the needs of people in these three groups, that is to say married women, single women or widows.

Mrs. WEIR: We have not made a particular study of that, but I will agree with you that their needs are greater; that is obvious. I revert to the main point we are making. If we are going to take into account the question of the needs of a woman who is a widow, for example, I would say that other provisions should be made under the pension plan to account for the fact she has no support so that her income is not impaired. But, when it comes to the question of the age limit for old age security I think it does not matter whether the woman is a widow or whether she is a housewife or is in a position to support herself, or whether or not she has any savings; the question is one of our society being able to afford a pension for people at a lower age, in this case, 60 for women, and 65 for gentlemen.

Mr. AIKEN: Well, one of the principles we discussed is that in this sort of plan we have to consider people as a group rather than as individuals, and I wonder if you have any opinion as to the position of the man at age 65, which you could present. Is there a good reason for putting the man's pension at 65 and the woman's at 60, if it does not refer to the ability to make a living or any other factor?

Mrs. WEIR: Well, we feel that a man's opportunity to work and be productive is greater and that they probably are able to continue labour under 65 years of age.

Mr. AIKEN: Now, you are getting into the economic field of need.

Mrs. WEIR: Personally, if we could make it $60 for all citizens I would not be against it. If we retire gentlemen at age 60 neither I nor the members of my committee would argue against it.

The CHAIRMAN (*Mr. Cameron*): Are there any further questions?

Mrs. RIDEOUT: I will allow Mr. Côté to proceed.

Mr. CÔTÉ (*Longueuil*): Thank you. I just wanted to say that if we could make a summary of your observations in your brief you do not at all criticize the pension plan which we are studying at the present time but you wish to make recommendations in respect of increases in the payments under the old age security program.

Mrs. WEIR: No, we have no criticisms on the proposed Canada pension plan because we feel that any pension plan is better than nothing. At the present time we have an old age security plan paying at present $75 a month at age 70 and $75 a month at age 65 with a means test. But, that is the only security our citizens have at the moment. Anything that will be proposed in the way of a Canada pension plan will be an advantage to the citizens of our country, provided there are no disadvantages in it.

I think the proposal the gentleman spoke about in respect of $51 at age 65 for the rest of our lives is a disadvantage. That is a personal opinion but I think my committee will agree with me in that connection. Other than that I believe we generally would say on behalf of the members of the delegation than any plan that is proposed for the people of our country is of benefit to the citizens, with whatever limitations it has. But, we feel it would be strengthened a great deal if the citizens could have the security of a universal old age pension when 60 years of age for a woman and when 65 for a man at the present level.

Mr. CÔTÉ (*Longueuil*): I would like you to note that the plan does not oblige a person to take a pension at age 65, but he can choose to take it at age 65 instead of age 70.

Mrs. WEIR: I am not sure anyone would choose it if they were not forced to, if their back was not up against the wall financially, so they would have to choose to take it at age 65 without a means test, of course; but, it is a great disadvantage. That is my humble opinion.

The CHAIRMAN (*Mr. Cameron*): Would you proceed now, Mrs. Rideout.

Mrs. RIDEOUT: Mr. Chairman and Mrs. Weir, being a female member of this committee I feel I am obliged to make a comment. Personally, I look forward to being 60 years of age; they say life begins at 40 but, so far as I am concerned, I am hoping it begins at 60. In calling for more leisure time through an earlier retirement age does the congress believe that women have more need of leisure time in their old age than is the case with men, in view of the fact that women usually outlive men, at least according to the statistics, and spend less time in hospitals than the men do.

Mrs. WEIR: Well, as a matter of fact, I would answer yes, they do need more leisure time. Most women are not really that free when they get to that ripe old age of 60; they are usually baby sitting with their grandchildren; they continue doing their household chores and, whether they are widowed, single or spinsters, they still have that occupation. But, it does not mean that this is any kind of leisure.

A lot of women have to keep on working because they have not the financial security. We believe that if women at age 60 had this amount of security, then if they were still able to work, whether it be part time or whether it be full time, they would be free to do it if their healh permitted or if it was in their interest to do so. For example, they could do very valuable social work, to the limits of their interest and ability, but they would not be up against it where they would have to work regardless of whether they are 60 or 65, beyond the limit of their strength. In many cases they are only tolerated on the job because they have been there a long time, and they can no longer fulfil the function they should as workers. That happens with teachers. We all have heard of teachers that are tired and their nerves are shot, but they still continue teaching because they have not reached retirement age. There are really poor teachers who are not really a good influence on the children they are teaching. They are not making a good contribution as teachers but they are forced to carry on because they have nothing upon which to fall back.

Mrs. RIDEOUT: In front of all these men it worries me that we might be admitting things which may not really be so when we reach the age of 60.

Mrs. WEIR: I think we should admit these things. I do not believe that any human being who sits pretty should say: "I have $60 a month or $75; that is all right. I do not want to do a job of any kind." I do not think that is good. I think healthy ordinary human beings do want to work and contribute to society and to their family as long as they possibly can. Only the sick, the mentally sick and retarded people, do not want to work. Healthy normal human beings really approach work as a necessity, and this is a healthy thing to want to do, whether you are 67 or 75.

I spent some time reading Dr. Penfield's book on the second career and Dr. Marion Hillier's comments about the reclining years and I agree that people should start planning their second career at age 40 and not leave it to government agencies and bodies to provide for them some sort of existence when you get older. As I say, it is a healthy thing to want to work and to have something to do, but it is much better when you have a certain amount of security behind you so that when old age does come you will have something to fall back upon. And, you will have earned it.

Mrs. RIDEOUT: Thank you, Mrs. Weir. May I compliment you on the way you have presented your brief and your arguments.

The CHAIRMAN (*Mr. Cameron*): Would you proceed, Mr. Lloyd.

Mr. LLOYD: I believe it was the welfare council that proposed to us that old age security should be provided at age 65 but be subject to an earnings test. Would you agree with that conclusion?

Mrs. WEIR: No, I would not.

Mr. LLOYD: You are not in agreement with the earnings test?

Mrs. WEIR: No. As I said earlier, I do not care if I have $10,000 in the bank or $100,000, or nothing; as soon as I get to age 60 I want to know that at that age there is this security for me and for my fellow citizen, for all the other women of Canada, and at age 65 for the men of our country.

Mr. LLOYD: All right.

Mrs. WEIR: No means test or anything like that.

Mr. LLOYD: No retirement tests?

Mrs. WEIR: No retirement test.

The CHAIRMAN (*Mr. Cameron*): Are there any further questions?

Mr. KNOWLES: I did have a couple of questions but gradually they have been put. I intend to put a question along the line of a question Mr. Basford put, whether Mrs. Weir and her organization would wish this to be for a woman at age 60 regardless of status, single, married, widowed, or what have you, but we already have had the answer to that. Once we got that answer I had thought of calling your attention to the position of the Canadian Welfare Council, to which Mr. Lloyd has just referred, and also to a position taken the other day by the Canadian Life Insurance Officers Association. Both of these groups have at least suggested, although with strings attached, pensions for women at an earlier age. The life insurance officers association suggested that where a breadwinner has to retire, even below age 70, he be given the pension and that if his wife was age 60 or over that they be given a combined pension of $125 a month. That appears to be $50 for the wife over 60.

Mrs. WEIR: Yes, cut rate.

Mr. KNOWLES: Maybe it was the other way around, $75 for the wife and $50 for the husband.

Mrs. WEIR: That would be better.

Mr. KNOWLES: As Mr. Lloyd pointed out, the Canadian Welfare Council this morning suggested that the flat rate old age pension, which currently is $75 a month, although the Canadian Wefare Council would like to see it raised, be made available to all breadwinners at age 65 provided they are out of the labour market. I already have heard your answer in that connection. But, let me make it clear in their defence they were not advocating what we used in the old days, the means test or the method we still use in respect of old age assistance, but retirement from the labour market.

Then they suggested in cases where any breadwinner below the age of 70 was on full old age security and if his wife was age 60 or more that she too be given the full old age security. I do not need to ask you my original question because you have given the answer clearly. But, suppose we are not able to persuade this Liberal government to meet the points you have made, would your organization be interested, or do you think the women of Canada would be interested, in moving in this direction, not having, let us say, pensions for women at age 60, if they are widows or if they are spinsters, out of employment, or if they are wives of husbands who are on pensions. I am not trying to lead you down a line you do not want to take. But, if you cannot get what you have asked for would some steps in these directions be good steps to take?

Mrs. WEIR: Well, Mr. Knowles, I would like to ask my delegation to help me to reach a decision on this question.

I would be inclined to say that any steps that improve the old age assistance would have to be looked at as progressive steps. But, I still think it is possible in our society today to meet the needs of the older people at the ages that we suggest. I think if everyone does that, and we work toward that end, we will find the means for it as well.

I firmly believe that it is possible for us to be able to finance that sort of scheme on the basis of our society today and on the possibilities that we have. And, if someone needs additional assistance, for example, widows and women that are the breadwinners of a family, or breadwinners for themselves alone, perhaps some other measures could be taken through the Canada pension plan or through other agencies that would provide that for them. But I still insist that we should be able to afford to give old age pensions to women at 60 regardless of whether their husbands are working, whether they are on pension or whether there are any other considerations.

Mr. BASFORD: Mr. Knowles is asking Mrs. Weir to compromise and I do not think this is the right thing for a gentleman to do.

Mrs. WEIR: You can always eat half an apple if you have to, but if you can have a whole apple, you fight for it.

Mr. KNOWLE: I do not accept a bachelor's interpretation.

When I asked my questions I thought that Mrs. Weir might be interested to know that even the other witnesses to whom I referred had not gone as far as she had, but at least the idea of pensions for women at an earlier age under some conditions is being thought about by other organizations. The idea is in the field of discourse.

Mrs. WEIR: It only proves one point, Mr. Knowles, that there are other citizens besides ourselves who are interested in providing better old age security for the citizens of our country, but it does not lessen our demands at this point on this question of age.

The CHAIRMAN (*Mr. Cameron*): If there are no more questions, I want to express, on behalf of the committee, our appreciations to you, Mrs. Weir, and to you, ladies, for the brief you have submitted and for the presentation you have made. I assure you they will receive due consideration.

Mrs. WEIR: Thank you, Mr. Cameron, and thank you, ladies and gentlemen of the committee. It was really delightful to be here and to be received by you, and we wish you the very best success in your deliberations. We hope that the outcome will be of great advantage to our citiens. Thank you very much.

The CHAIRMAN (*Mr. Cameron*): We now have the senior women's committee for pensions increase, headed by Miss Ethel Neilson, who is the chairman. Miss Neilson, would you please come forward and introduce yourself and the members of your committee.

MISS ETHEL NEILSON (*Chairman, Senior Women's Committee for Pension Increase*): Mr. Chairman, ladies and gentlemen, I am accompanied by Miss Margaret Bradley who is our secretary-treasurer and Mrs. Murray, who is a member of our committee.

The CHAIRMAN (*Mr. Cameron*): We already have your brief, Miss Neilson, and all the members have had an opportunity to study it. Would you please put it in summary form and tell us what your recommendations are. That might facilitate matters. The members will then wish to ask you some questions.

Miss NEILSON: The senior women's committee for pension increase has studied the Canada pension plan very carefully and find that the bill is proposing to build up a plan to provide for retirement for people 10, 15 or 25 years from now and totally neglecting the people of today. The economic system of the world has changed rapidly even in the last 25 years, and, of course, no one knows how the people will live in the future. We are told that the past is gone, and there is no future, there is only today. When tomorrow gets here it is today.

Our committee is concerned with the retired people of today. We all know no one can live on $75 a month as our people should live. The Senate committee on aging gave us the information that 56 per cent of the women and 40 per cent of the men in Canada between the ages of 70 to 79 are trying to exist on less than $1,000 a year; at the age of 80 the percentage is higher.

Democracy is government by the people for the people, and we the people are informing the government that adequate provision must be made for those 65 years and over.

You know, probably of the petition our committee sent out across Canada from the Yukon to Newfoundland, and it would give the government something to think about if the members could read the thousands of letters and signatures that come in.

I repeat, we are not concerned about those living 15 or 25 years from now, they will be able to take care of themselves in their own way, but we insist that adequate provision be made early in the next session of parliament and a free vote taken to raise the pension to $100 at 65 in '65. I might suggest that you make it retroactive to January of this year.

The CHAIRMAN (*Mr. Cameron*): Thank you, Miss Neilson. May I have a motion that the brief be included as an appendix to our proceedings? It is agreed. Are there any questions?

Mr. CASHIN: Would you agree that if 40 years ago we had a compulsory contributory pension plan for all Canadians the fate of those of 65 would not be as bad as it is?

Miss NEILSON: I would think that any improvement and any progress made 40 years ago would have brought about better conditions today, just as conditions that we bring in today will have an effect on the people 40 years from now. I think that our duty is for the people of today, that we must make provision for the people today and not for the people 40 years from now.

Mr. CASHIN: Let me say it again to see if I understand you properly. You are saying we must make better provisions for the people today, but does that mean you are saying to us we should make no provision for the future?

Miss NEILSON: Not at all. Any progress is good, but today is the most urgent. A woman wrote to me just the other day and told me that her husband has been in the hospital for 20 years. She is between the age of 65 and 70 and she has been supporting her family. She has come to a point where she finds it difficult to continue. Another woman told me her husband just passed on a couple of months ago and he had been in bed for six years. The stories that they tell when they write in are pathetic; it is really a shame. A great many people are not well when they get a little older, and I believe their drug bills are most objectionable. Some people tell me they have to pay for drugs as much as $30 a month. How they can do it on $75 a month I would not know. I think that this keeps our people without the proper food. A great many women tell us when they write that they do not have sufficient money for proper food. Fifty six per cent of the women and 40 per cent of the men in Canada at the age of 70 to 79 are living under those conditions.

The CHAIRMAN (*Mr. Cameron*): Are there any further questions?

Mr. MONTEITH: Mr. Chairman, may I ask you, Miss Neilson, whether your association or organization has given any consideration to the possible greater requirement for security the older a person gets? You mentioned a $30 drug bill per month as an instance. Have you made studies of whether or not, as one attains a greater age, the amount of old age security should be somewhat higher than it was before? For argument's sake, let us say it is $100 now for a person aged 70 years; should it be any greater at 75 years of age or 80 years of age? Have you considered that at all?

Miss NEILSON: I think that if people had a pension of, say, $100 at the age of 65 years, it would be of great help to them. Many women do some work that helps them financially, but I could not say whether they would need any more after they got older or not. I think that their needs are not as great in a social way. They do not go out as much in their eighties and they do not spend as much money in their eighties. I would not know whether they have an adequate living. We have not studied that and I am not sure that my colleagues would know. I think that our older people would not have to endure the illness and the misery if we had adequate means.

As to a means test, I think it should be done away with. I would not wish a means test on anybody. I know that a good many people who are 65 and could get the assistance do not want it because of the means test.

Mr. CÔTÉ (*Longueuil*): Would you differentiate between men and women as to the age at which they are to receive their pensions, or would you say that 65 should be the age for everybody? Do you think it would be better if it were 60 for the women?

Miss NEILSON: That is what we are interested in, that everybody should get a pension at the age of 65, because 40 per cent of the men across Canada who are 70 years of age are trying to live on their pension.

Mr. CÔTÉ (*Longueuil*): You would not make any difference between men and women? In that case, do you disagree with Mrs. Weir on this?

Miss NEILSON: I think everybody should get their pensions at the same age.

Mr. AIKEN: Mr. Chairman, I would like to ask Mrs. Neilson whether she really has given any consideration here to the Canada pension plan; that is, the contributory part. You really are not concerned with that. I believe you said this is because it would be something for the future. Is that correct?

Miss NEILSON: Well, the people over 65 will not be contributing to it. While the bill proposes to tie it to the cost of living, if the cost of living went up one per cent, it would give a person about 2½ cents a day and if it went up 2 per cent it would give them about five cents a day. That really is not anything at all.

Mr. AIKEN: Relating your brief to the bill we are considering, you are interested in the old age security section of it and you say that it should be enlarged so that old age security is paid at an early age in a larger figure.

Miss NEILSON: It should be paid at age 65 and should be at least $100 a month.

Mr. AIKEN: So far as the Canada pension plan is concerned, on top of that universal pension I presume you are satisfied to have it added to on a contributory basis.

Miss NEILSON: Well, the pension plan for the younger people who are going to contribute is not going to affect us at all. A great many of our senior citizens, even ten years from now, are not going to be here. It is the people who are here right now who are suffering. When I read these letters which come in I am appalled at the suffering of these elderly people who have made everything we have now in this country possible. I would like to see this done right at this next session of parliament. I cannot see how these people can go on as they are doing.

Just imagine, in this cold weather, a man and woman who are elderly and who are living in someone's attic without proper food and heating. If the yhad $100 a month at least they could get, perhaps, a little more adequate living accommodation and have sufficient to eat.

Mr. MORISON: Mr. Chairman, I see by your brief, Miss Neilson, that if we do give the pensioners another $25 a month it will cost about $275 million.

Miss NEILSON: Yes.

Mr. MORISON: Do you agree with me that there is only so much money you can get your hands on. This can be in your own establishment or in your own community, or here in the country; or, do you feel there is an unlimited supply of money?

Miss NEILSON: Well, I do not see any lack of it.

Some hon. MEMBERS: Hear, hear.

Mr. MORISON: We are very fortunate that after two years we have been able to give you that opinion. There was a time when there was not so much around. However, you did not answer my question. Do you think there is an unlimited supply? We have done a good job, but I think you will agree with me there is an end to it, is there not?

Miss NEILSON: I think, if you have the income, that you use it for things that are most necessary.

Mr. MORISON: You have not answered my question. Do you think there is an unlimited supply of money or can you agree with me there is an end somewhere?

Miss NEILSON: I do not know whether or not there is an end.

Mr. MORISON: Oh, well—

Miss NEILSON: But I do think—

Mr. MORISON: But I am not that optimistic. I feel that somewhere down the line there has to be an end to the amount of money available, and I think probably you would agree with me, really, if you did not think I was trying to load one into you.

Miss NEILSON: When I look around at the things that are being done and the money that is being spent I would say that possibly parliament thinks there is an unlimited supply.

Mr. MORISON: Thank you; I feel we have done a Herculean job, too, but I feel that there are demands in every sector of government for more money and when I look at this $275 million I think of the money we have to spend on the education and retaining of our youth if we are going to give the economy the tremendous boost it is going to need. I certainly do sympathize with the problems of the aged. I have an aged mother living and also an elderly uncle. So, I am aware of the problems. However, I wonder whether we should look at the youth of the country and say we have to stop somewhere; let us try the best we can, without spending much more money, and look after the youth so that we can give a boost to the economy.

Miss NEILSON: Do you not think that if $275 million a year was put into circulation it would give a boost to our economy?

Mr. MORISON: It would give a better boost if it were spent on retaining of the youth so that they again could produce and it would multiply. That is my thinking. I wonder whether you had given any thought to the matter along that line.

Miss NEILSON: The youth are going to be educated.

Mr. MORISON: But it takes time.

Miss NEILSON: It takes time, but remember that all the old age pensioners still are paying taxes; we all pay taxes, you know, no mattter whether we own our homes or live in apartments, rooms, or anything else.

Mr. MORISON: Those making less than $1,500 do not.

Miss NEILSON: We pay it indirectly. A person who is renting an apartment certainly pays a share of taxes. It is not the landlord who pays the taxes; it is the people who pay the rent who pay the taxes.

Mr. MORISON: I am aware of that; I pay my own.

Miss NEILSON: We had a letter from a man in New Brunswick. He was one of the first to write to us. He was not a senior citizen; but he said he is in business and that when the last raise for the senior citizens came through his business enlarged considerably. He said that if the pension is raised again he knows he will do more business and he hopes it will come through. He has done a lot in getting signatures to our petition.

Mr. MORISON: Thank you.

Mr. KNOWLES: I wonder if I might take a moment to congratulate Mrs. Neilson on her answers to Mr. Morison. I am sure she realizes the committee generally appreciated the kind of replies she gave. I must say that some of us do not agree with Mr. Morison that there has to be an end somewhere in social progress. I hope we will keep on making social progress through the years.

I would like to ask you one question, and I hope it does not confuse your thinking at all. In your brief your position is very clear; you are asking that old age security be raised to $100 a month payable at age 65. As I say, you have made it clear. The two hang together; but in case we cannot get everything out of the Liberals, would you be willing to say to which you would give priority? Which do you think is more important—raising the pension to $100 or lowering the age to 65?

Miss NEILSON: At first when we started this committee I thought perhaps from 70 years up was most important, but from the letters which are coming in, I find it hard to say, because I think it is most important to lower the age to 65. I could not say that one should be given priority over the other. However, we do know that at age 70 there are not many women who are able to carry on. Many women say they are doing this, doing that, taking in boarders, or doing some sort of thing, but they do not know how long they can keep it up, and when they cannot keep it up, they do not have anything but the $75. Those between 65 and 70 are in very desperate need. I just could not say.

Mr. KNOWLES: I am sure you would welcome the support the Canadian Welfare Council this morning gave to the idea that the old age security pension should be made available at age 65?

Miss NEILSON: Yes, decidedly.

Mr. KNOWLES: I have noticed you have been around here and have been interested in this whole matter.

Miss NEILSON: Yes. I was amazed when the letters from the 65-year olds began to come in.

Mr. KNOWLES: May I get this clear. Initially your committee primarily thought of raising it to $100, but because of the correspondence you have had, you feel consideration really has to be given to the plight of those between age 65 and age 70.

Miss NEILSON: Primarily we had in mind age 65, but I suppose our thinking had not quite come down to age 65. However, in our petition we have asked for the age to be lowered to 65.

The CHAIRMAN (*Mr. Cameron*): Does that complete the questioning?

Mr. BASFORD: What is the size of your committee?

Miss NEILSON: There are just four of us.

Mr. BASFORD: Thank you.

Miss NEILSON: We have sent this petition right across Canada. We have had letters in every newspaper in Canada.When they write in and ask to have their name put on the list, we send them a letter thanking them and telling them we cannot do it. We ask them to send in a petition form and request them to fill it out. That is the way these petitions have come in.

There are very few of them who fail to come back and say "Send us another petition form," or who fail to write all the way from Newfoundland to the Yukon and ask for petitions.

The CHAIRMAN (*Mr. Cameron*): Your whole organization consists of four women.

Miss NEILSON: That is right.

The CHAIRMAN (*Mr. Cameron*): And you have done all this by yourselves?

Miss NEILSON: That is right.

Mr. LLOYD: In your letters do you attempt to find out whether they are against the means test in providing for old age security at 65 or 70? Is that what they complain about?

Miss NEILSON: Yes, they do complain about the means test. An old lady said to me: "I have $1,000 in the bank, and I can earn $400 under the means test, but for an elderly person who has to spend everything he has, and to get down to as low as $1,000 and who is unable to work at all, it becomes pretty frightening. One women told me that her husband is about 20 years older than herself, and she is in her early sixties. She said that the way I see my savings account melting away, I am just scared to death.

Mr. LLOYD: Let us forget about the argument for resources, and let us say for the moment that the test which is applied is done with good judgment. There are many people who do have some earnings and who are still working at the age of 65. Would you be satisfied if they reduced it to 65 and that the earnings would be applied as a test, not the income, not the money in the bank, not the property, but rather the earnings applied as a test? Would that be a gain, do you think? How would you feel about it to have just simply an earnings test, whether or not they have retired and are not earning beyond a certain sum.

Miss NEILSON: We do not feel that a means test is a good thing.

Mr. LLOYD: This would not be a means test in the ordinary sense of the word. When they investigate they would not want to know if you have property, or a savings account, but simply whether or not you are working and producing a certain level of income. Then if you go beyond a certain level in earnings, your pension would abate by a certain amount. Do you think that would be a gain?

Miss NEILSON: No, I do not think so.

Mr. LLOYD: It would be a gain, but I wonder what the reaction would be.

Miss NEILSON: From what I have heard, and from what people have told me about our getting social security assistance, when the supervisor comes, he will ask all kinds of questions. In some cases he may ask you how much money you have in your purse, and this would have a bearing on whether or not the assistance would be reduced. But that is a provincial matter of course.

Mr. LLOYD: Miss Neilson, I was not referring to that kind of testing, but purely to the case of employment testing with regular earnings. I think you have answered my question. You think that they would prefer it even without a means test.

Miss NEILSON: Yes.

Mr. LLOYD: And finally, I have found in my own experience that many older people do not like to be dependant upon families and children.

Miss NEILSON: That is right.

Mr. LLOYD: Of course many of them do claim dependants' allowances under the Income Tax Act, and I suppose the higher these payments go for the children they are claiming as dependants, the more they would have to pay in income tax, and that would be a good thing.

Miss NEILSON: Yes.

Mr. MUNRO: I want to ask one question. In one of the paragraphs of your brief you say:

> We understand that 4 per cent of the income tax goes to build up the old age pension fund. The prosperity of a country depends on the money that is spent and if the old age pensioners had $25.00 a month more it would be approximately $275 million a year which would give a tremendous boost to the Canadian economy.

How did you come to the estimate of $275 million that it would cost? Is that an estimate for $100 a month at the age of 65 and over?

Miss NEILSON: No, that was for $100 a month at the age of 70.

Mr. MUNRO: Perhaps I might supplement my question a little further before Mrs. Neilson answers it by pointing out that the chief actuary of the government estimated that on January 1, 1965, there would be in Canada 1,469,000 aged 65 and over, and 960,000 aged 70 and over, and he went on to say that it would cost $1,190,000,000 in order to pay $100 a month to persons aged 70 and over. Your figure seems to be about one fifth of the estimate of the chief actuary.

Mr. MONTEITH: No. This is additional for those over 75.

Miss NEILSEN: This figure of $1 billion was given to us by the deputy minister of the Department of National Health and Welfare, and it was for the age of 65 and over.

Mr. MUNRO: Your figure is $275,000,000 for the age of 70 and over?

Miss NEILSON: Yes, that is approximately the case, and Mr. Gordon told us it would come to a little bit more than that, but I do not know. That is approximately what it would be. As far as its coming to an end is concerned, I do not think that anything ever comes to an end.

Mr. MUNRO: No, I am not suggesting that anything is coming to an end. I am disagreeing with my friend. I just wanted to clarify the figures, because it was not quite clear to me whether you were talking about $100 a month as an increase from 70.

The CHAIRMAN (*Mr. Cameron*): That seems to be the end of the questioning, and I thank you for coming here and presenting your brief and for the explanations you have given us. Let me assure you that it will receive careful study. Thank you very much.

Miss NEILSEN: Thank you.

The CHAIRMAN (*Mr. Cameron*): I do not want you to leave unless it is necessary.

Miss NEILSON: We did put this brief in, did we not?

The CHAIRMAN (*Mr. Cameron*): Yes.

Miss NEILSON: We thank you for receiving us this afternoon.

The CHAIRMAN (*Mr. Cameron*): Now we have Mr. Anderson with us. I know he is willing to come back to answer a few more questions. We appreciate the fact that he has been with us this morning and this afternoon and we hope that he may have received something interesting out of it.

Mr. KNOWLES: I move that Mr. Anderson be made a member of the committee.

Mr. W. M. ANDERSON, F.A.S. (*Chairman, North American Life Assurance Company of Canada, Toronto*): Now that you have arranged it that I could listen to you yesterday afternoon, this morning, and this afternoon, perhaps you might authorize Mr. Guitard to append any remarks I make today as an appendix to the submissions made by these ladies' organizations with whom I would be very happy to be associated.

Hon. Mr. SMITH (*Queens-Shelburne*): The Chairman will please observe that I have raised my hand.

The CHAIRMAN (*Mr. Cameron*): Yes. The first will be Mr. Knowles, then Mr. Côté (Longueuil).

Mr. KNOWLES: I have already had my first round, so I shall be on the second round.

Mr. FRANCIS: I would like to ask Mr. Anderson, through you, a question relating to the prediction of rates under the Canada pension plan.

One of our witnesses before the committee indicated that the problem of integration with private plans was related to the fact that you could not foretell what the rates of the Canada pension plan would be 15 to 20 years from now.

I would like to ask two questions. Does Mr. Anderson think it would be desirable to spell out through legislation what the contribution rates should be that far in advance for the Canada pension plan; and secondly, what is the practice under private plans?

I know that Mr. Anderson knows this field very well. For how many years ahead, for example, are the contribution rates by employers and employees usually guaranteed under private pension arrangements?

Mr. ANDERSON: Well, Mr. Francis, I mentioned the germ of the solution in my evidence, and you questioned Mr. Myers on it yesterday.

The first point I would like to make is that if you are content, or if an employer is content, to integrate without making a profit there is no problem because he merely says, "I have to put so many dollars into the Canada pension plan. What would the Canada pension plan contributions have bought had they been put into my plan? I do not pay any attention to the benefits under the Canada pension plan; I merely say that my input is not going to change, and therefore since part of it is going to the government my output, in essence, will change later. I will reduce each person's pension by what the Canada pension plan contributions would have bought had they been put into my plan." He does not need to know what the Canada pension plan benefits are going to be as long as there is any subsidy at all in that plan; and I think everyone can take it for granted that there are no such things really as government pension plans, looked at over-all, which have no subsidies. So he does not need to bother about the subsidy structure, nor does he need to bother about the pension contributions in the future, because he merely says that if and when the tax rates are raised by parliament it will mean so much less is going into his plan, and therefore the value of the equivalent benefits in his plan will be reduced later on.

It is only when the employer for various reasons, including the reason that he may feel he is putting too much in the plan today, gets into the area of benefit that he runs into the problems of not knowing what the Canada pension plan benefits are going to be in future. So my answer on this part of it is really to the effect that if you are engaging in integration through the financial interchange method, which I described, there are no problems.

The other part of the question was related to how far ahead private plans guarantee. The typical provision in private plans—and I think you will find it in your own civil service superannuation plan—is that the government reserves the right at all times to alter the structure of the plan in respect of future service. It says to the civil servants, "For service up to this point there are rights established for you, but we don't undertake to keep this plan unchanged for the rest of your service."

I think almost every private plan contains this provision, and they must contain it at the private level, although perhaps the government does not need it. The private plan must contain it because the employer has no assurance of his own ability to remain in the plan in the future as he cannot guarantee that he will put money into the plan at some future date. He may not be there; he may be bankrupt. So that all private plans make the statement—at least almost every one I have seen—that there is no guarantee of continuance of the plan in respect of his future service. So I think, putting it backwards, if I may, this means that even although the employer might not have any legal right, that is in law or by statute, to reduce contributions by the amount of the Canada pension plan contributions, he nevertheless has this contractual right because it exists in his own plan.

Have I covered the matter pretty well?

Mr. FRANCIS: I think so. I think it is very helpful.

If I may paraphrase your opinion just for clarity, it is, Mr. Anderson, that this is not really a serious problem as far as the committee is concerned? The fact that the legislation does not undertake to set out future rates of contribution does not raise an insuperable problem as far as integration is concerned?

Mr. ANDERSON: It may in a particular sense; and I think you should be aware of the sense. I have mentioned the point. If a private plan is now in such a position that it is regarded as being too expensive, in other words if the employer is in a position in which he claims that he must either now or later reduce his input into the plan, he may now want to integrate so that his long term net input will be reduced.

You have asked a leading question, Mr. Francis, and I trust you do not mind part of the answer being leading.

Mr. FRANCIS: Of course not. We are criticized for not having a specific provision, and I just want guidance from you and to know whether you think we should or should not have this provision.

Mr. ANDERSON: Let me put it in this way. You will not want this on the record; you might not like it, though it is not a party or government matter.

Take the problem of the civil service plan in which the process of integration has been of the benefit character in part, because the first step is to reduce the contributions on both sides. The benefits in the civil service plan itself are going to be reduced for many people, including the people who are in transition and who are now 55, by more than the value of the reductions and the contributions.

Perhaps I can put it more clearly in another way. Let us say a man goes into the Canada pension plan at age 55 and retires ten years later. This means, leaving aside escalation, that he will get $114.17 a month. His contributions to the plan, let us say, will provide the $14.17 so his net windfall is $90 a month. From the illustrations I saw for the civil servants entering the plan at age 55, it was apparent that they were not going to get $90 a month more pension than the civil service has been promising, so therefore the form of integration being used by the civil service plan is one that is designed to reduce the government's long term net input into the civil service plan. It may not reduce it in the long term in the sense that everyone is retired eventually, and the whole civil service will consist of people who went into the plan after it went into effect, so you can say the government has every right to change the plan. So they are not going to get the full benefit of the $90 windfall.

Mr. FRANCIS: But they will get some windfall.

Mr. ANDERSON: Yes, they will get some windfall, but let me give you an example of a man working for the North American Assurance Co. and a man working for the government, both men being of the same age and receiving the same pay. Our plan is, let us say, over-all at the present time roughly comparable to the government's plan, but we will let the man have the $90 windfall whereas the government is not going to let him have all of it. This illustrates the kind of problem to which the committee must pay attention.

In other words, if there are other employers in the country—perhaps the banks—which are similarly situated to the government and find at this juncture that it is desirable to reduce the employer input into their plans, at least for their existing employees, they are going to have an awkward integration problem whether they are doing this to make a profit out of the Canada pension plan or whether they are doing it merely as a process of redesigning their plan for existing people. I am not worried about the question of their motivation; I merely say that if they are going to engage in that kind of thing there is an acute problem, and it would be useful to have the civil service illustrations put on the record.

Mr. FRANCIS: There appears to be some difference between Mr. Kilgour's remarks the other day and your remarks.

Mr. ANDERSON: Perhaps there is. If the employer is content that his real problem is not one of profit, he has no problem at all in making the integration.

Mr. FRANCIS: The other question I wanted to ask is related to the brief Mr. Anderson filed, which I found very interesting. I wanted to ask some questions concerning the contention of a chronic labour surplus and savings shortage.

I do not believe all economists would agree with the analysis Mr. Anderson has made, and especially the contention of a chronic deficiency of savings. I would refer, for example, to the report of the Economic Council of Canada in the *First Annual Review*. I do not know whether Mr. Anderson has had an opportunity to look at this. At page 131 it is stated:

> —there would not appear to be any serious shortfall on the total amount of available savings, in the light of the rate of gross national savings indicated at potential output and the possibility of some capital inflow.

I recognize there are differences of opinion among economists, but does Mr. Anderson really feel there will be this shortage of savings and that the plan will have this effect?

Mr. ANDERSON: Mr. Francis, at that juncture I was not examining the economic effects of the Canada pension plan. I was merely making the observation that in a country that has had to import capital regularly over a great many years—we have had, as you know, a debit import balance on capital economy, and there is every prospect of having to import capital in the foreseeable future—you must say it is a shortage of internal savings because we have had to use foreign savings in the development of the economy. As long as this is the case, you can make the statement that there is a chronic shortage of savings in Canada. We make more investment than saving. Perhaps it may not be true in the personal sector. You may say in the personal sector we do pretty well. Our net savings in the personal sector, expressed internationally, are relatively high. So there is a shortage somewhere else, perhaps in the business sector, perhaps in the government sector. Across the country we have a continuing shortage of savings, and it is evidenced by our continuing need to import capital.

On the other question, that of a chronic labour surplus, you say there is a surplus existing in the labour market when there are more people seeking jobs than there are jobs available. This constitutes a surplus. Sometimes this may be technological; it may be the problem of people moving in and out of the market; or the unemployment rate may be high at times merely owing to the fact that you have a lot of vacancies that cannot be filled because the workers have not the right qualifications. But the view I have taken—and I think it was first developed by Lord Beveridge—is that you define full employment as the condition where the demand for earnings is equal to the supply of earnings in your country.

I have the feeling that in Canada the demand for earnings is substantially greater than the supply of earnings. It is evidenced.

Mr. FRANCIS: This is not the problem in western Europe, for example.

Mr. ANDERSON: Oh, yes.

Mr. FRANCIS: Nor in many other parts of the world.

Mr. ANDERSON: As I said, the supply of earnings has been much greater than the demand. It is hard to argue that Canada is in this position. We have not had to import labour as such, unless you take the view that our immigration policy is the way in which we import labour. If you take that view, the immigration figures in recent years, as the chief actuary has pointed out, have resulted in a net nil immigration rate for, I think, the last three or four years. So, it seems evident on all scores that that is the kind of report you get from consumers in respect of the type of jobs where there is a scarcity which you can match against unemployment.

It seems evident to me that we have been in a position where the demand for earnings in Canada exceeds the supply. If we get more automation I do not know how this will alter the situation. A lot of people are saying that automaiton is going to make these jobs scarce and that we will have to invent new methods and so on. I do not believe in a great many of these things. Our own experience has tended to be that while automation may conceivably cause a lowering of the rate of growth of the number of people working for you it tends to accelerate slightly the rate of growth of the earnings you pay out because with automation the quality in the labour force moves up, up and up. It may tend to offset any increase in the rate of expansion of the number of people, and this is all I mean. It seemed to me it was fair to use that as part of the premise. All I am saying is should not these two conditions at present, be taken into consideration in analysing the form and levels of the transfer payments program?

Mr. FRANCIS: I was particularly interested in Mr. Anderson's remark—and I think he picked a particular appropriate group to make it to. He mentioned the approval of the government policies which would have the effect of making the position of a job relatively less attractive. To make jobs less attractive as a general policy seems a novel statement of public policy.

Mr. ANDERSON: Is it not part and parcel of this?

Mr. FRANCIS: I hope my colleagues in the Senate will not take offence, and I am sure they will not.

Mr. ANDERSON: Perhaps one of the methods of making onerous jobs less attractive would be to increase the size of the Senate.

Mr. MUNRO: In which case you might be good enough to become a member.

Mr. ANDERSON: I already have my application in but no one has paid any attention to it. One of the senators the other day asked me which side of politics I was on, and when I told him he said that it was too bad but that he had me in mind. I guess I will have to forget it.

But, as an example, the process of making jobs less attractive and more attractive retirement tests, regardless of why they may be used otherwise, does have this effect. Retirement tests, when applicable, make jobs less attractive. But, on the opposite side, through transition, the relatively high marginal windfalls in the plan will tend to make jobs more attractive for people within 10 years of retirement; in fact, it may tend to make fictitious jobs attractive. For example, take the case of a man who under his own private pension plan retires at age 60, and he is coming up to retirement five years after the plan starts into operation. He and his employer discuss it and the conclusion they reach is that his pension will be deferred and that it will not start until age 65. It is not going to be increased in amount. But, in the meantime he will become a consultant.

Mr. KNOWLES: Perhaps chairman of the board.

Mr. ANDERSON: And, he will be paid the amount of his pension, but that now will be a consulting fee. That does not affect the employer because that fee comes under self-employed income. There is no burden on the employer, as I have said, but the individual is in the happy position of going on making his contribution on what is really pension. But, as I say, it is called a consulting fee. At age 65 he now turns around and takes the pension. What he is getting from the private employer is not pension but rather a consulting fee because if it was a consulting fee it would be subject to a retirement test.

Now, I trust that these things are not going to occur in Canada. It might not be desirable for many of us to take the view that beating the plan is a fair thing to do in its early stages before these administrative problems have been thought out, dealt with and corrected. It may be all right to avoid a tax such as that which has been operating a long time because the lawyers all say that this is the right of any citizen. But this does not mean that new laws which, to some extent, are experimental, should be subjected to these avoidance procedures by the agile citizen, in thinking up ways and means of avoiding it before those in the Department of National Revenue and, perhaps, in the Department of National Health and Welfare have been able to think up ways and means of preventing the avoidance. It is not a very patriotic thing to take advantage of the government or the other contributors in that way. Have I covered this to your satisfaction, Mr. Francis?

Mr. FRANCIS: Yes.

The CHAIRMAN (*Mr. Cameron*): Would you proceed, Senator Smith.

Hon. Mr. SMITH (*Queens-Shelburne*): I think it is perhaps fair to say, Mr. Chairman, that the information and the observations which are contained in the brief that Mr. Anderson presented to us, together with those remarks he made yesterday were perhaps the most valuable we have had, both as to basic information in order to understand some of the problems of the future with regard to dealing with adequate income for aged people, and also his remarks regarding the bill itself and ways we possibly may improve it. Many things you said were of great interest. But, I did want to take the time to read into the record to remind the committee of something which was said in Mr. Anderson's brief at page 5, and if one has not thought in this fashion before it is really quite a startling thing to consider. Mr. Anderson said:

> —it is no exaggeration to say that the average level of consumer spending per person during retirement will exceed the average level of earnings per worker during the prior working years. This means that in the case of a typical worker with dependant spouse who has enjoyed average wages and has raised a normal quota of children, retirement income will have to average more than twice the career average wage in order to maintain the same relative consumer spending position during retirement as that which obtained during the working years.

Mr. Anderson, I wonder if you could fill in some basic information as to how you arrived at that conclusion. Are you thinking only in terms of the ever increasing standard of living in which that particular retired person and his wife will not be able to participate because of his pension or are you thinking of some other factors which produce that result.

Mr. ANDERSON: Mr. Chairman, may I first thank Senator Smith for reading the two sentences. I believe this puts them in the record for the third time. They are in the paper, and I read them yesterday. Now, you have. I am grateful that someone is content to help underline the key ideas.

Mr. KNOWLES: And, they will be quoted again.

Mr. ANDERSON: Of course, the problem is this. If I were like Mr. Watson I would have brought some charts down to show you what the problem is, and there would have been more. The problem is this: When you examine the pattern of earnings in the economy, that is, among the people whose major source of income is earned income, and you look at these people in an age group, take them from, say, age 25 on, because below that you have the problem of their being at school and working casually and so on—and you can run this up to age 95 plus—you will find that in any one year the average earnings for each age group are about the same. That is, the people in Canada that are in the same group, where the major source of income is earnings, have doubled average earnings by age group, which can be best described as being independent of age. But, when you take the retired population, and I suspect this would also be true if the structure could be carried downward, if you took the population that has not access to labour income and examine it by age group, and if you could examine it by the length of time that these people have been away from access, you would find the exact opposite pattern. That is, you will find that their private incomes tend to remain level, on the average, from the point where they lose access through the whole period that they lose access. This means, of course, when you examine these people by age groups you find that the older they are or, alternatively, the longer they have been retired, the lower their private incomes are. The reason being that they came out of the labour force at an earlier point in time, they came out at a point when wages were lower. The savings they were able to make were related to the lower wages they had, whereas the people who are younger from among the retired have come out of the labour force more recently and have enjoyed higher average earnings throughout their working lives. They, in turn, have higher private savings. So you say: Does it make any sense to have a community that is divided into two parts, one part consisting of earnings where the average wages increase through time by reason of rising productivity and price and standard of living —they increase through time and yet at any one time they seem to be fairly independent of age—as against this private income level? Whether they are earnings or not, they are not major earnings. The private income levels seem to be level through time, they do not change as the years go on, and yet they do vary by age.

You say, "Is it right to have two parts of the community with these two opposite patterns?" Let us assume you say, "No; we would sooner have a kind of community where the pattern of incomes of the retired people by age group was comparable with the pattern of earnings of the workers." I do not say that this should be at as high a level as the worker's incomes, but I say the patterns should be comparable between the age groups. You say, "How can we correct it?" By putting in a big fat benefit—big from the fiscal point of view because the ladies have told us how small it is. You put in a big, fat, benefit, big in relation to the other income.

However, this does not alter the pattern except when you change it. All you do, when you change it, is to just shift the pattern; that is to say, that before the change the people who are aged 75 had this much income, and after the change they are going to have as much income as the people aged 70. This is all that the change does as far as the pattern is concerned. It then becomes a pattern until the next change.

Even if you do engage in annual changes, this would still not twist the pattern and would get the retired people at all times in the same income pattern as the workers. As far as I have been able to see, the theory is that if you did use an age related structure—never mind whether it is based on need—where at any one time the benefit had this $3 differential, you could now demonstrate that you have corrected the pattern, you have put the retired people into a pattern that is maybe at a different level from the workers, but has the same form, so that the total income of the retired people will be independent of the age group and will naturally move through time because of the turnover of freshly retired people coming in with higher incomes and older ones dying. It will be independent of age within the group.

I had thought that age was the only criterion for doing this, but one of my more imaginative friends said to me, "I think I have a better criterion which you could suggest to the committee". I said, "What is it?". "Well," he said, "just forget about age; it is hard to prove, and so on. I will give you a pattern that will do the same thing and will win elections." I said, "What is it?". He said, "Basically, you have a flat benefits structure. You say to everybody beyond a certain age that they are entitled to an extra dollar a month for every living voting descendant." I said, "How does it work out?", and he said, "It has this advantage—and you might have to put it up to $2 to make it work—that at $1 I have found that the man who is aged 70 on the average has, I think it was, about 17 voting descendants, but the man aged 90 on the average has over 40 living voting descendants". He then said, "You establish in my method a $25 differential between the ages of 70 and 90 and it is just as dynamic as your method because the older they get the greater is the number of their living voting descendants, so they get their increases by merely having grand-children who reach the voting age." Of course, if the New Democratic party gets in, they will want to lower the voting age anyway. They will say, "Let us lower the voting age, and let us put the system into force." When they get into power after winning the next election they will lower the voting age. Ultimately, and it might not be a bad idea, we might get to the point where parents voted in trust for the children. So you do not abandon the problem of lowering the age limit and you get yourself into a position where every time a baby is born within the family tree, as it were, the great grandparents get another dollar a month and also the grandparents get another dollar because they are beyond the age limit.

Hon. Mr. SMITH (*Queens-Shelburne*): This is much better than the old-fashioned story we used to be told about counting tombstones in certain parts of the country.

Mr. ANDERSON: There are also other ways of doing it. Professor MacGregor, from whom you had a brief, is a person who likes studying these problems, and he said, "You know, I am fed up with the way you talk. You are much too sensible. I want a system whereby if I live to be 90 I want to be able to buy a new Cadillac every year. It will not cost very much; there are few people in their 90's." I said, "There is no problem about this one either. All you do when each cohort comes to retirement—let us say there are 100,000 people in each cohort—is to multiply 100,000 by $900, and you get close to $100 million." All right, you lay on $100 million a year for this cohort, and then, as he dies off, the survivors divide it up. By this method you really solve the problem. You will have complete fiscal stability for each cohort, $100 million a year until the last one dies. But then the treasury gets this great relief at the point where the cohort ceases.

I am sorry to be making these light remarks, Senator Smith, but you people have had a hard several days and I thought you might appreciate hearing them for a minute or two.

The major point I wanted to emphasize in those two sentences was not the point that I have just discussed, but the point that most of us cannot grasp in the kind of economy that we are living the fact that our average age of work is around 39. This is what they say in the census monographs.

In a situation where spending per person or earnings per worker or earnings per person have all been moving up for over three decades at a long term rate that is above 4 per cent, if this kind of thing continues—and I hope we will be sufficiently ingenious to make it continue at the 4 per cent level and have a 4 per cent productivity—the typical individual who is 74, and is therefore at the average age of retired people, is 35 years later than the typical point at which he worked. Therefore, if he earned an average of $4,000 while he was working, the workers of today, when he is 74, will be earning an average of $16,000. Even though he does not need a whole earner's wage because it is designed to support about 3 people and his wife needs about two thirds of an earner's wage, if he wants to have the same relative position in the community, he has to have an income from some source of about $11,000 a year although his career average was only $4,000. This has to happen merely in order to let him maintain the same relative position in the community, or, if you want to use a more common expression, to maintain his position in the pecking order. In other words, if, while he was working, he was in the position where 20 per cent of the population had more income than he had and 80 per cent less, he wants to be in the same position when he is retired.

Perhaps some people do not mind having lower incomes when they retire. I have wondered about this for years. How far do you try to go together both publicly and privately? I talked about this with some top people in the United States. I asked them, "What is your objective? What do you people try to achieve?"

Mr. FRANCIS: Adequacy, Mr. Anderson.

Mr. ANDERSON: I was not talking about adequacy. This is a question of individual desires. He answered me promptly, "The objective of everyone is to continue his earned income at retirement at 100 per cent level, and to have it increase after he is retired in the same way it increased while he was working". This is a perfectly normal objective, but I do not say many people can achieve it. It is the kind of thing that people want to do. They would like to be able to do it for themselves, and most people try to do it to the extent that they can. However, one of the problems they cannot deal with for themselves satisfactorily, unless they are willing to succumb to the lures of the mutual fund boys, is that they cannot find a method of producing increases after retirement. They cannot find a way of satisfactorily doing this at the private level. This is why I have suggested that for most people the problem of increasing incomes after retirement is a problem which, in my opinion, only can be solved at the public level and may be deserving of a greater priority than the problem of supplying income as such. In a complementary society—and I believe this is one of the reasons why my beliefs are a little different from Mr. Knowles' and perhaps not as different as I think they might be—hopefully in this kind of a society you might arrive at a solution where apart from the means test benefits which always will be required if you are going to have a good social conscience in your country, the government did not need to supply anything but the post retirement increases. That might be all it needs to supply.

Under certain circumstances people might be able to move in the direction of attaining relatively set private income levels by the time they retire. If there should be enough people like the trust companies, government annuities branch, and life insurance companies shoving pensions at them for long enough, they might go as far as the merchants of pensions think they should go; but even the merchants of pensions, except the variable annuity people, have not been able to figure out a satisfactory medium of producing increases in income after people retire.

As I mentioned in my paper, it is technically feasible. Of course, you can ask George Watson's company to do so; if you are age 65, retired, and give him a lump sum, he will give you a life annuity that increases at 3 per cent, compounded, as long as you live. You can buy it tomorrow and supply yourself with the kind of increase I am talking about. However, the difficulty for most people in getting a satisfactory income when they retire is that the furthest distance they can hope to go is to provide it at level size for the rest of their lives.

It is extremely difficult for the individual at retirement to forecast what the wage levels and opportunity levels are going to be when he is in his mature ages, 20 years later. The experts say that it looks like it will be more than double what it is now; we do not know. Some think it might increase 50 per cent, or that it might treble. So, even if the individual wants to save the money, he does not know at what rate of increase he should provide his income. He is looking into the future. This is not a problem of pricing; it is a problem of productivity. It is a problem of not knowing what people will be spending money on 20 years from now.

We might take the problem of medical care for the retired population: the man retiring at age 65 has no conception of what medical care will consist of 20 years from now, what the procedure will be, what the price tag will be, or how it will be paid for. It will be impossible to forecast this within the atmosphere of a rapidly expanding profession such as the profession of medicine. The point I am making is that I do not know of any practical way—except possibly by having $1 million and deciding not to spend it, and hoping this will work—of providing in advance while you are working for the cost of this medical care 20 years after you have retired. This is not something that can be done in advance; it is not something that can be found at the private or public level; it has to be dealt with at the point where it emerges. It will be all right so far as earners are concerned. The earners will have this built into their wages. There is not the problem. However, the retired people will not be able to have the upward flexibility of movement that the wage structure provides. He says somebody else has to give the flexible upward movement; he cannot find anybody else to do it except the government.

If you will permit me, Mr. Chairman, there is one point I would like to add to this. It is not very difficult to say, this fellow Anderson has this idea of relating the pensions by age, but if it is such a good idea, why has not anybody else tried it? As I mentioned, I feel it is something that only could be considered if there were a number of conditions precedent, any one of which missing would not make this feasible. The conditions I have identified, all of which I think are present in Caanda, are: first, that the country has enjoyed a reasonably rapid level of economic progress or upward movement and can anticipate that that will continue. This merely means you have a pattern of rising productivity and standard of living.

Second, the country must have enjoyed and have the prospect of enjoying a monetary policy that will make inflation a comparatively minor problem.

Third, the economy must be of a type where the great majority of the labour force are paid employees rather than self employed.

Fourth, the economy must be a type where the dominant form of employment is in the private part of the public sector, rather than in the hands of the state. Next, the economy must have had a tradition, and a likely continuing pattern, of relatively high private savings by the individual for retirement purposes. Next, it must be an economy that has two generation families in it since the retired people cannot rely on their children. Next, it must be an economy where the retirement periods are long, and therefore can become a major problem. If people died within a year or two after retirement, we would not be talking about it. Finally, I think it must be a country which has established enough social solidarity to have embarked on universal flat benefits.

Now, it seemed to me that if any one of those conditions is missing, there would be rather familiar arguments for not using this approach. It also seems to me that these are conditions which all of us would agree—except possibly the question of who your employer is—were desirable conditions and ones which we would hope would continue.

I have one thing which I am not sufficiently expert to know; that is, whether there is any other country which possesses all of these conditions. If there is, I think I would like to go and inquire and say, would this make more sense in your country than what you now are doing? There is no point in asking it in a country that does not have the conditions precedent.

I am doing pretty well in expanding questions into long answers.

Hon. Mr. SMITH (*Queens-Shelburne*): I think this is very interesting and is of real value. I would like to put what has been said in the context of integration of the Canada pension plan with private plans. I have an example of a situation which has come to my attention through some discussions and correspondence with the president of a company which company would have about 1,000 employees. He points out that under the plan they operate—a private plan, which is a 2 per cent premium system—

Mr. ANDERSON: Career or final average, or does he say?

Hon. Mr. SMITH (*Queens-Shelburne*): I am not sure. He gives the example of a young man who joined the company and the pension plan at age 21, retiring at age 65. This plan has been in effect since 1946, so it is almost half way to this 44 year period that the employee who entered at age 25 would be concerned with. Under that particular private plan, on an average salary of wages throughout his working life of $500 a month, he would obtain from this plan $440 a month. From the Canada pension plan he would obtain $104 a month and from the old age security, at age 65, $51. Of course, these figures do not include any escalation. This would make a total of $595 a month. He thinks it is bad. He thinksh it is absurb to put the Canada pension plan on a plan such as they have and receive $595 per month—and it may be considerably more. He says he does not think this is required and that the man does not necessarily want to obtain that much.

Speaking of what I have read and what you have said, I think this particular friend of mine would be glad to have an opportunity to read part of this record to get a different understanding of the future needs of that man who is in that plan at age 21.

Mr. ANDERSON: Well, Senator Smith, may I summarize your thoughts. The man will get $595 a month—what is his salary?

Hon. Mr. SMITH (*Queens-Shelburne*): It is $500.

Mr. ANDERSON: In other words he will get 20 per cent more than his career average?

Hon. Mr. SMITH (*Queens-Shelburne*): Yes.

Mr. ANDERSON: We have cases of this kind in our own company. It is mostly in the case of girls rather than of men. But with the girls we have cases where the nominally combined pensions with our method of integration give a windfall to the individual which is well beyond his salary. We discussed it and we said: "What shall we do, because we are committed not to alter our cost". We said, "All right, if the government does not decide to age relieve pensions, as Anderson suggests, we shall do it ourselves." In other words, we have $400 a month which is initial on an 80 per cent pension, so to qualify for $200 we will take it out of the scheme and use it to buy him an increasing annuity so that he will be able to get this increased assistance, since the government is not going to give it to him. We will put him in a position whereby, when he is 75, he will keep pace with the community. This is not as benevolent as it may sound from our point of view.

We may say that we will not make a dollar out of it. But what has been happening in the post-war years to the government and the civil service? Periodically you have had to go through an agonozing review of your existing pensions and attempt to take further money to augment those pensions. We do not think this is an orderly process. We think it to be very costly to have to have to review people's pensions every few years and to have to adjust them upwards because they have become too low. We would like to see our own planned system built into the increases. We may find that the Canada pension plan may give us an opportunity to do this. We do not think we could have done this unless the Canada pension plan was going to make the initial pensions redundant.

If we handle it this way and pay the man $400 a month at retirement, and provide that he may get an increase, let us say, ten years after retirement, when he would get $600 a month, we would have to make adjustments, and we would have to keep him up to date. He would be in a much more satisfactory position than having to hope that next year his ex-employer may decide to adjust pensions; and besides it will also save the cost of adjustment that we have had to make. But I think we will get a lot of credit through the community for having put our pensioners in a position where they are able to keep pace with the community after they have become retired.

But one cannot be prepared to adjust it every year. In our own company we have had people who, through their careers, had occupied parallel positions and had the same kind of responsibility in different geographical areas of our company. One was five years older than the other. When he retired his pension under our plan was, as I recall it, $5,000 a year. But when the other man retired five years later with longer service, of course, his pension was, I think, around

$6,500 a year. These were people who had been friends all their lives. They had been neighbours and their wives knew each other. And they always enjoyed similar grades of salary during this long interval.

Now when the second man went into retirement we were in the crazy position that here are these two ex-employees, and we had paid them alike for 40 years, but now they are both pensioners, and they are still living as neighbours close to one another, while one gets $1,500 a year more pension than the other.

That is one of the situations which led us the last time we made our adjustments to say: "Let us find a formula of adjustment. Let us look up a pattern for our own pensions." And the answer we came to of course was, as I said yesterday, that you have to give the biggest adjustment to the people who have been retired the longest.

Mr. CHATTERTON: Did you find that you had a responsibility to the man who had only $5,000 after retirement? Did you feel that you had to do something for him after retirement?

Mr. ANDERSON: No. For five years he was retired, while the other man was active. And when the second man came to retirement, he was entitled to $6,500.

Mr. CHATTERTON: Did you feel a responsibility to do something on behalf of the man who was already retired?

Mr. ANDERSON: Goodness, no! We are located in various communities throughout Canada. We have agents, for example, who have worked for us for 30 to 40 years in small towns in the various provinces, and they are known as "Mr. North American Life", and they are continuing to live in those communities after retirement, and they are well known as being our people. We cannot forget about them, quite apart from your own feelings about it; we cannot afford to forget about them.

Mr. CHATTERTON: But did you do something about it?

Mr. ANDERSON: Yes.

Mr. CHATTERTON: Do you think that the government has such a responsibility in regard to its ex-employees?

Mr. ANDERSON: It was done the last time the government made adjustments, in 1948, when you used almost the same pattern that we used, by allowing the man who was retired longer to have a bigger percentage of adjustment. As I understand it there is a study going on right now about adjusting the payment of pensions already in payment. Any responsible employer who has a public relations problem, whether he wants to do it or not, really has no option, because he has to do it.

A thing I find unsatisfactory is what is being done with people who work for long periods for a large and responsible employer, but they do not constitute a very large group among the retired people. Most people are not in the position where they have had long periods of single service with one particular employer who is driven either by desire or necessity into adjusting his pensions. So I say that this is not a problem which can be solved wholesale at the private level.

I cannot see any solution to it at the private level because it is so widespread. That is why I say it is the responsibility of public authority in every country to find a rational method whereby to increase their income after they have retired. They are doing so in every country as I said yesterday. Some of them are doing it by indexing, others by automatic adjustments, and some by periodic legislation, or by financing. Indexing is not enough. We have to revise the incomes to adjust to the immediate requirements. All countries do it in their public systems. I am not speaking of the civil servants, but of a particular social security system of a country, and they all do it in one way or another.

I was trying to make the point yesterday that there are various ways of doing it, and I think that a country could be justified on the question of other private income, if you should find that an age-related system was designed to accomplish what it has to do for the government when the problem becomes fiscally costly, because it could get to a system where there would be very little movement in the average benefit level per beneficiary in its old age security program. Yet at the same time the individual within the system by reason of the fact that he is getting older is getting his increase in that way rather than getting it through automatic indexing formulae or through periodic legislation, or by public authority. That is all I was trying to prove here. I do not think that you would age-relate it because of need. This is not a need problem. You would age-relate it because of its very nature. You justify doing it, and I have been able to do it by reason of the fact that you find that the oldest people have the lowest private income.

Mr. MUNRO: When you talked about a greater amount for people already retired you quoted an example, and it goes along with your argument that pensions should increase by age groups.

Is there a factor in your consideration of this argument that you make here that actually the need of a person who has been longer in retirement on an adequacy basis actually decrease in relation to the man who has just retired?

Mr. ANDERSON: On this point, I do not feel qualified to talk about peoples' needs. This is not the place, nor do I have the training. But I would make the observation that as the Canadian Welfare Council said this morning we do not know. And mind you, they are specialists in this field. They said we do not even know whether workers aged 50 have developed needs, or workers at age 30. But we would make the point that their actual spending is quite obviously lower because their incomes are lower. The question of what they what they ought to be able to spend is something that requires—what was the expression, Mr. Munro, that was used this morning? A slice of reality? You have to take a slice of reality to find out what are these needs.

Let us put it in this way. If you assume that the needs are level and independent of age, they may change in character, but the need for private spending—

Mr. MUNRO: Just a moment. On that point, do we really think the needs of a man of 90 or 95, for example, are as great as the needs of a man of 70? A man of 95, presumably, is going to stay in most of the time; he is not interested in durable goods; he is presumably not interested in going out and getting a new house. He is pretty old. I have heard arguments to the effect that this man does not have the need and does not spend the same type of money, and I am wondering if some of these arguments have validity and whether you have considered them. I wonder whether a government would not be subjected to certain severe criticism for actually increasing benefits to people when they get older, when perhaps the need is becoming less.

I know the argument in your brief is based on the fact that you feel the need becomes greater as one gets older.

Mr. ANDERSON: I think the over-all need most certainly becomes greater, but against that there is the fact that the government has moved far in a number of directions in providing services for old people which do not have to be purchased. Institutions and services for the aged are involved here.

So the needs in the cash sense may be quite different from the needs in the real sense. The real needs increase. The government has been helping to solve this problem by taking on an increasing part of the load by increased services as age advances. Whether it is doing the right things in that area, I do not know. In other words, has government been forced to provide the services because the incomes were so low or—

Mr. MUNRO: Right, but there is this tendency to increase services such as hospitalization and medical care and so on. This being the tendency, does it not make it all the more important that this factor be considered, namely that in money terms the need becomes less as you get older?

Mr. ANDERSON: Let us take some of the other problems, and again I would say that I do not think I can be regarded as an expert at all. I bow to you, Mr. Munro, because you are a parliamentary assistant to the Department of National Health and Welfare. Whether or not you have the knowledge yourself, you are aware of the body of knowledge that exists there.

Mr. MUNRO: I am not even sure that I am aware of it.

Mr. ANDERSON: It seems rather obvious that the older a man is the less mobile he is likely to be. He might in his earlier activities have done a lot of walking and things like that; he might have had a car, and this sort of thing. Then he finds later on that he not only cannot walk but he is getting too old to drive a car, so now his mobility is of such a character that in order to move around he has to take taxis; so here is a new expenditure by reason of the fact that he is getting old.

Mr. BASFORD: He has probably lost the desire to move around.

Mr. ANDERSON: He may have lost it but I hope he has not. I rather question whether some of these rather elderly people have lost the desire. A lot of them have lost the means.

Mr. KNOWLES: Yes, that is so.

Mr. ANDERSON: Let us take another example, that of the elderly widow who lives alone and who, up to a point, is well able to handle all the household chores. The ladies who were here this afternoon demonstrated this. Then there comes a juncture at which she is unable to do this, so what does she do? She has to have help of some kind or other. If she is lucky she may be able to move in with a relative, but she may not be able to do this.

Mr. MUNRO: We are talking relatively. Certainly the desire to move around would be greater in the case of a man of 70 to 80 than in the case of a man of 80 to 90.

Mr. ANDERSON: Certainly the ability would not be as great, but I am not sure about the desire; certainly there is not as much ability to satisfy the desire.

Mr. MUNRO: Is there any co-ordination between ability and desire?

Mr. ANDERSON: I think it is rather futile to desire things you are not able to do.

The CHAIRMAN (*Mr. Cameron*): When you lose it, you are dead.

Mr. ANDERSON: I am glad you brought up this subject. I do not know enough about this problem, and even the experts confess they do not know enough; but I was not advocating this procedure on the score that the needs were greater. After all, the man who was aged 70 in 1952 has been getting $3 a month more as an individual over the last 12 years. He has only had four increases, but the yhave aggregated $3 per month. We have in fact been doing this for the individual.

I am not suggesting that we should do for the individual anything different from what we are doing now. I am merely suggesting that if you can defend the age related system on the grounds that the incomes are lower at older ages—private incomes—you can now find an old age security system that will do for the individual what you will have to do for him in any event, and at the same time you will create a stable system. This is like having your cake and eating it too, and perhaps there is a buck in it.

Perhaps the more rational way is to progressively extend the freely provided public services so the man in his 80's has a set of services that costs nothing which he does not get when he is in his 70's. In some types of society this is the answer. I am a little doubtful that this is the kind of answer we are looking for in our society. I am doubtful that we should start categorizing these people and saying the older they are the greater variety of services they do not have to pay for.

The CHAIRMAN (*Mr. Cameron*): Mr. Knowles.

Mr. KNOWLES: Mr. Chairman, the questions I had intended asking were in another field. I have found this so interesting and fascinating that I would be willing to call it a day now. If the committee is going on, I will ask my questions but if the committee wishes to adjourn I will pass.

The CHAIRMAN (*Mr. Cameron*): Mr. Monteith.

Mr. MONTEIT: I am not concerned at this stage either.

The CHAIRMAN (*Mr. Cameron*): Mr. Basford.

Mr. BASFORD: I will pass.

The CHAIRMAN (*Mr. Cameron*): Mr. Munro, are you through?

Mr. MUNRO: I would have liked to asked Mr. Anderson quite a few questions, but I do not think it would be appropriate to do it at this time of the day.

Mr. CHATTERTON: I am sorry I had to be away from the meeting for a short time and missed some of Mr. Anderson's comments. I had a constituent here.

I found Mr. Anderson's comments so fascinating and interesting that he has given me almost an insight to a new approach to this question. I wonder if we can impose on Mr. Anderson at some time in the future and ask him to come back to talk to us again. I know it is an imposition on his valuable time, but other members have indicated that they still would like to ask some questions.

The CHAIRMAN (*Mr. Cameron*): I am sure Mr. Anderson will be only too glad to come back if we ask him to do so.

If we find as we go along in our meetings we would like to have Mr. Anderson back the invitation can be extended, and I am sure he will be willing to accept it.

Mr. ANDERSON: I am not sure whether Mr. Chatterton was in the meeting at the time we discussed the method of making sure that I would be back.

The CHAIRMAN (*Mr. Cameron*): I am sure he would approve of the method in any event.

Mr. ANDERSON: May I make one point in connection with what Mr. Chatterton has said?

I have been doing work on certain tables that relate to and illustrate some of the kinds of things I have been talking about. For example, I quoted yesterday incomes by age groups and so on, and there are other figures relating to the movement of per capita earnings in Canada, the movement of consumer spending per person, trying to establish the trends and so on. There are some other figures relating to the question of the Canada pension plan entitlement index, and the difficulty that it puts greater emphasis on variations on earnings at the younger ages than it does at the older ages due to the way in which the escalator operates.

I rather wondered—and I suppose I am free to do this in any event—if I could send a few tables of that kind, tables which do not give any opinions, or anything like that, but which contain figures which you might like to have for the purposes of the committee.

If I may do that, Mr. Chairman, perhaps I am entitled to get something back! A question came up today which I think was put by Mr. Cantelon with regard to the average age of the wives of the husbands who were now aged 65 to 69. I was a little suprised that nobody in the committee seemed to be aware of an excellent monograph which is published by the dominion bureau of statistics. This is part of the census monograph series, of course, but it is published in about the same form for this purpose as was done in 1956 and, I think, in 1951. One part of this monograph—table 95 in bulletin No. 211—gives what the mathematicians call a matrix. It gives the age groups of the wives, and here are the age groups of the husbands. This matrix shows how many couples there are in each one of those groups.

May I give you an example? The question asked related to 171,000 husbands at the census date who were aged 65 to 69. The dominion bureau of statistics has the answer here. It says that 1,200 of them had wives who were 70 and over; 47,000 had wives in the same age group; 59,000 had wives in the early 60's; 32,000 had wives in their late 50's; and it gives you the figures right down to the 14 people aged 65 to 69 who have wives under the age of 20. Do not laugh, gentlemen; in another part of the table I now identify five couples in Canada in regard to which the wife is 70 years of age or over and the husband is under 20 years of age. Furthermore, since the matrix is given for the province, on turning it up I find that one of these couples is in British Columbia, one is in Ontario and three are in the province of Quebec. I am making this remark for a purpose; I do not do anything just for free, you see.

The unfortunate part of this matrix is that they regard age 70 and over as one age group. In other words, it would be much better if they had five year age groups running all the way up to age 95 and over. But, as they have it here, it is all in the one block. It would be much easier in this way to tell what their age relationship is, which would be highly useful. I am making the plea that this committee, among other things, might recommend to the dominion bureau of statistics that treating ages 70 and over as a single age group is just not doing the job in respect of a great number of these monographs. As I say, I think you should persuade that department to get the computer operating and to extend the matrix for your purposes. In that way I will have this information available for my own purposes.

Mr. CHATTERTON: Have you made any calculations along these lines?

Mr. ANDERSON: I did some calculations where I had to sort of estimate these wives that were 70 and over with regard to what age they were over in order to put them in with these people that were 60 and 64. I find, as an average, depending on what age you estimate, that in cases where the husbands are 60 to 64 the wife is from five to 5.1 years younger than the husband. That is the average. As I say, for husbands age 60 to 64, their wives are about five to 5.1 years younger. For husbands ages 65 to 69 their wives are between 5.4 and 5.6 years younger on the average.

Mr. FRANCIS: Perhaps we should combine these statistics with the testimony put before this committee by Mrs. Weir in respect of her request for longer years of leisure for women.

Mr. ANDERSON: It is a striking characteristic of this matrix, and it applied in 1956 also, that in respect of the fatality of husbands and wives the difference in age averages about 3½ years. But, what happens down at the younger working years in particular? The difference is around three years. It moves up to this five year difference as people get older. I do not know the explanation for that but I could suggest an explanation. One, for example, is that husbands who are lucky enough to survive their wives—and of course, not very many of them do because mostly the wives survive the husbands—turn around and marry young girls.

Mr. MUNRO: Which refutes the argument that was made that they are more active as they get older.

Mr. ANDERSON: Possibly. Also, you all know that questions are put to members of parliament in respect of statistics. For example, the dominion bureau of statistics may report that there are 900,000 people in Canada at a certain time ages 70 and over who are receiving certain benefits, and the question will be asked how come the report says there are 930,000. There is an answer to it. The answer is: Our figures are right and the bureau's figures are wrong; if you do not believe it, go and ask the bureau. This may be the explanation. It may be the case that when the census taker comes along the older the wife is, regardless of her husband's age, the more prone she is to understate her age. Thi may produce the three years difference at the younger age and the five years difference in the 60 bracket.

Mr. MUNRO: Mr. Chairman, Mr. Myers is here. I believe the figures which Mr. Anderson is quoting are quite different from those in the United States. As I understand it, in the United States it is 2 to 2½ average. Do you find these figures quite a bit divergent in your experience?

Mr. ROBERT J. MYERS (*Chief Actuary, Social Security Administration Officer, Washington, D.C.*): The differential is more than ours. Our figures in respect of men aged 65 shows about a three year differential. The only other point I might add is that I think a large part of this increasing differential with age of husbands is not only due to widowers remarrying but by many marriages terminating in divorce. The man remarries a younger woman. I think that is a principal factor for this increase.

Mr. ANDERSON: That could not be a factor in Canada; our divorce rates are a bit lower than yours.

Mr. FRANCIS: Has any material of this nature been developed, through the records of the old age security department. It would seem to me the records of the old age security administration should be such as to cope with a problem such as this. Could inquiries be made to see if any information of a similar nature is available.

Mr. J. E. E. OSBORNE (*Director, Research and Statistics Division, Department of National Health and Welfare*): Mr. Chairman, I would like to point out that in the administration of the Old Age Security Act there is no question about the marital status of the recipient.

Mr. ANDERSON: May I put on the record the reason why I would like to see this matrix extended to the old people. It has to do directly with examination of their incomes. There are still a lot of married couples in their 70's; they are not all widowers and widows; when you do get married couples it seems to me to be fair to take the view that they are sharing their incomes on the average. That is, the income is so much, and you regard each as having half. So, for the purpose of examining income from private sources by age you have to know this other information, how many people there are in the couples that are in two different age groups, so you can redistribute the income for statistical purposes that you assume is redistributed within the family.

Mr. CHATTERTON: Mr. Chairman, it is 5.15 p.m. on a Friday afternoon and many members have to leave. Do I take it then that Mr. Anderson is prepared to come back and speak with us?

The CHAIRMAN (*Mr. Cameron*): I have taken that for granted. I hope I am right in that assumption.

Mr. ANDERSON: Mr. Chairman, it may depend on your timing and mine. As I understand it, there is a custom around Ottawa where the senators, on occasion, adjourn and they are not around; well, there is a custom in our family where during the winter my wife has her own private senate, which she adjourns, and we go down to Florida. But, barring that I will be happy to attend. Of course, I do return on occasion. As I say, if a suitable time can be arranged I would be happy to come back.

Mr. KNOWLES: Perhaps we could arrange to hold a meeting down there with you.

The CHAIRMAN (*Mr. Cameron*): I am sure we would get unanimous approval for that suggestion.

Once again, Mr. Anderson, I want to thank you very much.

APPENDIX A9

THE MEANING OF THE CANADA PENSION PLAN FOR SOCIAL SECUIITY

By THE CANADIAN WELFARE COUNCIL

55 Parkdale Avenue, Ottawa 3, Ontario

December, 1964

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INTRODUCTION

(1) The Canadian Welfare Council is a voluntary association of public and private agencies, business corporations and labour organizations, church and citizen groups and individuals interested in policies and programs which affect individual well-being and social welfare in Canada. Through planning, consultation, research, and public education, the Council seeks to ensure for the people of Canada social security measures and social services, public and voluntary, that are adequate in extent, of high quality and soundly administered.

(2) This submission represents one method of working toward these objectives, namely, the presentation of an informed point of view to decision-making authorities. As with all Council-wide policy statements, the brief has been prepared by a special committee including representation from the various constituencies of the Council and appointed by the Council's Board of Governors.

(3) Finally, the report of the Committee was reviewed by the Executive Committee of the Board of Governors and endorsed for transmittal in its present form.

FOCUS OF ANALYSIS

(4) The Canadian Welfare Council is pleased to present its views on Bill C-136 to establish the Canada Pension Plan and amend the Old Age Security Act. The opportunity is especially welcomed as the Council recognizes the fundamental significance of this legislation. It is measure whose full implications it is perhaps impossible to predict with assurance, although valuable knowledge can be gained by reviewing the experience of other countries where emphasis has been placed on a contributory wage-related approach to income-maintenance programs.

(5) The introduction of the Canada Pension Plan is a landmark in the evolution of Canada's social security system. Once launched, major decisions will have been made which, in practical terms, are irreversible. For this reason, it is most important that thorough study be undertaken even at this stage and that serious consideration be given to submissions from informed bodies and individuals.

(6) Time and resources have necessarily circumscribed the Council's analysis of the more technical provisions of the Bill. The Council is well aware of the complexities of the legislation and the amount of time that is needed, therefore, to understand it fully. It is noted that the Joint Parliamentary Committee has found it necessary to devote the entire initial series of meetings to this basic requirement, which has necessitated the presence during the whole period of a number of specialists from various Government departments. In the circumstances, the examination which follows concentrates on the social welfare implications—an approach consistent with the Canadian Welfare Council's primary area of concern and competence.

(7) While being concerned with the well-being of all Canadians, the Canadian Welfare Council does have a particular obligation to those Canadians who for one reason or another are unable to provide for themselves. In the context of this submission, this group embraces people with lower incomes, widows, orphans, and disabled, whether or not such groups or individuals have been attached to the labour market.

BASIC CONSIDERATIONS

(8) No intelligent assessment of a proposed social security program can be made unless the assessment takes into account the rapidly-changing social order. At the risk of stating the obvious, it is noted that Canada like most other nations in the world today is having to examine values and concepts which, while serving admirably in the past, no longer hold as central a position as they once did. Indeed, the whole development of social security as we now know it and accept it is, from this point of view, a continual adaptation to changing social values and situations.

(9) The long-term implications of the Canada Pension Plan and the basic role envisaged for it in Canada's pattern of social security make it essential to assess the Plan in the light of probable future social and economic circumstances.

(10) The Canadian Welfare Council in 1958 recommended that:

"The Dominion Government should appoint a Royal Commission to study all aspects of social security for which it has a direct or indirect responsibility, and more particularly, to make recommendations with respect to:

(*a*) Gaps in existing provisions and priorities in dealing with unmet needs.

(b) The appropriate methods of providing social security benefits, whether by social insurance, statutory social welfare payments, public assistance, or by a combination of these methods, in respect of old age, unemployment, sickness, disability, death of the bread-winer and the cost of child-rearing.
(c) The development of a more integrated system of social security.
(d) Federal-provincial co-operation in the field of social security.
(e) The negotiation of reciprocal agreements with other countries in order to provide social security coverage on an equitable basis for immigrants to Canada and for Canadians residing in other countries.
(f) Other questions having to do with the design, content and administration of Canada's total social security system."

(11) Since the 1958 Statement was issued there have been of course a number of significant developments in respect to specific welfare programs and in federal-provincial relationships. None of these developments has reduced the need for a major review: in fact, some have made it even more urgent. Most unfortunately, in the Council's view, there has not been an overall assessment of the existing or emerging system of social security in the period since 1958. Certainly none has occurred publicly.

(12) It seems probable that the fundamental review envisaged in the 1958 recommendation will not be undertaken before the Canada Pension Plan is law. The unanimous vote in the House of Commons when Bill C-136 received second reading represented a clear decision by Canada's elected representatives to proceed with this new program, without having the benefit of a study by a suitable public body.

(13) While the Joint Parliamentary Committee has decided that it is free to examine the Bill as fully as its members wish, its terms of reference do not, of course, cover the range of subjects nor provide for the depth of analysis needed in a full-scale enquiry of the total social security system. The Council nevertheless believes that, beyond a thorough consideration of the Bill itself, the Joint Parliamentary Committee should consider these related matters as far as it reasonable in the circumstances.

(14) When consideration of the Canada Pension Plan has been completed, the Government of Canada is urged to give renewed consideration to the case for a comprehensive public review of social security in Canada, whether by a Royal Commission or a similar review body suited to the task.

LEGISLATIVE OBJECTIVES

(15) Since 1938 ten formal briefs dealing with the particular subject of income security have been submitted by the Council to the Federal Government. A much larger number of less formal presentations have been made and publicly recorded. These statements have all been reasonably consistent, having in mind the continuing evolution of social welfare concepts and the growing accumulation of specific legislation in this field. Three themes have predominated. They are contained in the following quotations from the 1958 policy statement, Social Security for Canada:

"A major objective of any social security program should be to ensure the protection and support of the family by guarding it against the social hazards of modern industrial society."

"The number of persons requiring public assistance should be reduced as much as possible, both through the adoption of preventive measures and through the development or expansion of social insurance and/or statutory walfare payments."

"Social security for all—both working people and those who are unable to work—depends ultimately on the productivity of the community. It follows that income-security measures should be designed and administered in such a way as to promote individual initiative and national productivity."

(16) It will be obvious, therefore, that the Canadian Welfare Council is in general agreement with the main objectives of the Canada Pension Plan, as reflected in the following statements appearing in the White Paper of August 1964:

"(The Government's) objective for retirement pensions...is to establish a contributory pension plan ensuring that, as soon as is possible in a fair and practical way, all Canadians will be able to look forward to retiring in security and with dignity."

"The Canada Pension Plan will provide pensions for widows and dependent children of contributors who die...similarly disabled people have hitherto depended on assistance programs...under the Canada Pension Plan there will, for the first time, be social insurance protection against disability."

"The Plan is comprehensive in the sense of covering as many people as is practicable. It is not intended to provide all the retirement income or survivors' income which many Canadians wish to have. This is a matter of individual choice and, in the government's view, should properly be left to personal savings and to private pension plans, subject in the latter case to such degree of supervision as the provinces may think appropriate."

"The purpose of the Canada Pension Plan is to make reasonable minimum levels of income available at normal retirement ages, and to people who become disabled, and to dependants of people who die. There will be scope for the continuation and extension of private pension plans to provide benefits over these minimum levels."

(17) In addition to this favourable view of the objectives, there are three other basic concepts in the Plan which are highly commended—portability, escalation, and subsidization. The Council has certain reservations, however, as to the particular application of the escalation and subsidization concepts in the Plan.

Portability

(18) By its very nature a national pension scheme establishes portability of benefits. Undoubtedly, with the basic pension on a portable basis it will be only a matter of time until other provinces in Canada follow the Province of Ontario's lead in passing legislation, effective January 1, 1965, which will ensure a measure of portability of benefits within private pension plans under provincial jurisdiction. The Province of Ontario is to be commended for this action and for organizing interprovincial discussions on this important matter. It is difficult to over-estimate the need today and in the future for mobility of people in Canada's labour force.

Escalation

(19) In its 1958 statement the Canadian Welfare Council reiterated its stand that:

"The planned provision of income security is made immensely more difficult by fluctuations in the purchasing power of the dollar. The more distant the future for which plans are made, the more critical becomes the importance of monetary stability. To the extent that stability cannot be achieved, that fact must be recognized in the planning of the social security measures themselves."

(20) In addition, it has been recognized that the concept of an acceptable standard of living changes over time and that income-security benefits should be adjusted in accordance with the prevailing concept.

(21) The introduction of automatic escalation represents a major social policy decision. Before commenting on the application that is proposed in the Plan, the Council would draw attention to an even more fundamental social policy question, namely, the manner in which the initial ratio of benefits to prior earnings has been determined. The Council has been unable to find evidence that the twenty-five percent of prior earnings ratio resulted from a careful study which demonstrated that that particular ratio would result in actual benefit levels appropriate to the objective of ensuring a socially-acceptable level of income for those relying on the benefits, including the flat-rate pension, as their sole means of support. Planned adjustments in this basic ratio must be expected to operate along with the automatic escalation arrangement as finally devised. The combined effect of these two variables may in turn be to require some reduction in the scaling of contributions and resulting rates of benefit available at the upper end of the earnings range specified in the Plan. In other words, the proportion of earnings on which contributions are based might slope off in stages rather than flatten out at a single earnings level, now $5,000. The Canadian Welfare Council anticipates that the Advisory Committee will have a decisive role to play in dealing with such matters.

(22) It is noted that two types of escalation are involved at different points in the Canada Pension Plan, namely, an earnings index (which can move either upwards or downwards) and a pensions index derived from the consumer price index. The former reflects both the changing level of prices and costs and the changing standard of living, while the latter takes account only of increases in consumer prices.

(23) The Council is of the view that the earnings index should be used not only in the calculation of the initial rate of benefit but also for adjustments after benefits are in force. Those in receipt of retirement or supplementary pensions should be assured a share of the increasing productivity of this country.

(24) The utilization of the earnings index in the manner proposed by the Council might have important consequences for the economy and will have for the proposed financing arrangements. The Council has not had an opportunity to measure these effects although it is noted that the evidence already placed before the Joint Parliamentary Committee anticipates a continually-rising national productivity. Presuming rising productivity, use of the earnings index will mean larger increases than would employment of the pension index. Yet escalation through the earnings index should be manageable since, if employment is widely maintained, that index is a direct measure of the ability of the Canadian economy to carry a social security program.

Subsidization

(25) There is no serious disagreement today with the view that within social security measures, whether they be "contributory" or "statutory", degrees of subsidization are necessary in order that the level of benefits available to certain groups of beneficiaries may be socially acceptable. In the broadest sense this principle underlies all public welfare measures and in fact all expenditure from taxation.

(26) The Canada Pension Plan involves cross-subsidizations which are difficult if not impossible to trace with any degree of precision. Aside from

the transfers between present and future contributors which result from the method of the Plan's introduction, and the whole question of whether or not the Plan will continue to be self-sustaining from the contributions of participants, the draft legislation incorporates the following subsidization features:

1. The effect of the basic earnings exemption is to introduce a graduated scale of effective contributions into a rate structure which otherwise would increase in direct proportion to earnings and pension benefit increases.
2. The provision of a flat-rate payment to orphans and the inclusion of a flat-rate component in the graduated benefits available to widows and disabled persons has a similar effect.

The basic purpose of subsidization is of course to redistribute income to those in the covered population who are unable to provide fully for themselves from those in more favourable positions. While the Plan is paid for entirely by contributors the full and proper application of this principle is thwarted, to a significant degree, by the introduction of the $5,000 ceiling in that those above that earnings level are not required to contribute from the part of their earnings above that amount toward the redistribution objective. Thus, the effect of the ceiling is to establish a regressive relationship between those below and above the $5,000 ceiling. Later in this submission the Council advances a proposal which, if adopted, would reduce this inequity.

GAPS IN COVERAGE

(27) The objective of any new social insurance legislation should be to extend its protection to as many people as possible within the groups for which coverage would be desirable in order that dependence on means-tested public assistance can be reduced to the greatest possible extent. The Canada Pension Plan does set out to make its benefits available to as many Canadians "as is practicable", according to the August 1964 White Paper. In stipulating the population to be covered, certain groups have been excluded presumably because, in most cases at least, it has not been considered practicable to afford them coverage, rather than on the basis of the lack of need for income-maintenance protection, either now or in the future. The Council has examined the implications of these exclusions to determine if solutions can be advanced which would have the effect of reducing or eliminating some or all of the discrepancies which otherwise will occur. The concern which the Council has stems in large measure from its established position that persons or groups with similar needs should be afforded consistent treatment, insofar as possible.

(28) There are four groups that will not benefit at all from the Plan as it is presently designed:

1. those who, for a variety of reasons, are unlikely to become attached to the labour market;
2. those who, while attached to the labour market, do not earn enough to be eligible to participate;
3. those persons (and their dependants) who have retired from the labour market; and
4. those excluded by reason of being in excepted employment.

Within each of these categories there are people who are either now in financial need or who will require income maintenance in the future.

(29) Among those who are contributors to the Plan, a problem will exist for some whose record of contributions will entitle them to only partial

benefits and which may in fact remove them from some particular benefit altogether. Again, the breadth of actual coverage will depend to some extent on the interpretation placed upon certain provisions of the Act and the content of regulations under the Act. It is impossible for the Council to estimate how many Canadians will find themselves in an unsatisfactory position for these as possible.

Those Left Out of the Labour Market

(30) The Canadian Welfare Council is among the first to recognize that various forms of public assistance are and will continue to be available in a complementary relationship to the Canada Pension Plan. One objective of bringing in a social security measure like the Canada Pension Plan is to provide for the needs of as many Canadians as is practicable without the necessity of special application and detailed screening of applicants. Thus it becomes a point of prime concern to the Council if, under the terms of the Canada Pension Plan, a sizeable number of family heads who may be expected to continue as part of the Canadian community for a score of years or more will be permanently excluded.

(31) A number of Canadian families face long periods of dependence upon public assistance. Widows with small children and families where the head of the household is disabled would be examples. These are problems which require further careful consideration before adequate and equitable remedial measures can be found. With respect to the examples cited, one line of possible action would be for the Government to make provision for such people similar to that in the Plan by undertaking to cover the cost of benefit payments from general revenues.

Low Earners

(32) It would seem self-evident that those with earnings below the Canada Pension Plan minima are most in need of added old age and other forms of security. The Canada Pension Plan is based upon the assumption that people should be afforded supplementary provision for old age beyond the flat-rate benefit of the Old Age Security payment and that, over a period of ten years, this development will be brought about. In addition the new Plan will of course provide new forms of income maintenance for widows and orphans and the disabled.

(33) The Council recognizes that some minimum earnings level must be set in order to define persons within the labour force and limit participation in a wage-related pension plan to such people. At the same time it is the Council's view that the Government should conduct further studies in an effort to enlarge the coverage of low earners.

Those Already Retired

(34) The adequacy of a seventy-five-dollar-a-month retirement payment must be questioned equally in its application to those already retired and to those facing future retirement. If it is presumed that the escalation arrangement will be altered as the Council proposes, then the need for supplementation is no different for those now retired without additional sources of income and low earners who may be expected to be in this situation at retirement. At the same time, the fact is acknowledged that the retirement benefits of the new Plan will be introduced in stages over a transitional period of ten years.

(35) In recent months, the Special Senate Committee on Aging has assembled much evidence concerning the plight of many retired persons who are

obliged to depend upon the flat-rate pension of $75 per month as their sole means of support. What is not yet clear is the amount necessary to guarantee every old person a socially-acceptable standard of living. The Council favours a further immediate study to determine what would be the appropriate amount of a flat-rate pension. It is acknowledged that such questions as regional differences in standards and price spreads between urban and rural areas are not easily resolved. Such a study might well indicate, however, the desirability and practicability of introducng a differental between rates of payment to single persons and married couples.

Excepted Employment

(36) The Council recognizes that for a variety of reasons certain forms of excepted employment must exist. The position of persons who are excepted as low earners has already been discussed and likewise the defining of excepted persons by regulation and by interpretation. But other problems remain.

(37) Some question may be raised regarding the treatment envisaged for the Canadian armed forces and for the R.C.M.P. If this exception is necessary, does it imply some inequality in the pensionable position of federal, provincial and municipal police personnel? Would it not be possible for modifications to be made in both R.C.M.P. and army retirement plans so that they could be dovetailed with participation in Canada Pension Plan contributions and benefits? This, after all, is the problem with which thousands of private pension plans will have to cope.

(38) The proper integration of private pension plans with the Canada Pension Plan presents problems which must be of concern to all those invited to make submissions to the Joint Parliamentary Committee. Perhaps one example will suffice. Many private employers expect their female workers to retire at age sixty. Unless such people are ready and able to obtain new employment elsewhere, they are denied the opportunity to make five to ten years' contributions to the Canada Pension Plan. In the transitional stages of the Plan these contributions would yield much more than an actuarial return and the employer will therefore be blamed for the substantial loss in benefit if he requires the scheduled separation at age sixty to take place.

THE ADEQUACY OF BENEFITS

(39) The general question of benefit levels does not lend itself to easy analysis. Duration and recentness of contributions (including different lengths of time for different risks covered), the effects of escalation, the level and consistency of earning levels on which certain portions of some pensions are based, as well as differences in program objectives, contribute to this problem. However, certain general observations can be made and a number of specific points can be stated.

(40) In giving consideration to the adequacy of the proposed benefit levels, the Council has focussed attention on the position of particular "income groups" and categories of beneficiaries. Additionally, various inconsistencies have been examined which in the Council's opinion require modification if the fullest measure of social adequacy is to be achieved. The aim of the brief is to comment on a sufficient number of expected situations to show the broad nature of those problems of chief concern to the Council.

(41) Within the range of incomes which come fully within the Plan, the Canada Pension Plan provides the greatest degree of effective income security to those at and toward the upper end of the earnings scale. The corollary is

that the least real protection is available to those at or near the lower end of the scale. The fact that under the contributory approach the relative cost to the conributor decreases with the lower earnings does not, in this context, detract from the importance of the point.

(42) An examination of the tables provided in the August 1964 White Paper suggests that, under these circumstances, a relatively generous level of retirement pension is available to those who have enjoyed consistently high earnings throughout their working lives. After the Plan is past the transition period, a single contributor does very well if he is seventy and if he has been earning an average wage or better. Under these circumstances, even retirement at age sixty-five should pose no serious problem, although it reduces the pension level. At the lower end of the earning scale, a single contributor does less well. Indeed, an earning record of $200 per month will be necessary if he is to retire at age sixty-five with a pension of $101. Relative to his previous economic worth, that retirement pension may be considered substantial. In terms of his social need, it may be only barely adequate. As a general rule those Canadians who have only been able to sustain an earnings record of $200 per month or less are the least likely to have been able to provide for private supplementation.

(43) A contributor with a dependent spouse of younger age faces an entirely different prospect. Until such time as the spouse reaches age sixty-five, the single rate must suffice. If need exists, public assistance is required. A contributor who retires while still maintaining a spouse and dependent children, a situation which is not infrequent, may be in an even more difficult position.

(44) The Council is of the opinion that consideration should be given to developing retirement pensions which provide dependants' benefits, to cover the normally short period of years before the spouse who is younger receives a pension in his or her own right. This concept, which is already an accepted principle with respect to war pensions, should be extended as well to dependent children.

(45) Another particular facet of the Plan merits attention. During the transition period a large number of Canadians will retire without having had the opportunity of contributing to the Plan long enough to earn the full benefit. To provide for this group, the Council would recommend again at this time that the full amount of the basic Old Age Security payment, currently set at $75 per month, be made available to those who retire between ages sixty-five and sixty-nine and to their dependent spouses provided that, on an earnings-test basis, there is no reduction called for in the wage-related portion of their pension. In other words, this $75 pension at sixty-five or upwards would be confined to those who are out of the labour market and whose earnings are limited as defined in the Plan.

(46) While the availability at sixty-five of the full Old Age Security payment for those who have retired with inadequate means is most important during the transition period, the Council believes it makes equally good sense as a permanent feature of the Plan.

(47) In light of this proposal, it is suggested that the option of taking the Old Age Security on a pro-rated basis between the ages of sixty-five and sixty-nine should be re-examined. Similarly, another look might be taken at the alternative of a gradual lowering of the commencement age for the full combined retirement plan.

(48) As has been recorded above, the Canadian Welfare Council commends the Plan for providing social insurance protection against disability. However, the provisions respecting disability would seem to need improvement in two directions.

(49) The disability pension available to a single contributor should be sufficient to provide an adequate minimum income in all cases. While the Joint Parliamentary Committee has already been advised that this is a costly provision, the Council nevertheless holds to the view that the level of benefits must furnish sufficient income to ensure that the disabled person can live at a socially-acceptable standard of living. To the extent that it is practical to do so, account should be taken in determining the minimum amount of certain additional living expenses which may be attendant upon the disability itself. Again, it is necessary to note that even those contributors earning $4,200, a little over the present average wage, will receive a benefit totalling $90.63 per month. At $1,200 a year, the figure would be $43.75. The absolute minimum is of course lower still. The prospect of a relatively young person living a lifetime at this sort of standard hardly commends itself.

(50) The Council would also argue that provision should be made for the dependants of the disabled contributor. The alternative is the utilization of public assistance where need is apparent. Yet the importance of maintaining the family unit in as nearly a normal way as possible is a recognized social objective.

(51) The Council's concern in respect to the widows' pensions is again with the adequacy of benefits provided. For a large number of widows aged 45 to 65 without dependent children, a monthly benefit of say $39, $53, or even the maximum $64 per month is hardly adequate. It is recognized that the problem which exists in the case of a widow (without dependent children) below a certain age is more difficult to measure. The Plan proposes a scaling down of benefits to the point where at age thirty-five no pension is available. Before the scalling-down technique is finally accepted, the Council is of the opinion that alternatives such as an earnings test might be examined.

(52) The provision of a flat-rate benefit for orphans (as defined in Bill C-136) is commended, although how the particular amount of $25 a month was set is not clear to the Council. In any case, the ceiling placed on the total benefit that can be paid to any one family is in the Council's opinion unsound and should be removed.

(53) The Canadian Welfare Council does not advance these various recommendations relating to the adequacy of benefits without full recognition of their consequences. The Canada Pension Plan, as interpreted in the White Paper, seeks to guarantee the security and dignity of those covered by extending reasonable levels of income maintenance. The Council holds that this objective must be translated into realistic achievement for the largest possible number of Canadians, including those at the lower end of the earning scale. All the proposals made above have been directed towards this goal.

(54) The Canadian Welfare Council has advanced a number of suggestions which depart to some degree from the contributory concept which is central to the Pension Plan. The purpose has been to introduce and stress minimum benefits in line with suitable social objectives and to lessen dependence on means-test assistance. A contributory plan should be designed so that those parts of it which cannot with justice be paid for entirely on a contributory basis by individuals or heads of households should be identified and financed from other sources. It is the Council's contention therefore that these extra benefits should not in all cases be paid for fully and directly by Canada Pension Plan contributors. Supplementary funds in support of such special purposes

within or complementing the Plan should be financed from general revenue as tax-supported undertakings of one or more levels of government.

(55) To a considerable extent the Council's proposals in this section on adequacy of benefits merely involve alternative ways of organizing and paying for services. A calculation of the additional net cost has not been attempted. The Council's emphasis rather has been upon desirable social objectives which can in due course be achieved.

REVIEW PROCEDURES

(56) It will be recalled that attention was drawn to the need to assess the Canada Pension Plan, like any social security measure, in the light of future circumstances. Consequently, the Council believes that any plan as basic as the Canada Pension Plan should have built into it procedures which ensure that formal assessments will be made of its operation. It is important also that the results of such assessment should be readily available to the public.

(57) Review is provided for in Clauses 116, 117 and 118. The Council believes that the procedures set down would be strengthened by the deletion of the phrase, "the state of the Canada Pension Plan Investment Fund" in Clause 117(4), and by the inclusion of a more precise definition in Clause 117(1) of the composition of the Advisory Committee. It should be made quite clear that in addition to their representative character, those appointed to this Committee should be persons of stature, technically competent and experienced in matters relating to this field.

(58) The Council urges that the Advisory Committee be required to prepare, in addition to its annual report, a quinquennial review and to table each of these documents in the House of Commons, as is required of the report of the Chief Actuary (Clause 116(3)). Observance of this procedure would enable Parliament to consider whether or not the Plan was achieving its social objectives in the light of current conditions.

APPEALS PROCEDURE AND OTHER COMMENTS

(59) This submission to the Joint Parliamentary Committee would be incomplete if it did not draw attention to several questions which, in the Council's view, require serious consideration. The first of these concerns the appeals procedure made available to the individual contributor or beneficiary. The Council is not certain that the appeals provisions are in fact adequate in their present form, particularly to safeguard the position of persons with small incomes who are required to become contributors and whose benefit entitlement might be in dispute. It would be most unfortunate if the appeals provisions which became law were deficient in any significant way. It is urged therefore that this part of the Bill and the pertinent regulations be subjected to the most careful study before being finalized.

(60) The above comment gives rise to a second observation, namely, the complexities of Bill C-136. The Council has noted from evidence presented to the Joint Parliamentary Committee that the Department of National Health and Welfare anticipates the need for interpreting this program in laymen's language. Additionally it is noted that the Bill authorizes the responsible minister upon request to advise a contributor of his earnings record once a year. The Council recommends that each contributor be furnished with a record of contributions once a year. In addition it is suggested that consideration be given to the practicability of calculating and reporting similarly on the contributor's general benefit entitlement.

(61) In relation to the difficult questions raised in the two previous paragraphs, the Council further recommends that these matters both be accorded particular attention by the Advisory Committee as part of its initial review of and report on the Plan in operation.

(62) The need for adequate statistical data is self-evident. It is to be hoped that computers can be programmed in such a way as to ensure that ten, twenty or more years from now, major decisions that may be necessary are not made more difficult because of the absence of necessary data.

(63) Finally, the Canadian Welfare Council wishes to express the view that flexibility should be preserved in the making of those regulations which will affect the eligibility of Canadians to benefit by the Canada Pension Plan.

COMPLEMENTARY PROGRAMS

(64) The Council recognizes that no single plan can meet all contingencies, no matter how well constructed and administered. While the Canada Pension Plan, if modified as suggested, will provide a central pillar of basic security for the majority of Canadians, complementary welfare provisions will plainly be necessary for the foreseeable future to round out the overall social security program. Basically, two types of welfare undertakings are required—the supplying of income to those in need and not otherwise provided for, and the provision of other social services for all Canadians who require them. Both are already in operation throughout Canada to a greater or lesser degree, while among the unmet needs is the whole question of sickness cash benefits.

(65) This submission has already noted that an overall assessment is needed of all social security programs if the most rational use is to be made of social welfare resources. Pending the completion of such an overall assessment, studies should be initiated immediately by the Department of National Health and Welfare to ascertain both for the short and long terms the probable impact of the Canada Pension Plan on present and future public assistance caseloads in order that provincial authorities responsible for the administration of these programs might have assistance in adjusting their operations to the extent warranted.

(66) The provision of social services for all Canadians, whether they are in receipt of income security benefits or not, is a matter which has engaged the attention of the Council for many years. Basically the position is that such services, whether they involve personal counselling, help in planning living arrangements or other such help, should be available in the community for those individuals and families who require them from time to time. The fact that this is being raised in the context of the Canada Pension Plan should not be taken to suggest that a direct relationship exists, or should be presumed to exist, between the receipt of publicly administered money benefits and the need for social services. Rather, the point to be made is that the receipt of "automatic benefits" should not make it more difficult for those who need such services to obtain them.

(67) If it can be said that the Canada Pension Plan will provide income maintenance with dignity for a large segment of the Canadian people, this development should not allow the Government of Canada, the governments of the Provinces and their municipalities to lose sight of the importance of attaining the same objective for those in receipt of public assistance.

(68) The development of an improved system of public assistance remains an important immediate objective. The Council's position was included in its 1958 policy statement in this form:

"The basic function of public assistance . . . should be to serve as a residual resource for people in need who are insufficiently cared for through other programs or who slip through the meshes of their provisions. Public assistance is the final guarantee that such people shall not lack the necessities of life."

"There should be a federal Public Assistance Act which would be, in effect, an extension of the Unemployment Assistance Act and which would enable the Dominion government to share the aggregate costs to a province, and to the municipalities in a province, of providing financial assistance to all persons who are in need. The Old Age Assistance Act, the Blind Persons' Allowances Act and the Disabled Persons' Allowances Act should be incorporated as specific sections of this general Public Assistance Act. The proposed Act should, under these sections, provide the provinces with the option of continuing old age assistance, blind persons' allowances and disabled persons' allowances as separate programs, or of incorporating these categories in a generalized public assistance program with the same provisions respecting the sharing of costs as in the Unemployment Assistance Act."

"The operation of all public assistance programs should be based upon sound and clearly defined standards, particularly with respect to:

(*a*) Amount of assistance. The appropriate federal or provincial authorities should determine, on a continuing basis, the minimum costs of individual and family maintenance at a level consistent with health and decency. This implies:
- (i) A definition of what constitutes a minimum level of health and decency.
- (ii) A schedule of minimum requirements based upon this definition, and related to the age and size of the family unit.
- (iii) The periodic translation of minimum requirements into monetary terms, appropriate to the specific community, which would form the basis of public assistance payments.

(*b*) Administration. A substantial part of the effectiveness of public assistance programs depends upon the quality of administration, since the way in which applicants are assisted is in itself an essential part of the benefit provided by the program. This implies:
- (i) Adequate provision for qualified staff, equipment and offices.
- (ii) Effective use of social welfare services, such as casework and counselling.
- (iii) Prompt action on applications for assistance.
- (iv) The right of appeal against administrative decision."

(69) Finally, at no time should the Government of Canada or the governments of the Provinces lose sight of the overall objective—to develop a system of social security for Canadians composed of individual programs which have been carefully devised and which are capable of being welded together into an integrated and balanced whole.

APPENDIX A10

CONGRESS OF CANADIAN WOMEN, TORONTO.

(Lower the Universal Pension Age to 60 for Women)

DECEMBER, 1964.

Honorable Members of the Committee:

On March 2 of last year, following upon the announcement by the Minister of National Health and Welfare, that the Government was preparing to introduce a Canada Pension Plan, our organization submitted to the Prime Minister and to the Hon. Judy LaMarsh its views on one important aspect of the proposed Plan, namely, the universal pension age at which all citizens are entitled to receive the full Old Age Security Pension.

We now wish to draw this submission to the attention of the Commission for its consideration.

May we say in introduction that the views we expressed at that time have not changed. Indeed, they are increasingly confirmed in the face of the speed of present-day technological developments. These developments which constitute a veritable "technological revolution," call *now* for concepts and corresponding practical measures to meet the needs of our drastically changing society.

The text of our submission of March 2, 1964, follows:

LOWER THE UNIVERSAL PENSION AGE TO 60 FOR WOMEN

We welcome the proposal of the Government to introduce in the present session of Parliament an extended Canada Pension Plan—a plan that is to be made up of the $75 Old Age Security Pension payable to all Canadians at 70, and the maximum contributory pension of $100.

Adoption of a plan of this kind will mark a step forward in making it possible for those who have pioneered and worked hard and long to build up our highly industrialized economy to spend their declining years more free from the want and deprivation all too many of them now suffer.

But the proposed plan falls short of what is needed today.

We want, in this submission, to deal with only one aspect which in our view cannot be omitted from any serious consideration of such a plan if it is to provide an adequate solution either for present needs or for the future.

We refer specifically to that part of the plan dealing with Old Age Security, that is, the proposal that the universal pension age at which every citizen receives the Old Age Pension remain at 70 years, and at 65 with the means test.

This, in our opinion, is an outdated concept no longer in keeping with present conditions and needs.

The speed and intensity of today's production processes have produced strains and stresses in modern working and living conditions that have greatly affected the working life of men and women. Their ability to continue working until the age of 70 before they are entitled to an unconditional and full Old Age Pension becomes considerably impaired.

It is basically for this reason that we recommend that the universal pension age be lowered—to 60 for women and 65 for men, and without the degrading means test.

Canadian Women Need Pensions at 60

The women of Canada have played an important part in building up our country—in industry and offices, on the farms, in the professions and in their communities. And not least, they are in addition and in the majority, mothers and homemakers. Theirs is a multiple responsibility: they are the bearers of the country's children and spend a considerable part of their married lives in rearing them; they are the homemakers, with the many hours of work and the anxiety that entails particularly when, as is the case, the incomes of the majority of families are below the standards recommended as adequate by welfare bodies. In addition, increasing numbers of them are going out to work and/or taking part in socially useful activities outside the home. But whether going to work and keeping the home besides, or devoting themselves entirely to the family, their health is affected by the excessive strains and demands of our modern speeded-up society.

What is the situation that today confronts women of 60?

(*a*) Many, because of the factors mentioned above are exhausted at an earlier age. They are unable, or find it increasingly difficult either to maintain themselves, or to support or help support a family.

(*b*) Many others, because of their age, are laid off with little or no hope of getting another job. This is particularly the case today. New techniques and automation are displacing more and more workers, both men and women. Measures have not been taken by government and industry to regulate the automating economy so that it can absorb the growing labor force. If chronic mass unemployment, which has become a feature of the Canadian economy, is to be ended, and if the large numbers of young people who yearly come on to the labor market are to be given a place in the work world, the earlier retirement of older workers becomes all the more necessary.

In these circumstances the ten years between 60 and 70 become for all too many a painful period—how to even exist, let alone enjoy a measure of comfort and decency after long years of work.

Can Canada afford to lower the universal pension age?

We maintain it can.

1. The great accumulated wealth of our country rests on and keeps on growing on the foundation of the labors of succeeding generations of working men and women. We have great natural riches. Our working people are skilled. Our capacity to produce rates among the highest in the world.

Standing already today on this high productive plane, Canada is entering the new industrial revolution based on electronics and automation. Our potential to produce will soon rise to new heights. The social consequences will equal the sweep of the new productive capacity.

The Government has the responsibility, in the face of these fast-occurring changes in industrial techniques, to act in the interests of the common good. It must take the necessary legislative action to ensure that the country can absorb this great new wealth and distribute it equitably among the people—the ultimate consumers of all production.

The social need to meet the onrush of the new industrial revolution is the provision of more leisure time. One of the means of providing more leisure time is through an earlier retirement age with pensions adequate for the maintenance of *socially accepted* living standards.

Indeed, Canada cannot afford to take those steps now. Our Government can and must prepare the country *now* for the new age of abundance. That is its duty to the people.

2. We submit that the additional needed funds could be made available for extended pension purposes such as we propose:

(*a*) by taxing the great accumulations of private corporate wealth and profits that have come out of the labor of working men and women;
(*b*) by a drastic cut in the enormous and largely wasteful military expenditures.

3. Pensioners constitute a considerable body of consumers in the country. Adequate purchasing power in their hands will make for a healthy national economy. It will help to create employment.

And equally important, retirement at an earlier age, and with a suitable pension (presently proposed schedules are not nearly enough), will give our older citizens a longer period in their declining years in which to be free from want and anxiety—a time of well-merited rest and enjoyment of the latter years of life.

LOWER THE UNIVERSAL PENSION AGE NOW!

We would like to note, on the basis of inquiries we have about pension plans in a number of countries, that *in almost all of them* the pension age is lower than 70—whether the plan is universal, contributory, based on years of service, or a combination of these and including the means test. The point we want to make is that the principle of a lower retirement age has been established in most countries, regardless of the nature of their pension schemes. In Great Britain, for example, it is 60 for women and 65 for men, with a means test; in Switzerland 63 with no means test; in New Zealand 60 with means test; in Denmark 62 and 67—no means test; in U.S.A. 62 and 67 with means test; in the USSR 55 and 60—no means test.

All this only serves to strengthen our opinion that in Canada, which ranks among the highest in industrialization and national wealth, the taking into account all the factors we have mentioned, the universal pension age should be reduced to the levels we recommend—60 years for women, and 65 for men.

In conclusion: the time is past, in this age of electronics, of great and growing productivity, when Old Age Pensions can be looked upon as an act of public charity and the recipients as paupers to whom a dole is handed out. We repeat and want our legislators to ponder over it—that it is the working men and women who have created the great wealth of our country, the greater part of which has found its way into the hands of giant monopoly concerns, while those who have created it find themselves in the majority nearing the end of their lives in want or near want by today's accepted standards. Is it not time to put an end to this shameful situation, to make it possible for our older citizens to retire on a decent pension and at an age when they still have before them a fair number of years in which to rest and enjoy life and to engage in activities according to their interests? We can do no less for them.

APPENDIX A11

Dated January 13th 1965

IN THE MATTER OF

Petition for the lowering of
the Universal Pension Age
to 60 for Women.

STATUTORY DECLARATION
of
VIOLET DEWHURST

Wray, Russell, etc., Barristers,

731 Dovercourt Rd. Toronto 4. Ont.

DOMINION OF CANADA
PROVINCE OF ONTARIO
COUNTY OF YORK
TO WIT:

In the Matter of Petition for the lowering of the Universal Pension Age to 60 for Women.

I, Violet Dewhurst, of the City of Toronto in the County of York, Secretary, DO SOLEMNLY DECLARE THAT:

1. I am Secretary of the Congress of Canadian Women which body has presented the above mentioned petition for signature by adult persons across the Dominion of Canada.
2. I have personally counted the signatures and addresses on the said Petition and find them to be from various places throughout Canada.
3. There are 3,960 signatures endorsed on the said Petition.

AND I make this solemn Declaration conscientiously believing it to be true, and knowing that it is of the same force and effect as if made under oath, and by virtue of "The Canada Evidence Act."

DECLARED before me at the City of Toronto
in the County of York
this 13th day of January
A.D. 1965

VIOLET DEWHURST

Blair H. Thomson,
A Commissioner, etc.,
Notary Public for Ontario.

(Note: *the petition mentioned herein has not been tabled.*)

APPENDIX A12

BRIEF presented to the Government by

THE SENIOR WOMEN'S COMMITTEE FOR PENSION INCREASE

(Toronto, Ont.)

The Senior Women's Committee for Pension Increase was formed last spring by women in Toronto as a result of a trip through the provinces to the West Coast, and finding the distress among Senior Citizens who are compelled to subsist on $75.00 a month the same in all provinces. We decided to issue the following petition:

> We, the undersigned, request the Federal Government to raise the Old Age Pension to $100.00 per month, tied to the cost of living. We also request that the pension age be reduced to 65 years.

With the help of the newspapers this petition has gone across Canada from Newfoundland to the North West Territory. We have thousands of signatures and letters in support of it.

We strongly object to the people being indoctrinated with the idea that the Old Age Pension is charity.

The Pension is not enough for anyone to live on and the Governments acknowledge this in giving supplementary aid, one province gives $24.00.

The price of a decent place to live plus other expenses especially drugs is impossible on $75.00 a month. Most of those trying to live on this are hungry and cold, they are lonely, afraid and sick.

Our Senior Citizens have all done their part in building Canada into the wealthy country it is today and we are passing on the results of our work to the younger people as the result of the work of our parents and grandparents was passed on to us.

We understand that 4% of the income tax goes to build up the Old Age Pension fund. The prosperity of a country depends on the money that is spent and if the Old Age Pensioners had $25.00 a month more it would be approximately $275 million a year which would give a tremendous boost to the Canadian economy.

The age for the pension should be reduced to 65 years. No one in Canada can get work when nearing this age and it would take about $15,000 for a couple to live for 5 years until they qualify for the pension and few people have that much saved.

It is reported there will be a surplus of approximately $400 million in the national budget and we respectfully suggest that the Government has on hand sufficient funds to raise the pension immediately.

We agree heartily with your statement that Canada needs an expansion policy and there would be no better way than to give those who need it an adequate income.

Conditions in Canada have changed and it is criminal that so many people are living in poverty on the present pension in a country as wealthy as Canada, therefore we respectfully urge that the pension be raised to $100.00 per month at the age of 65, so our elderly people can live in dignity and self-respect.

Respectfully submitted,

ETHEL NEILSON,
Chairman.

MARGARET BRADLEY,
Sec'y Treasurer.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964-65

SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS

Appointed to Consider and Report upon Bill C-136, An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

Joint Chairmen: Senator Muriel McQ. Fergusson and Mr. A. J. P. Cameron (*High Park*)

MINUTES OF PROCEEDINGS AND EVIDENCE

(Meetings held during the adjournment of the Senate and of the House of Commons, as of January 12, 1965)

No. 16

MONDAY, JANUARY 18, 1965

WITNESSES:

Messrs. J. E. E. Osborne, Technical Adviser to this Committee, and from the *E. B. Eddy Company,* Messrs. W. D. Moffatt, President and D. Hutton, Secretary-Treasurer. From *The Canadian Federation of Agriculture,* Messs. David Kirk, Executive Secretary, and Lorne Hurd, Assistant Executive Secretary. Mr. R. C. Dowsett, *Fellow of the Society of Actuaries,* and from *William M. Mercer Limited,* Messrs. C. J. Woods, F.I.A., F.S.A., Vice-President and Director.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

21753—1

MEMBERS OF THE COMMITTEE FOR THE SENATE

Honourable Senator Muriel McQ. Fergusson, *Chairman,*

and Honourable Senators:

Blois
Boucher
Croll
Denis
Flynn
Lang
Lefrançois
McCutcheon
Smith (*Kamloops*)
Smith (*Queens-Shelburne*)
Stambaugh
Thorvaldson

MEMBERS OF THE COMMITTEE FOR THE HOUSE OF COMMONS

Mr. A. J. P. Cameron M.P. (*High Park*), *Chairman*

and Messrs:

Aiken
Basford
Cantelon
Cashin
Chatterton
Côté (*Longueuil*)
Enns
Francis
Gray
Gundlock
Howe (*Wellington-Huron*)
Knowles
Laverdière
Leboe
Lloyd
Macaluso
McCutcheon
Monteith
Morison
Munro
Perron
Rhéaume
Rideout (Mrs.)
Prittie

(Quorum 10)

Maxime Guitard,
Clerk of the Special Joint Committee.

(Meetings held during adjournment of the House)

MINUTES OF PROCEEDINGS

MONDAY, January 18, 1965
(29)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan met at 10:10 o'clock a.m. this day. The Joint Chairman of the Senate section, Senator Fergusson, presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Croll, Denis, Fergusson, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson—8.

Representing the House of Commons: Mrs. Rideout and Messrs. Basford, Cantelon, Cashin, Francis, Gray, Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro—14.

In attendance: From the E. B. Eddy Company: Messrs. W. D. Moffatt, President, and D. Hutton, Secretary-Treasurer.

Also in attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee.

Mr. Moffatt was invited by the Joint Chairman to make a preliminary statement. Then both Messrs. Moffatt and Hutton were questioned thereon.

On motion of Senator Croll, seconded by Mr. Munro,

Resolved,—That the briefs previously submitted by both the E. B. Eddy Company and the Canadian Pulp and Paper Association respectively be printed as appendices to this day's Minutes of Proceedings and Evidence. (*For the brief submitted by the E. B. Eddy Company, see Appendix A13*) (*For the brief submitted by the Canadian Pulp and Paper Association, see Appendix A14*).

Their examination being concluded, the witnesses Messrs. Moffatt and Hutton were thanked by the Joint Chairman, and they retired.

At 12:15 o'clock p.m. the Committee adjourned until 2:30 o'clock this afternoon.

Maxime Guitard,
Clerk of the Committee.

AFTERNOON SITTING
(30)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan reconvened at 2:35 o'clock p.m. this day. The Joint Chairman of the Senate section, Mrs. Fergusson, presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Croll, Denis, Fergusson, Smith (*Kamloops*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson—8.

Representing the House of Commons: Mrs. Rideout and Messrs. Basford, Cantelon, Cashin, Côté (*Longueuil*), Francis, Gray, Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro—15.

In attendance: Mr. David Kirk, Executive Secretary, and Mr. Lorne Hurd, Assistant Executive Secretary, The Canadian Federation of Agriculture; Mr. R. C. Dowsett, Fellow of the Society of Actuaries.

Also in attendance: Mr. J. E. E. Osborne, Techincal Advisor to this Committee.

The Joint Chairman introduced the representatives of The Canadian Federation of Agriculture, Messrs. Kirk and Hurd.

On motion of Senator Croll, seconded by Mr. Knowles,

Resolved: That both the briefs previously submitted for distribution by The Canadian Federation of Agriculture and Mr. Dowsett be printed as appendices to this day's Minutes of Proceedings and Evidence:

(*a*) Brief submitted by The Canadian Federation of Agriculture (*See Appendix A15*)

(*b*) Brief submitted by Mr. R. C. Dowsett (*See Appendix A16*).

Mr. Kirk read the brief prepared by the Canadian Federation of Agriculture, and he and Mr. Hurd were questioned. Mr. Osborne was also questioned. During the questioning certain information on farm incomes were requested and Mr. Kirk agreed to provide the Clerk of the Committee with the requested information.

The questioning being concluded, the Joint Chairman thanked the witnesses who then withdrew.

Mr. Dowsett was called, the Joint Chairman explaining that the witness was presenting his views as an individual and not as a representative of his firm. Mr. Dowsett summarized his brief and was questioned.

The questioning being completed, the witness was thanked by the Joint Chairman, and withdrew.

At 5:50 o'clock p.m., the Committee adjourned until 8:00 o'clock p.m. this day.

Dorothy F. Ballentine,
Clerk of the Committee, pro tem.

EVENING SITTING
(31)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan reassembled at 8:05 o'clock p.m. this evening. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided

Members present:

Representing the Senate: Honourable Senators Croll, Denis, Fergusson, Lefrançois, Smith (*Kamloops*), Stambaugh, Thorvaldson—7.

Representing the House of Commons: Mrs. Rideout and Messrs. Basford, Cameron (*High Park*), Cantelon, Cashin, Côté (*Longueuil*), Francis, Gray, Gundlock, Knowles, Laverdière, Lloyd, Macaluso, Monteith, Morison, Munro, Prittie—17.

In attendance: Mr. C. J. Woods, F.I.A., F.S.A., Vice-President and Director of William M. Mercer Limited.

Also in attendance: Mr. J. E. E. Osborne, Techincal Advisor to this Committee.

The Joint Chairman invited Mr. Woods to make a preliminary statement before being questioned.

On motion of Mr. Côté (*Longueuil*), seconded by Mr. Francis,

Resolved: That the brief previously submitted by William M. Mercer Limited, for distribution, be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See appendix A17*).

The examination of the witness being concluded, the Joint Chairman thanked Mr. Woods who retired.

Then on motion of Mr. Munro, seconded by Mr. Knowles,

Resolved unanimously: That a vote of thanks and appreciation be extended to Mr. Woods for his contribution.

At 9:57 o'clock p.m. the Committee adjourned until 10:00 o'clock a.m. on Tuesday, January 19, 1965.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

MONDAY, January 18, 1965.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mrs. Rideout and gentlemen, we now have a quorum. Mr. Cameron will not be with us this morning.

The first brief listed on our program is that of the Canadian Pulp and Paper Association. No one from that association is appearing before us, but they have sent in a brief. If any member of the committee has not received it the clerk will be glad to give you one.

Mr. W. D. Moffatt, the President of the E. B. Eddy Company, is appearing on behalf of that company, and we have his brief.

Is it agreed that these two briefs be added to the minutes?

Agreed.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I now call upon Mr. Moffatt. I understand, Mr. Moffatt, that briefs which are sent in are not read again as they will be published in the minutes. Witnesses have been giving evidence as to what they consider to be the highlights of the briefs, and summarizing what is in them, and then submitting themselves to questions by the committee. Having said that, I would ask you to commence.

Mr. W. D. MOFFATT (*President, The E. B. Eddy Company*): Thank you, Madame Chairman. This is my first appearance before a body of this kind so I would like to have your indulgence. Please be kind to me, otherwise I shall not be back.

Mr. KNOWLES: You must agree that we have given you a warm welcome this morning.

Mr. MOFFATT: Our brief is short, and purposely so because we think you have been burdened with a great deal of material, much of it relevant but much of it, perhaps, would have been better left unsaid. Many statements have been made, and we, on our part, wish to confine our remarks to the effect of the pension plan upon the E. B. Eddy Company.

If we were designing a plan, as we say here, to supplement our present plan, or installing an entirely new plan, we would have gone about things somewhat differently. That does not mean to say we would have been right, but our methods would not have been the same as those adopted by the drafters of Bill C-136.

We, having a plan, would have enlarged that plan. We would have improved it to make it more encompassing, to take care of its shortcomings, if we saw shortcomings. We would not have designed an entirely new plan, as you have done.

We say it should not have been necessary for the Government to take this step, because it already has a plan. It has the Old Age Pension plan. This too could have been enlarged, and the administrative costs would have been much less had the Government handled the matter as we suggest.

Nothing we say here, in my opinion, will change the bill at all. We think that Bill C-136 will go through essentially as drafted, but we do believe that there are some details in it that should be given attention. However, our general comment at the beginning is that we think that the approach was wrong. We think you should have one pension plan—not two.

It will be difficult to explain this bill to our employees. We have sufficient difficulty at present, with Government regulations. There are departments set up which do nothing but handle returns, deductions, and so on. This new plan will complicate matters and make our lives more miserable.

We do not think it was necessary to put us and others in this position—had you moved towards one bill rather than two. It will be extremely difficult, to tell people just what they are to pay and what they will get.

Many members of the committee, many of the members of the house, many of those appearing before you, certainly including myself, do not understand this bill. Our employees are not accountants, they are not lawyers, they are merely workmen. While many of them have been with the company for a number of years, many have held the same job—they might be in converting or they might be in the mill—and it is asking much from them to understand this bill.

Furthermore, we believe this bill has a tendency to inspire inflation. We suggest that, if your particular approach is right, it is equally sound to apply the cost of living index to bonds, savings, rents, wages and prices. If it is sound in one direction, it is equally sound in these other directions that I mention, and still other directions will occur to you.

From the start, man has provided something for his old age, for his poorer seasons, and we believe there should be no departure from that principle. It may be that we are approaching the time it is necessary for one to look to tomorrow and do something about it.

There is another point. It will be difficult to handle the requests for refunds which we make on behalf of employees. It is not clearly stated that refunds will be given to the companies, but we assume that provision for this will be made. As we read the bill now, we understand it provides only for refunds to the individual.

There is also the question as to how these are to be handled. Some employees have little enough to begin with, especially those who are at the $600 wage level; and if you take from them twice as much as they should contribute, it means taking an important portion of their earnings. At that wage level, he has nothing to spare. There will be difficulty also in collecting money from those who are not employed by companies, who are self-employed, yet earn $600 and over.

Integration is brushed off very lightly in the White Paper. It is indicated that this is a matter between employers and labour, that it is something over which the Government has no control and in regard to which the Government does not intend to exercise any influence. As a result, in many cases the existing pension plans will continue, the new pension plan will also come into effect, and the old age pension plan will apply; so this will be a many-pensioned nation.

My company has one particular problem. We stand astride the Ottawa River, with one foot in each province. When the Province of Quebec established an income tax, we had problems in adjusting the tax deductions for our employees so as to ensure an equitable and proper division between federal and provincial plans. It took us about two years to obtain clarification of the regulations. We find that the wording which caused us so much trouble in the Income Tax Act is being used also in the Canada Pension Plan. We feel a change is necessary there and that an adjustment would save us much trouble.

We are almost unique in this field, but we understand there are one or two companies out west which operate, on the border, partly in one province and partly in another. I refer to Alberta and Saskatchewan. We are about the only one here on the Ontario-Quebec border.

Many administrative points need to be clarified also. Your methods should be announced so that we and others can look at them before the bill itself is adopted. This is not a committee on which the provinces are represented. Therefore, we think the provinces should do likewise, if they draw up pension plans of their own.

We say in our brief that we leave to others, discussions pertaining to the economics and actuarial soundness of the plan. We do so because we are not actuaries, we are not lawyers, we are business people trying to run a company. For that reason, we can but assume that your actuarial findings are sound. If they are not, we assume that any corrections necessary will be pointed out by the insurance companies and others concerned.

We think there are some values and also some dangers in these accumulated funds. We will be guided by any questions on that particular point, but again we leave that largely for discussion by others.

With regard to the release and return of funds from the provincial governments, this is going to be quite a problem in the future. I hope that it will not be quite as serious as I believe it will be.

There will be an effect on industry as far as the shortage of funds is concerned.

We will become, as I mentioned before, a multiple-pensioned people.

There will be an effect on export costs and on the competitive position. Governments are constantly urging us to increase our exports, to become competitive in costs, and we are trying very hard to do so.

A plan of this kind superimposed on what we already have will make the competitive position somewhat difficult.

There will be adjustments and provisions for them. These will come about, and I think we must all admit that this will happen.

I dealt with integration and the long-term effects of compulsory savings—and this is a compulsory savings plan.

There will be an encouragement to a rise in living costs, and the cost of living index might contribute to that.

I think, Senator Fergusson, that takes care of my general remarks. I will be pleased to answer any questions your committee puts to me, or at least will attempt to do so.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you very much, Mr. Moffatt. I am sure that we will give a great deal of thought to what you have told us. Before this meeting commenced, you told me that with you is another official of the E. B. Eddy Company to whom you might want to refer to answer questions.

Mr. MOFFATT: Yes. He is Mr. D. Hutton, secretary treasurer of the company, and he is much better versed in the pension plan and the administrative problems than I am.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Now will you be good enough to answer questions, and a number of members have indicated they want to ask questions. The first is Mr. Monteith.

Mr. MONTEITH: On page 3 of your brief, Mr. Moffatt, you say, "We make these further comments," and I notice in your summary you say, "Presumably there will also be redress for the employer." What is your reaction when we tell you there is no redress for the employer by way of refund of over-payment.

Mr. MOFFATT: The reaction is that you are taking something to which you are not entitled.

Mr. MUNRO: On that point—

The CHAIRMAN (*Hon. Mrs. Fergusson*): Is this on the same question?

Mr. MUNRO: Yes, as I understand it. Under the bill there is a refund to employers. There is not if deductions have been made under $600, because it is such an incontestible amount that the administrative costs would exceed what it is worth; but over that exemption limit there are refunds for employers.

Mr. D. HUTTON (*Secretary-Treasurer, E. B. Eddy Company*): As I understand it the bill specifies that there must be refunds to the employees who contribute, but the wording of the bill specifies that there may be refunds to employers. What we are concerned with is the difference in the wording, "must" to employees and "may" to employers.

Mr. MONTEITH: If I recall the earlier discussions on the bill when we had the officials before us—and I will be glad to be checked on this with the officials—I understood that if an employee worked for one company for the first six months and the total deduction was made in that year, and then he moved to another company, there would be further deductions of the employer's share and from the employee, but the employee would get a refund, whereas the employer would not. Is that right, Mr. Osborne?

Mr. OSBORNE: That is correct, sir.

Mr. MONTEITH: That is my point, that the employer does not get the refund.

Mr. MOFFATT: This has been our impression.

Mr. FRANCIS: If there is already a deduction in respect of one employer, there is no question of the employer getting a refund when the records are matched up. If, for instance, you were to over-deduct in the first six months, the employer would have a good claim on the basis of his own payroll record that there had been too much deducted. But it is also impossible administratively for an employer to decide what other employment, or possible moonlighting, or anything else, any employee might have; and then there is the question about the employer claiming the rebate. There is no answer to this in terms of administrative procedures.

Mr. MONTEITH: I am pointing out, Mr. Francis, that actually the employer does not get a refund.

Mr. FRANCIS: He can under some circumstances.

Mr. HUTTON: Not under every circumstance.

Mr. MONTEITH: You mentioned also under item 1 that an exchange of records would be practical. I am wondering how this might work.

Mr. MOFFATT: I am not an accountant, but it seemed to me, that you have had unemployment insurance books and so on, and that there might be some method to show what each employee might owe by showing what he paid. I do not know if this is practical or not; but after having tried to get refunds from the Government from time to time, and having to wait months and months and months, and sometimes with endless correspondence, often unanswered, I think you are starting up trouble for yourselves in this administrative problem.

Mr. MONTEITH: Then you did refer to the problems of integration. I am assuming your company has one pension plan for employees on both sides of the river?

Mr. MOFFATT: That is right.

Mr. MONTEITH: And are you anticipating considerable difficulty, if this comes into being and a Quebec plan comes into being, while they are presumed to be somewhat similar in overall approach there may be some minor details—but you can anticipate a great deal of trouble where your employees are working on one side of the river for a period, and then on the other side for a period, and this sort of thing. Would you think that a residence-of-the-employee rule would assist at all?

Mr. MOFFATT: I would sooner have Mr. Hutton answer that, with his experience.

Mr. HUTTON: I think that the answer is definitely yes. In the original Ontario-Quebec provincial taxation legislation they prescribed where the working point was located. Eventually they had to do away with this and they had to adopt the residence identity on the last day of the year for proper distinction. I gather that, in the first place, it would be more logical that the pension plan identity be the same as the income tax identity. If it is not, there is going to be a problem right there.

But, in addition to that, the residence is more permanent than the point of work in a situation such as ours, and once we get the identity of a person by the province, then we can process that continuously on that basis. Admittedly, a person might move from one province to another, but when this happens there must be provisions made. However, residence would certainly be a decided advantage and is something apparently the Income Tax people had to fall back on for identity for provincial tax purposes. They have had to do that already.

Mr. MONTEITH: Thank you. There is one other point, at the bottom of page 5 under (*c*). This is a thing that has disturbed me in past considerations, and I do not think I have had an answer, one which is quite satisfactory, at any rate—the release and return of these from provincial governments.

I am anticipating that 15 years from now, for argument's sake, the trust funds will have been built up that have been lent to the provincial governments. The provincial governments will have invested these funds in various provincial assets, we will say, and the time will come when, as is admitted, the fund is going either to have to increase rates or draw on its surplus. It is also admitted an increase of rates will probably have to take place, but it occurs to me that in this period there may have to be some withdrawal of provincial advances. I just wish to mention that as far as I am concerned this does appear to be an obstacle. There undoubtedly will come a time, after this interim period of about 10 or 15 years, when the flow of funds to the provinces for investment purposes will cease. At any rate, I cannot see it going on. However, I just want to mention that I also have concern about that particular point. I think that is all I have to say at the moment, Madam Chairman.

Mr. KNOWLES: I wonder if I might ask a supplementary question with respect to the complications the witnesses have seen arising out of our having two plans, namely, the Canada Pension Plan and the Quebec plan?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, Mr. Knowles.

Mr. KNOWLES: I do not wish to push the witnesses into saying they like something they obviously have reservations about, but would they agree that it would be better if it remained just a Canada plan and a Quebec plan than it would be if we ended up with a Canada, a Quebec and an Ontario plan?

Mr. MOFFATT: I think the more plans we have the more complications we have. I also foresee that if we have a Canada plan, a Quebec plan and an Ontario plan we are quite likely to have a B.C. plan. Then others might feel left out.

Mr. KNOWLES: You would hope as few provinces as possible would opt out?

Mr. MOFFATT: That is what I am trying to say.

Mr. LLOYD: Mr. Moffatt, two things come to my mind from your comments. One has to do with the difficulties in advising employees of the benefits arising from the scheme or schemes; and the other is your references to export costs.

On the first one, how do employees ascertain now what their benefits will be under your own plan?

Mr. MOFFATT: We tell them regularly. This information is regularly and readily available.

Mr. LLOYD: Yours is a wage-related plan?

Mr. MOFFATT: Yes.

Mr. LLOYD: Is it based upon the earnings during their career with you?

Mr. MOFFATT: Yes.

Mr. LLOYD: So, do you maintain a record of pensionable earnings?

Mr. MOFFATT: Yes, we know now and they know how much the pension plan amounts to, and we know, of course, where the money is invested and how much we have.

Mr. LLOYD: But they do not know precisely what their pension will be, because it will depend on their future earnings?

Mr. MOFFATT: Yes. We can tell them, as of today, that their pension is so and so, and if their earnings are at that rate for the rest of their period they know the basic pension plan which they can expect.

Mr. LLOYD: The Canada Pension Plan has provisions which will tell people where they stand today.

Mr. MOFFATT: Yes.

Mr. LLOYD: On the same basis, except they will not perhaps get it from you. Certainly, this problem is the same, except you will not provide the information.

Mr. MOFFATT: Your administration problem will be very much greater than ours, and we think you should be aware of it.

Mr. LLOYD: Forecasting future payments depends, in both instances, on future levels of earnings?

Mr. MOFFATT: Yes.

Mr. LLOYD: You were also concerned with the impact on your export sales by virtue of possible increased cost. In considering this matter I suppose one has to look at the total impact on your operating costs. Your contributions on behalf of the employers, as you know, are deductible for income tax purposes; and the employee's contribution is deductible in his hands for tax purposes. I suppose how much impact it has on your costs will depend on the rate of contribution. I suggest to you that this in itself is not substantial in terms of affecting your export sales.

Mr. MOFFATT: Mr. Lloyd, as a business man I never, in the approach to any problem, say "This will not cost us so much because it is deductible for tax purposes."

Mr. MONTEITH: Hear, hear.

Mr. MOFFATT: To imply we can afford all these things because they are deductible would be a sloppy thing to let enter business thinking. I certainly will oppose it in mine.

Mr. LLOYD: In other words, your argument in this instance, I thought, was to indicate to us that the impact of this pension plan would be either substantial or—well, I was trying to find out whether you thought this was a substantial addition to your costs or not. I agree with you, generally speaking, that in managing a business one does not decide whether they will oppose something or not because it is tax deductible. The issue here is whether or not the introduction of the Canada Pension Plan will adversely affect export sales. I was only trying to find out from you whether in your conclusions—since you say it would affect export sales—you would take into account the total impact on your operation, whether or not it would reach that point.

Mr. MOFFATT: I can only speak for our company, of course, Mr. Lloyd, but in most branches, in most divisions of our company, in the export field we do not make money. This may be a surprising thing for this committee to hear, but we accept most export business on what might be termed an increment basis. We do not get our standard costs from our export business, so no matter how infinitesimal an increase happened to be it would affect our approach on exports. We do not think this is a major deterrent, but it is something, and something added to something else does affect exports.

Mr. MUNRO: Mr. Moffatt, I was interested in your comments concerning the question of residence as the basis for giving access to these contributions. I wonder whether, when you made this submission, consideration was given to how the Government involved, the Canadian Government or the Quebec Government, could effect collections from employers.

For instance, senator, the Quebec plan in your particular case: how would the Government of Quebec be able to effect employer contributions, say, from an Ontario employer who has an employee resident in Quebec in the last day of the year—that is, if we applied the residence rule?

Mr. MOFFATT: Well, the residence rule does work; I suppose it is a balancing thing. They assume that enough will reside in both places; that is, your employees will be balanced between Ontario and Quebec. I assume this; I do not know it.

Mr. Hutton, you might be able to answer this.

Mr. HUTTON: I think this is a fairly simple problem. The Government places the onus on the company to make deductions in accordance with the regulations, and if the regulations say that deductions are to be made on the basis of residence, and contributions are paid either to the federal or to the Quebec Government, then the onus is on the company to keep up to date records on residence, and make these deductions, and send contributions to the proper jurisdiction.

I don't know if that answers your question.

Mr. MUNRO: Each company, as far as all the companies are concerned, has to determine in each case where they reside. Is that correct?

Mr. HUTTON: That is correct. They have to meet the requirements of the province.

Mr. MUNRO: Don't you feel that it is simpler, generally far simpler, for the companies concerned that they know that this payroll tax is based on the working place of the employee, or where he derives his salary? This involves far fewer problems, not only for the Government, but for the employer also.

Mr. MOFFATT: But there is this point as far as we are concerned: The Company employee might work in the Hull mills this morning and in the Ottawa mills this afternoon, and be back to Hull tomorrow. This can happen and does happen. So that the place of work is not really very good as far as we are concerned.

Mr. MUNRO: But one thing easy to clarify, presumably, Mr. Moffatt, would be that of where the employee derived his salary. This, I would assume, though I am not, of course, aware of the internal operations of your company, would be from Quebec, would it not?

Mr. MOFFATT: Most of the employees would draw their salaries from Quebec because our head office is in Quebec. For instance, my salary is paid in Quebec, though I feel I might do some good in Ontario.

Mr. MUNRO: Yes. One other question, Madam Chairman. On this point that Mr. Moffatt made, concerning his concern and his company's concern about tying the benefits to the consumer price index and the implications this would have as far as Government bonds—maybe this should apply to many other areas. I think you indicated prices and rents.

I wonder if you did not feel that prices and rents did in fact reflect rising prices, and this is one of the reasons why aged people should not be prejudiced by having a pension that does not take into account the rising prices and the rise of rents.

Mr. MOFFATT: Yes; though that can be taken care of by adjustment in the pensions as you feel it necessary to make such adjustment. The automatic year by year change not only brings about administrative problems but brings what I think probably is more important an acceptence—that we go up and up and up. We accept that, as a Government policy, inflation is a thing that we must live with, accept, and no longer need fight against.

Mr. MUNRO: Why do you feel, then, that the price increases, or increases in the pension, are in line with the consumer price index? You don't feel that that is a cause of inflation? Surely you agree that this increased benefit comes to the aged as a result of an inflation that, if you like, has already taken place. It is an after effect rather than a cause.

Mr. MOFFATT: That is quite true, but we recognize this, recognize it very fully, when we apply the cost of living index, and I merely say, if you will note, that if you accept the cost of living index as a proper measure for adjustment, then why not apply it to other fixed incomes?

I say what is fair in this direction is equally fair in other directions.

Now, I am not necessarily opposing it very strongly on the pension plan; I just say: Are you aware of the machinery which you have set in motion?

Mr. MUNRO: Thank you very much.

Mr. FRANCIS: Most of the questions I have in mind, Madam Chairman, were answered in the discussions, but I am concerned about the application of the suggestion of the residence rule to determine which plan an employee will belong to. I think the E. B. Eddy Company is rather unique in its operation, certainly to my knowledge. Its physical operations just literally include two provinces. As you put it, you have one foot in each. Any rule that is adopted I think is going to create a problem.

You have learned with provincial income tax that the residence rule was the most satisfactory solution from your point of view, but it seems to me that any rule that is adopted is going to create difficulties with an operation that is of your nature.

If we go to the rule that you suggest, I think Mr. Munro brought this out: How would the Province of Quebec, for example, collect its pension contributions from people who live in that province but work in Ontario? I suppose they are living with this problem with the provincial income tax now, but in the discussions that have taken place, if we go to that kind of rule, I think there are serious administrative problems in working them out.

Have you any indication of what proportion of your work force goes from one province to the other? Is it fairly substantial?

Mr. MOFFATT: Well, there are some people who transfer not at all. Then, there are others who, in the course of their duties, move regularly from one province to another—engineering, mechanical and supervisory staffs, and so on. There is going to be a problem, but we think that what the federal Government and the provincial governments have accepted as a solution with respect to income tax could equally well be adopted in the Canada Pension Plan. It seemed the better approach and we found it more satisfactory.

Mr. FRANCIS: Do you think the present rule, as drafted, will be very difficult to follow?

Mr. MOFFATT: Yes.

Mr. FRANCIS: And that is directly contrary to the rule you are using?

Mr. MOFFATT: That is correct.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Senator Croll?

Hon. Mr. CROLL: I should like a little information. If my question troubles you, you do not have to answer it, Mr. Moffatt. In your opinion, in your pension plan—and I am assuming from everything I have heard that it is one of the better plans, although I am not familiar with the details—is there a vesting period?

Mr. HUTTON: Perhaps I might be allowed to answer that for Mr. Moffatt. There is a vesting period. An employee must be with the company for ten years before he is entitled to the retention of any of the vesting privileges. Then, over a period from ten years to twenty years it is increased from nil to 100 per cent.

Hon. Mr. CROLL: Starting at ten years?

Mr. HUTTON: From ten to twenty years it gradually moves up—from nothing at 9½ years to 100 per cent at 20 years.

Hon. Mr. CROLL: That is the usual. How many people draw the full pension, percentagewise?

Mr. HUTTON: I am sure I could not answer that question, but I can say this about our plan, that it started in 1948, and in the early years, of course, there have been very few. As of today—I am sorry, I could not even make a guess, but it will be some time in our plan, as it will be in the Canada Pension Plan, before the majority of the retiring employees will retire on full pension.

Hon. Mr. CROLL: Then, can you give us some indication—perhaps you would like to break it down between what I might call, if I may, white collar workers and other workers. What would be the average pension for the non-white collar workers?

Mr. HUTTON: There is no distinction, of course, between white collar and non-white collar workers. It depends entirely upon earnings over a period.

Hon. Mr. CROLL: The same period?

Mr. HUTTON: The same period, and the same percentage. There is no distinction between salaried and wage earning workers in our plan.

Hon. Mr. CROLL: You have no idea of what the average might be?

Mr. HUTTON: No, but we do have minimums. It would be $75 a month—

Hon. Mr. CROLL: That is the minimum?

Mr. HUTTON: —or one per cent of their average earnings over the last year. It is one per cent of earnings for each year of service, whichever is the lower, but it usually works out that $75 is the effective minimum in our plan, which has only been in existence for those few years.

Hon. Mr. CROLL: Let us take a person who does qualify—let us take one of your working men; not one of the high priced help.

Mr. KNOWLES: Do they not work?

Mr. HUTTON: The working men are the high priced help in our organization.

Mr. MOFFATT: It might be said here, for a moment, that the so-called non-white collar worker actually makes more than the white collar worker in many fields in our company.

Hon. Mr. CROLL: That is a little hard to swallow, but I will take it from you because you know what you are talking about.

The CHAIRMAN (*Hon. Mrs. Fergusson*): That is certainly interesting.

Mr. MOFFATT: Well, that applied some years ago. It is a misconception to say it is true today. Machine operators are highly paid people in a paper mill.

Hon. Mr. CROLL: Of course, they are highly skilled, too.

Mr. MOFFATT: Yes, but they are not white collar workers.

Mr. KNOWLES: Are they also organized?

Mr. MOFFATT: Yes, they are organized.

Mr. KNOWLES: You had better get the white collar men organized too.

Mr. MOFFATT: Some of them are.

Hon. Mr. CROLL: Mr. Hutton, what would be the maximum that a man would get after a period of 20 years?

Mr. HUTTON: Retirement at 65 after 20 years—again, I am only guessing, but I would say it starts from around $75, and it usually runs between $75 and, say, $100 or $125; somewhere in there. Of course, as the plan has a longer life, and as more people retire who have contributed throughout the full possible 35 years, this amount will gradually increase—and significantly increase.

Mr. MOFFATT: We have paid out to date, even in its short life, over $2 million in benefits.

Hon. Mr. CROLL: My questions are directed to finding out how a good plan works. We want to see what the best looks like, and then see what the others look like at a later stage. You can readily see that we are groping with a problem, especially when one as good as yours seems to be has deficiencies in it as well.

Mr. MOFFATT: That is true, only the company has paid the past service benefits for the employees prior to 1947.

Hon. Mr. CROLL: Mr. Moffatt, you were speaking of the possible inflationary effects of the pension plan—I think the terms you used were to the effect that you did not care for the indexing part. You also said that the automatic adjustment was not good, or was not effective. The automatic adjustment is not the exclusive adjustment that will be made. I think you have seen from the evidence that it is not suggested that that is all that may be done under the plan. Do you appreciate that?

Mr. MOFFATT: Oh, yes.

Hon. Mr. CROLL: Do you remember in 1957—I remember it very well—that we raised the pension from $40 to $46? And, do you remember that we were wrong, because the new Government raised it to $55. I am having a little trouble in thinking that there was inflation during that period. Was there throughout that period inflation? I cannot recall it.

Mr. MOFFATT: I suppose you can say there has been a period of inflation ever since the war.

Hon. Mr. CROLL: Yes. In that sense. We have had some evidence here that we have had a two or three per cent increase ever since the war, but that is pretty normal for us now, is it not—that is, after all these 20 years?

Mr. MOFFATT: Of course, I happen to have been working during the depression days, and it is pretty hard for me to get that time out of my mind. I find it is a great handicap to have lived so early.

Hon. Mr. CROLL: I agree with you, but this is a state of conditions that has existed for a period of 20 years, and we have accepted it. As a matter of fact, some of the witnesses before us have said that there is no great danger of inflation. In fact, one witness of some consequence said that other people do not quite agree. Let me see if I have another question.

The CHAIRMAN (*Hon. Mrs. Fergusson*): There are two others on the list first, if you do not mind, Senator Croll.

Hon. Mr. SMITH (*Queens-Shelburne*): Madam Chairman, I should like to follow up on the same general line that Senator Croll was following. I should like to have a little more information about the kind of plan you have in your company. Do I understand from your answer to Senator Croll that the benefits are set for the life of your plan, or the life of the employees, at one per cent of earnings per year of service?

Mr. HUTTON: One and a half per cent.

Hon. Mr. SMITH (*Queens-Shelburne*): With a minimum of—

Hon. Mr. CROLL: It is one and a half per cent.

Hon. Mr. SMITH (*Queens-Shelburne*): Is this a plan towards which the employees make contributions?

Mr. HUTTON: They do. The employees contribute 4 per cent.

Hon. Mr. SMITH (*Queens-Shelburne*): Is this a plan for which employees make contributions?

Mr. HUTTON: Yes, they contribute 4 per cent of gross earnings.

Hon. Mr. SMITH (*Queens-Shelburne*): And the company matches that?

Mr. HUTTON: It generally matches that.

Hon. Mr. SMITH (*Queens-Shelburne*): And the plan that you have there has a yield projected into the future, to give an annual income of 1½ per cent of earnings over the period of service?

Mr. HUTTON: Yes.

Hon. Mr. SMITH (*Queens-Shelburne*): Then as the years go on, the figures you gave as examples for the pensions now being paid, varying from $75 to $100, will increase gradually?

Mr. HUTTON: And significantly.

Hon. Mr. SMITH (*Queens-Shelburne*): Is this a typical plan in the pulp and paper business in general across the country?

Mr. HUTTON: I believe that ours started earlier but in recent years there have been developments and negotiations which have brought most of the plans into this general area.

Hon. Mr. SMITH (*Queens-Shelburne*): I am sure you have no doubt that the pension plan in the last 20 years has not been too generous in terms of the spending which a man will find necessary when he has to leave the labour force and get into the retirement period, no matter how long it is? You do not feel that is too generous in respect to his needs in his retiring age?

Mr. MOFFATT: It is difficult to answer that question. Our men are getting $75 now which they did not have before. If they had no other means, I would say your comment is correct, that from their point of view it is not too great. Yet there are many pensioners who had no pension plan whatsoever. For example, we had a reception two or three weeks ago for retired employees. One man told me he joined the company in 1904—which happened to be the year in which I was born—and he gets no benefit from the plan. Other men who joined the company quite late will have a good pension and this will increase rapidly and significantly, as Mr. Hutton said. But we had to start out with a minimum plan, in the same way as the old age pension scheme started. When it was started, it was to provide the old age people and retiring people with something. We started with the same idea. We set aside several million dollars to pay benefits, and thus provided $75 for those retiring in the early stages. We think that was a generous approach; but if you were to ask if it was sufficient for a man, you would have an argument, you would have a case.

Hon. Mr. SMITH (*Queens-Shelburne*): Do you not think that a pretty good case can be made for the integration of the Canada Pension Plan with your plan, even if the company found that its costs now were pretty difficult costs on which to run the business? If the employees were found willing to contribute an extra 1.8 per cent of their wages, between $600 and $5,000, do you not think that would improve the pension plan, when you consider the inclusion of survivors' benefits, the total disability benefits, the orphan's benefit and so on, and that in a ten-year period they would get 25 per cent of their escalated average earnings over those years, to add to what they now have? Do you not think it is in the interests of both the employees and the company to put yourselves out, perhaps to quite a large extent, to find a method of integrating this proposed plan with your own plan?

Mr. MOFFATT: We will put ourselves out to quite a large extent, senator. We are on the ground of philosophy now concerning pension plans and I do not feel I can deal with that in a few moments here. I think that pension plans should be designed to take care of the minimum requirements of the aged and the less fortunate and the troubled. Beyond that, families have some responsibility. We are gradually reaching the point of relieving families of responsibility. I think families must still continue to bear this to some extent and I think the individual must be cautioned and encouraged to save money on his own for the future. I do not think a government or an employer should be his only bulwark for old age or security. With the old age pension plan, with the Canada Pension Plan, with the company pension plan, to say nothing of an annuity, he could well make more at retirement than he made before. I would not think that is a very reasonable state of affairs.

Hon. Mr. SMITH (*Queens-Shelburne*): We had some very interesting evidence just the other day which indicated to us that we must give serious thought to the future needs for the retiring population, that as the years roll by, the spending a retired person must do, to play a proper part in the community in which he has lived all his life, must be increased substantially. One witness, who made a special study of that point, indicated that as time goes on he should have even twice as much income after retirement as he had during his working life. It is a rather startling statement and bothered me considerably since it was made. However, I thought about it during the weekend and I feel there is some substance to it. It corresponded to using the word "absurd" to describe the situation which you describe, that a man on retirement would make more money than he did before retiring. However, this is something we have to consider as a committee. We have to look further into the future than need companies who are faced only with today's problems.

Mr. MOFFATT: The party who spoke before this committee must have been about 64½ years old.

Hon. Mr. SMITH (*Queens-Shelburne*): He is older than that.

Mr. MOFFATT: This subject deserves a lot of thought, of course, but the future of this country is going to be built on young people, not old people. That does not say that old people should not be taken care of. I am all in favour of adequate pensions and sound legislation. However, do not let us give all our attention to that segment of our population; this country will grow and be built by and through our young people.

Hon. Mr. SMITH (*Queens-Shelburne*): I thought it might be helpful if I expressed a view indicated by W. M. Anderson, Chairman of the Board of the North American Life Insurance Company. Those are all the questions I have.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Knowles?

Mr. KNOWLES: Madam Chairman, as usual, when one is this far down the list in the questions asked, one finds that a great deal has been answered. However, I thought I might take a moment or two. In the main my questions come under two headings that have been used by the witnesses—the question of complications, and the question of integration.

Under the question of complications, I may say that I agree with the witnesses that clear information ought to be given as to what is involved in this legislation. I note in particular your suggestion, Mr. Moffatt, in paragraph 6, page 5, of your brief, the proposed methods announced before Bill C-136 is adopted.

May I say that I recognize certain difficulties in giving all the detailed machinery before the bill is adopted, but I would certainly go along with you in urging the Government to make all the haste it can without making any blunders, in getting the regulations passed that will be necessary after this bill is adopted.

In addition to the regulations which will have to be made, there should be—in fact, I understand there will be—a handbook that will let people know what our whole story is. I fully agree with you that all possible information in this field should be provided.

I would also say that it is not only a matter of providing information before the bill comes into operation—let us say in January 1966—but that in the long run it is the Government's responsibility, not the employer's, to see to it that the people of Canada know how this legislation works.

As an employer, you will naturally want to be in a position to answer your employees' questions, but you are perfectly right in your view with respect to the fact that the Government should provide information.

Having said that, I wonder if it is fair to assert that the bill is so complicated that the average worker cannot understand it? I know a case can be made, when a bill has some 125 clauses, that it is complicated; but are not the basic facts of this legislation pretty simple? An employee pays 1.8 per cent of his career earnings, starting at $600, stopping at $5,000. The employer meets it. When the time comes for retirement it comes to roughly 25 per cent of what an employee's career earnings were. There are things added to that—an adjustment of the earnings, depending on how wages have gone up during the years. There is the question of what to do about the drop-out years, and so on. There are extras, like the widow's benefit, disability benefit and orphan's benefit; but the main principle surely is just as easy to grasp as the basic principle in your plan, namely, that your employees pay 4 per cent of their gross earnings and get a pension equal to 1½ per cent of their earnings, average or actual.

Mr. HUTTON: Over the period they have been employed.

Mr. KNOWLES: Over the period they have been employed. Again, I do not want to force you against things you believe, but when you look at it, are not the basic elements of this plan rather easy to grasp?

Mr. HUTTON: Of course, the first thing that happens is that you immediately superimpose a whole set of conditions on top of what we already have in our own plan, so right off the bat the complications are doubled. Then if you have Quebec coming in with their plan, which may be substantially the same but slightly different in places, you are adding part of a third layer. So that just the introduction of the plan itself doubles the complication.

Mr. KNOWLES: I certainly do not doubt the complications that might arise from continuing two plans, and I hope there will not be more than two; but at some point a decision will be made that each of your employees will be either in the Canada plan or the Quebec plan. However, apart from that, is it any more complicated to have two pensions plans, a private and a public one, than to have a private plan and an insurance policy, or two or three insurance policies, or a private plan and a government annuity? After all, you have said that the blue-collar ones are organized. Here you have 1½ per cent for years of service, but they are also going to get a Canada pension equal to roughly 25 per cent of what their career earnings have been.

I am putting it in the form of a question but I just think in all fairness that if we have two plans, the assertion that the plan is complicated, when it seems to me that it is clearly understandable, is an assertion that might be questioned.

Mr. MOFFATT: It will not be as difficult for us as for some. As Mr. Hutton said, it is the E. B. Eddy case which is being presented, so that this is the only phase of the pension plan in which we should be interested or to which we should direct ourselves.

The other day I was told of a chartered accountant who has a number of clients to deal with, involving ten or twelve cases in which there is extreme difficulty even with the income tax deductions, and so on, because these companies were not organized, and their departments did not have a computer set up for people such as yourselves. Then if you go on to the self-employed man, or the man who makes $600 a year, who is going to explain all this to him? I don't really know. Maybe I should not theorize, but I think we will have less trouble than a great many people.

Mr. KNOWLES: I certainly do not quarrel with your concern about people understanding this. I repeat that it is a major responsibility of the Government to make sure that sufficient information is given out. I hope that handbook which is to come out will be in language all can understand. However, Madam Chairman, I will not pursue that subject further.

Now I should like to turn to one or two questions about integration. When you first indicated in your brief that there was an integration problem, I was prepared to learn that the details of your plan were such that this might be a difficult situation. May I say it strikes me that where you are deducting only 4 per cent of your pension, at least it will not be as difficult as for employers already deducting 50 per cent, especially if they come along and talk about adding another 1.8. It will be pretty difficult to deny that they do have a difficulty. However, if in your case it is 4 per cent and you have already admitted that there is room for improving your plan, would you not admit that at least your difficulty is as great as that of some others, due to the fact that at the moment you are deducting only 4 per cent in a relative way?

Mr. MOFFATT: Only to a degree. Much of this will depend upon the employee's attitude. For instance, he may feel 4 per cent plus 1.8 per cent is too much—or, with some people, who have a 3 per cent or 2 per cent plan, and they could have the same reaction. If it is 6 per cent—I feel that is quite unusual —there again they might feel another 1.8 would bother them too much. I think it all comes down to how much the employee values the pension and how much he wishes to contribute towards it, bearing in mind, too, negotiations will have some effect.

Mr. KNOWLES: May I just carry this a little further? I suppose what I am trying to do is to give you some suggestions so you can pass these on to your employee as benefits in the total picture. At the present time an employee who works for 30 years will get a pension of 45 per cent of his annual earnings. Senator Smith has already pointed out that some of us in this committee are concerned about getting pensions at much higher levels. Forty-five per cent of the annual earnings is really, in the view of some of us, not a very high pension, but once the Canada Pension Plan goes in your employees who work for 30 years will be in the position of knowing they are going to get 45 per cent of their annual earnings plus another 25 per cent of their earnings, up to the $5,000 level, ignoring the escalation feature later on. Whether or not an employee is below or above $5,000, ignoring that problem for a moment, 45 per cent plus 25 per cent gives 70 per cent, so there is a possibility for an empolyee who has been with you for 30 years having a pension of 70 per cent.

Hon. Mr. SMITH (*Kamloops*): Forgetting it takes 10 years before that will happen.

Mr. KNOWLES: That is right, but when I talk of 30-year employees, that includes the 10. It strikes me that your integration problems and the problem of selling the idea of this integration to your employees is not going to be as difficult, certainly, as it may be for some other employers.

May I ask one other question about your plan? I think we have the details, and you are under no obligation to give us this information—

Mr. MOFFATT: We are pleased to.

Mr. KNOWLES: The employees pay 4 per cent of their gross, and you roughly match it. I gather it is one of those plans where there is a certain amount to be paid, and you pay the difference between the 4 per cent and the total.

Mr. MOFFATT: We keep it actuarially sound.

Mr. KNOWLES: You also did provide for those working for you, at the time the plan was put in, a past service benefit?

Mr. MOFFATT: Yes.

Mr. KNOWLES: I hope I do not sound like someone or another saying, "God bless you for doing that." You did not feel you were giving them any windfall or bonus they were not entitled to?

Mr. MOFFATT: Our relations with our people are very good, and we try to keep them that way.

Mr. KNOWLES: Obviously, I think it was a good idea, and so on. You say if an employee is with you for less than 10 years he does not get any of the employer's contribution?

Mr. MOFFATT: That is correct.

Mr. KNOWLES: He gets his own contribution back?

Mr. MOFFATT: That is correct.

Mr. KNOWLES: Without interest?

Mr. HUTTON: With interest.

Mr. KNOWLES: But none of the employer's contribution?

Mr. MOFFATT: Yes.

Mr. KNOWLES: I think that pretty well gives us the picture of your plan and, as I said, I admit I am expressing an opinion more than asking a question, but it strikes me that if you look at it closely and compare your problems with the problems of some others, at least you will find the integration is of the kind your employees are likely to like.

Hon. Mr. CROLL: What is your turnover per year? The figure I have here is that the normal turnover, it seems to me in an industry like yours, is 10 per cent. Is that anywhere near your figure?

Mr. MOFFATT: The number of employees—frankly, I do not know. It is very, very low. As a matter of interest, we have some 600 people in our 25-year club, which is an example of the length of service.

Mr. KNOWLES: What is your total payroll?

Mr. MOFFATT: Slightly below 2,400. It ranges between 2,300 and 2,400.

Hon. Mr. CROLL: That is the average?

Mr. MOFFATT: Yes.

Hon. Mr. SMITH (*Queens-Shelburne*): I did not get the question, in the first place.

Mr. MOFFATT: The number of employees we have: between 2,300 and 2,400 employees, and about 600 of those belong to and are active members in our Quarter Century Club—that is, 25 years or over.

Hon. Mr. THORVALDSON: Madam Chairman, the area of the questions I was going to ask has been pretty well covered by Senator Smith and Mr. Knowles, so there is nothing further I want to add.

Mr. BASFORD: I am told by one of the representatives of the papermakers with whom I have discussed this that in eastern Canada most of the pension plans in your industry are of very recent vintage, and most of them have within them provisions for providing for integration of those plans with action that the Government might take in the pension field. Would you care to comment on that?

Mr. MOFFATT: You are talking about those companies having negotiated pension plans with their unions?

Mr. BASFORD: Yes.

Mr. MOFFATT: That does not apply to us. Our pension plan has been a non-negotiable item.

Mr. BASFORD: You wouldn't like to comment on the rest of the industry?

Mr. KNOWLES: I do not think the witness should be called upon to do so.

Mr. MOFFATT: I do not think it would be fair for me to do so, because I do not know to which company you are referring. Some companies have discussed pensions, some have negotiated them, and some have not.

Mr. KNOWLES: I would like to ask a supplementary question. I fully understand what you mean when you say your plan was non-negotiated. You put it in yourself in 1947?

Mr. MOFFATT: Yes.

Mr. KNOWLES: A moment ago, when answering a question of mine, you said you felt that this whole question of integration would be the subject of negotiation.

Mr. MOFFATT: No.

Mr. KNOWLES: Would you reconcile those two statements?

Mr. MOFFATT: No, I think I said, when we were talking about integration, that labour's attitude would have something to do with integration. This does not mean this is to be a negotiated item; it could be an individual employee's attitude.

Mr. BASFORD: The most recent example I have is on the west coast. The Canadian Forest Products submitted a unilateral pension plan for their employees. When I say "unilateral" I mean it was not negotiated with the union. It came into effect on the 1st of January of this year, and provides within the plan—and, of course, this is a very recent one—for complete integration with the Canada Pension Plan, which the agreement recites is proposed to be established. That is the most recent example I have taken. I wonder to what extent that applies to your industry in eastern Canada, but you are apparently not prepared to comment on it.

Mr. MOFFATT: Well, we negotiate separately, as individual companies, so what the attitude would be of the industry itself is pretty hard to determine, because it would be a varying attitude. We did not foresee, when our plan went into effect, we would be talking here today on Bill C-136. Our plan was devised without encouragement from anyone, Government or other sources, and we think we have a very generous plan, one which required some $2 million-odd to get it started, and it has been in effect now since 1947. I am not surprised that the plan of the Canadian Forest Products—I think you mentioned them—provides for integration, because they are dealing with perhaps not a known fact but a very distinct probability.

Hon. Mr. THORVALDSON: Madam Chairman, this is on this problem of integration. I just do not quite understand the first part of item 5 on page 5, where you say:

> The problems of integration are multiplied in our case, particularly if the federal and the two Provincial Governments have individual plans, even though they be similar.

Now, I may be wrong in this, but supposing the two provincial governments, Ontario and Quebec, both have similar plans, will you be then concerned with the federal plan at all? I don't understand that you will be concerned with the federal plan, will you?

Mr. MOFFATT: I don't know. We have employees, of course, outside of both provinces. There are not many, but we have some.

Hon. Mr. THORVALDSON: Outside?

Hon. Mr. CROLL: Is that in plants?

Mr. MOFFATT: We had an operation on the west coast, but we have employees in the other provinces as well.

Mr. KNOWLES: You also have employees from time to time who might have lived in Manitoba or British Columbia and who have moved into Ontario or Quebec.

Mr. MOFFATT: Yes.

Hon. Mr. THORVALDSON: Approximately what is the proportion of your employees in Ontario and in Quebec, say? Are they equal pretty much or are the majority in Quebec?

Mr. MOFFATT: Roughly two-thirds, or slightly under, are in Quebec and the remainder are in Ontario, and there are a few in other provinces.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Have you finished, Mr. Basford?

Mr. BASFORD: Yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, Mr. Gray.

Mr. GRAY: Mr. Moffatt, I was very interested in your views of the industry, from the point of view of businessmen, with respect to increased control over the adjustment of the plan, and I am referring to the item 6 and the submission in the Canadian Pulp and Paper Association. I was just interested in this.

The CHAIRMAN (*Hon. Mrs. Fergsuson*): Well, Mr. Moffatt is just appearing on behalf of E.B. Eddy Company, Mr. Gray.

Mr. GRAY: I am sorry; I came in a few minutes late and I was told by my colleagues that this was being discussed simultaneously.

The CHAIRMAN (*Hon. Mrs. Fergusson*): No, we have had no evidence given on that. The brief to which you referred we agreed to put in the minutes, but we have not been asking questions on it.

Mr. Moffatt does not, or is probably not, familiar with it, and has not commented on it.

Mr. MOFFATT: We are members of the Canadian Pulp and Paper Association, but we are not appearing here today on behalf of the Canadian Pulp and Paper Association.

Mr. GRAY: Perhaps I could put my question this way, and if you feel you cannot properly answer it because of your own status here, I know you will indicate so: Your Association suggested that control over the adjustment of the proposed Canada Pension Plan be extended from three years to six years, that is to say, the period within which no change can be made. And it appeared to me that this was quite a different point of view from that expressed several days ago by the Canada Life Officers Association, who not only proposed that the Government deal with this matter by extending the basic flat rate pension, but suggested that it be increased from time to time without any specific control whatsoever of the time period within which changes could be made in pension benefits. I would gather that your Association does not agree with that approach.

Mr. MOFFATT: I know the reason that was put in there. I think, though, that I should let the comments stand.

Hon. Mr. CROLL: On page 6, item (*g*), you say the same thing without spelling it out.

Mr. MOFFATT: Page 6, item (*g*). That is quite correct, and I would be willing to speak to our brief.

Hon. Mr. CROLL: That is the same thing.

Mr. MOFFATT: I don't know what the record is on the old age pension plan, but there have been adjustments made, and these have been made after pressures have been applied maybe inside and outside the Government. We believe that pressures will still be applied, and for that reason the adjustments will be made, and also they can be made without any reference to the Canada price index.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Is that all, Mr. Gray?

Mr. GRAY: Would you feel, sir, that it would be useful to have something in the act extending the time period from three to six years?

Mr. MOFFATT: We did not put it in our brief, sir. This would be a hobble on political parties, would it not?

Mr. GRAY: It would be a hobble on the people.

Mr. MOFFATT: All right.

Mr. GRAY: I want to be clear, sir; I was asking this question because I thought it would be useful to get either your point of view or that of your Association as business people and contrast it with that of the life officers on this point.

Mr. MOFFATT: We don't think, as a business, as a company interested in business and engaged in business, that pensions should be bargaining affairs. We think it should be possible to determine what the aged and the troubled should have and provide this treatment.

Perhaps that is why the term was extended from three to six years; I don't know.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Morison.

Mr. MORISON: My questions, Madam Chairman, basically have been answered. However, I am not clear, Mr. Moffatt, on one point. Is your plan carried by commercial companies?

Mr. MOFFATT: We have our own pension committee and we work through a trustee, and that happens to be Canada Permanent.

Mr. MORISON: Have they indicated any problem as far as integration is concerned? I know they are watching it very carefully and they probably have a few questions, but they are basically concerned.

Mr. HUTTON: I think we should clarify this a bit. Our plan is a trustee plan and the trust company only acts as agent for the trustees, holds the funds and makes the investments. They do not have any place to make recommendations of any kind relating to the clauses of the plan itself.

Mr. MORISON: Did you hire actuaries in setting it up?

Mr. HUTTON: This is a very interesting point, this matter of integration. We do not have a high-powered pension group in our company, but we had to throw up our hands because we could not work out the integration and we placed this in the hands of an internationally known consulting group, and they have had it in their hands for a month or so and have not come back with answer.

Mr. KNOWLES: You could probably have done better yourself.

Mr. MOFFATT: The actuarial companies, or consultants, do not agree either. I have read many of their statements, and whether they are trying to confuse their clients or not, I do not know, but we had trouble at the beginning. We appealed to them and are paying a fee, and have, up to date, not had too much satisfaction.

Mr. LLOYD: I have a supplementary question on this with respect to your pension fund. Do you hedge against inflation with percentage of investments in equities?

Mr. HUTTON: We do.

Mr. LLOYD: How much percentage?

Mr. HUTTON: At the present time it is 7 per cent, but we are moving towards a minimum of about 15 per cent at the moment. We only recently, though, made the move; that is, within the last few years.

Mr. LLOYD: Why did you hedge against inflation?

Mr. HUTTON: As the gentleman over here pointed out, it seems inevitable.

Hon. Mr. CROLL: We could buy Eddy stock to be safe.

Mr. LLOYD: If there is an element hedging against inflation in the Canada Pension Plan, its principle is contained in your own plan.

Mr. HUTTON: Yes.

Mr. LLOYD: Thank you.

Mr. MORISON: I don't want to make a commercial plug for anybody, but an actuary before this committee felt that it was just a matter of adjusting figures as far as inflation is concerned. Maybe I accepted his remarks too simply, but he seemed to have no real basic problem in the inflation of private and public plans.

Mr. MOFFATT: Is that not an actuary's only tool of trade,—figures, and he adjusts them.

Mr. MORISON: And they come out very simplified. Thank you, Madam Chairman.

Mr. CASHIN: I have just one question, Madam Chairman. You may or may not be aware that it seems to be generally established that about one-third of the Canadian work force, or less—30 per cent, maybe—are covered by contributory pension plans at the present time. My question to you is: Do you think it is a good thing for these other two-thirds, who do not have the benefit of working for a company like yours, to have an opportunity to prepare for their future retirement years through participation in a contributory pension plan?

Mr. MOFFATT: They have that opportunity now.

Mr. CASHIN: The other 60 per cent?

Mr. MOFFATT: Yes.

Mr. CASHIN: How?

Mr. MOFFATT: They can buy a Government annuity.

Mr. CASHIN: Do you think that that is sufficient?

Mr. MOFFATT: They can buy insurance annuities. If it is their desire to contribute to their future security they can fulfill that desire very easily now without being employed by us or by anyone else.

Mr. CASHIN: Do you think the reason the figure is so high is that because that 70 per cent has—

Mr. MOFFATT: Do I understand that what you are saying is that if these people have not contributed then they should be forced to?

Mr. CASHIN: I asked you if you think they should not have an opportunity to do so through this sort of legislation?

Mr. MOFFATT: I merely say they have the opportunity now.

Hon. Mr. CROLL: May I put a question to you, Mr. Moffatt? You have opened up an interesting question in reply to Mr. Cashin. Is there not a vacuum there which has to be filled by somebody when 70 per cent of our labour force is without a pension, for whatever reason, and is it not the purpose of government to see that vacuums in such matters as welfare do not exist and do not continue to exist?

Mr. MOFFATT: I think this is right, senator, but you have already a pension plan, and all we have attempted to say in our brief is that if we were in the same position we would not devise another plan. We would not have two plans. We would improve the one we have.

Mr. CASHIN: Is not that what we are doing?

Mr. MOFFATT: No, you are having two plans. I say if we were in your place we would have one plan.

Hon. Mr. CROLL: What we have is a plan with a compulsory savings plan added to it, and which has always been a good thing for the country from wartime on.

Mr. LLOYD: Supplementary to what you have said, Mr. Moffatt, about your having one plan, in what respect would it differ from what you are doing now?

Mr. MOFFATT: If we felt that our plan had shortcomings we would eliminate those shortcomings by improving our plan.

Mr. LLOYD: In other words, you would be agreeable to complying with the provincial law as to portability—

Mr. MOFFATT: Oh, yes.

Mr. LLOYD:—and vesting?

Mr. MOFFATT: Oh, yes, we would, and also if our plan did not encompass those whom we thought later should be brought within the plan—

Mr. LLOYD: So, vesting and portability, to reach many of your employees, would cost you more money, and you would not be afraid of what impact it would have on your export sales, and what effect it would have on inflation?

Mr. MOFFATT: Mr. Lloyd, you are trying to get this into the level of how much a person should get, and so on, but I am merely talking about principles of administration.

Mr. LLOYD: I assure you, Mr. Moffatt, that all of your observations on administration have been observed by every member of this commitee. I think it might be appropriate at this time to state, Madam Chairman, as these minutes are being recorded, that we are very mindful of the administrative difficulties that exist, and we are anxious to get together with our staff when these hearings are over to see if we can find ways and means of making the administrative problem easy. I do not think this has been stated, but all of us are most anxious to discover ways and means of easing the administrative difficulties that witnesses are pointing out—that is, if it is at all possible to do so.

Mr. MOFFATT: Thank you.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are you finished Mr. Cashin?

Mr. CASHIN: Yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Munro?

Mr. MUNRO: I have just a couple of questions that arise out of the others that have been asked. Mr. Moffatt, you discussed with Mr. Knowles your private pension plan. I might not have understood you clearly, but did you indicate that there were certain facets in your private pension plan that deal with employees' contributing two per cent—that there is a two per cent and a three per cent class as distinct from the four per cent category?

Mr. MOFFATT: No.

Mr. MUNRO: I have one other point, Mr. Moffatt. You have indicated some concern at the administrative level because of your rather unique position vis-à-vis Ontario and Quebec concerning the possibility of administrative problems that you feel will be caused by the Quebec pension plan and the Canada Pension Plan. I think it was indicated that you felt there will be some differences here that will complicate your administrative procedures. I wonder if you have any comment on this. Certainly, the explanations that have been given before the committee up to date by all the departmental officials, and all indications to date by the Quebec Government, would indicate that the Quebec plan is going to be fully integrable in every way with the Canada Pension Plan. That being so, and because the legislation concerning the Canada Pension Plan uses the word "comparable" which, in essence, connotes "almost identical," and which is fairly strong language, I would suggest, therefore, that in that particular area there would not be any administrative problems, not only for you in your unique position but for other employers too with respect to the Canada Pension Plan and the Quebec plan.

Mr. MOFFATT: Even the simplest acts or regulations and directives create problems, and this is not the simplest bill that I have seen. All I would say is if I were to come back here a year after the implementation of the Canada Pension Plan I would bore you with the troubles we have had.

Mr. KNOWLES: That is a relative term.

Mr. MUNRO: Perhaps Mr. Basford would be more competent to talk about this, but you talked about the Quebec plan and you mentioned the Ontario plan. Of course, there is no real indication from Ontario as to their intentions—we are all aware of that—and you also mentioned British Columbia. As I understand it, the Premier of that province has indicated his complete support of, and his intention to bring his province within, the Canada Pension Plan, and not to set up his own.

Mr. MOFFATT: No doubt he knows much more about it than I do. I merely say that the trend has started, and we do not have much control over these things afterwards.

Mr. BASFORD: Premier Bennett has always claimed to be a Canadian.

Mr. MUNRO: I think as a result of the questions asked by Mr. Gray on this matter of stringent control, I take it that your feeling is that there should be some more lengthy period and some more stringent control over changes in the plan. Am I correct in that suggestion?

Mr. MOFFATT: I am not quite sure that I know what you mean by "stringent control".

Mr. MUNRO: In your brief you have mentioned: "Pressures for adjustments, which inevitably will follow". I think it is your point that you would like some type of more stringent control to prevent many adjustments without proper planning behind them that you think will inevitably result in more administrative difficulties, and you want more safeguards in the act. Do I interpret you correctly?

Mr. MOFFATT: I think you did misinterpret what I had in mind. I am concerned about adjustments and pressures for them, but I do not believe that you can put into an act a control which will offset or defeat those pressures. I think the responsibility of our members, both in the Government and in the Opposition, is the best control we can have.

Mr. MUNRO: So you feel that the sections in the act that have the undoubted effect of making controls and limiting the power of adjustment should be, perhaps, removed?

Mr. MOFFATT: No, I am not suggesting that because I do not know enough about the controls and the reasons why they are put in, but you cannot make this plan an iron-bound plan no matter what you do.

Mr. MUNRO: I just want to get your impression of the provision that it requires two-thirds of the provinces, representing two-thirds of the population, to consent to any adjustment—that this was quite a safeguard in this direction.

Mr. KNOWLES: Be careful of that one.

Mr. MOFFATT: I am being careful. I considerated that this section called for a great deal of negotiation and I, as a neophyte, am not going to say whether it should or should not be there. I repeat that the Government and the Opposition are the most effective control we can have. If they are responsible, we have control, if they show a lack of responsibility, then any control written into the act would be of no value.

Mr. MUNRO: You indicated you were born in 1904 and that if you worked steadily until the age 70 you would be one of those fortunate Canadians who would get the full benefit of the transition period.

Mr. MOFFATT: That might be some reason for having it greater than it is now.

Mr. LEBOE: I believe you said your plan was one of the conditions of employment, that it is compulsory. Must your employees do this?

Mr. MOFFATT: After two years it is compulsory.

Hon. Mr. CROLL: That is where we learned our tricks. Ours is compulsory, too.

Mr. LEBOE: Could we have a simple example of the total earnings and the $1\frac{1}{2}$ per cent, as it is figured out, so that it would be on the record?

Mr. HUTTON: You could work it out by the examples. The future service benefits are equal to an annual income of $1\frac{1}{2}$ per cent on total earnings, while contributing to the plan. That is for future service. There is a past service.

Mr. LEBOE: I am thinking of future service.

Hon. Mr. CROLL: I understood that Mr. Knowles was comparing the pension plan. Yours has no survivor benefits, has it?

Mr. HUTTON: Our plan has a guaranteed retirement income of five years. That is the only guarantee. Five years is guaranteed to the estate.

Hon. Mr. CROLL: Is there a disability pension?

Mr. HUTTON: We have a form of disability but it is not universal in the plan and does not cover all the employees.

Hon. Mr. CROLL: Has it a widow's pension?

Mr. HUTTON: No, only to the extent of the survivors being guaranteed five years to the estate.

Hon. Mr. CROLL: Has it an orphan's benefit?

Mr. HUTTON: No.

Hon. Mr. CROLL: So there are some differences as indicated here between our plan and the present plan which you have—which I am not suggesting is inadequate by any means?

Mr. MOFFATT: Yes.

Hon. Mr. CROLL: Let us go back to controls. I do not know whether you have seen the evidence given by the Chief Actuary for the United States, Mr. Myers, to the effect that since 1935, every two years, almost from its inception, there have been changes in the act and the Americans have had to raise the amounts. Our plan calls for a halt for three years, which is more than they got.

Mr. MOFFATT: It is no surprise to me and it reinforces the point I made that there will be pressures and there will be changes.

Hon. Mr. CROLL: With regard to administration, witness after witness has told us there will be problems of administration. Now that I know your age, I draw your memory back to the family allowances. Do you remember the debates about troubles in administration; and do you remember a man named Claxton who put it on the road within 60 days, just in time for the election?

Mr. MOFFATT: I do not know if it had any bearing on it.

Hon. Mr. CROLL: There was no trouble. This Government has great capacity. All governments have great capacity for administration and are able to do these things.

Mr. KNOWLES: King would turn over in his grave. It was not to come into effect until after the election.

Hon. Mr. CROLL: It was not paid until after the election.

Mr. KNOWLES: King made a point of that.

Hon. Mr. CROLL: I say it was on the road before then.

Mr. KNOWLES: You will be hearing from him tonight.

Hon. Mr. CROLL: From his spirit?

Mr. MOFFATT: I agree that governments can administer almost anything and can adopt the administration to do so. They can put in a new department and a new staff and increase that staff if necessary. I was not speaking of government administration but of the administrative problems of our company. We must watch our costs and we point out now that there will be administrative problems in our company. We say that the governments will have these also but the governments have the resources to meet them.

Hon. Mr. DENIS: I understand the employer and employee pay 8 per cent. As regards integration, could you deduct from that 8 per cent the 3.8 per cent contribution charged under the Canada Pension Plan? Could you deduct that from the pension plan and, when these benefits come into effect, could you deduct from the benefits you should pay, the amount of money paid by the Canada Pension Plan?

Mr. MOFFATT: It can be done but it is a roundabout way of giving to the less fortunate and the aged something to which, in your belief, they are entitled.

Hon. Mr. SMITH (*Queens-Shelburne*): A submission was filed this morning by the Canadian Pulp and Paper Association. I understand that no representatives of the Association will appear before the committee, so we cannot enlarge on their brief in that way. However, as a member of that Association, I would like to bring to your attention the following paragraph, which I will read, and would then ask you if you feel you could comment on it and tell me what weight you would give to the thought contained in it. The paragraph reads:

> We believe that it is important that integration should take place. We recommend therefore that the Joint Committee consider making a statement that, where satisfactory private pension plans now exist, it is desirable that the Canada Pension Plan be combined with the private plan in such a way that there is protection of the existing level of benefits with no additional cost being imposed on the employee or the employer.

That is the first part of the statement. Then there is this other part, which I think would call for a separate comment:

> We believe that such a statement would make a valuable contribution to the formulation of public opinion on the matter, and that it would be consistent with the announced intention of the federal government to integrate with the Canada Pension Plan its existing superannuation plan covering civil servants.

The CHAIRMAN (*Hon. Mrs. Fergusson*): It is scarcely fair to ask Mr. Moffatt to comment on that brief.

Hon. Mr. SMITH (*Queens-Shelburne*): Madam Chairman, perhaps you would permit me to put it. I am not asking him to disagree with this. I am asking him what weight he would give to the thought contained in it. Is it important that that be emphasized and pointed out to the public, that where a satisfactory plan exists, an attempt should be made not to reduce the benefits and at the same time not to increase the contribution—as is done in the federal superannuation.

Mr. MOFFATT: I happen to be a member of the executive committee of that Association. I think the Association is merely saying that the Government has taken this step as far as civil servants are concerned and a similar step regarding other wage and salary earners would not be unwelcome.

I am speaking now on behalf of the Eddy Company, but I think it is a very good thing, and would be a very good thing if this were done. It would give our people in industrial relations some guidance, would give management some guidance, and would help wage and salary earners to understand that this plan was really designed to help those not presently covered under any pension plan.

Hon. Mr. SMITH (*Queens-Shelburne*): In that case, Mr. Moffatt, the key to the whole thing would be what is the joint opinion of the employers and the employees regarding definition of "satisfactory pension plan". If your company has a plan which is satisfactory to those employees, and you both decided you would like to carry on that plan without adding to it, then you think it is important that it be pointed out to all those concerned that they should integrate on the same general basis as the Government superannuation plan?

Mr. MOFFATT: We would think it would be helpful, yes.

Hon. Mr. SMITH (*Queens-Shelburne*): Perhaps I might add, for your understanding of it, that I have had some discussion with the manager and president of one of the companies of the Pulp and Paper Association, who himself thinks it is a very important thing to be considered by both employers and employees. I was wondering whether you would agree with him.

Mr. MOFFATT: Also it depends on the status of their agreements. Our pension plan is not a negotiable item. That would alter an opinion. But, in any case, we think it would be very helpful in guiding us when talking to our employees individually on the pension plan; but this is not a matter for union negotiation, as far as our company is concerned.

Hon. Mr. SMITH (*Queens-Shelburne*): Can you tell us whether this subject is in general not a matter that is negotiable when you are talking over your problems with the unions?

Mr. MOFFATT: Well, sir, in general, those who have had newer plans are inclined to have plans which have been negotiated, largely because pressure is brought about in some of those plans.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Monteith?

Mr. MONTEITH: Just a brief question. Mr. Moffatt, did I understand you to say in response to a previous question that if you had had a choice you would have preferred to see one pension plan operated by the federal Government? Would you be inclined to think that we could have expanded the present old age security plan to take into consideration survivorship, disability, orphans, and possibly reducing the age limit, and so on, and that adjusting the present plan could meet those requirements without having brought in a separate plan?

Mr. MOFFATT: That would have been my approach, having been given the problem, yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Knowles.

Mr. KNOWLES: Madam Chairman, I put my hand up with respect to a particular subject, and I guess I will stick to it. I was interested in your statement, Mr. Moffatt, that you were having difficulty in getting various actuarial firms to come to any agreement with regard to your integration problem. I wonder if it is not a fact that if you will have an integration problem, you will need to consult actuaries only if you wish to cut back on you present 4 per cent plan. Is it not a fact that if you and your employees were to agree to add a Canada Pension Plan to 1.8 there would be no integration problem, other than just a problem of paying for it, bookkeeping, and so on, and that there would be no integration problem if you added 1.8 on top of your 4 per cent which you have already?

Mr. MOFFATT: Then we merely have the added administration problem, and that is all.

Mr. KNOWLES: And do you not think that it is fair for me to suggest that you look at it in this way, that your situation be not compared with the civil service plan, because there is a plan where the present payment is 6.5 per cent, and when 1.8 is added on top of 6.5, surely that creates an integration problem that does not apply when adding 1.8 per cent to a 4 per cent plan, remembering, of course, that it is not 1.8 per cent on the average, and that you will not end up by paying that, because your 4 per cent is on gross income, whereas your 1.8 per cent is based on an income between $600 and $5,000 a year. So what I am saying is that your situation is really not comparable with that of the civil service plan.

Mr. MOFFATT: Not comparable in that respect, that is correct.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Any other questions which the members of the committee wish to ask?

Thank you, Mr. Moffatt and Mr. Hutton, on behalf of the committee for coming here.

Mr. MOFFATT: Thank you, very much.

Mr. MONTEITH: And may I add that with Mr. Moffatt's first appearance before the committee I hope he finds some understanding from us, and has found it very relaxing and enjoyable.

AFTERNOON SITTING

MONDAY, January 18, 1965.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mrs. Rideout and gentlemen, we have a quorum, and we have two briefs to consider this afternoon. The first is from the Canadian Federation of Agriculture, which is being represented by Mr. David Kirk, Executive Secretary of the Federation, and with him is Mr. Hurd, who is assistant executive secretary. It was not possible for the president, Mr. Bentley, to be with us this afternoon because their annual meeting is coming up next week and they are very busy holding meetings prior to this to be prepared for the annual meeting. So I will ask Mr. Kirk and Mr. Hurd if they will come to the table.

I think you understand, Mr. Kirk, we do not want the brief read, but wish you to summarize it and bring out the points you particularly want us to consider.

Is it agreed that these two briefs be added to the minutes?

Agreed.

Hon. Mr. THORVALDSON: Madam Chairman, are there any copies of this brief?

The CHAIRMAN (*Hon. Mrs. Fergusson*): I think the secretary has some.

Hon. Mr. SMITH (*Queens-Shelburne*): Madam Chairman, with respect to the brief which was placed in our hands this morning, brought forward by the Canadian Pulp and Paper Association, has that been made part of our proceedings too?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, when I called for a motion this morning I mentioned both briefs.

Mr. KNOWLES: Mr. Kirk's brief is so short I wonder if he could make his summary shorter. The summary will probably be longer.

Mr. DAVID KIRK (*Executive Secretary, the Canadian Federation of Agriculture*): I do think it would save time if I just read it.

Hon. Mr. CROLL: Go ahead.

Mr. KIRK: The Canadian Federation of Agriculture has over many years favoured the institution of a contributory pension plan in Canada, and welcomes the fact that such a plan is now before Parliament. We hope it will soon become part of the Canadian social security system.

On the introduction by the Government of Canada of the first bill setting out a Canada Pension Plan, the Canadian Federation of Agriculture reviewed its provisions and made strong representations to the Government and to members of Parliament that the coverage of self-employed people, including farmers, should be on a compulsory, rather than on a voluntary basis. We are therefore very glad to see that the present bill provides for coverage on this basis, and are gratified that in Parliament the Minister of Health and Welfare noted our organization's position in this respect. It was our view, and still is, that with the passage of the years a system of optional participation would result in nothing but trouble and inequity, and that many of those most needing a pension income would find themselves altogether deprived of one, apart from the flat rate old age pension.

It was the view of our Board of Directors, also, that there should be no lower limit below which self-employed people are not credited with pensionable earnings for purposes of future calculation of pension rates. For one thing, the logic of the "Year's Basic Exemption" system, it seems to us, is at least that if a person earns only the amount of that exemption he should be credited with income for the year of the amount of the exemption, and not with zero, which we understand is the way the plan works now. In short, we do not think there should be anyone who may not be credited with an income for pension purposes in any year.

One other specific point we wish to raise has to do with the calculation of the pensionable income of self-employed persons. Section B of the bill seems to us to define income according to the terms of the Income Tax Act. We take it that this means that when a farmer adopts averaging, then his averaged income will be, also, his income for pension purposes. If this is not so the act should be revised to make it so. With the extreme variability of many farm incomes, there will be many farmers whose income will fluctuate above and below the maximum pensionable earnings figure. If averaging, for pension purposes, is not permitted, the farmer who experiences such fluctuations will certainly end up with a considerably smaller pension.

That is the extent of our submission.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you very much, Mr. Kirk. You are prepared to answer questions posed by the committee, I presume?

Mr. KIRK: Yes.

Mr. KNOWLES: Madam Chairman, I am sure, once again, I am speaking for the committee when I say we all welcome this brief. If there are any who disagree with that, then surely they welcome its brevity.

I admit the questions I wish to ask arise out of the fact that we are sometimes told—and I have even heard it said in this committee—that the farmers of Canada are not really interested in this plan. I am therefore, Mr. Kirk, extremely interested in your strong support of the plan and your approval of the fact it has been put on a compulsory basis for self-employed people.

May I be so bold as to ask if you feel you are speaking for the farmers of Canada when you take this position?

Mr. KIRK: Yes, we feel we are. This has been our policy now since shortly after the first bill was introduced. There has been a wide dissemination of the information. This is the position that initially our board took, and it was their judgment this would be in the interest of farmers and would be favoured by them. We have had no indication except the indication of support since that policy was established and up to the present time. Perhaps Mr. Hurd could speak on the farm forum aspect.

Mr. LORNE HURD (*Assistant Executive Secretary of the Canadian Federation of Agriculture*): There are two points on this. First of all, in addition to the Board of Directors taking the original initiative, the policy was confirmed at the 1964 annual meeting of the federation, where there is a very wide cross-section of representation. Secondly, there was this past fall on the National Farm Radio Forum a program devoted to the consideration of the Canada Pension Plan. The result of that forum finding was that 60 per cent came out clear-cut in overwhelming support of the plan as proposed, another 25 per cent were not too sure and felt they needed further information, and only a very small percentage said they opposed the plan. If I recall correctly, this represented something of the order of over 100 forums. There were about 1,500 people involved in the broadcast, if I recall correctly.

Mr. KIRK: It is a sample that indicates, outside of our organizational affairs altogether, the same view.

Mr. KNOWLES: Do you feel, therefore, you are not just giving us a head office opinion but that, rather, you are expressing what you believe to be the views of the farmers of Canada? You would not be in head office very long otherwise.

Mr. KIRK: We never place head office opinions before these committees.

Mr. KNOWLES: Madam Chairman, as other members too are interested in the point you make in the third paragraph of your brief about people with incomes of less than the $600 level, I wonder if I could be permitted to ask Mr. Osborne a question of fact on this, so that we are clear?

Is it correct, Mr. Osborne, that a person earning just over the exemption level, say $601, if he is an employed person, or $801, if he is a self-employed person, pays and gets credit for that full amount—be it $601 or $801; but that a person just under, say at $599 for an employed person or at $799 in the case of a self-employed person, pays nothing and gets no credit?

Mr. OSBORNE: The person who earns $601 pays on the $1 and gets credit for $601. The self-employed person who earns $801 pays on $201 and gets credit for $801. The person who earns $599 pays nothing and gets no credit. The person who reports self-employed income of $799 pays nothing and gets no credit.

Mr. KNOWLES: That was the information I wanted. In light of that, I would like to say to Mr. Kirk I think the point he has made in this third paragraph of his brief is one the committee ought to look at.

Mr. CANTELON: The first point that I had to bring up was one which Mr. Knowles has already mentioned, and that is the point—at least I think this is the one he was getting at—that the farmer's income should be arranged the same as is done under the income tax, so that you can collect on years of low income. I hoped that this suggestion would be carefully considered by the Government.

I noticed too that you seemed to be quite sure in your own mind that this bill should become part of the Canadian social security system. I wonder if you envisage many changes in it or if you think it is practically perfect the way it is.

Mr. KIRK: That has relation to the length of our submission, of course, and the number of subjects we have covered and the number we have not.

I would describe the position this way. It would be going much too far to say that you could take any omissions in terms of policy issues that are involved in the bill as reflecting the view of the Federation that the bill is correct as it stands. The correct position is that our organization has reviewed the bill; it is in favour of a pension plan. It has not identified, on the basis on which it has reached any consensus or agreement, any further lacks on which it wishes to speak.

I do not say in the future, with the operation of the plan, it might not, but it has not to this date, and therefore, of course, there is a presumption of approval. However, I think it would be going too far to say that there is a presumption that we have the considered view of the Canadian Federation of Agriculture.

We do not claim to have given that kind of exhaustive study or to have reached that kind of exhaustive study on all the provisions.

Mr. CANTELON: I was intending to go further, but in the light of that answer I need not do so. I presume that you are commenting on the things that particularly interested you, and there may be factors in the bill that you may not like or that we may not like, but you are not bringing this to our attention. You want to bring these particular factors which you are interested in.

Mr. KIRK: Only things for which we have a policy mandate.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, Senator Thorvaldson? This has to do with the last remarks?

Hon. Mr. THORVALDSON: Yes. It has to do with the paragraph with respect to no lower limit. That seems to me to be the essential part of the brief. It is the most important part of the brief. You give just a few lines to it, though.

Are you really serious or have you any argument to back it up, because you simply state that that is your position, but you give no argument with regard to it.

I presume you must realize that the problem is one of administrative costs as well as other factors which must have been thought out very carefully. Consequently, although I might say I am interested in your proposition, I wonder if you have any more argument in favour of the proposition that there should be no lower limit?

Mr. KIRK: First of all, our basic argument with respect to the lower limit is simply that this is what you might call a credit that people are getting, citizens in this country are getting, each year, and we think it is thoroughly illogical that by virtue of exceeding a lower income somebody should be deprived of that credit, that is, the basic credit.

Mr. KNOWLES: The $699 man gets it but the $599 man does not.

Mr. KIRK: On the question of administrative difficulties I cannot say we have an administrative plan or have assessed this exhaustively in terms of administration. What we do think is that we have arrived in this country at the stage where we must take account, and must devise ways and means of taking account, of the position and interests of all the citizens in this country, and we speak particularly of the self-employed, of course, as representing self-employed people, and that quite simply this should be done.

I suppose that arguments of administrative convenience could be raised that would be on the side of letting people be missed, so to speak, in the whole procedure, but we don't think they should be missed.

Hon. Mr. THORVALDSON: In other words, you agree that there should be some minimum. Do you agree that there must be some minimum or do you still hold to the point that there should not be any minimum at all? That is what I am getting at.

Mr. KIRK: We are saying there should be no minimum, which means that everybody comes into the plan each year.

Mr. KNOWLES: No minimum for credit.

Mr. KIRK: For credit.

Mr. KNOWLES: You don't mind a minimum for contribution purposes.

Mr. KIRK: No, no; the minimum is for credit purposes.

Hon. Mr. STAMBAUGH: Did I understand you to say that you have taken a vote of the members with regard to the compulsory part?

Mr. KIRK: No, sir, we did not say that. Supplementing our normal organizational procedures for assessing farm opinion, which is the whole organizational structure, you see, and the process for considering policy questions and discussing them over the years and at meetings and in conferences—supplementing that, we pointed to the evidence of a national farm radio forum discussion group program which dealt with the pension plan.

These discussion groups are voluntarily organized discussion groups of farmers. They are not a federal agriculture organizational group.

But our point was that the findings of those groups told the same story as we are telling, in the sense that the farmers of those groups supported, by a good solid majority, the compulsory plan and coverage of self-employed people.

Hon. Mr. STAMBAUGH: You evidently feel certain that the majority of the members are in favour of the compulsory part.

Mr. KIRK: Yes.

Hon. Mr. STAMBAUGH: You have never had a resolution passed at a conference?

Mr. KIRK: Yes, we have.

Hon. Mr. STAMBAUGH: Oh, you have?

Mr. KIRK: Yes, of course; yes, we have.

Hon. Mr. STAMBAUGH: Do you know if the same holds true of the Farmers' Union of Saskatchewan and Alberta?

Mr. KIRK: I am not sure. I am not saying it does or does not. I don't recall, and I should not speak for them without being perfectly sure.

Hon. Mr. STAMBAUGH: I thought you might know if they had had a resolution at a convention, possibly.

Mr. HURD: We go so far as to say they are not member bodies of our organization and they have not opposed compulsory organization through our organization.

Hon. Mr. STAMBAUGH: You have discussed this with them?

Mr. HURD: Through our annual meeting, yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Côté?

Mr. CÔTÉ (*Longueuil*): Can you tell us if this plan will cover most of the farmers in Canada, and do you have any ideas about the number of farmers who should be covered?

Mr. KIRK: In terms of the income position of farmers?

Mr. CÔTÉ (*Longueuil*): Yes.

Mr. KIRK: $800 is not much money to live on these days, and there are farmers who make less than this, and some who make less than this quite regularly, we are quite sure. I don't just have those figures with me. They are not easy figures to deal with because any data we have is not clear on the total income position of the farmer and non-farmer, but there are data which do indicate that there are very significant numbers of farmers who are almost exclusively engaged in farming, whose net income position, judged by their gross sales could hardly be more than $800.

Mr. CÔTÉ (*Longueuil*): But the majority of farmers are above that.

Mr. KIRK: The majority of farm people, I think, are above this limit, of course. If you take their full income position into account, that is.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Is that all you wanted, Mr. Côté?

Mr. CÔTÉ (*Longueuil*): Yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Basford.

Mr. BASFORD: I noted the position of your Federation is that the Canada Pension Plan should be compulsory. Now, the committee had before it the other day a Mr. Kilgour, the President of the Great-West Life Assurance Company, and he wept crocodile tears over the fate of the western farmers, saying, as I understood him, that this plan would be ineffective for that group of farmers earning $1,200 or $1,500 a year, and it would not be helpful to him, and the Government would never be able to make collections from those farmers.

I take it that your Federation does not agree with that submission?

Mr. KIRK: No, it does not.

Mr. BASFORD: Thank you.

Mr. HURD: I might add that we have not made it clear, and it should be clear to the committee, that our organization asked for a contributory pension plan before this Government or any other Government proposed that such a plan be implemented. This is not a new policy position with our organization.

When the pension plan was introduced by the Government we opposed the voluntary nature for self-employed people, and our annual meeting clearly gave us a mandate to raise the question of compulsory coverage for the self-employed.

Mr. BASFORD: You think it is administratively feasible to collect contributions from a farmer who is making a cash income per year?

Mr. HURD: Yes.

Mr. BASFORD: I notice in your brief you ask that averaging be allowed but not for the purpose that farmers and fishermen are allowed to average their income over a number of years, which is to avoid the incidence in a good year of highly graduated rates of income tax. I point out that under the Canada Pension Plan the contributions are at a flat rate, of 1.8 per cent or 3.6 per cent, regardless of income, and that the need for averaging, such as that to avoid an increasing rate of tax, is not there.

Mr. KIRK: In this respect that problem does not arise, I agree, and especially, let us say, ten years from now when a farmer who has had this variability of income around the maximum. You see, if his income varies around—that is, above and below—$5,000, then his average for benefit payments, if the averaging is not allowed, would have to be below $5,000, even though the average of his actual income might have been $6,000, because you cannot put into the plan an average of income of more than $5,000 in a year. That is the reason for it.

Mr. MACALUSO: Supplementary to that question, Madam Chairman, and with respect to the averaging of the farmer's income, will not the way the average is calculated in the bill itself provide this average you are talking about, and about which you are concerned?

Mr. KIRK: We do not think so—at least, as we understand it—because in a year in which a farmer's income is, let us say, $6,000—let us take two years for a simple average. If his income was $4,000 in one year and $6,000 in another, the average of his income would be $5,000, which is the maximum for pension payments. But, the way it would work, if the averaging did not apply, would be that he would have to pay on $5,000 in his $6,000 year, and on $4,000, as we understand it, in his $4,000 year, and his average for those two years would be $4,500 and not $5,000.

Mr. MACALUSO: Well, Mr. Kirk, at page 2 of your brief, in the third paragraph, does not the Federation say that it believes that if the exemption were done away with the coverage would really be extended to more farmers in Canada?

Mr. KIRK: Yes, it would.

Mr. MACALUSO: Do you have any idea how many more farmers would be covered if the exemption was done away with? Have you made any studies of that?

Mr. KIRK: I am sorry that I cannot remember the figures, but an analysis that ARDA made the other day of the census figures showed that there are considerable numbers of farmers who work only one month or less off the farm in a year and whose gross farm sales are $2,500 or less. When you make only $2,500 in gross sales, then your net is very, very likely to be under $800. Unfortunately, we really do not know precisely how many such people there would be. We think there would be quite a number of individuals. I think that one of the ways in which people manage to get along at all in some of these low income positions is that they really have a family position. They have other people in the family who probably help, and who contribute to the income, but this income is based on the earnings of adult individuals. We are quite sure that there are significant numbers of adult individuals engaged in farming who make a net of $800 or less in one year at one time or another, but I am talking of a fairly persistent thing.

Mr. MACALUSO: You readily realize, as you say, that there are many families who make a net of $600 or $800 a year who should not be in the farming business. This is a problem that is brought up intermittently. You can perhaps sustain your family, but if you need other things then an income of $600 or $800 or even $1,000 presents a problem, but a different problem from the one that presents itself with respect to averaging income for self-employed people. Am I making myself clear to you?

Mr. KIRK: I am not sure.

Mr. MACALUSO: There are two problems. There are many farmers whose net may be only $800 or $1,000 per year, and there is one problem in the fact that perhaps that adult person should not be in farming. While he may be able to keep his family on what he is able to grow on his own farm, and try to save what he makes over and above that, do you not think that the low income of this person will hurt the income of the moderate income farmer—that his average may be reduced as a result of the net of $800 or $1,000—in his having his income averaged over the same period of time?

Mr. KIRK: It does not seem to me—I do not really see the relationship. The averaging provision we are talking about is, first of all, an optional provision in the Income Tax Act. A farmer does not normally use it if his income is at a level where he does not pay income tax. As you pointed out yourself, if he stays persistently below the $5,000 level then the averaging makes no particular difference because it is averaged in the regular processes of the bill. It is when his average is around the $4,000 to $6,000 level—

Mr. MACALUSO: Would you not feel that averaging is likely to have an adverse effect on the income of other farmers in the calculation of their averages?

Mr. KIRK: I really do not see how the averaging provision used by one farmer affects another.

Mr. MACALUSO: This is just for the sake of my own curiosity, you might say, because I understand that losses would be included in the determination of average earnings which would otherwise be excluded, and that many farmers would be deprived of the benefit of the drop-out formula that is in the bill.

Mr. KIRK: Well, I can see where there might be problems of decision arising for farmers. I do not know for sure, but I can imagine that there might be problems of decisions with respect to adopting averaging, if they think that averaging has one impact that is favourable to them in relation to income tax, and another impact that is unfavourable to them in relation to pension benefits. I do not say that that is impossible, if that is what you are referring to, but that is a thing that will have to be worked out.

Mr. MACALUSO: Would not the losses in one year act to reduce earnings in other years, thus lowering the pensionable earnings unnecessarily?

Mr. KIRK: Yes, they could, if your position was that these years were of such a number that they could be eliminated altogether under the averaging provisions.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Is that all, Mr. Macaluso?

Mr. MACALUSO: Yes, Madam Chairman.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Munro?

Mr. MUNRO: Just following along on the averaging, would it be fair to say that for the farmer whose income is up around, as you say, the $5,000 level, the bill in not going along with the averaging that you desire, does, in effect, have somewhat of an adverse effect such as you have described, because a farmer may earn $6,000 in one year and $4,700 in the next year, and he has lost the benefit of that cushion of $1,000. But, you are talking about that particular class of farmers who are up close to the $5,000 level?

Mr. KIRK: That is right.

Mr. MUNRO: When you get to the farmer who is at the $3,500 or the $4,000 level then your argument for averaging would seem to lose a considerable amount of force, because in that particular case if there were averaging as you desire, then that particular farmer who generally fell between that range but who had losses during one year, because of this very unfavourable climate that farmers live in, would be concerned about the drop-out feature for the months of lowest average earnings, and as a result his overall income of, say, $3,500 or $4,000—if it was a drastic loss in one year, his whole pensionable earning record over a series of years would be lower, and he would be really penalized by this very provision that you are suggesting we should incorporate in the bill.

Mr. KIRK: Probably we should have enlarged on this point. We thought of this in terms of an option. It is an option in the Income Tax Act to average for income tax purposes. I am sure we thought of it in terms of the availability of the same option in connection with the pension plan payments, if it were a necessity to average. Under the Income Tax Act you pick five years to average on if you want to. It is not a regular moving average. We are not suggesting that for the pension plan, either, for farmers. Otherwise the factor you mention would certainly occur.

Mr. MUNRO: Then you would be prepared to go this far, that in the mid range—it does not amount to very much money, but we have heard some argument that we should be most anxious to help those in the lower income bracket, the $3,000 to $3,500 range—the way the bill is now drafted is really beneficial to them. There are two sides to this averaging business.

Mr. KIRK: Yes, of course

Mr. MUNRO: I would suggest that the way the bill is now, it is assisting the farmer whose earnings are at the lower level, as compared to the farmer whose earnings are around $5,000.

Mr. KIRK: I agree it should be automatically an option than otherwise. If it is applied as a requirement to average in the regular way, this would undermine for many farmers the advantage of this provision for dropping a number of low income years.

Mr. MONTEITH: As a very simple average, it does not have to be collectible on the same basis as income tax.

Mr. KIRK: It would not be too difficult to average for income tax purposes.

Mr. MONTEITH: It occurs to me that the Department of National Revenue on a collecting basis would find it much more sensible to collect it in any one year on the same basis for both.

Mr. KIRK: It would be more convenient. As this gentleman has pointed out, you could force a farmer into a position of either hurting himself on the pension side of it, or hurting himself on the income tax side of it, either by averaging or not averaging as the case might be, and it seems to me that in both cases they should be optional for their own purposes, because they are different purposes.

Mr. MUNRO: You mentioned the Income Tax Act in the brief. You say that according to the terms of the Income Tax Act, and as you understand it, the provisions here would be that, as far as determining pensionable earnings are concerned, we do not count investment income or, say, income from rental purposes. There is a distinction there. This act was compared to the Income Tax Act. What is your feeling, as far as this factor is concerned, with relation to the farmers?

Mr. KIRK: I must say that is a point which has escaped me. We were thinking in terms of section 13: "The amount of the self-employed earnings of a person for a year is the aggregate of... his income for the year from all businesses..." except, as you point out, the rent. We do not have any particular view on that particular aspect of it. I must say I have not thought that one through at all, nor has our board thought it through, so I would hate to jump at that one.

The CHAIRMAN (*Hon. Mrs. Fergusson*): You could scarcely answer it, if you have not considered it.

Mr. FRANCIS: I want to ask whether the federation had looked at the definition of income which is used by the old age security legislation in the United States, where they have a separate definition of farm income. I thought that when Mr. Myers, the actuary, was testifying before us, it was closer to the concept of gross farm income. I wonder if the federation has looked at this?

Mr. KIRK: We have not given any special study to that concept. The net income proposition did not, on the whole, strike us as an unreasonable one, looking at it in terms of the whole concept of the act.

Mr. MACALUSO: My questions are the same as Mr. Munro's. There are very few definitions which might be confused here on income. One is calculated for pension purposes from contributions from salaries or wages and that is what is included in this bill, whereas income tax under the Income Tax Act includes business income, rental profits, and you are also excluding losses. I think there are two definitions which are probably being confused, one for income tax purposes and one for this bill.

Mr. KIRK: Yes, there is that exclusion there. I agree they are different.

Mr. MACALUSO: If the net earnings for pension purposes is going to mean initially that rate of 1.8 per cent, there may be no need to average farm income over a period of years for the purposes of levelling out the effect of graduated rates of tax.

Mr. KIRK: For a great many farmers there is no need for the average and, as has been pointed out by members of this committee, in some cases it would be a positive disadavantage if it were attempted, but there will also be cases, and this is why we want the option, where it is a distinct advantage to have that option, because the variability happens to turn around this point.

Mr. MACALUSO: You probably have in your office some figures giving the number which would be affected amongst the farmers. Would it be possible to provide that information in writing to this committee for its consideration?

Mr. KIRK: We will provide the best we can. You understand that farm income figures are excessively difficult figures to get, especially in terms of something that makes a net income, because there are no net income figures.

Mr. MACALUSO: If it is possible.

Mr. KIRK: We could provide figures that would give some indication.

The CHAIRMAN (*Hon. Mrs. Fergusson*): You will send them in to the secretary to the committee?

Mr. KIRK: Yes.

Hon. Mr. THORVALDSON: I wonder if you would answer a question with regard to the figures at the top of page 2, where you state that there should be no lower limit below which self-employed people are not credited with pensionable earnings, and so on. I thought Mr. Kirk suggested that you might be able to get the figure as to the number of people affected and if you could it might be valuable to have it for the committee.

Mr. KIRK: Again it would only be an indication and it is in that particular category that we are most able to give an indication. With respect to the impact of the averaging and the number of farmers affected by that, I am exceedingly doubtful about the likelihood of getting any useful figures in that area.

Mr. KNOWLES: A question was asked earlier of the witnesses with regard to the position in a compulsory pension plan of the farmers unions. Naturally we could not expect these witnesses to testify for other organizations, but I might refresh the memories of the members of the committee. As all honourable members know, just about every year, briefs are brought to us in Ottawa by the Federation of Agriculture and by the Interprovincial Council of Farm Unions. I happen to recall what was in these briefs on these subjects, because I pay particular attention to them and asked questions in the house based on that. My memory is quite clear that on two occasions in recent years farmers unions through their interprovincial council have supported the principle of the self-employed being included on a compulsory basis, parallel to the position taken by the Federation of Agriculture. I think that since a question was asked and since we all have the answer it might as well be on the record.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you, Mr. Knowles. Although you are not really called upon to give evidence, that is very useful information.

Hon. Mr. CROLL: It is really not evidence, it is testimony.

Mr. KNOWLES: It is given just to refresh your memories.

The CHAIRMAN (*Hon. Mrs. Fergusson*): It is good to have it on the record. Mr. Kirk and Mr. Hurd, thank you for coming before us.

Our next witness is Mr. R. C. Dowsett who is a Fellow of the Society of Actuaries.

Mr. Dowsett comes from Toronto, where he graduated from the honour mathematics and physics course, University of Toronto. In 1954 he qualified by examination as a Fellow of the Society of Actuaries. He stresses that he is not appearing as representing that Society but merely is representing himself. Mr. Dowsett, would you give a resume of the points you want taken up, and then answer questions.

Mr. R. C. DOWSETT (*Fellow of the Society of Actuaries*): Thank you. Honourable members, as Madam Chairman has said, the views expressed in this brief are my own and I present them as a Canadian citizen concerned about the future of Canada and about the environment in which my children will live and work.

My brief was prepared hurriedly and in places it is not quite clear. For this I apologize, but there was little time available before the December 31 deadline.

In its currently proposed form, the Canada Pension Plan would have some very important advantages. Widows benefits and orphans benefits, provided on a modest basis, are desirable; also, some method should be found to increase the total social pension available for some older persons under 70 years of age.

However, the Canada Pension Plan has serious shortcomings as a social welfare measure because:

It does little for Canada's current aged population and for many Canadians under age 70 years who will not in the future make contributions to it.

It would involve the build-up of a so-called pension reserve fund the assets of which would be placed under the control of provincial governments.

It purports to be a "contributory plan", apparently giving a benefit refund to a contributor which has a value approximately proportional to his contributions, while in fact extensive cross-subsidies would be involved; the contributory principle is suggested but not really followed.

The "contributory" aspect of the Canada Pension Plan—whether real or only implied—would make it very difficult for some future government or governments to reduce the burden to be borne by the Canadian economy through reduction in benefits.

The long term combined tax requirements of the Canada Pension Plan and the Old Age Security program could prove to be a stifling burden for Canada.

These comments on Bill C-136 are developed under four headings:

What are the priorities for social measures requiring tax revenues?—Provincial Development Fund versus Canada's current aged.

A social pension program related to wage levels need not be a "contributory" program.

Some changes in the scope of the Canada Pension Plan—1964 version as opposed to 1963 version—and comments on "Partial Funding."

Combined long-range cost estimates—Canada Pension Plan and Old Age Security Benefits.

No discussion has been set forth concerning the advantages and disadvantages of indexing and other features.

Under the first heading:

What are the priorities for social measures requiring tax revenues? Provincial Development Fund, first and Canada's aged, second, or vice versa.

I understand that all major parties have said they believe in a comprehensive plan to apply to as many people as possible in this country, and I underline the words "as many people as possible."

This indicates that many people in Canada live today on inadequate incomes; the government feels that a social welfare measure should be adopted to increase the incomes of those who need it. This seems to be reasonable and straightforward. The government would seem to be primarily interested in raising the incomes of those who have difficulty existing on their present incomes—its interest is not primarily to provide increased income for all of the aged. Surely the first thought is to get extra dollars to the needy.

Now Bill C-136 will not provide incomes in excess of the Old Age Security benefits for persons now over age 69 years. Why? Because of the plan design.

If a newly adopted government plan doesn't increase the incomes of some of the needy aged, and if such a plan does increase the incomes of some of the aged persons who do not need it, these anomalous results must flow from unavoidable elements in the plan design which are only left in as necessary evils in order to create an overall plan that will be acceptable.

But are all the "evils" necessary? Are all these elements unavoidable? If we had a social pension scheme that did not build up such a large "reserve fund" it could pay increased incomes to some of the current aged. What is the necessary social welfare or other program that is to be supported by the tax revenues, raised through the Canada Pension Plan, which are ploughed into provincial securities? Is the need for the programs that will be developed using these reserve funds, more pressing, than the need for payment of incomes in excess of Old Age Security benefits to the current Canadian aged population?

If we want to get "a comprehensive plan to apply to as many people as possible in this country", it will be strange if we adopt a plan which channels current tax dollars—raised in the name of the plan—into some provincial government development program rather than into increases in income for the current aged.

In my examination of the Actuarial Reports on the Canada Pension Plan and the White Paper and other information, I have not been able to turn up any studies of the numbers of aged in the current population requiring additional income to maintain a minimum standard of living. It seems to be utmost good sense to gauge the size of this need—define it—estimate its characteristics—forecast its future development—before undertaking a mammoth program which purports to eventually fill that need. But I have not seen detailed statistics which indicate that the Canadian aged population of today is living to some degree in want. Should the committee not see these? Perhaps it has done so. It must be true that some of the aged are living in want—but how many?

Let us assume that the studies do exist and that the need can be adequately demonstrated. But Bill C-136 would provide no answer for those in the aged population today. It would only provide an answer for those who retire in the future; and even then, not for all the future aged. What about the women who work for only a short number of years? What about those persons who are already out of the labour force at younger ages? Some of these will be found in the "needy category" in the future.

If the Canada Penson Plan is good, and the benefits worthwhile, why should we wait for 35 years before the whole plan is brought to maturity? It has been argued that we cannot afford to pay the full benefits now—that we must grade into it slowly over a period of years. But Bill C-136 calls for the collection of substantial funds to be used in other ways during the maturing process—a partial funding. So it would appear that we could afford a much faster maturing process were it not for the apparent greater need of the other programs, albeit provincial programs, requiring the extra funds. Common sense would seem to indicate that these provincial programs must be compared with a detailed analysis of the income problems of the current aged population, before the legislators can properly decide to channel tax dollars to one place instead of the other.

Miss LaMarsh has indicated she thinks it would be irresponsible to double current Old Age Security costs in order to give $100 per month Old Age Security pensions at age 65; it would be a greater irresponsiblty to incur approximately the same cost and to ignore those in the current population over 69 years, and to ignore the other members of the population who are not attached to, and will not ever be attached to, the labour force, This irresponsibility is inherent in Bill C-136.

If we need a social welfare measure to increase benefits for Canada Pension Plan contributors, we shall need another measure to increase Old Age Security benefits for non-contributors.

Under the second heading: A social pension program related to wage levels should not be and need not be a "contributory" program.

It has been argued that the flat-benefit Old Age Security pension program doesn't solve the social problem adequately because there are wide variations in the income required, in various parts of Canada, to provide a modest living standard. Further it is argued that the way to correct this problem is to relate some part of the total social pension to the various wage levels in different parts of the country, on the assumption that in this way needs will be more adequately met.

The question is then "How can we effect this relationship of social pensions to wage levels?" One answer is as follows: base a part of a citizen's social pension upon his own "reported earnings". Then it seems logical to require a maturing period in order to build up some history or record of contributions on reported earnings, so that we can pay back to the citizen benefits related to those contributions. But this contributory principle brings with it the awful problem of the ignored citizens—the current aged and others who cannot make contributions.

Is there another answer to the question? Could we find a better way to relate extra social pensions to wage levels, without adopting the contributory principle? If it were possible to relate total social pension benefits to wage levels in various parts of Canada, this would solve the social problem.

A possible solution might be to increase Old Age Security payments in the different parts of Canada by an amount which is based on the various different wage levels in those different parts of Canada. The income tax base (now $3,000) for the Old Age Security Tax could also be increased by varying amounts in the various parts of Canada. A detailed study of income needs of the current aged population—province by province—should indicate the required variations.

Bill C-136 calls for variation of the monthly Old Age Security Benefit in the future to reflect changes in the "subsistence level" needs in Canada. This variation would be effective for both Canada Pension Plan contributors and non-contributors, and the increase will be applied on a countrywide basis without any variations. This seems anomalous when there is no attempt in the Canada Pension Plan to vary the pensions of all non-contributors to reflect provincial variations in wage levels or to reflect urban versus rural variations.

The whole concept of Bill C-136 is geared to varying benefits. For instance, the plan would give Newfoundland fishermen a total social pension which would cover his basic needs adequately, while at the same time it would attempt to give an industrial worker in Toronto a different total social pension which would cover his basic needs just as adequately—larger benefits for the Toronto industrial worker. However, the wives of these two men have differing basic needs as well, and yet—if they are attached to the labour force during their working lifetimes for only a short time or for no time at all—the social pensions that the two women will receive will be just about the same, and equal to the Old Age Security Benefit alone. Why should the benefits payable to the women not be varied in proportion to wage levels in the areas in which they live?

If social pensions were handled as a matter of right under the Old Age Security pay-as-you-go approach, without the contributory principle, but with total benefits per person—including wives—varying by province, the need would be met in a much better way.

For a private pension plan, the contributory principle is most desirable; for a public pension plan it is anathema. In a private plan, the equity principle must be followed, but in social pension planning the guiding principle is—or should be—adequacy.

Under the third heading: Changes in the scope of the Canada Pension Plan—1964 version as opposed to 1963 version—and comments on "Partial Funding."

The Canada Pension Plan outlined in Bill C-136 differs markedly from the proposal covered by the Actuarial Report of August 30, 1963. It is enlightening to examine the differences, in terms of the cost estimates set forth in the two Actuarial Reports.

In connection with these reports I would like to congratulate Mr. E. E. Clarke, Chief Actuary, and his staff. In preparing these cost projections for the various different Canada Pension Plan Benefit proposals they have carried out an excellent job of actuarial forecasting.

Under the original Canada Pension Plan, the earnings upon which contributions were based, consisted of the first $4,000 per annum. Iinitially, contributions were to amount to 1% from employer and 1% from employee, of contributory earnings. In the cost estimates for the years 1965 through 1974 three items were considered separately. Item 1—the $10 per month addition to the O.A.S. benefit; item 2—the optional early commencement of the $65 per month O.A.S. benefit; and item 3—earnings-related benefits. In my briefs I set forth the figures for the three years 1966, 1970 and 1974. The estimated total benefits cost varied little from the 2 per cent of contributory earnings.

Now, in 1965, no longer does the Canada Pension Plan concern itself with flat increases in the O.A.S. benefits.

The $10.00 per month increase in the Old Age Security benefit was provided for through an income tax increase of 1% on taxable income up to $3,000.00. The redesigned Bill C-136 is not nearly as generous with the options for early commencement at reduced levels of the basic Old Age Security benefit as was the original plan. Obviously, this change will reduce the 1966 through 1970 costs of the early commencement of income provisions.

It is interesting to observe that in the second Actuarial Report there is no mention whatsoever of the additional cost resulting from payment of reduced Old Age Security pensions at ages 65 to 69. While this is not a cost item connected with the wage-related benefits, it is a cost item flowing from Bill C-136, just as the cost of early commencement of the $65.00 per month Old Age Security benefit was a cost flowing from the original Canada Pension Plan proposal in 1963.

And I think the commitee should know the size of this cost under Bill C-136, even if it is to be handled by the existing rates of tax for the O.A.S. So if we take the original Canada Pension Plan and remove item 1, the $10 flat O.A.S. benefit, and item 2, the cost of early commencement of O.A.S. benefits, we have left benefits estimated to cost .02 per cent of contributory earnings in 1966, rising to .25 per cent in 1970, and to .73 per cent in 1974. These figures are very close to the corresponding figures for wage-related pensions costs in the 1964 proposals.

In the building up from this tage to Bill C-136, disability pensions, survivors pensions and death benefits were added, costing in 1966, nil; in 1970 either .37% or .36%; in 1974 either 1.06% or 1.03%.

But Bill C-136 would call for the tax rate to be increased and the tax basis changed so that now total contributions are 3.6% of annual earnings over $600.00 and up to $5,000 per year.

So, comparing the two proposals, the early benefits available would be reduced, the $10.00 per month Old Age Security benefit transferred out of the Canada Pension Plan consideration—to be paid for by other taxes—and at the same time the tax burden would be increased for many people. And all this is done to raise a "Partial Fund". Is there anything good about a "partially funded" plan? In the United States a partially funded plan was amended and amended, and has become a pay-as-you-go plan.

The build-up under Bill C-136 of a partial reserve fund has been explained as one of the results of compromise between the views of the federal Government and the views of the provincial governments.

But it is unreasonable for the federal Government to adopt a massive federal program which may create unwieldy problems 20 years hence for the whole of Canada, when that program has a major defect—the creation of a fund—which the federal Government appears even now to recognize as a defect. If Bill C-136 is passed will not the federal Members of Parliament have the responsibility for enmeshing the whole country in the partial fund concept and its problems?

If a province wishes to raise funds for provincial development, the straightforward approach would be to tell the voting public the reason for which the tax is adopted. Combining a development fund tax with a social pension plan tax, and advertising the whole tax as a contribution to a pension plan may be politically smart, but I do not think it is forthright.

Now, the fourth heading: Combined long-range cost estimates for Canada Pension Plan and Old Age Security benefits.

Cost estimates for both the proposed Canada Pension Plan and the Old Age Security benefits should be considered together. These two programs are so inter-related that it is only common sense to consider the combined costs. The Canada Pension Plan cannot stand by itself without Old Age Security.

It has been said that the Old Age Security Act is not doing enough; then, improvements in the solution to the problem should take account of the current possibly inadequate solution.

Mr. Munro asked on December 14th for some Old Age Security cost estimates in terms of percentages of contributory earnings. On December 15th Senator McCutcheon asked a similar question, and I do not know if these questions have been answered yet. I have not seen them and I would be most interested to see them. In any event, I calculated and have shown some approximate estimates of the combined costs of the two programs for the years 1980, 2000 and 2050, expressing costs as percentages of contributory earnings. Intermediate cost figures are: 9.06 per cent in 1980, 11.08 per cent in the year 2000, 14.70 per cent in the year 2050.

Of course Old Age Security benefits are currently provided by the 3-3-4 formula; however, for comparison purposes we should look at the total cost of the two benefit schemes, when related to the same tax base and expressed in the same terms.

No doubt proper, more accurate forecasts of Old Age Security costs have been calculated by the chief actuary and his staff. However, the figures given above indicate the possible size of the combined program. It is to be hoped that the legislators consider the two costs together. In 1980 the high cost and low cost figures are not very different—9.43% and 8.68%, with a mean of 9.06%; this would be a heavy load to carry!

Even if we accept these intermediate cost figures for 1980 as within our means, what alarms me is the contributory aspect of the Canada Pension Plan benefits which will force future benefit formula enrichment to match possible future increases in contribution rates.

Now some conclusions: I think more detailed statistics should be made available setting forth the distribution and numbers of aged Canadians now receiving less than adequate incomes, with figures to indicate regional differences, if any, in the inadequacies, and the adequacy of the Canada Pension Plan proposals should be tested against these statistics.

Instead of using early Canada Pension Plan contributions for provincial development fund purposes, they should be used to extend additional benefits to the current aged population of Canada on a pay-as-you-go basis.

The contributory aspect of the Canada Pension Plan—injected in order to yield variations in social pension benefits in line with varying income needs—should be removed. It is not a solution to this problem.

Optional early commencement of the current Old Age Security benefit should be made subject to a form of earnings test similar to the restriction placed on the earnings-related benefit suggested under Bill C-136.

Thank you for your attention.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you, Mr. Dowsett. Several members have indicated they wish to question you. Mr. Cashin?

Mr. CASHIN: Yes, I was rather fascinated by the reasoning used here. I do not mean to be facetious, but if you come as my opponent for the next election I wish you would advocate the same things forcibly in my constituency.

Mr. KNOWLES: He comes from Newfoundland.

Mr. CASHIN: Would you agree with this—I gather you would, anyway, from your brief—that what we really should be trying to do is to maintain a level between retirement income and the income that people earn during their working years. I gather that is what you mean by your paragraph 4, where you would change the benefits from region to region based on the average—how do you put it, the different levels in different parts of Canada? In other words, what you are saying under your suggestion is, if the income in the province "X" is lower than in province "Y", by giving them a pension in relation to this we are maintaining in retirement a ratio to that?

Mr. DOWSETT: This is an aim which is in common with the aims of the Canada Pension Plan. This is what the Canada Pension Plan is attempting to do, to give an income after retirement in relation to the income enjoyed before retirement.

Mr. CASHIN: So, you approve of this principle, but disagree with the way we have applied it, is that it?

Mr. DOWSETT: Yes, I believe that is right. I approve of a social pension scheme being adequate. I think the O.A.S. system we have now is a wonderful one. I can remember as a student, in 1954, studying this O.A.S. pay-as-you-go plan in Canada with a corresponding social security system in the United States and being so proud of my Canadian birthright.

Mr. CASHIN: Therefore, you would disagree with Mr. Kilgour who says that we pay the highest benefits to those who need them least and the lowest benefits to those who do not need them least?

Mr. DOWSETT: I do not understand that that follows.

Mr. CASHIN: You would be paying a higher benefit here than you would be in the Province of Newfoundland?

Mr. DOWSETT: Just as the Canada Pension Plan does.

Mr. CASHIN: You are saying that in the Province of Newfoundland the whole standard of income is lower, and consequently Newfoundland should have its own little standard and should not try to enjoy the prosperity of the rest of the country, even though by importing your automobiles we are contributing to your welfare in Ontario. You are segregating us as a second-class province and are maintaining that position.

Mr. DOWSETT: I would submit that the Canada Pension Plan would do it to a much greater degree than my proposal here. As a matter of fact I would suggest that an examination of median income figures for people over the age of 65—and Dr. Willard commented on some of these—might indicate that these provincial variations would be negligible.

Mr. CASHIN: I will give an example of gross discrimination—

Hon. Mr. THORVALDSON: I think it might be polite to let the witness finish. He has given an excellent report and he was stopped in the middle of a sentence. Let him finish.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Would you rather finish?

Mr. DOWSETT: Yes. Dr. Willard commented on some data with respect to median income figures for those over the age of 65 by province—urban and rural non-farm figures separate. Could not these figures be compared with some estimates of basic subsistence levels, with provincial variations and also urban as opposed to rural variations?

Dr. Willard commented that from province to province the rural incomes don't vary as much as one might expect; also the urban median income figures are not too dissimilar, but rural and urban figures do vary. I wonder what are the corresponding income needs figures? Could the required Canada Pension Plan old age benefits be tested against the shortages shown by such comparisons? My real point is, I think, that this need should be examined, and the adequacy of the Canada Pension Plan or any extension of the O.A.S. should be tested against these shortages, and I will say that I feel that there has been not enough testing of the Canada Pension Plan as an adequate social measure.

I feel that we have looked at the effects of the Canada Pension Plan from an economical point of view and we have costed it up against a detailed, exhaustive actuarial report, but we do not know if it is going to solve the old age income problem as an adequate social welfare measure, and with these studies we might end up with a situation where you find out that there was no need for a provincial variation, and even if there was a need for a provincial variation I am sure it would be far less than the provincial variation which is inherent in Bill C-136, which is discriminatory in my view against Newfoundland to a far greater degree than anything I could envisage.

Mr. CASHIN: You were the one who said we should be maintaining an income relationship relative in retirement to what they earned in their working years. If that is true, then in Newfoundland or in any low income group they will retire with the highest percentage under that plan. However, I would like to draw this comparison. On the basis of what you have said, the level of income is 50 per cent higher in Ontario, and a man who makes $1,000 a year all his life in that province will retire with 50 per cent more benefit than the fisherman in Newfoundland. So, by your system I think you are grossly discriminating.

You are saying that because a man is a low income man in a high income society he will get a higher benefit than a low income man in a relatively low income province, and this is not what the Canada Pension Plan does. It is done on an individual basis.

Mr. DOWSETT: Let us look at the O.A.S. benefit for a minute. It is supplied on a country-wide basis currently, and is not the reverse true of a level benefit?

Mr. CASHIN: Well, you have to take the two together. You have the Canada Pension Plan and the $75 flat rate. The fact of the matter is that the low income man receives a higher proportion in his retirement years to his life's income than does the high income man, if you consider $5,000 a year a very high income.

Mr. DOWSETT: I am not sure I understand the point. Could I go back to one point? A minute ago you attributed a statement to me to the effect that I was the one who stated that income after retirement should bear some relationship—

Mr. CASHIN: I asked you that at the outset and you agreed.

Mr. DOWSETT: I would like to make it clear that that is the whole point of the Canada Pension Plan as designed. It is not alone my feeling. It is the feeling inherent in the whole Canada Pension Plan.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are you finished, Mr. Cashin?

Mr. CASHIN: Yes.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, Mr. Lloyd.

Mr. LLOYD: Mr. Dowsett, do you recognize that there is a need to provide an opportunity for pensions to approximately 50 to 60 per cent of wage earners in Canada who are not presently covered? Well, some say 70. I am putting it a little lower; I am putting the figure a little lower just in case.

Mr. DOWSETT: Could you repeat the question?

Mr. LLOYD: Perhaps, I will start it another way. Do you agree that between 50 and 60 per cent, and some say 70 per cent, but between 50 and 60 per cent of wage earners in Canada do not have the opportunity to purchase a pension scheme for themselves?

Mr. DOWSETT: Yes, I realize this.

Mr. LLOYD: You agree with this?

Mr. DOWSETT: One of my deep concerns with the Canada Pension Plan is that under a fully matured Canada Pension Plan—perhaps 35 years from now—what will be the percentage then of the labour force which, under the Canada Pension Plan, will be able to look forward to substantial Canada Pension Plan benefits now?

Would it be as high as 60 per cent of the labour force? The statistics, I think, could be examined and we could get a more accurate figure than my guess of 60 per cent, but we speak of the large and painful gaps in our pension provision in Canada today, and the disturbing thing in my mind is that the Canada Pension Plan is not going to create substantial extra benefits for a great percentage, perhaps as high as 40 per cent, of the labour force some 35 years from now.

Mr. LLOYD: Why do you say that?

Mr. DOWSETT: Well, all the young ladies who are employed for four or five or eight or nine years of their working lifetime will generate a very, very small Canada Pension Plan benefit. Those are the people I am speaking of, and all those who make less than $600 a year.

Mr. LLOYD: So then, if this is correct, it is right for the Government to become directly involved in the problem, is it not?

Mr. DOWSETT: I am not admitting that. I am sorry. It is correct for them to get involved in what problem?

Mr. LLOYD: I think you said that there is a need for more statistics, did you not? One has to start where there is a need and start improving as he goes along. What is wrong with the Government doing that?

Mr. DOWSETT: I am questioning the implementation of a pension plan in terms of the contributory private secretary type of pension plan. It just does not do the job from a social point of view that, for instance, the O.A.S. does. The old age security type of treatment of the problem is far superior.

It is a far more adequate system.

Mr. LLOYD: But are you not trying to leave unanswered this very serious question of how far to go with flat benefits as against wage related pension funds? Where do you draw the line?

Mr. DOWSETT: What are we looking for? What did we adopt any kind of pension plan for? In order to provide retirement income. Is that not right? Why have we got O.A.S. benefits?

Mr. LLOYD: You used the term that it is inadequate. I don't think we have said that the old age security pension plan is adequate to meet a standard of need. It is a contribution towards overcoming the difficulties people are in. It is not adequate. Do you think anybody has said it is fully adequate?

Mr. DOWSETT: I have not said that it is.

Mr. LLOYD: Well, it is not.

Mr. DOWSETT: I think the inadequacy of it should be examined and the problem solved through extensions of this plan. Perhaps we would get rid of the inadequacy and there would be a solution of the problem.

What I am getting at is a very unsatisfactory solution to the additional problem we have, which is not met by the O.A.S.—getting into an unsatisfactory solution to that, which is this contributory type of pension plan where you try to give back to somebody something that is somehow in relation to his contributions.

Mr. LLOYD: Well, how else would we fill this 60 per cent gap?

Mr. DOWSETT: The Canada Pension Plan, I feel, is only going to take you from perhaps 30 to 60 per cent, and that is pretty inadequate in my view, and it takes 35 years to get to that extra 30 per cent position.

Mr. LLOYD: You mean that they will be partially covered. All those who are wage earners above $600 will be covered in increasing amounts, won't they?

Mr. DOWSETT: By picking an amount from the women in the employment market for very short periods, the amounts would be so small that they would not be worth talking about. And what about the people who have never attached themselves to the labour force? They are a deep concern of mine.

Mr. LLOYD: Is this not an argument, Mr. Dowsett, for having in Canada an old age assistance program which meets certain kinds of problems and having a Canada pension plan which fills a gap between that and what the private pension plans on a fully funded basis have been able to provide? What is wrong with this threefold pattern?

Mr. DOWSETT: I do not see the reason for adopting on a governmental basis a contributory scheme. Why must we have a contributory scheme which does not work when operated under social auspices?

Mr. LLOYD: Terms can confuse the issue. Language seems to be the difficulty, and perhaps I am to blame for this. Let me get back to this matter of funding, or contributory schemes. How do we finance the Old Age Security?

Mr. DOWSETT: Through the 2:3:3 formula.

Mr. LLOYD: Yes, corporation tax, sales tax and income tax?

Mr. DOWSETT: That is right.

Mr. LLOYD: You say we should continue to improve the Old Age Assistance program through that?

Mr. DOWSETT: It is Old Age Security.

Mr. LLOYD: All right; Old Age Security. We should continue to improve it through that?

Mr. DOWSETT: Yes, through that approach.

Mr. LLOYD: It is all right, then, to contemplate filling the gap through old age security, and this would mean that, generally speaking, the private funds would pretty well stay within the sector in which they are operating now.

Mr. DOWSETT: The private funds—the private pension plans?

Mr. LLOYD: I gather that you are suggesting this gap would be filled in the main by improvements to the O.A.S.?

Mr. DOWSETT: Yes, as far as these studies I have suggested would indicate the need.

Mr. LLOYD: I do not want to take up too much time, because there are others here with questions. I ask only this one final question: Would you advocate then that the Canada Pension Plan, if we go on with it and we cannot agree with you on other points—supposing we came down to this one point, the question of financing. Would you finance it on a funded basis, a fully funded basis, or on a pay-as-you-go basis?

Mr. DOWSETT: I would submit that any pension plan operated under public auspices with the Government running it should be on a pay-as-you-go basis.

Mr. LLOYD: It should be on a pay-as-you-go basis?

Mr. DOWSETT: And it should be as adequate as possible.

Mr. LLOYD: Can you give us a formula for measuring adequacy?

Mr. DOWSETT: The early part of my brief tried to bring out my feelings on this point. The moment you adopt a funded approach to a federal pension plan you are diverting contributions raised in the name of the plan away from benefits and into some other program, and to that extent it will probably not be adequate.

Mr. LLOYD: Finally, you stated you favour a pay-as-you-go plan for a Government plan. Are you aware that a Mr. Watson who appeared before this committee advocated a fully funded Canada pension plan?

Mr. DOWSETT: I am not aware that he advocated a fully funded plan. I question that he did.

Mr. LLOYD: The minutes will show whether I am right. Perhaps I am wrong, but I do not think I am.

Mr. DOWSETT: Do you feel he advocated a fully funded public pension plan?

Mr. LLOYD: Yes, a fully funded Canada pension plan. I think you are associated with him in the same company, are you not?

Mr. DOWSETT: I know he was here, but I did not read his brief.

Mr. LLOYD: You are not aware of this difference of opinion?

Mr. DOWSETT: I am wondering whether he has—I do not want to be in a position of trying to second-guess Mr. Watson. We had better let the record indicate what he means.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes, I think so.

Mr. KNOWLES: But the record will not show that design he gave us—the one with the two legs.

Mr. DOWSETT: I have seen the charts, and the one building was to indicate the flat level benefit, and the other the Canada Pension Plan, and the two could not exist without each other. I made that point here, too, that the Canada Pension Plan cannot exist without O.A.S. The two must be considered together in determining the retirement income problems of Canada.

Mr. MACALUSO: In paragraph (d) on page 3 of your brief you seem to suggest that cross-subsidies are not a feature of a contributory plan. Is my interpretation of your remarks there correct?

Mr. DOWSETT: Can you repeat the question? I have found the place now.

Mr. MACALUSO: I am referring to paragraph (d) on page 3.

Mr. DOWSETT: I have the place, yes?

Mr. MACALUSO: You seem to suggest that cross-subsidies are not a feature of a contributory plan. Is my interpretation correct?

Mr. DOWSETT: In my understanding of a true contributory plan where equity is an ideal that is sought after, there are no across-subsidies. In a fully contributory plan, where equity is the ideal—where, in effect, a contributor gets back benefits exactly equivalent to the contributions he makes—

Mr. MACALUSO: Are you, therefore, suggesting that there are no cross-subsidies in private life insurance or private pension plans?

Mr. DOWSETT: There are no cross-subsidies between whom?

Mr. MACALUSO: In any pension plan?

Mr. DOWSETT: Between whom?

Mr. MACALUSO: In a private pension plan itself?

Mr. DOWSETT: But cross-subsidies between whom?

Mr. MACALUSO: Between the various contributors—the employer and the employee?

Mr. DOWSETT: This is the point. In a private pension plan there is the employer. In a public pension plan there is no employer.

Mr. MACALUSO: But there are contributors. Are there no subsidies in private plans between the contributors?

Mr. DOWSETT: In private pension plans there is not a subsidy from one contributing employee to another contributing employee. The employer is contributing to both employees, and he may contribute, in effect, to one employee to a greater extent than to another, but that is one of the happy things in the employer-employee contributory plan.

Mr. MACALUSO: Then, you are saying, in effect, that there are cross-subsidies in private pension plans?

Mr. DOWSETT: No, I have not said that; I am sorry.

Mr. MACALUSO: You have not?

Mr. DOWSETT: No.

Mr. MACALUSO: Then, I disagree with you. In paragraph (e) on page 3 you suggest that it may be very difficult for future governments to reduce benefits under this program. Can you think of any circumstances under which, from the point of view of beneficiaries, benefits in the future ought to be diminished?

Mr. DOWSETT: Well, perhaps I could put this better in a different way. When I read through that part of this page I did not put through reduction for benefits. What I am really thinking of here is that in a contributory plan both contributors feel they are making certain contributions, and that they are going to get back certain benefits, and the formula has been laid out for them. They are happy that the benefits they are going to receive back have a greater value than the contributions they have made. Let us assume the years go by, and then because of the operation of the plan it is necessary to increase the contribution rates. At this point the workers of the day who are asked to pay the increased contribution rates will not be happy unless they get an increase in benefit formula at the same time. I quite agree with you. I really do not think that we will be talking about a reduction in benefits. What we will try to impose is a reduction in the favourable relationship benefit to the contributor. In other words, if we get to the point of trying to increase the contribution without increasing the benefit formula we will be in trouble when it is a contributory plan.

Mr. MACALUSO: If you are really talking about the funding aspect of it—

Mr. DOWSETT: No, I am not talking about the funding aspect of it. I am talking about the benefit level and the contribution level.

Mr. MACALUSO: You are talking about what another witness called the windfalls.

Mr. DOWSETT: No, I am not talking about windfalls. I am talking about the snowballing effect that can occur in a contributory plan. Do you understand what I mean when I say—

Hon. Mr. CROLL: None of us do.

Mr. MONTEITH: Well, I do.

Mr. MACALUSO: I would like the witness to explain this snowballing effect. I am not a chartered accountant as Mr. Monteith is, so perhaps I am a little more stupid than he is.

Mr. MONTEITH: It is plain language.

Mr. DOWSETT: When a contributory plan is adopted and the workers of the day are told they are going to contribute 1.8 per cent of certain contributory earnings, and a 20 year old starts contributing at this level he looks forward to a certain benefit being paid to him at age 65 out of, let us say, the Canada Pension Plan. 20 years go by and he is still contributing 1.8 per cent, and he is still looking forward to that benefit. In those 20 years he has got pretty straight in his own head what this formula is going to yield to him. This is a contributory program, and he feels strongly that he is going to get back benefits which are proportionate to his contributions. 20 years go by, and then somebody says: "Oh, gee, we have got to increase the contribution rates to 2.2 per cent or 2.5 per cent". This worker then thinks to himself: "Gee whiz, I am not going to get the same good benefit for my 1.8 per cent. I am going to get the same old benefit, only I am going to start paying 2.5 per cent now". Do you not agree with that?

Mr. MACALUSO: I do not agree with it.

Mr. DOWSETT: What is going to happen when you increase the contribution rates? I thank that to sum up that particular problem the benefit formula would be increased at that time, so that you increase the benefits and contribution rates and you generate more income to look after the plan needs of the day. This 20-year old is still only 40 then, and he has to contribute for another 25 years, 2.2 per cent. Do you not think he is going to want to have an improved benefit formula when his taxes are increased from 1.8 to 2.2?

Mr. MACALUSO: I will look into that further, Mr. Dowsett, and come back to it.

Mr. DOWSETT: I ask you if I have made my point clear?

Mr. MACALUSO: I will come back to it later. It is not clear.

Mr. CÔTÉ (*Longueuil*): Supposing that in 20 to 25 years we have to increase the contribution because there might be less fund at that time, would you think that the people who are going to contribute at that time, when you make that increase, would get less benefits in comparison with the first contributions that were made? Then, would you think we should make a higher contribution rate then?

Mr. DOWSETT: To answer your question I have to go back to my basic conclusions. The solution to the problem is to eliminate the contributory aspect from the Canada Pension Plan.

Mr. FRANCIS: Then increase general taxes. They would have to be raised from time to time as needed.

Mr. DOWSETT: To cover the actual needs we have for increased retirement income, as at present.

Mr. CÔTÉ (*Longueuil*): Then we can assume that you are against an increase?

Mr. DOWSETT: I am not against some form of increased benefits. It is the contributory aspect of the Canada Pension Plan that I am against.

Mr. MACALUSO: In relation to paragraph 3 on page 5 of your brief, you say that the pension plan will not provide incomes in excess of the old age security benefits for persons now over age 69 and that this is a fault. Will you tell us if you know of any social benefit pension plans which are related to cover ages at the start of the program or the age population at the start of the program?

Mr. DOWSETT: I know of no such plan, but I do not know why we have to stick in the words "age related". I know of one benefit which was applied right off from the beginning, to the aged of the day, and that is the old age security plan we have now.

Mr. GRAY: Did the O.A.S. benefits scheme not involve very low subsidies to those people who began getting the pension as it went into effect, inasmuch as they could not possibly have contributed anything by way of old age security towards the fund?

Mr. DOWSETT: It was designed not on a wage related basis. It is an adequacy geared plan, where benefits are offered as a right, because citizens are citizens of Canada.

Mr. GRAY: The subsidy does not bother you if it comes out of the income tax?

Mr. DOWSETT: I do not like to think of it in terms of subsidy I pay income tax now and that $120 goes to pay for some O.A.S. benefits of today. The workers of today pay for the people who get the income under that plan.

Mr. GRAY: Is it not a fact that millions of people who retired at the time the system went into effect, or who retired shortly after that, contributed nothing, or very little, to the pension, and thereby everybody else was subsidizing them, and still is?

Mr. DOWSETT: This is a Government program. Defence is a Government program. Everybody contributes to that. The old people of today do not contribute to the defence programs of today, because they do not pay income tax now.

Mr. FRANCIS: Sales tax.

Mr. DOWSETT: Yes, but to the extent they do not pay any income tax they are not contributing to the defence program of today. Is this a cross subsidy?

Mr. GRAY: The whole system of taxation is subsidization.

Mr. MACALUSO: In paragraph 2 on page 9 you speak of "the awful problem of the ignored citizens". Do you suggest it is possible because at the commencement of one related social assistance program to cover the current period, you suggested age 69, that this should be a sufficient reason for not introducing a plan for the future benefit of those now working?

Mr. DOWSETT: I would answer that question by saying that we do not consider it a problem to deal with the current people receiving old age pensions.

Mr. MACALUSO: Do you believe that because the current aged under this plan are not taken care of we should not take account of the future people, who are to benefit in the future?

Mr. DOWSETT: Why take a half solution when you can take the whole?

Mr. MACALUSO: Then you agree we should not have a bill or plan as this bill C-136?

Mr. DOWSETT: You are putting it in the negative.

A MEMBER: You are subjecting him to political gobbledygook, to which he is not accustomed.

Mr. MACALUSO: Would you agree that the Canada Pension Plan has to provide future pensions for the aged of this country in an orderly fashion?

Mr. DOWSETT: Yes, I would agree it is an attempt at that.

Mr. MACALUSO: Then let me get back to my last question by saying this. Again I am referring to page 9, paragraph 2. You are stating that the plan is now ignoring the awful problem of the present aged, ignoring citizens. Are you suggesting by that, that because it is impossible at the commencement of a wage related pension plan, such as is proposed by this bill, to cover the current aged who would not be covered by this bill, that that would be a sufficient reason for not introducing this legislation?

Mr. DOWSETT: I would submit that is a sufficient reason for changing this legislation, so that it is not wage related and will look after the current aged of today. May I say, not contributory wage related, in the terms of the plan.

Mr. MACALUSO: I will pass the questioning on to someone else and come back later on.

Mr. FRANCIS: On page 10, paragraph 6, Mr. Dowsett talks about some anomalies. He says

> This seems anomalous when there is no attempt to increase the pensions of all non-contributors to reflect provincial variations in wage levels.

What does Mr. Dowsett have in mind?

Mr. DOWSETT: The point I have in mind—which I agree was not well documented in the brief as typed—is this. There is an attempt in the Canada Pension Plan to make some variation in O.A.S. benefits on a country-wide basis. I gather that this is to reflect changes in the subsistence level on a country-wide basis.

Mr. FRANCIS: Is there anything in the act which says that benefits are related to subsistence?

Mr. DOWSETT: I do not believe so, but can I ask if there is any other reason for changing O.A.S. benefits in relation to the cost?

Mr. FRANCIS: Now, Madam Chairman, I would like to ask Mr. Dowsett what he means. This is a piece of social legislation. Mr. Dowsett, I know you have many years of actuarial experience, but have you ever been an actuary to a social insurance plan, whether unemployment insurance or workmen's compensation or any other social insurance plans?

Mr. DOWSETT: No.

Mr. FRANCIS: It seems to me the purpose is very clear, to provide portable pensions for up to a certain ceiling on earnings, for wage earners. Do you have in mind, when you make the suggestion that it should "reflect provincial variations in wage levels", how it should be done? I would like to know more about it, as to how we can do it from here. There is a concept explicit in this whole paragraph, and this is in the last sentence in the paragraph, and I would like to know what you have in mind.

Mr. DOWSETT: As it says in this paragraph, the whole concept of Bill C-136 is geared to varying benefits. It is my understanding, and I believe I have read presentations by members of the Department of National Health and Welfare outlining the reasons for the varying benefits in the Canada Pension Plan, that is, to vary the income after retirement in accordance with the income earned during a working lifetime.

Mr. FRANCIS: I believe that is correct.

Mr. DOWSETT: My view is that social measures should be geared to providing income at a modest standard of living level. I think this is a view shared by everyone in this room. We do not want to provide tremendous incomes for people, in excess of their needs, through social legislation. The variations in Canada Pension Plan benefits in excess of O.A.S. are going to create differences in total social pensions which reflect differences in standards of living in the various areas of Canada. Is not this true?

Mr. FRANCIS: Yes.

Mr. DOWSETT: All I am trying to suggest is that we do this on a different basis.

Mr. FRANCIS: I would like to know, Madam Chairman, what different basis Mr. Dowsett has in mind. I would like him to be a little more explicit as to what the different basis would be.

Mr. DOWSETT: May I go back to the point on page 9 of the brief which states that a possible solution may be to increase old age security payments in the different parts of Canada by an amount which is based on the various different wage levels in those different parts of Canada.

Mr. FRANCIS: Madam Chairman, how would Mr. Dowsett vary old age security by social wage levels? Could he illustrate a little further the mechanism by which it could be done?

Mr. DOWSETT: I will start again and preface it by my hope that in suggesting this we will develop some statistics, as I mentioned before. Dr. Willard has made reference to some statistics that might direct us in this regard. My hope is that we will study those statistics, and from that point possibly develop some provincial indices—an index for each province to indicate possibly "X" dollars for one province, "Y" dollars for another province.

Mr. BASFORD: May I ask a supplementary question? Is Mr. Dowsett aware that already many provinces have taken account of different levels by paying O.A.S. benefit assistance? In my own province, for instance, it is $24 a month.

Mr. DOWSETT: And this is on a means test basis, and available at what ages?

Mr. BASFORD: Sixty-five for old age security.

Mr. DOWSETT: From 65 to 69?

Mr. BASFORD: No, from 65 on.

Mr. FRANCIS: Not only the pension, but health services, medical care, for example.

Mr. DOWSETT: But this is on a means test basis.

Mr. BASFORD: On a needs test basis.

Mr. DOWSETT: I am sorry, on a needs test basis. Is this such a bad thing?

Mr. BASFORD: No, it is not. I do not want to take over from Mr. Francis, Madam Chairman; but I am asking you, Mr. Dowsett, whether you are aware of this, because you are saying that pensions have to be related to different regional costs, and I have said that provinces already have taken this into account to a certain extent.

Mr. DOWSETT: I was speaking of up to 69 years of age. I was not sure about beyond age 70.

Mr. BASFORD: Do you say there should be a dozen kinds of different benefits—different amounts of benefit? If you divide by provinces, there would be perhaps ten rates of contributions, because one province is poorer than another.

Mr. DOWSETT: Ten rates of taxes. There would be variations in the income tax base, which is now $3,000 for old age security.

Mr. MONTEITH: There have been many supplementaries put, Madam Chairman, and I have refrained, hoping to get around to it myself, but in this respect Mr. Dowsett gives evidence as to what he is suggesting. I understand he is doing that on the supposition, and on the belief, that the Canada Pension Plan does actually give varying benefits in different parts of Canada. Am I right in that?

Mr. DOWSETT: Yes, sir, to different individuals.

Mr. MONTEITH: It is only on that basis, in his belief, that the Canada Pension Plan does this that he has given that suggestion?

Mr. DOWSETT: Yes. There is an attempt in the Canada Pension Plan to make these different variations, and I am suggesting a different way of making the different variations, so that we can follow my hope of eliminating the contributory aspect.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Francis has the floor for questioning, and if there are supplementary questions, could they not wait until he has finished his questioning and the answers have been given?

Mr. FRANCIS: I want to explore this so that there will be no misunderstanding of what Mr. Dowsett is suggesting. He is suggesting an alternative to the Canada Pension Plan, I believe, and the Canada Pension Plan plus the kind of supplementations which Mr. Basford has drawn to the attention of the committee, which is not only supplementation in terms of income—and I suggest a needs rather than a means test, and there is a difference—there is also supplementation in terms of health services, which are not universal in every province, but most provinces do provide them. Is it correct that Mr. Dowsett has in mind, instead of this existing arrangement, substituting a provincial wage index, or a cost of living index, I am not sure which, for each province, and gearing it to a supplementary benefit on old age security which would be payable in each province, and be a different rate from province to province across Canada. Is this what he is suggesting to the committee?

Mr. DOWSETT: Yes.

Mr. FRANCIS: Do you see any political difficulties, supposing the representative of one province suggests that perhaps the calculation was not quite right for them compared to another province?

Mr. DOWSETT: I do; but I fail to see why the Members of Parliament do not see the same difficulties in the Canada Pension Plan variations, which call for a similar reversal.

Mr. FRANCIS: Surely there is a clear principle in the Canada Pension Plan which relates to previous earnings? I am very much concerned about adjustment of the basic old age security legislation. I think what the Canada Pension Plan does is to provide a supplement which is related to a principle, and I trust this will not be sharply changed in the close proximity of elections.

Mr. DOWSETT: May I ask what principle that is? Do you refer to the contributory pension?

Mr. FRANCIS: Yes.

Mr. DOWSETT: And yet has it not been established in this committee that the contributory principle is being abrogated in the Canada Pension Plan? It is an aspect, but there are tremendous cross subsidies. It is not fully contributory in the sense that some persons now 55 years of age will get tremendous benefits out of the plan in relation to their own contributions, and from age 25 far less of a multiple of benefit contributions in the way of benefits.

Mr. FRANCIS: May I ask Mr. Dowsett, if an employer adopts a plan for the first time, is it not usual for him to make past service contributions for employees of 55 years of age and older in order for them to get adequate pensions when they retire, and under a private cross-subsidy.

Mr. DOWSETT: I do not believe it has the same effect. In a public plan there is no employer; there are only employees, if you like.

Mr. FRANCIS: Well, there is an employer's contribution.

Mr. DOWSETT: What is it?

Mr. FRANCIS: The same as employees, that is, 1.8.

Mr. MONTEITH: Yes, 1.8.

Mr. DOWSETT: On behalf of exactly the same people, in exactly the same province. There is no cross-subsidy in the Canada Pension Plan as between the employer.

Mr. FRANCIS: I do not agree with this. However, I will not pursue the point. I have one other question, and this relates to the statement of Mr. Dowsett in his brief, on page 3, in which he said that the long-term combined tax requirements of the Canada Pension Plan and the old age security program could prove to be a stifling burden for Canada.

I would like to quote from the report of the Economic Council of Canada's first annual review, which has recently been made available, at pages 129 to 131:

> . . . by 1970 the annual contribution income of the plans (based upon the rate provisions outlined in the federal government White Paper) would amount to slightly more than 5 per cent of total gross private saving. This would be somewhat more than 1 per cent of the gross national product.

Well, this is the Canada Pension Plan we are talking about. Does Mr. Dowsett believe that this, on the basis of this kind of information, would be a stifling burden for Canada?

Mr. DOWSETT: I would submit, Mr. Francis, that you have looked ahead six years, in your comment there.

Mr. FRANCIS: I have simply quoted from the report of the Economic Council.

Mr. DOWSETT: Then they have looked ahead for six years. I have looked out to 1980 and the year 2000, and I am concerned about the effects on Canada in the year 2000. We would be starting something with this Canada Pension Plan which would be a big problem 25 years from now, in my view. The Economic Council in its report did not deal with the situation 25 years from now.

Mr. FRANCIS: One last question. Will the problem not be less if Canada continues to grow in population and income? Will not the problem be less serious if there is sustained growth in the Canadian economy than you have projected in your remarks? In other words, don't we have to assume something like stagnation or ceasing rates of growth of Canada for this burden to be as serious as you, Mr. Dowsett, indicated?

Mr. DOWSETT: May I ask if it would be considered a rate of 14.70 per cent contributory earnings for combined cost of the Canada Pension Plan and the O.A.S. benefits would be a stifling burden? In coming up with that figure I have assumed 3 per cent annual rate of increase in earnings.

Mr. FRANCIS: What rate of interest is assumed on the investment funds in this projection?

Mr. DOWSETT: It is in common with the actuary's forecasts that there is not interest. These are pay-as-you-go rates.

Hon. Mr. CROLL: Mr. Dowsett, I have read your history and see that you have graduated from university and are a Fellow of the Society of Actuaries. I realize you are aware of the fact that the bill now before us has had the unanimous consent of the members of Parliament, of the House of Commons, to second reading, adoption in principle?

Mr. DOWSETT: Yes.

Hon. Mr. CROLL: I was not quite clear what you were really thinking when you told us here in your summation we were politically smart and not forthright. Those are your words? If you didn't say them, forget the whole thing. I am either right or wrong.

Mr. DOWSETT: Yes, I said the words. May I say this, the Canada Pension Plan is now in its third version. There will be changes, perhaps, before it is passed finally. If there are not going to be any changes, I wonder if we are serving any useful purpose here?

Hon. Mr. CROLL: Who is suggesting there will not be any changes? Is that your suggestion?

Mr. DOWSETT: I was answering my own question.

Hon. Mr. CROLL: You ask yourself the question, a quite improper question to ask yourself.

Hon. Mr. THORVALDSON: He can ask himself.

Hon. Mr. CROLL: Just a moment, I am handling the witness for the time being. When you ask yourself a question for the purpose of answering it your own way—

Mr. KNOWLES: How these senators love each other.

Hon. Mr. CROLL: There is the same affection in the House of Commons. I am asking the questions, and then you answer them. You don't ask yourself questions here.

Mr. DOWSETT: All right, I will try to answer them.

Hon. Mr. CROLL: You go ahead.

Mr. DOWSETT: In the various versions of the Canada Pension Plan there was at one time, as you know, an approach which has been set aside now, as I have explained in my brief, on several counts, to create a partial fund. It is my hope some of the changes could be reversed, and in the final bill that is presented and passed perhaps there could be some changes made from the plan as it is described now in Bill C-136, reverting to a pay-as-you-go basis.

Hon. Mr. CROLL: I am sure there will be some changes in the plan. I do not know whether they will deal with what you have in mind, but it is not a fair suggestion to make—and I have only heard it once before this committee, and then I am not sure whether I heard it from a member of the committee or from anyone giving evidence—that we are here to make sure nothing happens to this bill and it must be passed in toto. No one has ever said that, and it does not become a witness to tell us it.

Mr. DOWSETT: I did not say that.

Hon. Mr. THORVALDSON: No, he did not say that.

Hon. Mr. CROLL: The question was asked only for that purpose. When you deal with the matter of information, what detailed information have you got or have you been able to research with respect to older Canadians over 70 years of age, as to what assets or pension rights they have?

Mr. DOWSETT: I have not been able to find those statistics, Senator Croll, and I have heard—or I have read, pardon me, of evidence given before this committee by Dr. Willard to the effect that he has seen some such statistics; and it is my thought this committee should try to see these statistics—the medium incomes to those aged over 65 in the various provinces, and with the urban versus renewal differences.

Hon. Mr. Croll: Mr. Dowsett, you are an actuary who comes before this committee for the purpose of asking us to make some changes—let us say in detail, never mind principle—some changes perhaps in detail, perhaps in principle. Don't you come here armed with some facts relating to what is most vital to us when we are talking about the inadequacy of what is available to people over 70 years, when, as a matter of fact, there are statistics available? They may not be complete, but there are statistics.

Mr. DOWSETT: I with I had them at my disposal. I do not. There is the Department of Health and Welfare, there is the Dominion Bureau of Statistics, and there are sources most readily available to this committee that are not available to me.

Hon. Mr. CROLL: Of course they are available to you, if you ask for them.

Mr. DOWSETT: Not as readily available. I am a private citizen.

Hon. Mr. CROLL: No, that is not really fair. I am sure this committee could call by telephone and receive the information, if they wanted it, this afternoon. You might have to write a letter, but they do not hold back.

Mr. DOWSETT: I beg to differ with you, senator. I did ask for some information at one point and it had not been released yet. That particularly is the case of the O.A.S. benefits expressed in terms of the contributions forecast under the Canada Pension Plan. They are not able to get this information. I know it has been asked for by Senator McCutcheon and Mr. Munro in this committee. Perhaps it is available to this committee.

Hon. Mr. CROLL: No, that information, if it is not available to you it is not available to us either. They are not holding back anything, but there is a wealth of information available from the Department of Health and Welfare and the D.B.S. All you have to do is pick up the December 10th hearing before the Committee on Aging, and the Department of Health and Welfare took about 200 pages to give information on old folks. All you had to do is pick it up and look at it.

Mr. DOWSETT: Could I suggest this committee should be examining these income needs in more detail?

Hon. Mr. CROLL: They are presenting this before this committee from time to time, and the information is before this committee. Dr. Willard has presented it.

Mr. DOWSETT: Not the detailed study he spoke of.

Hon. Mr. CROLL: Some of it was read in by Mr. Osborne before this committee a few days ago. My point is not that. Here, in reaching your conclusion, you come to us without information. Maybe it was not available to you. You come without information and you are saying that we cannot do this until such time as we have this information. How do you know that information will make necessary any changes? How could you tell?

Mr. DOWSETT: Senator Croll, it is my fervent hope this body would feel it was necessary to examine the income needs of our current aged before adopting a mammoth program like the Canada Pension Plan, which purports to solve the income needs of Canadians.

Hon. Mr. CROLL: They have come to the conclusion they are inadequate.

Hon. Mr. THORVALDSON: Where are the figures? Have you presented them to this committee, or has Dr. Willard?

Hon. Mr. CROLL: If we need to present figures to the committee, or anyone in this country, that the needs for the aged are inadequate, we are a little bit behind the times and we are wasting time and losing ground, because it is so obvious, and that is the whole purpose of the act.

Mr. DOWSETT: Very true. I am not going to say it is obvious, in view of my previous remarks, but therein lies the burden of my plea. Let us do something about the current aged. This Canada Pension Plan will do nothing for Canada's current aged, nothing whatsoever.

Hon. Mr. CROLL: No one has said the current aged, as we put it, are going to be left out in the cold. Time and again it has been repeated by the responsible people in government who have said that the acceleration is one aspect of it, but that is not the total approach, that there will be improvements from time to time for the older people, and whatever else may come I do not know and I cannot tell you, but it cannot come under this plan.

Mr. DOWSETT: I question why it cannot. Why are we trying to forecast the future with respect to some of the citizens of Canada and deal with them completely, and not with others?

Hon. Mr. CROLL: Because that plan which you love so much, which we adopted in 1952, had a cut-off date and said, "If you are 70 today, $40; and if you are 71, 70 plus a day, nothing for you." That is what it said at that time.

Mr. DOWSETT: I beg your pardon?

Mr. KNOWLES: No, everybody over 70.

Hon. Mr. CROLL: Sixty-nine a day before.

Mr. DOWSETT: If you are 69 you have to wait another year.

Hon. Mr. CROLL: We had to have a cut-off date, even if the need was there. At that time thousands of people who had never contributed to that at all drew, and that was the general intention, that they should draw from that fund, which was a clear subsidy. We had to take a cut-off date and a starting date here somehow, and we chose to do it in this way, thinking this would be the very best way. That is a matter of judgment, and in that respect the decision has been at least presented to us for consideration. And it is as simple as that.

Mr. DOWSETT: That is why I am here, sir, because I don't feel that it is correct to ignore the current Canadian issue.

Hon. Mr. CROLL: That is fine, but when it comes to the matter of ignoring the current Canadian, I have had two or three people sitting in your place talking about us ignoring the current Canadian—and those were new words coming from those people. We do not bow to you or to anybody else in our considerations.

Mr. MONTEITH: I guess you would not bow to me either, but I agree with that.

Mr. LEBOE: We are getting away from the matter—

The CHAIRMAN (*Hon. Mrs. Fergusson*): I think we are getting away from the point. I think we know the witness' opinion on this matter and we know Senator Croll's views. Are there any other questions, senator?

Hon. Mr. CROLL: I will let Mr. Leboe—

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Basford is next on the list.

Hon. Mr. THORVALDSON: I would like to speak on a question of order. I am not here to listen to witnesses being browbeaten as has been attempted on this witness. I think it is highly improper, and when he is asked questions he should be allowed to answer them and his answers should not be broken into, and so on. I think he should be treated fairly and with courtesy by the members.

Mr. MONTEITH: Hear, hear.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I don't think he has been treated unfairly, but I will see to it that he is fairly treated.

Hon. Mr. CROLL: On a question of privilege, I don't intend to take from the senator any such observations of his. The witness came here referring to the members of this committee as being politically smart and not forthright.

Hon. Mr. THORVALDSON: That is not right.

Hon. Mr. CROLL: That is the statement he made. That is what he stated and he admitted to it. It is in his brief.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Yes. It is in here.

Mr. DOWSETT: It is not referring to the members of this committee.

Hon. Mr. CROLL: I gave him every opportunity to withdraw it, but—

Mr. DOWSETT: I beg your pardon—

Hon. Mr. CROLL: I said if you did not say it then forget about it, and you did not.

Mr. DOWSETT: I did not label the members of this committee.

Hon. Mr. CROLL: What else? I then continued with the witness and I am not going to take lessons from the senator because he does not like the way the examination proceeds, and does not share my view. Whatever view he has, he can examine in his own way.

Hon. Mr. THORVALDSON: The examination you were making was entirely improper and I did not like it.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I disagree with you, Senator Thorvaldson. The witness has made certain statements and he should be able to be questioned upon them. That is why he came here.

Mr. KNOWLES: He is not objecting.

The CHAIRMAN (*Hon. Mrs. Fergusson*): That is quite right. The witness himself has not objected, and I think he cannot say that he has been browbeaten. Senator Croll, have you any other questions?

Hon. Mr. CROLL: No questions. Go ahead.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Basford.

Mr. BASFORD: You say in your brief, Mr. Dowsett, that you are not here representing the Crown Life Insurance Company or any insurance industry trade association, but you are representing them as a Canadian citizen concerned about the future of Canada and the environment in which "my children will live and work."

While we appreciate your coming and expressing your views, I do want to avoid the implication in that statement and assure you that the members in this committee and the members of the Government and their advisers are also Canadian citizens concerned about the future of Canada and the conditions under which our children will live and work.

Now, if you are implying that we are not, then I, of course, have to disagree with you.

Mr. DOWSETT: I am certainly not implying that. I am trying to get across the point that I am concerned about it too, and that is why I am here.

Mr. BASFORD: I was interested in a question Mr. Francis asked you, and I would like to know your professional experience.

Mr. DOWSETT: My professional experience?

Mr. BASFORD: Yes.

Mr. DOWSETT: I have been an actuary since 1954, and I have been employed in various actuarial positions with the Crown Life Insurance Company, and as secretary of the Canadian Association of Actuaries, and I have been on many committees of that association.

Mr. BASFORD: How many actuaries does the Crown Life employ?

Mr. DOWSETT: Nineteen, I believe, including full Fellows and Associates.

Mr. BASFORD: You are one of 19 actuaries, then?

Mr. DOWSETT: Yes.

Mr. BASFORD: You make the statement that it is "my belief that actuaries —trained as they are in the various co-operative risk-sharing programs involving contingencies of life—have a good understanding of the considerations involved in social pension planning, and also have a measure of social responsibility to speak out on Government pension proposals."

Now, I am wondering whether you have been an adviser to any government, national or provincial, or a forum on any social insurance schemes; whether you have worked with any committees or commissions of the United Nations or international labour offices on social science programs?

Mr. DOWSETT: No, I have not. I am stating my belief that actuaries should speak out on these matters through the presentation of this brief to this committee.

Mr. BASFORD: So it is on the basis of your being an actuary, or on your professional experience; and I don't call into question the soundness of your actuarial experience, but I don't think you have had any particular experience to comment on the social responsibilities of Government.

Mr. DOWSETT: Only in so far as I have studied social pension planning and the various approaches in funding, in benefit formulae, and I did this in the course of my studies to become a Fellow of the Society of Actuaries, and, as I indicated, in 1954 when I was deeply involved in studying these different programs, I was quite proud to be a Canadian where we had an effective pay-as-you-go O.A.S. system in operation.

Mr. BASFORD: But professionally you have had no real occasion to put these studies into practice though, have you?

Mr. DOWSETT: I don't understand the question, really, I am afraid.

Mr. BASFORD: Professionally, you have not been an adviser to anyone on social insurance schemes?

Mr. DOWSETT: I guess this is true, yes.

Mr. BASFORD: Now, you were concerned, according to your brief, about the present aged. I don't know whether you have had a chance to read their brief or not, and the proceedings are not yet published, but the Canadian Welfare Council, which is a very authoritative and knowledgeable body, and one very concerned with the welfare of Canadians and the conditions under which they are living, came before us the other day and approved in principle the passage of Bill C-136 and recommended its passage. I wonder if you would care to comment on this?

Mr. DOWSETT: I have no comment.

Mr. BASFORD: Well, as I said, this rather authoritative body would seem to differ with you markedly.

Mr. DOWSETT: I guess that goes without saying. I am suggesting that we eliminate the contributory principle and revert to a pay-as-you-go system, and someone else suggests that we do not do that, then we disagree.

Mr. BASFORD: Well, that leaves the members of the committee in a quan- whether to follow your advice or the advice of the Canadian Welfare Council.

Mr. MONTEITH: Or the advice of the life officers association, and so on, and so forth. There were others.

Mr. KNOWLES: You can have them.

Mr. DOWSETT: May I make a comment? I am here giving my opinion. I am trying to be helpful. I am trying to help this august body, and I have the greatest admiration for it.

Mr. LLOYD: Hear, hear.

Mr. DOWSETT: I have examined the proceedings of this committee and others and I feel that it is no easy job to be a legislator faced with the job of preparing a report on this very complex legislation, and I am here trying to do my best to help, and it is my feeling that I have some expertise in this matter through my training. It may not be as great as the expertise that some who have had considerable experience in advising on social pensions have. It is an opinion, and I give it for what it is worth. I am trying to be helpful to that extent.

Mr. BASFORD: And, as I said, we appreciate your coming—or, at least, I do—and your interest and work in preparing the brief, but I was saying that an organization such as the Canadian Welfare Council which is concerned about the lot of Canadians, and which is very knowledgeable on these matters, has recommended the passage of this bill. So, we, as members of the committee, are in somewhat of a quandary as to whether to follow their advice or yours. I would submit that their advice is the best.

Hon. Mr. THORVALDSON: Speak for yourself.

Mr. BASFORD: I should like to refer briefly to page 16 of your brief where you make the statement that there must be another way of achieving national portability. We are concerned with establishing a system of portable pensions in Canada—or, at least, I am. I think this is something that Canadian workers need very badly.

Mr. DOWSETT: That is right.

Mr. BASFORD: You do not approve of the method in Bill C-136. I take it from your brief that you throw up your arms and say that there must be another way. I would be interested in knowing what it is.

Mr. DOWSETT: I have suggested it in the other parts of this brief. The suggestion is to have extra benefits payable in the same manner as OAS benefits on a pay-as-you-go basis without the contributory principle. I have laid out my ideas here.

Mr. BASFORD: How does that achieve portability?

Mr. MONTEITH: It is completely portable.

Mr. DOWSETT: Yes, it is completely portable. There is no loss of benefit rights on transfer from one point to another.

Mr. BASFORD: What you are saying is that by doing away with the wage related contributory part of the plan portability is, therefore, no problem.

Mr. DOWSETT: That is right.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Are you through, Mr. Basford?

Mr. BASFORD: Yes, there is nothing left to argue about.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Munro is the next on my list.

Mr. MUNRO: I have just two or three questions, Madam Chairman. Mr. Dowsett, I was interested in your suggestion that perhaps the Old Age Security Pension be raised in accordance with the cost of living, or some such announced index, in each province. If one province is higher than another that would result in increased benfits in that particular province. I wonder if you have considered what would be the case if that suggestion were adopted in, say, a province that had urban centres, and the ratio of rural areas to urban areas was far greater than that in another province. Would not the people who lived in the urban areas in the province with the great rural population be unduly prejudiced in relation to those who lived in the urban areas in another province?

Mr. DOWSETT: This implies, I gather, your feeling that the income needs are different in urban as opposed to rural communities?

Mr. MUNRO: Yes. I think you would agree that the average earnings in rural and urban areas are quite divergent?

Mr. DOWSETT: Yes, but the question I tried to bring out here was that I am not sure that the extra benefits needed in addition to O.A.S. benefits in order to establish a meeting of income needs and income payments—if those additional benefits do differ, urban versus rural. Remember, this is in addition to the $75 per month.

Mr. MUNRO: Yes.

Mr. DOWSETT: I do not know which way it goes. I would very much like to see these figures.

Mr. MUNRO: I see. Well, assuming that the rural did have lower average earnings than the urban then this system would not result in any equity? The system you suggested would not result in any equity at all, would it, because I would think in the province that had urban areas and a much larger rural population than another province, the rural population would drag down the overall provincial wage level, and result in the persons in the particular urban area being prejudiced considerably in comparison to those in a province where the urban population was much higher than the rural population. Would you not agree with that?

Mr. DOWSETT: I am not sure that in terms of the suggested increases I am speaking of that is a result that would flow.

Mr. MUNRO: Another point I wanted to raise, Mr. Dowsett, is that you have a pay-as-you-go plan. You do not like the partial funded approach?

Mr. DOWSETT: That is right.

Mr. MUNRO: I have the brief of Mr. Watson from your company here, and he states in the latter half of the middle paragraph on page 5:

> I would think it would be much better if a rate of contribution was established which would guarantee the continuance of the plan for a much longer period than 20 years. Such a rate of contribution could be calculated by the Chief Actuary applying normal actuarial methods to the entire population as it now exists. I would estimate that such a calculation might product a result of approximately 2½%, instead of 1.8%. From the standpoint of equity, a higher rate of contribution now would be much more desirable than leaving this to a later generation.

He is talking not only of a funded approach, but a 2½% per cent contribution rate as compared to 1.8 per cent.

Mr. DOWSETT: May I ask: Was there any reference in there to the establishment of a fund?

Mr. MUNRO: Yes.

Mr. DOWSETT: I did not hear any in what you read.

Mr. MUNRO: Well, he is talking about the current pension plan. I think in another paragraph—this is on page 3—he refers to the fund. On page 3 there is this:

> However, in this plan, we know that the benefits are not fully funded and, therefore, whatever benefits are received by persons who are the early recipients of benefits under this plan, will far exceed the contributions they have made or their employer has made on their behalf...

In other words, he feels the lack of a fully funded approach is going to result in inequities.

Mr. DOWSETT: I do not understand how you can imply any reference to a fund in his remarks. He did not say that at all, from what you have read. He did not say there should be a fund.

Mr. MUNRO: Is it not clear, if he is recommending, as he suggests—he feels if a greater contribution were established that would guarantee continuance of the Canada Pension Plan for much longer than 20 years, it would be much better. He says he thinks that would be much better.

Mr. DOWSETT: Does he build this payment up into a fund?

Mr. MUNRO: No, he is talking about the Canada Pension Plan, and he says he would think it would be much better if a rate of contribution was established which would guarantee the continuance of the plan for a much longer period than 20 years.

Mr. DOWSETT: Did he say that the 2.5 per cent would be used to build up a fund?

A MEMBER: Yes.

Mr. DOWSETT: I did not hear that.

Mr. MUNRO: He has referred to the Canada Pension Plan as it is now drafted, which does not take into account those over 70. He is saying it would be much better, in his opinion, if there was a contribution rate established that would ensure the continuance of the fund beyond a 20-year period.

Mr. DOWSETT: May I make this point, that I think Mr. Watson's concern is for an increase in the contribution rate of 1.8 per cent going up to 2.5 per cent in the future. He is concerned that this will be a very serious defect in the Canada Pension Plan as it is now designed. It is better that we should start with 2.5 per cent from the word "Go", and not have the problem of increasing the rate later on, but I do not think that that means he is endorsing a fund.

Mr. MUNRO: It would result in a greater fund, would it not?

Mr. DOWSETT: But I do not think he says that is a desirable thing.

Mr. MUNRO: He seems to be recommending it.

Mr. DOWSETT: No, I beg to differ. I do not think he is recommending it.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Munro, I do not think it is quite fair to ask questions of Mr. Dowsett on Mr. Watson's brief. He says he has not seen it. It is up to the committee members to compare the two submissions and, if they do not agree, to decide which they are going to accept. I do not think we should cross-examine Mr. Dowsett on another brief that he has not seen.

Mr. MUNRO: I accept that ruling, Madam Chairman.

Still relating to the fund, Mr. Dowsett, at page 16 you are talking about combining a development fund tax with a social pension plan tax. You are referring to the fund that will be built up—this is the partial funded approach that you have talked about. You say:

> Combining a development fund tax with a social pension plan tax, and advertising the whole tax as a contribution to a pension plan may be politically smart...

I am not getting into this area that has already been questioned earlier, but you go into this question of building up a fund for the provinces to use. At page 15 you say:

> It is unreasonable for the Federal Government to adopt a massive federal program which may create unwieldy problems 20 years hence for the whole of Canada...

Now, why is it that you feel that the creation of this partial fund, which will result in making funds available to the provinces, is something to be avoided?

Mr. DOWSETT: Why do I feel the fund is something to be avoided?

Mr. MUNRO: No, the direction of where the funds will go—namely, the provinces. Why do you feel this is undesirable?

Mr. DOWSETT: I think the establishment of a fund is bad. I do not like that aspect, and I have understood it is the feeling of several members of the federal Government that it is not a good thing, and that it was just worked out as a matter of compromise; that some of the provincial governments wanted to establish a fund for provincial development purposes. I put this right in my brief, I believe.

Mr. MUNRO: Well, at page 16, Mr. Dowsett, you do say, in paragraph 14:

> By hiding a provincial development fund tax within the framework of the Canada Pension Plan, it is possible that the provincial and federal governments together might avoid the criticisms that would be forthcoming were the tax to be imposed directly...

Mr. DOWSETT: Were the provincial development tax to be imposed directly.

Mr. MUNRO: Do you feel there is something undesirable about having options in this partial fund scheme? Do you feel it is undesirable to have it for a provincial fund?

Mr. DOWSETT: No. I think it is undesirable to have a fund. I do not think it is desirable to use the vehicle of the Canada Pension Plan to build up a fund. I have the quote here from Miss LaMarsh, that she admitted to this committee that the Quebec view has always been a double view, that they wanted to create a plan to provide income for the aged and at the same time they wanted to build up this fund for development of the province under the Quebec plan. I think that the two ideas should be divorced. I think that the development of a fund is something quite unnatural for a social benefit plan. There is no natural relationship between a fund that is built up in the contributions and the benefit levels.

Mr. MUNRO: Given the Canada Pension Plan and given the fact that there would be a fund, be it partial or full, have you any objection to these funds being used for provincial development, to being used by the province?

Mr. DOWSETT: Given the fact that there is going to be a fund, no.

Mr. KNOWLES: May I say to Mr. Dowsett that I have some questions that are critical, I admit that. Therefore may I start by making a comment on something in the brief with which I agree. As a matter of fact, it is in the area that Mr. Munro has just been discussing with you, Mr. Dowsett. You used some words that gave offence to some of the members. I will not spoil the argument by quoting those words. Perhaps they are the kind of words we should use about each other, rather than that an outsider should use them about us.

I must say I do agree—and I said this in the house when we were discussing this whole measure—that it is not a good idea to raise money for a development fund under the guise of a contribution for a pension plan. I think this is the wrong way to go about it. I think also that it forces the people with incomes below $5,000 to make the contributions to the development fund, whether it is used federally or provincially. I favour a development fund, a very sizeable fund, but I think it should be raised for that purpose and that the taxes or the contributions for it should be clearly marked for that purpose and should be on a graduated basis.

Mr. DOWSETT: May I ask, sir, did you say that I disagreed with the thesis of the establishment of a development fund?

Mr. KNOWLES: I thought you said you were against it, the fund—period.

Mr. DOWSETT: No. My point is that I am against a combination of a fund with the social pension plan. I do not just want to be reported as being against a development fund. I am not sure that I am in favour of a provincial development fund, but I am not expressing a view on that.

Mr. KNOWLES: I express the view that we should have a development fund, but I think the contributions should be collected under that heading and not under the guise of a contribution towards a pension plan.

Mr. BASFORD: Madam Chairman, I thought we were questioning the witness.

The CHAIRMAN (*Hon. Mrs. Fergusson*): I know. I was going to say this but thought I should let it ride. Actually, we were asking questions of the witness as to what his views are, and not making statements of our own.

Mr. KNOWLES: It is in relation to what I wish to get out of the witness. Mr. Dowsett, I wonder if you can make your position a little more clear as to what you want to do for those who are now 70 and over and have only $75 a month, and what you want to do in the future for those who will become 70 and who, under present legislation, have only the $75 a month? The reason I ask this question is because, quite frankly, I do not think your brief makes your position clear. You express concern for the forgotten generation, the people who have been ignored, but on the other hand you say that you do not know of any assessment of their needs. At no point do you propose any substantial alternative to the Canada Pension Plan. You talk about increasing old age security on a variation as among provinces, but you do not give any figure. You do not tell us whether you are talking of $10 a month or $75 a month as an increase. You so often express your concern about not providing extra money for people who do not need it. This is a view that seems to be expressed fairly often by witnesses before us. We know you are against the contributory insurance plan that is before us in Bill C-136. You have said you are concerned about the people who are forgotten and are concerned about increasing pensions. What is the merit of that concern? What alternative would you ask us to bring in to Bill C-136?

Mr. DOWSETT: In answer, the first suggestion I have is that more detailed statistics should be made available, setting forth the distribution and the numbers of old Canadians now receiving less than adequate income. I do not feel that there has been an attempt, a real hard attempt at developing those statistics and presenting them to this committee for their consideration. I feel that the adequacy of the Canada Pension Plan proposals should be tested against those statistics. Out of that, I would hope that there would come a suggestion that there would be an increase in the O.A.S. type of benefit, on varying bases through different parts of Canada. On an immediate basis, if you like, the benefits should be available for the aged in Canada of today, as well as for the aged to the future. As to the extent of this benefit, you ask if it may be $10 or $25 or something like that. Someone may suggest income figures in this area. I would think that that would be a matter to be settled upon after examination of those statistics. I strongly feel that we are adopting a mammoth program in here, if we should adopt it, without knowing whether it is going to solve problems that Canada has today.

Senator Croll has mentioned that other steps will be taken for the people who are not handled by the Canada Pension Plan, should the plan be adopted. I would bring those people into the planning at this point as well. I wish I had a more specific proposal to make in terms of dollars for various different areas. I have not had the opportunity to develop a plan in such detail. I feel that these statistics that I suggest should be studied more closely and out of that, and a testing of the Canada Pension Plan benefits against those statistics, the adequacy of the Canada Pension Plan, there would come a proposal that would more fully meet the needs of Canada.

Mr. KNOWLES: I wonder if you are aware of the fact that there is a difference of approach between the position you take, referring so often, as you do, to the needs of our aged people, and our approach, which admittedly does not wait for statistics as to what Mr. Smith, Mr. Brown and Mr. Jones need, but which frankly says that in this day and age we should be making a massive increase in the amount of income that we provide for retired people; and that what we are doing in going into the insurance principle is trying to up old age income by an impressive amount, not just sufficient to meet needs here and there. Is not that the difference that there is between your approach and the approach involved in this kind of legislation?

Mr. DOWSETT: I guess, if that is the approach, there is an attempt, I gather, on the part of legislators then to make a massive entry into this provision of retirement income, regardless of need. I do not think that is a proper role of government, to try to establish savings programs and retirement income, regardless of need. Surely the social program which should be dealt with by the Government and by legislators is the one of need. Surely the guiding principle in social benefit planning is adequacy, adequacy of the incomes of the people that we have in Canada today, not equity, not savings for savings sake, but adequacy?

Mr. KNOWLES: I think, Madam Chairman, if I may say so, this exchange has been useful, at least as I see the situation. I think we are trying to get around a corner here that it has taken us a long time to get around. I think your approach, Mr. Dowsett, is still one that is based on a means test. Basically you want statistics as to the needs of our people. Some of us are saying that in this affluent society in which productivity has gone way up, we should go way up in our pension provisions, and that waiting for the kind of testing you want, and doing it on a basis of variation among the provinces, just has not got the idea at all.

Mr. DOWSETT: May I ask this? What is the Government's interest in attacking the problem in this way? Perhaps my question is not too clear. Is the Government program designed to provide income for retired people of the day which has no relation to their needs? Is it just income for income's sake? What is the Government's aim in this regard?

Mr. KNOWLES: I would like to answer that, and will be glad to do so, but not for the Government. However, speaking for myself, my interest in this kind of legislation is that I see the day, not many years hence, when people will retire on pensions of $150, or $200, or $250 a month, whether single, or whatever their status. I am still concerned, as you are, about need, and I am glad that you people have come to us and drawn our attention to the gaps, and the fact that we are doing practically nothing under this legislation for the people over 70. The fact of the matter is that I am interested in getting adequate high level pensions for all our people, without talking about needs or means tests, or anything of that kind. That is what interests me, as one who has been interested for a long time in this kind of legislation.

Mr. DOWSETT: And do you feel that it is the proper role of government to set up programs which, as well as allowing income, will provide basic subsidies—to provide income in excess of that?

Mr. KNOWLES: If you would modify that you would be saying it better than I would be saying it myself.

Hon. Mr. CROLL: Is that not exactly what we did in 1952—provided for those people who needed it and people who had no need for it at all?

Mr. KNOWLES: Does Senator Croll recall—and he was in the Commons at the time—that in 1950 when the debate on the address in reply was taking place and some of us were pressing for the removal of the means test, the Prime Minister of the day, the Right Honourable Louis St. Laurent got up and said in the course of his speech, "Wouldn't it be ridiculous at any age from now on to get a pension without a means test?" He was then 68 years of age.

Hon. Mr. CROLL: Yes, I recall.

Mr. BASFORD: Madam Chairman, on a question of order, I hardly see any relation this has to the matter.

Mr. KNOWLES: It has relevance.

The CHAIRMAN (*Hon. Mrs. Fergusson*): One at a time.

Mr. BASFORD: We have before us a witness, Mr. Dowsett, who has presented a brief to the committee, and we are examining him on that brief.

The CHAIRMAN (*Hon. Mrs. Fergusson*): That is right.

Mr. KNOWLES: The point is that in the brief at page 5, paragraph 4, it talks about a plan that will increase the income of some of the aged persons who do not need it. My point is that this is a point of view that has often been expressed and held us back. My concern is that we should forget about this limiting concept to need only, and to put it on the basis that it is the business of the state to provide the basic subsistence needs, but to provide more than that.

Mr. DOWSETT: Do you not agree, Mr. Knowles, that if a newly-adopted government plan does increase the incomes of the aged persons who do not need it, this is an anomalous result which arose from the unavoidable elements in the plan left there to make the package acceptable?

Mr. BASFORD: Madam Chairman, on a point of order. This is completely irrelevant.

Mr. KNOWLES: It has been going on for the past week.

Mr. LLOYD: I am asking for one supplementary, only so that there will be given an opportunity to the other members to question the witness—

Mr. KNOWLES: Then may I co-operate by asking one more question.

The CHAIRMAN (*Hon. Mrs. Fergusson*): One question. I trust it will be a question, not a statement.

Mr. KNOWLES: In view of your statement on page 11, paragraph 9, Mr. Dowsett, where you say that for a private pension plan a contributory plan is most desirable, but for a public pension plan it is anathema, may I ask you that if you feel there is something in the magic of averages for the millions—I am quoting Sir Winston Churchill—and that insurance helps the millions, if it is there to be used by private outfits, can we not also use it in the public domain?

Mr. DOWSETT: I would suggest that if the contributory principle were followed to the end, perhaps this would be true, but it is not. In the Canada Pension Plan the contributory principle is almost forgotten, in some regards. The cross subsidies are extensive and large.

Mr. KNOWLES: As they are in insurance schemes.

Mr. DOWSETT: I don't agree that they are in insurance.

Mr. KNOWLES: Well, I have paid an awful lot of insurance premiums.

Mr. DOWSETT: If you are speaking of life insurance, that is a different animal from pensions. Life insurance is a different animal, and the cross subsidies in there are not these massive trust subsidies in the pension plans put out by the private sector. The equity is followed to the ninth degree. A contributor in a private plan always gets back his contributions with interest. Isn't that something you have heard before?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Who is next?

Mr. KNOWLES: I have not finished, but I will stop, Madam Chairman.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Thank you, because I have a list of members who want to ask questions. Mr. Gray is the next one.

Mr. GRAY: I have one question. I find it hard to see how you can support the kind of old age security system we have now and yet oppose any approach to this general problem which you claim is based on need. Mr. Dowsett, I think we all agree that a large number of the people who get old age security pension cheques have pretty good incomes otherwise. Everybody gets a cheque. Right?

Mr. DOWSETT: Right.

Mr. GRAY: Why then, to be logical and consistent, have you not come to us and also proposed that the old age security system be changed so that those not in need do not get the old age security cheque.

Mr. DOWSETT: I think this is one of the principles of a social pension plan that is a necessary evil left in the pension plan designed to make the whole package acceptable. Pensions as a right is something that we have bought in Canada.

Mr. GRAY: But you are not going to accept a concept of—

Mr. DOWSETT: Not when it is as massive a program as this and makes such glaring omissions. That is the problem, that I think that it does such an inadequate job.

Mr. GRAY: One final question. Your remarks about a job being inadequate, I suppose applies to your suggestion sometime earlier in the afternoon, when you estimated that as high as 40 per cent of the labour force would not get any benefit out of this. What is the basis for that figure on your part?

Mr. DOWSETT: An examination albeit too cursory, of the actuarial report and the participation in labour force statistics for women, and the dropout statistics for women, and the dropout statistics assumed for the future, because of less than $600 in earnings, unemployment rates, and the like. I think it would be wonderful if the committee would request a figure from the government actuary as to the 1980 or 1985 percentage of the labour force contributing under the forecasts.

Mr. GRAY: I think this has been done.

Mr. DOWSETT: I don't think it has. I did not find any such figure when I looked for it.

Mr. GRAY: I think you could have been much more helpful, but I know you came here intending to be helpful.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Have you finished, Mr. Gray?

Mr. GRAY: Yes.

Mr. MONTEITH: Madam Chairman, I would like to make one very brief statement. I have been very quiet all the afternoon.

Mr. KNOWLES: I support that.

Mr. MONTEITH: I have just turned up my notes of Mr. Watson's visit, and the first note I have is that he accepts the fact that the bill is a foregone conclusion, and that as a consequence, from there on he is hoping to rationalize it. I think the present witness, Mr. Dowsett, has hoped against hope that maybe there would be some possibility of doing something about it. Am I right, Mr. Dowsett, in saying and suggesting that in all of your discussions this afternoon, urban versus rural, one part of the country against another, and so on, you have in your opinion felt that the Canada Pension Plan just does that very thing in these particular incomes in the years to come as between rural, urban, and so on, as you are taking it on the basis that the Canada Pension Plan does this, am I right?

Mr. DOWSETT: I submit it does this. The Canada Pension Plan would do this, but with individual variances. Some high-wage earners in Newfoundland would get a larger income granted under the Canada Pension Plan benefit formula than a low-wage earner in the City of Toronto. But, generally speaking, looking at the total payments under the Canada Pension Plan this effect you mention, I believe, would flow from the Canada Pension Plan if it were passed as it is now envisaged.

Mr. MONTEITH: To carry on from there, do I gather your main theme this afternoon is to the effect that we could well through O. A. Security give an increase, possibly, to the present recipients, give it to them at a lesser age? We could provide for survivorship, disability, orphans and, as has been under Old Age Security, complete portability, and we would also have in that large number which you claim—and I agree with your thoughts in this respect—are presently left out of any benefits in the Canada Pension Plan?

Mr. DOWSETT: That is my feeling, yes.

Mr. MONTEITH: And you would continue to finance these improved benefits and formulas through such a formula as the 3-3-4?

Mr. DOWSETT: Yes, sir.

Mr. MONTEITH: Have you any ideas or claims as to whether the total increase necessary to possibly look after this—and I have not given you any figures, but you think this probably could be done on a fairly substantial basis and still be less of a tax load on both the employer and employee than the present Canada Pension Plan?

Mr. DOWSETT: I think this might well be true. I did not make the point before that I would like to make now, and that is to the effect that the immediate 1.8 per cent to the employer and employee does not strike me as a tremendous, stifling burden to the Canadian economy. Perhaps it should be redefined in terms of the 3-3-4 type of formula, in my view, but what bothers me about the Canada Pension Plan is the snowballing effect I have described earlier, and the fact the 1.8 per cent from employer and the same from the employee, I feel, will grow in the future. In fact, the actuarial forecasts indicate such a substantial growth in these figures. That is what makes me feel the burden would become heavier in the future. If we could speak of something like 1.8 or 2 per cent of contributory earnings from employee and employer, in terms of the Canada Pension Plan contributory earnings, I do not think this would be an undue burden for Canada.

Mr. MONTEITH: Have you, in your considerations, given any thought as to whether or not as people become older they should receive a larger amount? For argument's sake—and I am not putting down the present $75 a month as a sacred cow or anything like that, but I am using this figure of 70 years of age as the basis at the present moment—if somebody reached 80 years of age, have you any idea as to whether or not their requirements would be greater?

Mr. DOWSETT: No, I do not think I have strong feelings on this subject.

Mr. MONTEITH: That is all, Madam Chairman.

Mr. LEBOE: I am interested, Madam Chairman, in the portability. I understand perfectly well the views of the witness in connection with the Old Age Security, eliminating the possibility of portability. I am wondering if he has considered such groups as the Canadian National Railways and some of these larger groups that have pensions, and by virtue of the security of their pension these employees are held to their particular job. Whether they like it or not, they stay for years. Don't you think that we need some sort of a plan in order to allow these people portability in their private pensions throughout the country, or don't you think it should be desirable?

Mr. DOWSETT: If that is desired, surely the approach to Government implementation of this desire would be through the passage of legislation like the Ontario Pension Benefits Act, and not through the adoption of a complete Government pension scheme to supplant the existing pensions that are now there, albeit on a non-vested or portable basis.

Mr. LEBOE: The Ontario scheme is just a sort of melting pot guarantee, is that what it amounts to?

Mr. DOWSETT: No, my view of the Ontario Pension Benefits Act is it requires just what you ask for in your original question, a requirement for existing pension plans creating portability and having portability and vesting requirements.

Mr. LEBOE: One other question. Do you think it is possible to have a pension plan as one departmetn of our system of welfare or security, or whatever you want to call it, a pension plan with old age security separated from that plan, and then the residue of welfare which results in those fields which you cannot touch in either the pension plan or the Old Age Security? I am thinking of three divisions.

Mr. DOWSETT: Are you asking me if I am in favour of three divisions?

Mr. LEBOE: Yes. From the remark at the bottom of page 16 that caused some little consternation here a little while ago, I sort of sensed the benefits that are going to arise out of the pension plan to certain individuals and the benefits that are not going to be obtainable to other individuals—and it has been mentioned before in the committee, those who have not had a chance to contribute, and so on—that combining the two is, to a degree, hiding the fact that many people will not benefit by the pension scheme itself, but by combining the two they say they have certain benefits. My question is, do you not think that the pension plan should be separate? If we are going to have one it should be separate, the Old Age Security should be separate, and there is going to be a residue of welfare cases that cannot be met by either the Pension Plan or Old Age Security.

Mr. DOWSETT: I am not sure I completely understand your question, sir, but I think the Canada Pension Plan could, in my view, consist of an extension of the O.A.S.-type of planning, pay-as-you-go, non-contributory. Whether you call it merely an extension of the O.A.S. plan or not, I do not mind, but I am not advocating the adoption of a completely separate contributory wage-related pension plan as opposed to the O.A.S.

Mr. LEBOE: I realize that, but what I am trying to get at is this, if we are going to have a pension plan—the House of Commons has voted unanimously for the principle of a pension plan, and I think we can conclude from that we are going to have a pension plan—what I am asking you is, in your view, if we are going to have a contributory pension plan such as is envisaged, if it could not be separate from the Old Age Security entirely? One is the citizen's right and the other is a contributory plan.

Mr. DOWSETT: I feel this division you speak of is apparent in Bill C-136. There is the Canada Pension Plan, on the one hand, and the O.A.S. on the other.

Mr. LEBOE: I do not think there is, so we will leave it at that. I think they are definitely dovetailed and involved.

Mr. DOWSETT: Only to the extent of those provisions at the end of Bill C-136 which deal with early vesting and indexing. It is still quite a separate program. The taxes for O.A.S. are separated from the contributions required for Canada Plan benefits.

Mr. LEBOE: By having your pension at age 65 you drop to $51 instead of getting $75, so they are involved and I am thinking of separating them entirely.

Mr. DOWSETT: If we are going to have the Canada Pension Plan provisions outlined in Bill C-136 I do not see anything like the terms of O.A.S. under the same bill. In fact, I will go one step further. I think—and I have put this in my brief—that the earnings test that is applied to early commencement of income under the Canada Pension Plan benefits should also be extended to the early commencement of income under the O.A.S. benefits. I would like to see the

O.A.S. benefit subject to the same earnings test. If a citizen wants to commence that income at the $51 level at the age of 55, this would save dollars to the whole scheme, as a matter of fact.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Mr. Macaluso.

Mr. MACALUSO: Just one short question. Mr. Dowsett, on page 14, paragraphs 8 and 9 of your brief, you are contrasting Bill C-136 and the 1963 plan, and you point out that, compared to the 1963 bill, the earlier benefits have been reduced in this bill, and also the $10 a month old age security will not be paid out of the Canada Pension Plan and at the same time the tax burden will be increased for many people.

I am curious to know why in that brief you have made no reference to the fact that under the 1964 plan as compared to the 1963 plan there is a disability pension being provided and also a pension to survivors who cannot be considered aged.

Mr. DOWSETT: On page 14, No. 8—

Mr. MACALUSO: Well, say in paragraph 9 especially.

Mr. DOWSETT: But just read paragraph 8: "In the building up from this stage to Bill C-136, disability pensions, survivors' pensions and death benefits were added."

Mr. MACALUSO: But, in paragraph 9 you leave the impression that the $10 increase to the O.A.S. has been deducted and will not be in the pension plan benefits, and you say that the tax burden is going to be increased. I am reading it here: "But Bill C-136 would call for the tax rate to be increased and the tax basis changed so that now total contributions are 3.6 per cent of annual earnings over $600 and up to $5,000 per year"—etc., etc.

Mr. DOWSETT: The point is, sir, that in 1966 the disability pensions will cost nothing, and in 1970 they will cost .37 per cent.

Mr. MACALUSO: I am saying in my opinion you have, though perhaps not intentionally, distorted the facts to someone reading it. You are really not making sense when you say at the same time that the tax burden will be increased for many people. You are really not pointing out the fact that disability pensions even beyond 1966, and pensions provided for survivors not now aged, are not taken into consideration.

Mr. DOWSETT: Well, I explained it; I did explain it in item No. 8.

Mr. MACALUSO: Perhaps it is not too clear, then.

Mr. DOWSETT: The point I am trying to get across here is that we have removed items which, under the original plan, cost 1.53 per cent. We have removed benefits costing 1.53 per cent in 1970 and replaced them with benefits costing 1.37 per cent. This is diminution of benefits, surely; it must be if contributions are going to build up a fund. That is the whole point. By these changes we have created a partial fund.

Mr. MACALUSO: Right.

Mr. DOWSETT: Would you not agree?

Mr. MACALUSO: I agree that there is a partial fund.

Mr. DOWSETT: How have we created this partial fund? Going from one plan to the other we have taken away some benefits. That is the point. We have taken away, we have reduced the benefits available in the years up to 1980. Don't you agree with that?

Mr. MACALUSO: The way I read it in paragraph 9 you leave the impression that although the $10 increase to the O.A.S. has been transferred out of the Canada Pension Plan, and the early benefits will be reduced, yet, at the same time, the tax burden will be increased for many people, and all this is done to raise a partial fund.

Mr. DOWSETT: Is that not true?

Mr. MACALUSO: You are leaving the impression that at the same time the tax burden will be increased.

Mr. DOWSETT: Which is true.

Mr. MACALUSO: Your interpretation and my interpretation of what you have in the brief disagree. I guess we cannot reconcile ourselves.

Mr. KNOWLES: This is one place where the witness was right.

Mr. MACALUSO: I agree in the partial fund, but not in the tax burden.

Mr. DOWSETT: We had to get the benefits, the money, from somewhere.

Mr. LLOYD: Mr. Dowsett, did you see, perchance, the December 10th report, No. 24, of the Special Committee of the Senate on Aging?

Mr. DOWSETT: No, I did not.

Mr. LLOYD: You are not aware, then, of the fact that there are tables, some statistics, on cash incomes of people of certain age groups, including those of 70 and over? You have not seen those?

Mr. DOWSETT: I have not studied these, but perhaps they are the ones mentioned by Dr. Willard, and if this is the case, I submit that this committee should be studying those in detail.

Mr. LLOYD: I suggest to you that we will be taking some cognizance of your remarks, even though we do not necessarily agree at the moment with them. May I ask you one final question? It seems to be the conventional wisdom among people when they are striking a rate to achieve a future payment that they strike the rate at some point which will create a surplus or reserve to stabilize the rate over a period of time. Is that not true? Is that not a general practice?

Mr. DOWSETT: As far as my income and my expenditures as a personal individual, I wish I could say that there is a big reserve of funds. But, in fact, there is a very small one; I am in debt up to here.

Mr. LLOYD: You are dodging the question. Is it not a fact?

Mr. DOWSETT: I don't agree that social pension itself—

Mr. LLOYD: Even with pay as you go, they have all said that they are not in favour of funding.

Mr. DOWSETT: Yes.

Mr. LLOYD: On the other hand, there is a need of a certain volume of funds to stabilize the rating as you get into the plan. There are unforeseen things.

Mr. DOWSETT: Yes, from year to year.

Mr. LLOYD: And to reserve against mistakes in your forecasting.

Mr. DOWSETT: Yes.

Mr. LLOYD: Such a reserve would in the meantime be available for investment, would it not?

Mr. DOWSETT: Yes.

Mr. LLOYD: It would be wise to invest such funds. Is there any objection under those circumstances in having such funds invested in provincial and municipal government bonds?

Mr. DOWSETT: No, sir.

Mr. LLOYD: May I suggest to you that is exactly the compromise in the two schemes involved.

Mr. KNOWLES: Is this open to argument?

The CHAIRMAN (*Hon. Mrs. Fergusson*): Only by the witness.

Mr. DOWSETT: Well—

Mr. LLOYD: Take a look at the charts of the *Financial Post* for January 9.

Mr. KNOWLES: Let the witness finish his answer.

Mr. LLOYD: What else is there but to conclude that there may be a very generous fund?

Mr. DOWSETT: It is vast compared to what is recommended in Bill C-136.

Mr. LLOYD: You agree that some fund is necessary?

Mr. DOWSETT: But one of miniscule proportions compared to the one forecast.

Mr. LLOYD: Thank you.

The CHAIRMAN (*Hon. Mrs. Fergusson*): Any other questions? If not, then on behalf of the committee, Mr. Dowsett, I want to thank you for the time and effort you put into preparing this brief, and the time you spent in coming to present it to us here. Although some of the members obviously disagree with your opinions, I assure you that all members of the committee will consider what you have said very carefully when we are giving further study to Bill C-136.

EVENING SITTING

MONDAY, January 18, 1965

The CHAIRMAN (*Mr. Cameron*): Ladies and gentlemen, we have a quorum. Senator Thorvaldson, we have been waiting for you so that your party is well represented.

Our witness this evening is Mr. C. J. Woods, F.I.A., F.S.A., Vice-President and Director of William M. Mercer Limited, 1 Place Ville Marie, Montreal 2, Quebec. Mr. Woods has submitted a brief, of which you have all received a copy and which you have had an opportunity to peruse. I shall call on Mr. Woods to make his presentation.

You may remain seated, Mr. Woods, because that is our custom. As I have already indicated the members of the committee have read your brief. You can make a summation of it and of your recommendations, and the committee will then take over and ask you questions.

Before we start is it agreed that Mr. Woods' brief be appended to the minutes of the committee's proceedings as an appendix?

—Agreed.

Mr. C. J. WOODS (*Vice-President and Director of William M. Mercer Limited*): Mr. Chairman, Ladies and Gentlemen: I very much appreciate the opportunity of being here this evening. This is a brief brief, a fact of which, I imagine, you are appreciative. It is brief because it is not a brief from my firm. This is my own personal effort as a contribution to the committee's work. I would have liked to have gone much more deeply into the plan, but being a consulting actuary the activities of Ontario and the federal Government have kept me extremely busy over the last few months, but I have concentrated my efforts, therefore, on one particular feature of the plan. However, I should like an opportunity, since you have so kindly given me an entire evening, to talk to you about one or two other features in general terms later.

I shall not read through my brief. The essential point of it is this, that this plan as proposed is, in many ways, shall we say, produced on the philosophy of a private pension plan. If an employer is putting in a pension plan for his employees his main concern is to produce a pension which will allow him to retire an employee without any hard feelings when he wants to let him go and, in consequence, it is quite essential that the end pension bear a fairly good relationship to the earnings that the employee is receiving before he leaves. That is not, to my mind, the requirement of a national plan.

We have here a situation which I have illustrated on the third page of my brief and in which—if we were to look upon this plan, in effect, as we look upon many private plans, as producing, shall we say, for each year of service which is going to count for pension purposes one-half of one per cent of pension benefit—we are giving a very substantial past service benefit to those who are now of advanced age. In fact, the obvious case is that of a man aged 55 when the plan comes into effect. He will receive a benefit in respect of his entire past service, if we call it that, based on his earnings at the time he enters the plan.

I have not read the bill in full detail and with the greatest care yet, but it would seem to me that it is possible for that person never to have lived in Canada, and to have arrived here, and if he is earning $5,000 or more obtain a very substantial benefit, which is much more than we give to a person earning much less.

My idea of a national plan is that we give benefits where they are most needed, and we should not follow the philosophy of a private plan.

Therefore, the whole purpose of this brief is to suggest that we take into account, in giving everybody a pension, their earnings throughout their entire lifetime from 18 to 65. In the case of earnings before the plan comes into effect, we do not assume that they have earned throughout their lifetime the earnings they are receiving when they enter the plan, but we assume a flat figure which can be $2,000 or $3,000. This is a matter of calculation. On that basis, we are in effect saying that the years that he has lived before age 55, for which he made no contribution whatever, will count the same for all people; and it is only the benefit that he gets for the years after age 55, while he is contributing to the plan, when obviously he contributes on his earnings, and only those benefits should be earnings related.

On the third page of my brief I show that, actually speaking, if we take what is a rough approximation to the capital value of the benefit at age 65 of two people, and we take away from that the value of the contributions that they make in the next ten years—these are two people age 55 when the plan comes into effect—take the case of the one earning $3,000, he gets a benefit worth about $9,000 if he gets to age 65. One earning $5,000 or more—and these are modest examples, because there are people earning $10,000, $15,000 and $20,000—he gets something like $15,000, and he obviously needs that far less than the first person.

If, in place of taking the average of his earnings during the period he contributes, you take the average of his earnings from age 18 to age 65, and assume a flat figure for his earnings before age 55, you get a very different picture. If you assume that these earnings are a flat figure of $2,000, as they are adjusted to the date the plan comes into effect, you now find that, in the place of the lower paid person getting a pension of $3,000 against the higher paid one getting $5,000, the lower paid person gets $2,238 and the higher paid person gets $2,714 a year, the reason for that being that it is based on his higher earnings, upon which he contributed in the last ten years. Now this, shall we say, sheer gift which is given to the higher paid person, under the plan as it now stands, of some $6,000, is reduced quite dratsically to $1,200, the difference between $7,900 and $6,700.

I mention $2,000 as the figure. It could be $1,500, it could be $2,500. The principle is that the pension, if you agree to regard it as such, for service for his lifetime before age 55, should be on a flat benefit. He makes no contribution towards it and it should not be graded up by his earnings after age 55. The pension after age 55 should be related to earnings, because he is contributing; the man who earns more is contributing more than the man who earns less.

I do not know how familiar you have become with the principle I have mentioned, which you might take into account; but I think this would remove what is in my mind a very grave defect in the plan.

Many years ago, my president, Bill Mercer, who died some years ago, mentioned—and I think it is very true—that most of our trouble in national planning is in trying to give a little money to everybody, we are giving a little money to a lot of people who really do not need it and we are not giving enough to the people who do need it. His contention was that a lot of our ideas and planning could be concentrated on a modern means test which would not be embarrassing to anybody and would concentrate the money where it is most needed.

This plan, as we have it now, is giving far more to the wealthier person. As I say, while we talk of $5,000 a year we are also talking of people who earn much more than that, giving far too much to them and far too little, if you like, to the person who is earning far less than $5,000.

In the various reports on the proposed plan, we discussed the problems of integration with private plans. If you were to cut down this retroactive or past service element, you would make the problem of integrating with private plans so much easier. At the moment we have the Civil Service, for example, proposing to make a minor alteration in their pension credits for future years, so that because of this high retroactive element, anybody earning over $5,000 a year in the Civil Service is going to get much more than 70 per cent of his final earnings as a pension. If there is anybody in this country needing a pension of 70 per cent, I think it is as much as anybody could wish to have.

You might also note that if you really want it, if you take this principle and assume the earnings before the plan came into effect were just a flat figure for each year, if you wanted you could extent this backwards to those people who are over age 55 now and are literally going to get little or nothing from this plan.

Whether or not you do that is of course a matter of cost, and I am sure that your actuaries in your Department of Insurance are perfectly capable of finding out what that cost should be.

If you have read this brief, I do not think I can say very much more on this subject without repeating myself.

The CHAIRMAN (*Mr. Cameron*): Have you any recommendations you wish to make?

Mr. WOODS: I put my recommendations in capital letters, with the idea that that might help to bring it out in the rest of my brief.

The CHAIRMAN (*Mr. Cameron*): That is on page 1.

Mr. WOODS: Yes. I tried this in several forms but this seemed to me the most convenient way of doing it, in effect, where you have it now that the pension for a person who contributes for the full period is 25 per cent of his average earnings, while he is contributing—I am just suggesting that it should be 25 per cent of his average earnings over his whole lifetime since age 18, on the assumption that his earnings between the age of 18 and the end of the plan are a fixed figure of $2,000, $2,500 or $3,000. It is as simple as that.

The CHAIRMAN (*Mr. Cameron*): I have noted several members who wish to ask questions—Mr. Francis, Mr. Knowles, Mr. Cantelon, Mr. Côté, Mr. Lloyd, Mr. Munro—and I suppose others will come along too. Senator Croll also wishes to ask a question.

Mr. FRANCIS: I would like to congratulate Mr. Woods on an ingenious proposal which I think is one worthy of careful consideration by the committee. Frankly, what puzzles me about Mr. Woods' proposal is this. As I understand it, he would assume that every contributor who had been in the labour force prior to January 1966 would have earnings of a flat rate of so much a month. This is the essence of his proposal, that there is a flat rate of earnings. My concern is how one would decide, in the case of persons not really in the labour force. For example, take housewives. Would you not have to credit them with equivalent flat rate earnings, and would this not amount to a universal benefit for everybody from the beginning of the plan?

Mr. WOODS: Perhaps you would look at the third paragraph on the fourth page. I sound now like reading the second lesson. It says there:

> If the average last 10 years' earnings were less than the fixed figure, the former only would be used.

In other words, you could do this. If you wanted, you could give it to everybody, but I am not suggesting that.

Mr. FRANCIS: You get to the point of a universal pension, and my concern is how you distinguish your proposal from that.

Mr. WOODS: In the normal way now under your present plan you are going to take the average earnings of a large number of people over the ten years in which they were contributing. I agree that if you apply my method and fix this to everybody you are bringing in a universal pension, and I am saying you should not do that. What I am saying is that you find the average of the last ten years' earnings, that you put a ceiling on it. In other words, if the last ten years' earnings were earnings of $600, then you would not give them $2,000, you would give them no more than you would give under your present plan, but you would put a ceiling on how much you would give.

Mr. FRANCIS: I wonder if you could deal with a specific case that will illustrate it. I am not sure that I understand it; and that what you are saying makes sense, I have little doubt. Take a husband and wife age 55 on January 1, 1966. The husband has been in the labour force, continues in the labour force. Would you blanket in his employment just prior to January 1966 at a flat rate? What would you do in the case of the wife?

Mr. WOODS: In the case of the wife, this would be fixed, at the time she was retired.

Mr. FRANCIS: Supposing she is retired at 55 and is in the labour force?

Mr. WOODS: In that case, she will get nothing. Let us take the case of the man, for a moment. If his earnings for the last ten years averaged $5,000, assuming at the moment there is no cost of living escalation, and no increase in earnings, he would benefit on a flat average of $5,000. If the figure used for his purpose was a flat figure of $2,000, then you would work out his average.

Mr. FRANCIS: I do not think there is any problem with him. What about the wife?

Mr. WOODS: As far as the wife is concerned, you would not give her credit for any period before age 55 for any more than her average earnings after 55.

Mr. FRANCIS: I now take the next case, of the wife who works for one year, between 55 and 56?

Mr. WOODS: And earns how much in that year?

Mr. FRANCIS: $2,000.

Mr. WOODS: Therefore her average over the last ten years will be $200, will it not, if you divide $2,000 by ten?

Mr. FRANCIS: What would you presume she had prior to 55?

Mr. WOODS: I would not treat her average overall as higher than $200. All I am doing is taking the average where anybody's earnings over the last ten years are less than the fixed figure we have assumed and you just leave things precisely as they are under your plan, and where the person's average would come above the $2,000 figure, or the figure you chose to work with—his average between 18 and 65, assuming the earnings before were the fixed figure. Otherwise, you would receive precisely as you do now.

Mr. FRANCIS: In other words, the estimates of your proposal are for people who are proved to be in the labour force at the commencement of the plan. If they are not they must exceed the flat rate figure, or else the present formula would apply. If they do exceed the flat rate figure—

Mr. WOODS: I first tried to put this recommendation in a way that would be easier to understand, but when I started to write it down it was a little more difficult.

Mr. FRANCIS: I think I grasp it now. I think it is very ingenious.

Mr. KNOWLES: Mr. Chairman, like Mr. Francis, I believe Mr. Woods has dealt with this problem in an ingenious fashion, and I think it is suggested that we take a serious look at it. After all, he is trying to over-simplify to make sure we understand the proposals. As I see it, Mr. Woods, you are suggesting in effect a different formula for a past service credit?

Mr. WOODS: Precisely.

Mr. KNOWLES: At January 1, 1966. I would like to ask two or three questions. Perhaps I will put the first two together so that I shall not seem to be asking a leading question. Is it fair to assume from your approach, from your suggestion of an alteration, that you look with aproval on the idea of a contributory earnings related plan under public auspices?

My second question would be: Is it also fair to assume that you look with approval on the principle of such a plan allowing for past service?

Mr. WOODS: As far as your first question is concerned, I think the answer is yes.

I would like the Canada Pension Plan to take full control of the first element of earnings. I would like to have seen a plan where the pension benefit, we will say, would be 40 or 50 per cent of a much lower level of earnings, so that every private plan could take that as completely out of the plan altogether. At the moment you are giving a pension of 25 per cent up to $5,000. That is not an adequate pension. Therefore, the private plans in force will have to adjust their formula, and will still have to give added benefits to supplement the Canada Pension Plan. Of course, you are not personnally responsible for this, so I will not give you credit for that.

Mr. KNOWLES: Oh, give me a little credit, if you can.

Mr. WOODS: If you had a plan where the benefits of a full period would work at, we will say, 50 per cent of the first $2,000 or $2,500, it would have been very easy for every employer to say our plan would only apply on the excess over this figure, and that would have made integration and co-ordination extremely easy.

Now, as to cost, whether you gave it to everybody, or in proportion to how much they give in the future.

Mr. KNOWLES: You will recall that I asked you if you favoured a contributory pension plan.

Mr. WOODS: Do I favour the contributory pension plan? Yes, I do; but of this nature, where the Government would take care of an adequate pension on the first part of anybody's earnings, the private employer then need only put in a private plan in excess of that figure.

The second is the question of cost, and it is this past service element which is causing difficulty in its integration and co-ordination. You get to the point where some plans are of a very generous nature and it is very difficult not to give whatever is in the plan, because the idea of producing accrued benefits is frowned upon. You are going to give people a lot more in many cases then they really need. Yet there are a lot of people, who when they are over-supplied, think they are getting practically nothing. So I would go forward with the past service element to a degree. On the other hand, there is the question of costs. Actually, I am not too much concerned about costs being passed down to future generations. We have already passed on the costs of two world wars, and I do not see why we should trouble about a little thing like this.

Mr. KNOWLES: I cannot deny myself the right to say that this is welcome testimony. Perhaps I might be permitted to say that I remember your late president very well in previous committees, including that abortive one on the Government Annuities Act, where his testimony, by the way, was very good.

May I just move on to one other question? In the concluding part of your brief you suggest as a possibility that savings achieved by adopting your alternative for the recommendation of past service could be used to improve the pensions of what might be termed the "last generation". In other words, you suggest the possibility of this money being used to increase or supplement the pension to those who would be only on old age security. May I ask you if you advocate that such savings be used for that purpose.

Mr. WOODS: One fundamental principle of pension planning is to try and avoid accidents of birth. For instance, a person might happen to be born in one particular year and he gets a poorer deal than someone else who is born a few years later. Or one dies one day, and his benefits are different from if he died one day later. We always try to get a reasonable continuity. The last generation of people who are 60 or over by the first of January will literally get nothing out of this plan. All they will have is the old age pension. I do not know under what particular star the group of say 45 to 55 were born, but they are fortunate. By virtue of the fact that many plans do not give accrued benefits they will get over and above whatever they expected to get, and then of course this will gradually die out as those of a younger age come along. The one aged 18 now, assuming the plan is altered 47 years from now, which is unthinkable, will get no particular benefit. So one group of people in 1921 and 1911, who, of course, are survivors of the first world war, and may deserve this, will get a particular advantage, whereas those before 1911 will not get it, and those in the 1921 group will naturally benefit at a decreasing point.

I consider what I am proposing is that advantage be taken away and we try and smooth this out. Whether or not you give this to this lost generation is a matter of cost. I think it is desirable, but, here again, if you have ever heard Mercer on the means test, we have had people suffering from multiple sclerosis at age 50 and they need a far higher income than they are getting. I think we should give some thought to giving these people a better income, if need be from the saving. Since maybe we have not the money, whether we should call this a saving I do not know. That is an economic matter.

Mr. KNOWLES: But it is fair to say, is it, you feel the disparity between those born under the lucky star and those born too soon—

Mr. WOODS: One should be brought down and one brought up a little bit.

Mr. KNOWLES: Might I emphasize the fact you want one brought up?

Mr. WOODS: Yes.

Mr. CANTELON: I was going to ask Mr. Woods to explain a little more fully the sentence on page 2, "This differential is completely inappropriate in a public plan." I think that he has explained it, but I do not know if he wants to add anything. However, if he cares to add anything I would be prepared to ask the question.

Mr. WOODS: I would like to mention I can read French very easily but, unfortunately, I cannot speak it with the same fluency. I have read two very lengthy reports issued by the committee in Quebec. I also did appear before that committee on one momentous occasion. In the second part of their report they apologize most profusely, in the charming manner in which the best brought up French-Canadians can, for this very feature. Why they did not do something about it, I do not know. I would be much more in favour of the Quebec plan if they did, but they did apologize that the person getting most money got most out of the plan for something for which he made no contribution. So this is not original in this regard. I can give them credit for thinking of it first, but they did not do anything about it. When the two plans were joined together by trying to insist the so-called transition period be shortened from 20 to 10 years maybe they overlooked this fault because it was not too bad at 45 but it is made perfectly criminal at age 55.

Mr. CANTELON: Others have brought our attention to this too. I would gather from what you said the matter of cross-subsidization is one that does not bother you very much?

Mr. WOODS: Do you mean from one future generation to another?

Mr. CANTELON: Yes.

Mr. WOODS: As a matter of fact, people have talked a great deal about this, but I am quite sure if we were to take every part of our taxation policy and define it we would find we are still paying an awful lot for the First World War and, I am sure, an awful lot for the Second World War. We have now taken what is taxation in effect and called this a contribution to a pension plan. The main trouble with this kind of plan is once you have started it it will tend to grow. So far as future generations bearing the cost, I do not think I am at all bothered about that. In fact, I am completely against the idea of any Government accumulating the fund. I do not think they should at all. This idea of offering funds to municipalities and provinces to use for any projects they want, without having to go to the public to explain why the project is necessary, is taking away one of the few controls we have in a democracy over what our governments do; and I say that with the deepest respect.

Mr. CANTELON: We have heard this before, as you probably realize. I am much interested in what you say about the fact that you think that your plan would make it much simpler to integrate private pension plans than what is suggested in Bill C-136.

Mr. WOODS: I did not give you the brief to make my job easier. I gave you the brief because this was an essential feature to make that point of a national philosophy and not a private plan philosophy, but by doing so it would make the problem of integration much easier.

Mr. CANTELON: I wonder if you would like to set forth some of the difficulties that might arise in the private plan as opposed to the plan embodied in Bill C-136?

Mr. WOODS: Let me take the situation of a good many employers trying to give pensions based on the final five years' earnings. A good many employers, even with what we call career average earnings plans, periodically improve the accrual benefits with the idea of building up the pension, which is 50 per cent or a reasonable figure of the last five years' earnings. That is the only measure of adequate pension. It is going to take all their resources and imagination to be able to fund such a plan. We have gone quite deeply into the process of equity investment, 25, 30 per cent, one-third or one-half of funds in equity to build up long term growth of equity to meet the fact that earnings are consistently going up. I do not think that under modern conditions we can ever hope for deflation. I am not sure we even want deflation. They really cannot afford to give anybody a pension more than a percentage of their final five years earnings, but unless they have access to this retroactive element in the plan, and many of them cannot because their own plans forbid them to reduce the presently accrued benefits, the people going on retirement in the next 10 to 15 years will get pensions in excess of them. The employer not only has to pay the private plan but the full contribution to the Government plan as well. If, by chance, retroactive elements were reduced and it did represent a reduction in contributions it would be leading to nobody receiving a pension of more than the maximum the employer was trying to achieve.

Mr. CANTELON: Why couldn't they just go and cut off, say, 1.8 per cent of the employee's contributions and let him put that into the pension plan, as suggested by Bill C-136, and cut their own pension plan down accordingly?

Mr. WOODS: They would have to say, how are you going to cut the benefits down? By what the money happens to be in the case of the younger person you would cut all his benefits out, and in the case of the older person none of them out. If they are so foolish as to reduce the contributions under their plan from the employee by what they have to pay to the Government, heaven help the employer when, in due course, the Government doubles the contribution rate and he finds the pension plan has become a non-contributory one as far as the employee is concerned. I do not know how deeply you have gone into the problem of integration, but it is a very difficult one, to try and make use of this retroactive element.

Mr. CANTELON: That is what I wanted to find out. It is a very difficult problem to define. That is what I thought myself, so I asked the simple question.

There is one other comment I would like to make. I notice you said a good pension plan should provide the very best, and probably 70 per cent, as much as one could wish to have—I think were your exact words. This 70 per cent would be calculated then probably on the last five years of earnings, or the 10 highest years?

Mr. WOODS: Or the five best years, either of those.

Mr. CANTELON: What is the purpose of doing that?

Mr. WOODS: The purpose is, if you have a pension based on that you have then assured a person who has got used to a certain standard of living based on his final earnings that his income will not drop by more than 30 per cent. Taking into account the fact his expenses will drop to a reasonable figure, and also expecting him to have made other preparations for himself in retirement, and not relying completely on the employer's pension plan, he should be able to live adequately. A good many of normal industries' plans, even a good one, one like 2 per cent on the career basis, end up with a pension of less than 40 per cent of final earnings.

Mr. CANTELON: There will not be any higher pension plan for accruals because of the cost of living or the increase of the standard of living in the future?

Mr. WOODS: This is done much more often because the employer who has to pay the balance of the cost is a little unhappy about making too far an advanced commitment. We find in a good many private plans we deal with, an employer builds up a surplus in the fund and keeps on improving pensions up to a later and later earnings figure. On that basis he only increases the pension after he has already acquired a surplus, and ends up with a final earnings plan without having an advance commitment. We have seen plans where they are giving bonuses to pensioners, but only as decided by the employer and not on a fixed commitment basis. I think there have been many trends in pension planning in the last few years in Canada, particularly since the ceiling was taken off equity investment in 1956, the concept of having a substantial block of equities over a long term to give you a natural flexibility.

In England, of course, they are investing in common 50 per cent of the equity. You have one fine example: Imperial Tobacco, which is as complete in equities as you can get, having everything you could possibly have, including possibly bonus moving in its pensions. This will come. This is the trend.

Employers are rather cautious to tie their pensions to an escalating formula until they are quite sure of themselves. There are employers who would like to find this on their plans, but not yet have the nerve to do it.

Mr. CANTELON: This again, because there is an escalation clause in Bill C-136, would create difficulty in integration in both the private and the Canada pensions.

Mr. WOODS: Not in the sense that we are integrating, shall we say, the basic benefit, and the escalating part we regard as future clues of what the employer himself needs.

Mr. CANTELON: Thank you.

Mr. WOODS: Do you get my point? In other words, you have a pension of 20 per cent provided by the Government plan, and if the 20 per cent is escalated that is just a step on the way to the whole plan being escalated.

The CHAIRMAN (*Mr. Cameron*): Mr. Côté.

Mr. CÔTÉ (*Longueuil*): I just want to know if the idea of giving the benefits on an average earning for the people who will be 55 on January 1, 1966 is a new idea; or has it ever been tried in other plans or in other countries or anything like that.

Mr. WOODS: You will find in most other countries that there has not been much of a retroactive element at all. I am afraid that you suppose that I should be a world authority on pensions, but I find that one finds himself so busy with what one is doing that one does not always have time to read all the masses of papers that arrive from all over the world.

I would not like to pose as an authority, and therefore, with quite a lot of reservations, I say that to my knowledge most national plans have not given much of a retroactive element. My impression has been that most other plans from other nations have not given much of a retroactive element. They are based on the future only.

Certainly the contributory plan of Great Britain was largely future service only because that allowed opting out, as you know, and you can only allow opting out where the employer can take over his own plan for the future only.

The retroactivity of this plan is what has created difficulties both in equity in the plan and in the problems of integration.

Mr. CÔTÉ (*Longueuil*): My other questions have already been answered. Thank you.

The CHAIRMAN (*Mr. Cameron*): Yes, Mr. Lloyd.

Mr. WOODS: I appreciate seeing Mr. Lloyd here again. We spent some time in Nova Scotia together.

Mr. LLOYD: Thank you, Mr. Woods.

Mr. MONTEITH: What were you two working on?

Mr. LLOYD: I don't think it is necessarily relevant to the work of the committee, but now that Mr. Monteith is interested, Mr. Woods advised the City of Halifax on its pension plans, and he did the actuarial work.

Mr. WOODS: And I was an actuary of the Maritime Life Insurance Company when I first came to Canada, which shows that we are not that intimate.

Mr. LLOYD: I am delighted from the experience in Nova Scotia that you are one of the men who have come forward with workable proposals, and are not somewhere out in outer space. You are not a self-appointed political scientist and you are not a pseudo-economist. You take yourself in the field you are thoroughly familiar with.

Mr. MONTEITH: Did I hear a reference to pseudo-accountants?

Mr. LLOYD: No, economists. Mr. Woods, both Mr. Monteith and I appreciate your contribution. You made some suggestion, some comment about the availability of funds to this plan, did you not, Mr. Woods?

Mr. WOODS: I think when it is suggested that the saving under the plan could be applied to something else, it is very much like when your wife says, "I did not buy that $80 dress, so I can spend $50 on something else and I am saving you $30."

Mr. LLOYD: Did you go on to say that these funds could be available through the usual channels?

Mr. WOODS: I say this now, with the deepest reservation, because I am becoming a pseudo-politician, obviously, when I make this remark, but my opinion was that when anybody, any municipality or province, wanted some particular project and needed money they had to go into the bond market to find money for it, and they had to justify what they were doing; otherwise they would not be lent the money.

Now, if funds are available to draw on without going into the open market, then, as a pseudo-economist I feel that that is not quite the same as a natural control.

Mr. LLOYD: You are removing one of the disciplines to the decision made.

Mr. WOODS: I will be very diplomatic now in saying that it would appear to me it might be possible.

Mr. LLOYD: In reverse, if a province has had some difficulties in what might be perfectly valid objectives in obtaining capital for its purposes, this might be of some assistance in overcoming that.

Mr. WOODS: It depends on who thinks the purposes are valid; obviously the private market does not, if they had difficulty.

Mr. LLOYD: Mr. Leboe could tell you something about that if he were here.

Mr. WOODS: None of these things are simple. For example, I was asked a simple question in Quebec: Did I think it desirable that funds should be accumulated to institute a steel complex in Quebec, and I said, "as an actuary

I only work from the trends of the past, and they are not particularly hopeful in that regard".

Mr. LLOYD: In the case of municipalities, they still have to go through a municipal department, and I think there are boards whose approval is required in some provinces before they issue bonds. In the final analysis, is all of this being removed?

Mr. WOODS: I am saying that if these plans are available too readily, because they are part of this, there is not quite the same discipline.

Mr. LLOYD: On the other hand, let us assume that the provinces stay within the conventional wisdom as to how funds should be used, there is a need for a massive capital judging from the report of the Economic Council of Canada, and this kind of savings, even if some people call it compulsory, will be a very useful tool in the light of modern day economics, will it not?

Mr. WOODS: I am not making a major point of this in my brief.

Mr. LLOYD: All right.

Mr. WOODS: You are involving me in something of which I know very little.

Mr. LLOYD: Thank you.

The CHAIRMAN (*Mr. Cameron*): Is that all, Mr. Lloyd?

Mr. LLOYD: Yes.

Mr. MUNRO: Mr. Chairman, Mr. Woods, I, like the others, think that this is a most constructive idea, and I welcome having Mr. Woods before us because he has given us something that we have to consider very carefully. So I am sure we are all very appreciative.

I was just looking at the figures, and I would think that, reading the brief and the figures, the motivating factor obviously, from what you have said in the brief, is that you are concerned because of the benefits that are fairly rich due to the short transitional period of 10 years. This was a stimulus for you to come up with this suggestion before us, is that correct?

Mr. WOODS: If I may put it one other way, and I was going to put it another way on the first page: To make it simple, let us say that in place of giving a pension of 25 per cent as a flat percentage the pension formula had been one-half per cent for every year between the age of 15 and 65. In other words, if you made the age of 15 your early age and not 18. I am not advocating that, but I just want to make it simple. Then everybody would get one-half per cent for every year from the age of 15. Then all I am saying is that on that basis a man aged 55 under our conventional terminology in the private plans—if the plan was put in when he was 55—would have had 40 years for past service and 10 years for future service.

This plan bases all those percentages on his having 20 years for the past service, that is, 40 times one-half per cent, and five years for the future, which is 10 years at one-half per cent.

Now, you are giving him his entire 25 per cent based on $5,000 because he happens to be earning that when he is 55 years of age. If he is earning only $3,000 you give him 20 per cent of a fixed figure, which is, perhaps, $2,000, plus 5 per cent, if it is ten times one-half of one per cent, while he is contributing on his actual earnings. In other words, his past service is not wage related because he has made no contribution to it. His future service is wage related because he is making a contribution. Then you take away an awful lot of the inequity between the man earning $2,000 and the man earning $5,000.

Mr. MUNRO: In other words, the inequity that bothers you is an inequity that occurs from the short period—

Mr. WOODS: Not really, no. It is magnified because of the shortening of the period, but you are giving your man earning $2,000 just as good a pension as he would receive under your plan, but because of the way it is now worded you are giving a man earning $5,000 two and a half times what you are giving the man who is earning $2,000, to which neither has contributed. And, a man earning $2,000, by every standard, needs it far more than a man earning $5,000 or more.

This is the philosophy of the private plan. The employer is concerned to give a man earning $5,000 a larger pension because when he wants to get rid of him he is not embarrassed. If he can give a man earning $2,000 a pension of $1,400, and give a man earning $3,000 a pension of $2,100, or 70 per cent, then they are both getting a good pension and the employer accepts the inequity. He gives the older man more for that reason. But, this is not the philosophy of the national plan, which is essentially one of need.

Mr. MUNRO: This is an example of setting a flat rate at the inception of the ten year transitional period. This is the only place where it would be effective, presumably.

Mr. WOODS: That is right. It would have a certain effect for everybody who is over the age of 18 now because they all have a certain past service, as at the—

Mr. KNOWLES: Some refer to it as 46 years and 11 months.

Mr. WOODS: Yes, but it is no more complicated than the present formula. All you are saying is that you are taking an average over the whole 47 years instead of ten years, assuming certain past earnings.

Mr. MUNRO: I am just going to ask in this particular case you have come up with why this formula should be weighted more in favour of the lower wage groups. It would have that effect?

Mr. WOODS: It would have that effect, but all I am saying is, since nobody is making any contribution in this behalf, that a man who is getting $5,000 and who contributes $100 is getting out much more than his $900. He is getting much more than $900-worth in pension benefits he is getting for the future, over and above what he is getting for the past. His $900 in no way, shape or form makes any contribution to what I call the past service element. Therefore, if he does not make any contribution to it why should he, under a national plan, get more than a man earning $2,000, who also makes no contribution to it?

Mr. MUNRO: But there you are getting into the question of setting a flat rate. If one of the effects of it is that it does have the end effect of bringing down the benefits of this man in the $5,000 area that you are talking about, presumably you do not want to penalize the man in the lower income brackets. I was just figuring from your figures here in the case of a man earning $3,000 for the 10-year transitional period and who then retires. Based on a flat rate of $2,500 he would get approximately $54 a month, whereas if you set the flat rate at $3,000 he would have somewhere in the vicinity of $62. There is a difference of $8 to a man who is making—

Mr. WOODS: Quite frankly, I would not want to argue on the fixed rates. I just wanted to get the idea over. The reason this did not come from my firm is because I did not have the time in which to argue about it with the other actuaries. That flat rate could be anything you decide. It could be $3,000 if you wish it to be. There should be some element—

Mr. MUNRO: That is my point. You, in effect, were using this example. You are not recommending it—

Mr. WOODS: No, I did not have time to give any thought at all as to whether it should be $2,000, $2,200 or $2,500. Once the principle is accepted then there are many people who are actuaries in the Department of Insurance who can give it far more time than I have been able to.

Mr. MUNRO: If you use the flat rate of $3,000 you would not be penalizing the man in the $3,000 area by incorporating your idea. I was wondering if you could say roughly, if you upped your flat rate of $2,500 to $3,000, how that would affect your equalization. In the fifth paragraph on page 4 of your brief you say:

> The financial strain imposed on the accumulating fund would be reduced.

That is incorporating your idea, because presumably the higher you raise the flat rate the less savings there will be in the fund.

Mr. WOODS: The higher you raise the flat rate the less the saving. I am assuming, of course, if a person's earnings were less than the flat rate you would not raise him to the flat rate, but on that principle you would raise the flat rate. If you raised it to $5,000, then there is no saving at all.

Mr. MUNRO: I noticed when you talked about the savings that would accrue to the fund by incorporating this, Mr. Woods, you indicated that the additional funds may result in our wanting to change our funding philosophy, or perhaps there might be some additional benefits, as you suggest, later on. I wonder if you have given any thought to reducing the contribution? Would you be in favour of it?

Mr. WOODS: I feel this should be done completely on a pay-as-you-go basis. I can see no justification for accumulating a fund at all in Government hands. As I mentioned, if anybody does not like the idea of passing the cost on to future generations, we have had some very, very substantial precedents.

Mr. FRANCIS: Yes.

Mr. MONTEITH: The witness this afternoon talked in the same way.

Mr. MUNRO: Yes, but other witnesses differed. I am interested to hear your observations on the pay-as-you-go basis. I do not think anybody is saying there is not a good deal of merit in it. The curious thing is that I can recall at one time one of the proposals that was advanced was that it would be a pay-as-you-go plan, and there was some considerable argument advanced at that time that this was not responsible, and that there should be some partial funding. This is an area of great controversy. We have had different witnesses advancing partial funding and full funding, and men, such as yourself, advancing the idea of pay-as-you-go. But, to get back to my question, I take it that if there was less strain on the fund by incorporating your idea, and which thus would have the result of increasing the fund, you would be in favour of reducing the contribution rate?

Mr. WOODS: Actually, I did not put anything in my brief with respect to funding or anything else because I assumed by now you are nauseated by the repetition. Frankly, I did not think I could add anything to this except these few remarks. If I were to become an economist I would say that if we are to compete with other nations in the world we have to cut down on our overhead. If you have an employer on a pay-as-you-go basis and another employer on a fully funded basis, then the first would have a definite advantage over the other. In all our dealings with employers we are just as interested in their working capital position as in the funding of their pension plans. The reason why an employer goes into business is not to set up a pension plan for his employees.

Mr. MUNRO: The idea of passing on obligations to future generations does not bother you at all?

Mr. WOODS: I remind you of the biblical adage of straining at a gnat and swallowing a camel. I do not know what the cost of the Second World War was, but I think it was a little bit more than the cost of this Canada Pension Plan. That is not a reason why we should not have this plan.

Mr. KNOWLES: What is that?

Mr. WOODS: I am saying that the Second World War cost more than this plan. It is not the idea that we should not pass down to future generations the cost. I think that is ludicrous.

Mr. MUNRO: That is the basis of the wide difference in the opinions of men like yourself and many other actuaries and witnesses we have had before us to date, who have suggested in their briefs that it is the height of irresponsibility not to have some funding because we are, in effect, burdening our children with some horrible onus they will have to carry around with them for the rest of their lives.

Mr. PRITTIE: That is not the only reason why we are having funding.

Mr. MONTEITH: No, you are right.

Hon. Mr. CROLL: Mr. Woods, I am intrigued by your formula. My thinking about this pension plan is that it has had a fairly thorough going over by the department over a period of years. Actuaries and the best people available have been consulted. Surely in the course of it someone must have come up with this. You have been very frank with us, and very helpful. Tell me, what are the pitfalls in your formula?

Mr. WOODS: It disturbs me not to be modest. Obviously they have not soldiered all the best actuaries that are available. I cannot see a pitfall in this. I would not have put this in without a lot of thought. I did not add to it because I did not have time to give a lot of thought to other aspects and I preferred to put in something which I thought was important in a proper way, rather than diversify my thought and give something not worth anything at all. I cannot see anything wrong with this, to be frank with you. It was already mentioned in the report from Quebec, in the second of their reports, in principle. They deprecated the fact but unfortunately it seemed that by now the plan had obviously become their master, because they are completely helpless in its toils. The plan did this because it was obviously wrong and there is nothing they could do about it.

Hon. Mr. CROLL: And are we—

Mr. MONTEITH: Following suit?

Mr. WOODS: I am surprised that Quebec did not do something about it, because if they had, their fund would have accumulated faster than under the plan they have.

Hon. Mr. CROLL: Is the accumulation of the fund basically the difference?

Mr. WOODS: I had a feeling in the case of the Quebec plan that it was rather an important feature.

Hon. Mr. CROLL: They said that and they did not make any bones about it.

Mr. WOODS: But when it comes to national planning, it is completely wrong, it is completely illogical, it is the antithesis of the national planning, which is to give more to the needy and less to those not in need, this gives more to those who do not need it and less to those who do.

Hon. Mr. CROLL: What are the arguments on the other side, assuming there are not tenable arguments, assuming that somebody in the course of the last two or three years went through half a dozen?

Mr. WOODS: I did mention this at a meeting of the Canadian Pension Conference about six months ago and a certain individual on the panel said this was all very well but it was against the philosophy of the plan; and I almost got up and said what I thought of his philosophy, but I did not.

Hon. Mr. CROLL: Against the philosophy?

Mr. WOODS: Against the philosophy of the plan, which of course to my mind is utterly meaningless because if that is the philosophy of the plan, this is the plan of a private employer, not a nation. There is a different philosophy completely in national planning from that of an employer trying to produce pensions for his employees. An employer gives a man earning $100,000 a year a pension of $80,000 a year because that is the only way he can get rid of him, and he does not mind. It is quite inequitable that he should do that and that the man getting $5,000 a year should get only a $3,000 pension. The employer does that because he finds that it is the only way in which he achieves his purpose, by being able to get rid of people when he wants to do so. But that is not the philosophy of a nation, which is to try to help people who need it most and especially to help them in their retirement.

Hon. Mr. CROLL: We agree with you and that is what we would like to do. Within the compass of this plan, the only way we can help that forgotten nation is with your formula?

Mr. WOODS: No. This was not for the purpose of trying to help those, but I would like to see some more continuity between the people born in one decade and those born in the next decade. Those born between 1911 and 1921, so far as this plan is concerned, are very fortunate, because their employers are already committed to a very great extent to them and they are going to get this on top, and it is too late for the employers to do anything about it.

Hon. Mr. CROLL: When you say the employers are committed, I think the evidence before the committee has been 20, to 25 (per cent), the coverage in the labour force.

Mr. WOODS: As I mentioned to you before, senator, I have not got the figures, but even if one man had an advantage I think it is wrong. There is certainly more than one man going to get it, and I really cannot see why you should help a man earning $5,000 and over, when you are not giving enough to the person earning $2,000 and when you are giving nothing at all to those over 60.

Hon. Mr. CROLL: We have that evidence.

Hon. Mr. THORVALDSON: Senator Croll was asking about the pitfalls. In fact, I think he wonders, as do I, why this thing has not been seen before by someone else. Many other actuaries have worked on this. I give you credit of course for being very eminent in the profession. Someone was nasty enough to mention a pitfall to me the other day in regard to this and I would like to ask you about it. Looking at the top of page 3, taking your case, too, namely the man with the $5,000 earnings, he would have a vested interest of $15,200, would he not; whereas the other man would have a vested interest of $9,200. Far be it from me to suggest that a plan like this would ever be subject to political debate on the hustings; but would there not be a pressure group consisting of the men with $15,200 equity in favour of this plan as it is?

Mr. WOODS: I am always hopeful that once in a while a democratic government will actually come up with the right answer. They often do.

Hon. Mr. THORVALDSON: I think there would be quite a pressure group.

Mr. WOODS: I am quite sure there would, but I can see no reason for giving in to them, any more than giving in to a man to have access to the national revenue.

Hon. Mr. THORVALDSON: I agree with you.

Mr. WOODS: This is actually giving them that.

Mr. KNOWLES: In political terms, are there not more $3,000 people than $15,000 people?

Hon. Mr. THORVALDSON: The $15,000 people can become vocal.

Mr. WOODS: The $15,000 people may be my clients.

Hon. Mr. THORVALDSON: I am in the Senate and do not know much about politics—

Mr. CASHIN: Would a man of 40 on the average get less of a pension—and I am thinking in terms of 25 years from now—under your scheme than under the Canada Pension Plan?

Mr. WOODS: Everyone would get a slightly lower pension under this basis if their average earnings were above the six figures, than they would have now. It depends on where you set the figures. If you set it at $1,000 it would drastically reduce everybody. If you made it $3,000 or $2,000 you would only draw down those earning $5,000 or $4,000. Where you set it I would hesitate to say as I have not gone into it completely enough.

Mr. FRANCIS: It depends on the figure you choose for the flat rate in the earnings. You pull up the people with averages below it and you pull down the others with averages above it.

Mr. WOODS: Whether you do or not, it is a question of maintaining the ceiling. You do not have to pull up the people, because you might have someone with nothing at all. You would affect the ceiling. Those with earnings below this will not be adversely affected. Those earning less than the fixed figure will have precisely the same benefits under this present plan.

Mr. CASHIN: I appreciate your approach, because so many others have come with an inflexible approach, whereas your approach is indeed refreshing. Depending on the figure you pick, is there not some danger that the people who will be doing this will be substantially of the low income groups. Will these be relatively low income groups? The bulk of our population is between $3,000 and $5,000, which is not a very heavy income.

My second question is this. Through a flat rate benefit can we not accomplish the same thing you are asking us to do here in your plan?

Mr. WOODS: You can have the flat rate benefit for every year of past service, if you wish. That is the way I tried to build the recommendation up in the first place, but this was now departing from the general manner in which the plan is being described. So I tried to maintain the idea of the 25 per cent pension benefit and adjust the average earnings upon which it was calculated. I would have liked to change it around to give a one half per cent benefit every year. As long as you understand the principle, it could be a flat rate benefit for each past year, if you wanted it, and then one half per cent on the earnings upon which contributions are made for each future year.

Mr. CASHIN: But in comparing this to Bill C-136 you are concerned with redistribution. Is it not possible by a flat benefit rate now to accomplish this redistribution, whatever it amounts to?

Mr. WOODS: You mean not to have earnings for a later benefit at all?

Mr. CASHIN: No, the two together which are in force now. The problem with this suggestion, as I see it, and it may not be valid at all, is that as incomes rise with productivity, and one thing or another, we would hope that the figure we might now pick as the minimum figure would be one that became obsolete.

Mr. WOODS: Wait a second; I did not say that. I said that on the assumption that in all cases the average earnings adjusted to the first of January 1966 would be $2,000; and that would, like anything else, be subject to later adjustment. I spent quite a bit of time on this one sentence, and changed it around, the idea being that $2,000 will be the figure as at January 1, 1966, and that would be adjusted by any such cost of living income you might have. I am glad you raised the point so that I could clarify that. I am not assuming that when everything is going up the plan would remain like a piece of cold suet pudding.

The CHAIRMAN (*Mr. Cameron*): Mr. Lloyd?

Mr. LLOYD: On page 4 in the third paragraph you say if the average last ten years earnings were less than the fixed figure, the former only would be used. Are you referring to the ten years of the transitional period from the time the plan starts, or referring to a ten year period prior to—

Mr. WOODS: No. Actually I am taking the example of a man of 55. It would be the normal period during which the average man of 55 would be taken.

Mr. LLOYD: Under the present plan, as I understand it, you enjoy no benefit unless you are a contributor?

Mr. WOODS: That is right.

Mr. LLOYD: So you start out in 1966 at a maximum of $5,000 income, say, and you have paid in $79.20 a year. Then you are entitled the next year, if you go on pension, to only one-tenth of the 25 per cent of the $5,000, the next year two-tenths—three-tenths, four-tenths, and so on. So during this transitional period people are in fact paying in moneys in proportion to their salaries, and in the same way everybody will be paying in moneys in proportion to their salaries. I think earlier you said some would get a pension for which they would pay nothing. You did not mean that?

Mr. WOODS: No. I have taken a man aged 55, in general terms.

Mr. LLOYD: Well, I am 56.

Mr. WOODS: Congratulations. The point is that we are both getting 22½ per cent. In our case we will get 22½ per cent of the average over the nine years we contribute, in effect. Now, if we contribute nine times $79.20, we shall contribute $720. If we were to regard our pension as being 4 per cent our future service benefit will be 4½ per cent of $5,000, which is about $225 a year. That in itself is worth more than the $800 we contribute, so all our past service benefit is just free as far as we are concerned; and I say it is necessary to consider what I care to call the "future service element" in this plan to ensure against anybody making no contribution at all to this past service element, and therefore it should not be wage related.

Mr. LLOYD: Well, in the case of the person who earns less than your maximum figure—and I think you have taken $2,000 for the purposes of your model?

Mr. WOODS: Yes.

Mr. LLOYD: What about a person who earns in the first year of the transitional period, $1,500. I think you said earlier that that would be up to us to decide whether we would take the smaller amount or not. Do you have any recommendations to make?

Mr. WOODS: Actually, I was assuming you would take the average earnings over the average period. If that happened to be less than the fixed figure you showed, whether you built the man up to $2,000, is a matter for consideration. Personally, I think if you did that you would have an awful problem with those earning nothing at all. I mention it as a possibility. Personally, my idea would be that this figure would be a ceiling and not a floor.

Mr. LLOYD: This could work two ways. It depends on what happens to you and Stanley Knowles. In 1967 we might find ourselves in other occupations. We might be scratching for $1,200 a year; or there may be an illness.

Mr. WOODS: You would have the disability pension coming to you, would you not? I know that disability is a very difficult situation, but it is even more reason if a man is earning $2,000, because he certainly needs it more than the man who is earning $5,000.

Mr. LLOYD: Then what you are saying in effect is that at 55, in 1966, when this plan starts, if a man is earning $5,000 a year, in the first year the plan is in force he will be credited with a maximum of $2,000 under your model?

Mr. WOODS: Oh, no. I describe on the first page of my brief an example of how I do this. Let us say there is no dropout period at all. I would say that to work out his average earnings between 18 and 65, a period of 47 years, on the understanding that if $2,000 is your figure, that in the first 37 years he would earn $3,700 a year, and in the last five years, $5,000 a year. Therefore, if you take 37, and $2,000 plus ten times $5,000 and divide by 47, you get the average.

Mr. LLOYD: What would you do with the man who retires two years after at age 68, what would his benefits be?

Mr. WOODS: In that case a 47 maximum.

Mr. LLOYD: Are you going to credit him on the past service on the basis of $2,000 a year maximum?

Mr. WOODS: No, this is working out the average earnings. He still will get 2½ per cent of a certain average.

The CHAIRMAN (*Mr. Cameron*): Mr. Munro?

Mr. MUNRO: I think Mr. Woods has answered my question to Mr. Lloyd. However, I will see if I have it clear. On page 4 in the third paragraph it says that if the average last ten years earnings were less than the fixed figure the former only would be used. Are you referring to the transition period there?

Mr. WOODS: No, I am actually just referring to the man aged 55. If he is 50, and his last 15 years earnings were $2,000, in other words, his earnings up to January 1966, in this case the man aged 50 would have, ignoring the dropout period, 32 years; a man of 55 would have 37 years, plus 10 at $5,000.

Mr. MUNRO: What about the man of 60?

Mr. WOODS: He would have 42 years at $2,000, and five at $5,000. You see, this blends in completely.

Mr. MUNRO: Say the man is 60; he would be reduced. You would have some reducing factor in there. Under the present plan, if during the 10-year transitional period, to take the case of a man at $5,000, when the plan comes into effect he is, say, 64 and only contributes for one year. He has earned $5,000 for the 10 years previous to that, he has average earnings over the 10 years of $5,000, and for the purpose of that one year his benefit would be $500 under the present plan.

Mr. WOODS: Yes. Under mine it would not be. In other words, he gets one-tenth. Your man gets one-tenth of 25 per cent of his average earnings.

Mr. MUNRO: Right.

Mr. WOODS: 2½ per cent.

Mr. MUNRO: Yes.

Mr. WOODS: You are saying $5,000. Work out his average earnings if he only contributed one year before retiring, and taking 47 years for his retirement his average earnings would be 46 times $2,000 plus once times $5,000 divided by 47 years.

Mr. MUNRO: What would that be?

Mr. WOODS: Do you think I am an I.B.M. machine? It would be a little over $2,000. In other words, he would get a little over $2,000 instead of 2½ per cent of $5,000. Even that is an awful lot more than his one-year contribution. A similar man earning $3,000 would get almost the same amount. Under this system he could only get 60 per cent of your man earning $5,000, and that is inequitable.

Mr. MUNRO: I was coming to the conclusion that in the transitional period there would be a larger benefit.

Mr. WOODS: No. The whole principle of continuity is an essential fundamental of pension planning, and this will be completely continuous.

Mr. KNOWLES: Mr. Chairman, I have already expressed my interest in Mr. Woods' proposal and my appreciation of his support of certain principles which are common between his proposal and the basic ideas of the plan. But I think Senator Croll has asked an appropriate question. Is not there a pitfall somewhere? I think there is one, despite the fact our friend the witness does not see one. Maybe this is a difference in philosophy. As I see it, this is the pitfall. Your scheme brings many people or brings some people down so far as their benefit under the Canada Pension Plan is concerned. In fact, for 47 years it will bring down everybody whose income in this period after 66 was above the $2,000 figure, or whatever flat figure we set.

Hon. Mr. CROLL: That is correct.

Mr. KNOWLES: It will bring some people down. In fact, it will bring everybody down, if I may repeat it, who in the period of actual contributions was receiving an income higher than the average figure we set for past service.

Mr. WOODS: Yes.

Mr. KNOWLES: The other side of the coin is that your scheme does not bring everybody up.

Mr. WOODS: All you have to do is increase your 25 per cent to 30 per cent and bring some up and some down.

Mr. KNOWLES: You scheme, as far as the Canada Pension Plan is concerned, does not bring anybody up. You could save money, so we could make a decision, if we saw fit, to bring some people up.

Mr. WOODS: I think we are all venturing into the unknown. I do not think any witness, including myself, and I very respectfully submit neither do you know precisely what we are getting into. We are starting something new. These things, once you start them, tend to grow like Topsy. I do not regard this as being too bad a feature, that we start the plan up at a little lower level than we have done. The first version of the Canada Pension Plan was a lot lower than this. The first version put forward by the Government was a lot less than this. This is far more generous than the one criticized a year ago. I do not regard the level of benefits you set as sacrosanct. I am trying to get into it an element of national and not private pension planning. If the benefits do come a little further down below, I do not regard it as a defect. I do not regard the levels they have already set as something below which anyone cannot go.

Mr. KNOWLES: I do not regard as unfair Mr. Woods' comment that no one knows what we are getting into.

Mr. WOODS: I say that with due respect.

Mr. KNOWLES: I think that is a fair comment. There is not a doubt in the world that over the course of the years we will me making amendments to this plan to try and improve it, but I do think, with the same respect you have shown for us, that the comment I have made stands up and we have to look at it in those terms. As a matter of fact, it was your purpose to resolve the disparity by bringing down the benefits under the Canada Pension Plan in the earlier years. You were good enough to say you thought some of the savings effected thereby should be used to take care of the lost generation and increase old age security, and that sort of thing. But as far as this ingenious formula of yours in connection with the Canada Pension Plan itself is concerned, is not my suggestion correct, that it brings many down to a lower level but it does not in itself bring anybody up?

Mr. WOODS: It does bring up the people you have forgotten.

Hon. Mr. CROLL: Whom?

Mr. WOODS: The ones 60 years and over, if you care to extend your group.

Mr. KNOWLES: That is only if you are prepared to accept the ancilliary provisions in the last paragraph.

Mr. WOODS: That is completely supplementary to my main concept. If that is completely out of the picture—and I did not bring this thing in for that particular purpose—if you are concerned with bringing everybody down, the answer, I believe, is to increase the 25 per cent to 30 per cent. I am not advocating it, but I think it would be a much sounder method to take my suggestion and increase the 25 per cent to 30 per cent and bringing somebody down and somebody up, to get a more corresponding level than leaving the formula as it is.

Mr. KNOWLES: We are not very far apart, if the supplementary feature is included in the provision. I do not think I could buy it if it brought some down and did not bring anybody up. If the proposition in its entirety was put forward to use the savings to bring some up...

Mr. WOODS: I was looking for a principle. I brought forward a principle I think you should follow. How you give flesh to that is a matter for you to decide. In other words, the principle should be followed, and if you brought everybody down and found that was wrong, you could correct that by increasing the percentage.

Mr. KNOWLES: In terms of the principle or philosophy, I was interested in your remarks some minutes ago—I believe it was also in answer to Senator Croll—to the effect that at one of the pension conferences this question was asked and the reply you got was that your proposal did not meet the philisophy of the other people. I think you said you were not quite sure what that philosophy was.

Mr. WOODS: I was, and I thought it was false, because it was the philosophy of the private pension plan, which is out of place in your national planning. It is against the philosophy of the private employer to introduce this because it does not produce large enough pensions for his executives, and he has to give them pensions proportionate to their earnings, even though they only pay a minor part of it, because when they cease to be valuable to him the employer, in a cold-blooded corporation, wants to be able to say, "You must retire now" and there are no hard feelings. They want to give $70,000 to, a man earning $100,000 a year, the man earning $10,000 a year, $7,000, and a man earning $5,000, $3,500. They give far more to the man earning $100,000, who needs it least, but they have to for their purposes, to be able to retire people. That is the answer which was the pitfall, if you like, but it is not the philosophy you should be following.

Mr. KNOWLES: Let us stick with the area in which we are operating. We are not providing under Bill C-136 any pension credits for income beyond $5,000.

Mr. WOODS: Yes.

Mr. KNOWLES: So the $100,000-man gets no more than the $5,000-man.

Mr. WOODS: Yes, I illustrated to the principle.

Mr. KNOWLES: I agree we should look at the principle and the philosophy. I agree there is validity to the principle you have put forward tonight. But isn't there also some validity to what I think is the philosophy behind Bill C-136, namely that it is reasonable to relate the earnings related pension of a public pension plan to the earnings that a person actually had in his last years of employment? Isn't that the reason for the 10-year transitional period?

Mr. WOODS: All I am saying is that the proportion should be a proportion of the pension plan related to the years during which he contributes.

I don't see the justification for two people both 55, one getting $3,000 and one getting $5,000. The $5,000 man only contributes $900 and in effect he gets a pension worth something like $16,000, so that the excess of the value of the benefits he gets over what he contributes is $15,200, whereas the man earning $3,000, who I assume needs public support more than the other one, is only going to get less than 60 per cent of that.

Mr. KNOWLES: I agree with this approach to a more egalitarian basis, but may I point out two things: one, that this is part of a two-stage plan so that the difference is mitigated somewhat when you add old age security in both cases; and the other comment I make is that I have a little lurking fear. I realize you say that the rates in this bill are not sacrosanct, but I have a little lurking fear that if we start off with less than what we are now providing, it is going to take us just that much longer to get the pension up to adequacy.

Mr. WOODS: As I say, that is very much so. Once you accept this, the answer is very obvious. However, there is nothing sancrosanct in 25 per cent either; it could be made 30 per cent. And, if you want to spend the same amount, the actuary departments of insurance companies could easily calculate what it would be on this new insurance and give you a cost, and you would have brought the pension up to an adequate figure, for those who need it more than others.

Mr. KNOWLES: I will quit on the welcome note that it is possible on any scheme to improve it as you go along.

Mr. CÔTÉ (*Longueuil*): After Mr. Knowles' remark that your plan would not give any more to anybody, but would take some off some people, suppose that instead of using that $2,000 average as a ceiling you would give the $2,000 to everybody, even the people who did not earn that much?

Mr. WOODS: I had mentioned this as a possibility, but here you have the problem of the farmer and the farmer's wife, and the problem of people earning $500 a year. Where do you draw the line?

Mr. CÔTÉ (*Longueuil*): Would it not be just as hard to find an average of those low income people? An average of that earning period?

Mr. WOODS: You have no greater problem for the future than under the present plan. You work out the average over the period that your plan would work it out on as it is now, and you only apply this if that average exceeds the ideal figure, where the average is less than you have already, and then you leave your present plan completely changed.

Hon. Mr. CROLL: Don't let me put words in your mouth, Mr. Woods, but I understood you to say—and correct me if I am wrong—that this formula responds to national planning. I think you were saying that, were you not?

Mr. WOODS: Yes.

Hon. Mr. CROLL: Yes, then how do you reconcile national planning, Mr. Woods, with nothing for the people over 70?

Mr. WOODS: I don't. That is why I suggest that those of the forgotten generation are those for whom you should do more.

Hon. Mr. CROLL: Are we not going to some length to do that under the present plan? Any suggestions you make are outside anything we have got at the moment, so that we are bound to do something for them. Whatever that may be I don't know; but at least nothing in your formula helps them and you don't suggest it does. I just wanted to be clear.

Mr. WOODS: Actually speaking, I did suggest it, but I was quite sure you would not go to that extent. But it could be applied. If actually you were to increase the pensions of those aged 70 by a flat amount, you would find that that actually would blend much beter with my formula than it would with the formula of this plan.

Hon. Mr. CROLL: You say that under your formula it would be a closer blend. There would be less of a differential?

Mr. WOODS: Yes, in people born in 1900, 1910 and 1920—if you raise the people over the age of 70 by a flat amount.

Hon. Mr. CROLL: Play with a couple of figures as examples, please, if you can, Mr. Woods.

Mr. WOODS: Well, on the basis we have mentioned, the man who is 64 under this plan and contributes for one year, if he earned $5,000, he would get 2½ per cent of $5,000. Under my formula, if $2,000 was the figure, he would get 2½ per cent of $2,000. That is another $50 a year.

Maybe he needs a bit of support as well, but I don't know how far you are going to bring your people aged 70 who are getting nothing out of this plan. You have to tell me what you are thinking of adding to them first before I can show you the continuity.

Hon. Mr. CROLL: There is evidence before us by some very knowledgeable people here who are many years in the social security field, and they have indicated that there is a strong feeling that $5 a month for each year up would do; there has been some good evidence on that.

Mr. WOODS: It is a very, very difficult problem. I mean it is very difficult to think these things out because they are very far-reaching. I am quite sure, though, that if you are going to increase your people aged 70 by a flat amount, that this blends much more easily into my own formula here which does give a flat amount for all past services.

Hon. Mr. CROLL: That is the only way we could increase it to those over 70.

Mr. WOODS: Yes, and therefore if you want to do that it will blend in far more harmoniously with my formula than it will with the present formula. That I can assure you, because I can see the principles involved without any difficulty or doubt.

Mr. MUNRO: Just one supplementary question to what Mr. Knowles was asking, which was a very interesting question. Mr. Knowles stated that one thing about this plan is that it does not add anything to the context of the present Canada Pension Plan, but it takes away.

Now, would this be correct? Take a man with an average income of $5,000 a year and you set a maximum flat rate at $4,000. This would not take anything away from anybody earning an average income of $4,000 or less, but it would take away from the $4,000 to $5,000 area.

Mr. FRANCIS: Yes, for a period.

Mr. WOODS: That is right, for a period.

Mr. KNOWLES: But, again, it would not bring anybody up from below that.

Mr. MUNRO: But by increasing the flat rate you do not take anything away from the people underneath that flat rate.

Mr. LLOYD: You don't do anything for that vast number of people who are supposed to be unfortunate.

Mr. WOODS: The answer there is within the same cost figures that you are talking about now. By using this and using 30 per cent you can rearrange it so that this unfortunate group you are referring to are given more under this plan than under the other only to the detriment of the people earning $5,000 or more, who would get the less amount. You will bring up the pensions of those who need it most to the detriment of those who don't need it quite as much.

Mr. LLOYD: This is only for a transitional period you are proposing.

Mr. WOODS: This will go on and gradually merge and, if the plan never changes, it will only end 47 years from now.

Mr. LLOYD: It will eventually end. You eventually work yourself out of it.

Mr. WOODS: That is right, but that is what happens with every plan. When you institute the plan, when the youngest new member comes in the effect of the initial stages disappears, but not until then.

The CHAIRMAN (*Mr. Cameron*): What effect would it have on the funding principle if we gave consideration to allowances for people over 65?

Mr. WOODS: I do not know. Obviously it would be a very material cost because they would be entering upon their pensions immediately and, of course, the effect of the force of interest is to cut down on the value of pensions which are to be deferred many years hence. I will say it would add materially to the plan, and consequently may force the plan on to a pay-as-you-go basis.

The CHAIRMAN (*Mr. Cameron*): Are there any more questions? Is everybody satisfied? May I then ask somebody to move a motion of thanks to Mr. Woods?

Mr. MUNRO: I so move, Mr. Chairman. Thank you very much, Mr. Woods, for a most enlightening contribution. I am sure we all appreciate it very much.

Mr. KNOWLES: I second the motion, Mr. Chairman.

The CHAIRMAN (*Mr. Cameron*): All those in favour? Carried.

Mr. WOODS: I should like to say that this has been a most interesting evening for me as well.

The CHAIRMAN (*Mr. Cameron*): I am sure, Mr. Woods, you must have realized how much we have enjoyed it, and also the keen interest we have taken in your presentation. The commitee will meet again tomorrow morning at 10 o'clock.

APPENDIX A13

THE E. B. EDDY COMPANY SUBMISSION TO THE JOINT COMMITTEE OF THE SENATE AND THE HOUSE OF COMMONS CONCERNING BILL C-136

(January 6, 1965)

Gentlemen:

The E. B. Eddy Company submission will be brief and, for this reason alone, should be welcome. Much has been said in both Houses and before this Committee, and the discussions will continue.

It is not within our competence to examine the actuarial soundness of Bill C-136. Experts from the departments have prepared the many tables relating to it. These, and the arguments supporting them, are being critically reviewed by those more capable of doing so. Therefore our comments will be of a general nature.

We believe that the members of both Houses and Provincial Governments feel themselves to be committed to a pension plan essentially as tabled. Therefore, anything we have to say will not be rewarded by fundamental alterations. Nevertheless we, being substantial employers and a segment of an important industry, should say our piece.

We have a pension plan, fully funded and providing recognized and appreciated benefits to our personnel. If we were to consider major changes, requiring broader coverage and benefits not previously considered, we would not devise an additional pension plan. Our approach would be to alter the one we have. We would see no reason to complicate administration, greatly adding to its costs and problems. It is our opinion that this viewpoint would not be uncommon among others (business and financial houses) attempting to improve their pension coverages. We have felt that the sponsors of Bill C-136 could have, with justification, misgivings as to the need for a unique and separate plan.

Canada now has an old age pension scheme. This could have been enlarged, made more encompassing, providing at the same time simplicity of structure, which would lead to its more ready understanding and acceptance.

Judging from reported discussions on this Bill, we must anticipate great confusion on behalf of our employees, together with much difficulty and expense in reconciling the plan throughout our day-to-day operations. Questions, correspondence, and detail will be massive. Those learned in the ways of finance and insurance have already demonstrated that the plan is not easily digested; and they have great experience. How, then, can we expect a man earning $600.00 or upwards to be clear as to what he should contribute, what he will receive, and when? It should not be overlooked that the cost of collecting from those in the lower income brackets might well surpass the returns.

It is proposed that the cost of living index be used as an adjustment factor. If we were to argue against this principle, we would contend that there has been a question in many minds as to the appropriateness of the items comprising this index. These have been changed in the past and might well be found an unsound measure in the future. Accepting the index as the best available guide, is it unreasonable to suggest that it also be applied to other items of livelihood; for example: bond and bank interest, other pension plans, rents, prices, wages and salaries? The list could be expanded, but perhaps we have made the point.

Governments have a responsibility to provide freedom from want for the aged and troubled. Beyond this, individual initiative and foresight should be encouraged. Man has always saved seed grain for next year's crop; he stored vegetables and cut wood to tide him over the winter; otherwise he suffered. These principles are as sound today as ever and his eyes should not be diverted from them.

We make these further comments:

1. Demand for refunds will be heavy, caused by two employers in the one year contributing more than an employee should pay. An employee can obtain a refund, and presumbaly there will also be redress for the employer. However, money will be paid which both parties know is not due; and will be returned in time and at expense. Much of this will be collected from those least able to part with it. Couldn't a method be devised preventing overpayment? An exchange of records would be practical.

2. The problems of integration are treated much too lightly in the Government White Paper. Consultants and our own experience warn us that there will be considerable grief.

3. Our mills are situated in two provinces, Quebec and Ontario, separated only by the Ottawa River. Many of our employees reside in one province and report to work in the other, while some of our employees are frequently transferred between the two provinces during their engagement.

Due to our unique location, we are immediately and dramatically affected by any loosely defined areas in Provincial or Federal Acts. Over the years we and our employees have experienced much inconvenience and, at times, encountered significant duplication of assessments because more than one jurisdiction was involved.

A clause in Bill C-136 illustrates one of the difficulties we foresee:

> "Item 4, Parts (1)-(4), exempts from certain provisions of the Canada Pension Plan, those employees in a province providing a comprehensive pension plan. It prescribes that the identity of an employee in a province providing a comprehensive pension plan is to be determined by the location of the establishment of his employer to which he reports for work and indicates that where the employee is not required to report for work at any establishment of his employer, that he shall be deemed to be employed in the province in which the establishment of his employer from which his remuneration is paid, is situated."

This very definition was originally prescribed to identify those employees who would be subject to Ontario or Quebec personal income taxes. Subsequently, after two years of confusion, this definition was proven to be completely inadequate and it was belatedly abandoned in favour of identity by reason of residence in a province on the last day of the year.

Presumably, this latter means of identification should be adopted, from the outset, by the Canada Pension Plan, for the determination of employees employed in a province providing a comprehensive pension plan.

4. If there are distinct Federal and Provincial plans administered under separate jurisdictions, the Federal Government should act as an interested party in reducing to the barest minimum conflicting or roughly defined provisions.

5. The problems of integration are multiplied in our case, particularly if the Federal and the two Provincial Governments have individual plans, even though they be similar.

Admittedly, such situations as ours are rare, but this point deserves attention or complications, which might take years to adjust, will develop.

In any event, our administrative costs will be considerably greater than for most companies.

6. Administrative methods are, as yet, unknown and many of them in all probability have yet to be worked out. This comment might also apply to the plans which Provincial Governments have under consideration. It should not be too much to ask that the methods to be proposed be announced before Bill C-136 is adopted, thus providing for improvement in detail, if it is demonstrated that these would be in the interest of all parties.

We leave to others discussions pertaining to:

(*a*) The economics and actuarial soundness of the Plan.

(*b*) The worth and dangers of accumulated funds.

(*c*) The release and return of these from Provincial Governments.

(*d*) The effect upon industry's source of funds for expansion purposes.

(*e*) The fact that we become a multi-pensioned people with federal, provincial, industrial programmes, plus annuities and other private undertakings.

(*f*) The effect on export costs and the competitive position which we are urged to attain.

(*g*) Pressures for adjustments, which inevitably will follow.

(*h*) The whole field of integration with private plans, including labour's attitude.

(*i*) Long term effects of compulsory saving on the individual and his attitude toward the future.

(*j*) The encouragement to rising costs, which a built in cost of living index might provide.

All of which is respectfully submitted.

THE E. B. EDDY COMPANY
W. D. Moffatt,
President.

APPENDIX A14

SUBMISSION

By The Canadian Pulp and Paper Association
(15 January 1965)

1. *Introduction*

The Canadian Pulp and Paper Association appreciates this opportunity of commenting on the proposed Canada Pension Plan.

The pulp and paper industry is a major contributor to the Canadian economy. The industry produces an annual output valued at 1.8 billion dollars, of which two-thirds are exports. It is also one of the leading manufacturing industries in terms of employment, and almost all of the employees are covered by private pension plans which have been in effect for a number of years. The pulp and paper industry therefore is closely concerned with the impact of the Canada Pension Plan both on the general economy and on existing private pension plans.

2. *Impact on The Industry*

Official reports indicate that the cost of the Canada Pension Plan will rise from an initial level of 3.6% of contributory earnings to about 5.5% of contributory earnings by the year 2000. We must leave to those who have special actuarial knowledge any debate about the accuracy of these figures. We assume therefore that the figures are correct and indicate the order of magnitude of increased costs, provided there are no major revisions in the plan as the years go by.

We also assume that our member companies will be able to integrate the Canada Pension Plan with their own private pension plans in such a way as to maintain a satisfactory level of pensions for their employees without significantly increasing the cost of the employees or the companies.

If the actuarial assumptions as to the cost of the Canada Pension Plan are correct, and if the pulp and paper industry is able to achieve satisfactory integration with existing private plans, the cost of the Canada Pension Plan will not be detrimental to our industry.

3. *Necessity For Integration With Private Plans*

We believe that it is important that integration should take place. We recommend therefore that the Joint Committee consider making a statement that, where satisfactory private pension plans now exist, it is desirable that the Canada Pension Plan be combined with the private plan in such a way that there is protection of the existing level of benefits with no additional cost being imposed on the employee or the employer. We believe that such a statement would make a valuable contribution to the formulation of public opinion on the matter, and that it would be consistent with the announced intention of the federal government to integrate with the Canada Pension Plan its existing superannuation plan covering civil servants.

4. *Reconciliation With The Provinces*

We would like to emphasize that it is essential that federal authorities seek full agreement with the authorities of any province opting out of the Canada Pension Plan. It is very important that, if a provincial pension plan is not identical with the Canada Pension Plan, there should be complete understanding as to the treatment of employees who move from one province to another.

Even for provinces which do not opt out of the Canada Pension Plan, careful reconciliation may be needed to avoid wasteful duplication with other provincial programs such as Workmen's Compensation.

5. *Relation to Other Welfare Objectives*

There has been considerable opinion recently, perhaps inspired by contemplation of the Canada Pension Plan, that there should have been an overall review of social welfare needs in Canada, with the intent of establishing an order of priority among such items as medi-care, education, and pensions. Each of these subjects has been reviewed by various commissions or individuals, but without any attempt to bring them together and consider the total cost implications for the economy.

It would appear, however, from the unanimous parliamentary acceptance of the principle of the Canada Pension Plan, that the order of priority has now been established, at least insofar as the first choice is concerned. We believe that there should now be a pause until a complete review of the further social welfare objectives of Canada can be completed. We believe moreover that it is obvious that when such a review is undertaken it should have as the starting point for its economic analysis the implications already foreseen for the Canada Pension Plan.

6. *Control Over Adjustments to The Plan*

We stress the importance of stringent control over the ease with which the Canada Pension Plan may be altered in the future. Bill C-136 provides that no major amendment to the Act can come into force on a day earlier than the first day of the third year following the year in which notice of the intention to amend the Plan is laid before Parliament. We recommend that the reference to "third year" be altered to "sixth year", in order to ensure that at least one general election takes place between the time that the notice of amendment is given and the time that the amendment comes into effect.

7. *Advance Publication of Regulations*

We recommend that provision be made for public scrutiny of the Regulations which will be issued concerning the implementation and operation of the Canada Pension Plan (e.g. with respect to collection of contributions, payment of benefits, and the relationship between the Plan and any provincial pension plan). Such Regulations should first be published in draft form so that representations could be made to a committee such as this Joint Committee, or some other appropriate federal authority. This procedure would have the advantage of enabling employers to anticipate administrative difficulties, and it would provide an opportunity to prevent difficulties from arising.

Four examples are:

(*a*) The administrative costs of making payroll deductions on different bases for various purposes (such as the Canada Pension Plan, the Income Tax, Unemployment Insurance, etc.) are substantial. Perhaps a Regulation under the Plan could combine the collection of contributions with other payroll deductions?

(*b*) An Administrative problem occurs from the fact that no deduction is to be made from earnings beyond the $5,000 level. In any pay period during which the $5,000 level has been reached a fractional deduction would be required, and no further deductions then would be made. Possibly there is a way to avoid the amount of record keeping which seems to be involved in this procedure.

(*c*) There is some doubt as to whether contributions should be submitted to the Canada Pension Plan or to a corresponding provincial plan in the case of an employee who, while working for the same company, moves from one province to another during the year. In the case of an employee earning more than the year's maximum pensionable earnings, what proportion of the contributions is to be submitted to each authority?

(*d*) In the case of an employee who changes his employment during the course of a year, what proportions of his total contribution will be required to be made by each employer? This question is particularly relevant to woods workers in the pulp and paper industry.

8. *Summary*

If the costs of the Canda Pension Plan do not exceed those presently forecast (i.e. commencing at 3.6% of contributory earnings and reaching 5.5% in the year 2000), and if our companies are able to achieve satisfactory integration of the Plan with their existing private plans, the costs of the Plan will not be detrimental to the pulp and paper industry.

We recommend that:

(1) The Joint Committee make a statement that integration of company pension plans and the Canada Pension Plan should be expected,

(2) There be at least five year's delay between notice to amend the Act and the amendment coming into effect,

(3) The Joint Committee underline the importance of detailed agreement between the federal authorities and the provincial authorities on the administration of their respective pension plans,

(4) The regulations essential to the administration of the plan be published in draft form, and provision be made for public review before they come into effect.

APPENDIX A15

STATEMENT BY THE CANADIAN FEDERATION OF AGRICULTURE

Sirs:

The Canadian Federation of Agriculture has over many years favoured the institution of a contributory pension plan in Canada, and welcomes the fact that such a plan is now before Parliament. We hope it will soon become part of the Canadian social security system.

On the introduction by the Government of Canada of the first Bill setting out a Canada Pension Plan, the Canadian Federation of Agriculture reviewed its provisions and made strong representations to the government and to Members of Parliament that the coverage of self-employed people, including farmers, should be on a compulsory, rather than on a voluntary basis. We are therefore very glad to see that the present Bill provides for coverage on this basis, and are gratified that in Parliament the Minister of Health and Welfare noted our organization's position in this respect. It was our view, and still is, that with the passage of the years a system of optional participation would result in nothing but trouble and inequity, and that many of those most needing a pension income would find themselves altogether deprived of one, apart from the flat rate old age pension.

It was the view of our Board of Directors, also, that there should be no lower limit below which self-employed people are not credited with pensionable earnings for purposes of future calculation of pension rates. For one thing, the logic of the "Year's Basic Exemption" system, it seems to us, is at least that if a person earns only the amount of that exemption he should be credited with income for the year of the amount of the exemption, and not with zero, which we understand is the way the plan works now. In short, we do not think there should be anyone who may not be credited with an income for pension purposes in any year.

One other specific point we wish to raise has to do with the calculation of the pensionable income of self-employed persons. Section B of the Bill seems to us to define income according to the terms of the Income Tax Act. We take it that this means that when a farmer adopts averaging, then his averaged income will be, also, his income for pension purposes. If this is not so the Act should be revised to make it so. With the extreme variability of many farm incomes, there will be many farmers whose income will fluctuate above and below the maximum pensionable earnings figure. If averaging, for pension purposes, is not permitted, the farmer who experiences such fluctuations will certainly end up with a considerably smaller pension.

APPENDIX A16

BRIEF

Prepared by: R. C. Dowsett, Fellow of the Society of Actuaries.
(December 29, 1964.)

FOREWORD

I was born and raised and now reside in Toronto. I am married and the father of three children.

I graduated from the Honour Mathematics and Physics course, University of Toronto, in 1950; in 1954, I qualified by examination as a Fellow of the Society of Actuaries. Since 1950 I have been employed by the Crown Life Insurance Company in various actuarial positions.

I have prepared this brief as a private individual, and I present it to the Joint Committee on behalf of my family and myself. In making this presentation I do not represent the Crown Life Insurance Company; I do not represent any insurance industry trade association. The views expressed are my own, and I present them as a Canadian citizen concerned about the future of Canada, and about the environment in which my children will live and work.

It is my belief that actuaries—trained as they are in the various co-operative risk-sharing programs involving contingencies of life—have a good understanding of the considerations involved in social pension planning, and also have a measure of social responsibility to speak out on government pension proposals.

It has been said that the criticisms of the Canada Pension Plan raised by actuaries, and by others employed in the life insurance and pension field, are just the "howlings of vested interests, concerned at the prospect of some loss of earning power". This is unfortunate because many of these men are deeply involved with, and have wide experience in, the design and operation of a great variety of pension programs, and other programs designed to ease the financial burdens arising from major events in life—parenthood, accidents, illness, unemployment, retirement, and death. Their comments should be helpful.

When, as responsible Canadians, these persons speak out on social welfare measures, their observations should be heeded! Surely we can expect some selflessness and good social conscience in this group of Canadians.

The following brief on Bill C-136 has been prepared with these thoughts in mind.

GENERAL CRITICISMS OF BILL C-136

In its currently proposed form, the Canada Pension Plan would have some very important advantages. Widows benefits and orphans benefits, provided on a modest basis, are desirable; also, some method should be found to increase the total social pension available for some older persons under 70 years of age.

However, the Canada Pension Plan has serious shortcomings as a social welfare measure because:

(*a*) While it would be established to provide needed extra income for the aged, it would provide no additional income, in excess of Old Age Security pensions for those Canadians now over age 69 years, and it would provide no additional income for a great many Canadians under age 70 years who will not in the future make contributions to it.

(*b*) It would involve the build-up of a so-called pension reserve fund the assets of which would be placed under the control of provincial governments; this would be the object of much political controversy in the future.

(c) It would not be financed purely on a pay-as-you-go basis.

(d) It purports to be a "contributory plan" apparently giving a benefit refund to a contributor which has a value approximately proportional to his contributions, while in fact extensive cross-subsidies would be involved; the contributory principle is suggested but not really followed.

(e) The "contributory" aspect of the Canada Pension Plan—whether real or only implied—would make it very difficult for some future government or governments to reduce the burden to be borne by the Canadian economy through reduction in benefits.

(f) The long term combined tax requirements of the Canada Pension Plan and the Old Age Security program could prove to be a stifling burden for Canada.

In the following discussion, these criticisms of Bill C-136 are developed under five headings:

I. What are the priorities for social measures requiring tax revenues?

II. A social pension program related to wage levels need not be a "contributory" program.

III. Some changes in the scope of the Canada Pension Plan—1964 version as opposed to 1963 version—and comments on "Partial Funding".

IV. Combined long-range cost estimates—Canada Pension Plan and Old Age Security Benefits.

V. Conclusions.

No discussion has been set forth concerning the advantages and disadvantages of indexing (which may tend to promote an inflationary atmosphere in the economy), disability pensions (which may prove to be very expensive to administer through government agencies, due to the lack of vitally interested claim supervision).

I. *What are the priorities for social measures requiring tax revenues?*

1. At the time of second reading of Bill C-136, Miss LaMarsh said "Our objective is to have as comprehensive coverage as possible"; and in testifying before the Joint Committee Miss LaMarsh said "I can say that all major parties in this country have said they believe in a comprehensive plan to apply to as many people as possible in this country".

2. These statements indicate that the government holds the belief that many people in Canada live to-day on inadequate incomes; the government feels that a social welfare measure should be adopted to increase the incomes of those who need it. These seem to be reasonable and straightforward ideas. The government would seem to be primarily interested in raising the incomes of those who have difficulty existing on their present incomes—its interest is *not* primarily to provide increased income for *all* of the aged.

3. Bill C-136 will not provide incomes in excess of the Old Age Security benefits for persons now over age 69 years. Why? Because of the plan design.

4. If a newly adopted government plan doesn't increase the incomes of some of the needy aged, and if such a plan does increase the incomes of some of the aged persons who do *not* need it, these anomalous results must flow from unavoidable elements in the plan design which are only left in as necessary evils in order to create an overall plan that will be acceptable.

5. But are all the "evils" necessary? Are all these elements unavoidable? If we had a social pension scheme that did not build up such a large "reserve

fund", it could pay increased incomes to some of the current aged. What is the necessary social welfare or other program that is to be supported by the tax revenues, raised through the Canada Pension Plan, which are ploughed into provincial securities? Is the need for the programs that will be developed using these reserve funds, more pressing than the need for payment of incomes in excess of Old Age Security benefits to the current Canadian aged population? What are these programs? What is the cost thereof?

6. If all major parties want "a comprehensive plan to apply to as many people as possible in this country", surely they will express this desire in a strange fashion if they adopt Bill C-136 which channels current tax dollars—raised in the name of the plan—into some provincial government development program rather than into increases in income for the current aged.

7. In my examination of the Actuarial Reports on the Canada Pension Plan and the White Paper and other information, I have not been able to turn up any studies of the numbers of aged in the current population requiring additional income to maintain a minimum standard of living. It seems to be utmost good sense to gauge the size of this need—define it—estimate its characteristics—forecast its future development—before undertaking a mammoth program which purports to eventually fill that need. But where are the detailed statistics which indicate that the Canadian aged population of today is living to some degree in want? Shouldn't the Committee see these? It must be true that some of the aged are living in want—but how many? The whole reason for increased social pensions disappears if there are no substantial numbers of the current aged population in need of more income to reach a modest standard of living.

8. Let us assume that the studies do exist and that the need can be adequately demonstrated. But Bill C-136 would provide no answer for those in the aged population today! It would only provide an answer for those who retire in the future; and even then, not for all the future aged. What about the women who work for only a short number of years? What about those persons who are already out of the labour force at younger ages? Are these persons not going to be found in the "needy category" in the future?

9. Another point with respect to the abandonment of the current Canadian aged and other "non-contributors": How many of these persons realize that the Canada Pension Plan will provide nothing for them in excess of Old Age Security benefits? Too few, I fear. There is no denying that Bill C-136 is extremely complex, but there are some basic simple truths in connection with it that have not been publicized and recognized straightforwardly by the government supporters of the plan. It is sometimes argued that the Canada Pension Plan is much like the United States Social Security program and that it is therefore perhaps acceptable. In this connection the following quotation is offered: on May 14, 1963, Laurence J. Ackerman, Retired Dean of the School of Business Administration, University of Connecticut, said—"About all of this, I have one overriding concern. It is the fact that our American public knows so little about our Social Security system, misunderstands so much of it, fails to grasp its basic purpose, does not recognize that it is a weapon of social policy which could change so many basic tenets and habits of our society. In a Democracy, rule by the majority is an accepted principle; but just as crucial is rule preceded by adequate debate, a complete set of facts and judgment based upon mature consideration. While we may disagree with the decisions of the majority, we must accept and live with them if we believe in democracy, but we should have the consolation that everyone had access to all the information and the decision was a fact-based conclusion."

Again we must ask—do those voting Canadians who will receive no wage—related Canada Pension Plan benefits realize this fact?

10. Bill C-136 employs a 10 year transition period during which the benefits received by retiring employees increase to 100% of the ultimate level. This means that a person retiring at the end of the 10 year period would enjoy benefits calculated in accordance with a formula which is comparable to the formula employed for a contributor retiring at any date beyond that time. This does not mean however, that the whole plan would be fully matured at the end of the 10 year period. There would still be many Canadians in the retired population not receiving Canada Pension Plan benefits. Looking at the whole population, the Plan would not "mature" for possibly 35 years. At the end of that time, there would be few Canadians living who had not had a chance to receive the ultimate level of benefits. The corollary is there for us to consider also—within the 35 year period there would be aged Canadians who would not be in receipt of the ultimate level of benefits. Quoting from the Report on the Economic Implications of the Canada Pension Plan: "the Old Age Security benefit payments will continue to exceed those of the Canada Pension Plan until after 1985".

11. If the Canada Pension Plan is good, and the benefits worth-while, why should we wait for 35 years before the whole plan is brought to maturity? It has been argued that we cannot afford to pay the full benefits now—that we must grade into it slowly over a period of years. But Bill C-136 calls for the collection of substantial funds to be used in other ways during the maturing process—a partial funding. So it would appear that we could afford a much faster maturing process were it not for the apparent greater need of the other programs, albeit provincial programs, requiring the extra funds. Common sense would seem to indicate that these programs must be compared with a detailed analysis of the income problems of the current aged population before the legislators can properly decide to channel tax dollars to one place instead of to the other.

12. Miss LaMarsh has indicated she thinks it would be irresponsible to double current Old Age Security costs in order to give $100 per month Old Age Security pensions at age 65; it would be a greater irresponsibility to incur approximately the same cost and to ignore those in the current population over 69 years, and to ignore the other members of the population who are not attached to, and will not ever be attached to the labour force. This irresponsibility is inherent in Bill C-136.

II. *A social Pension program related to wage levels need not be a "contributory" program*

1. It has been argued that the flat-benefit Old Age Security pension program doesn't solve the social problem adequately because there are wide variations in the income required in various parts of Canada to provide a modest living standard. Further it is argued that the way to correct this problem is to relate some part of the total social pension to the various wage levels in different parts of the country, on the assumption that in this way needs will be more adequately met.

2. The question is then "How can we effect this relationship of social pensions to wage levels?" One answer is as follows: base a part of a citizen's social pension upon his own "reported earnings". Following through this line of reasoning it seems natural to adopt the contributory principle—that is, a principle under which a citizen receives benefits bearing some relationship to the portion of "reported earnings" he contributed (i.e., his "contributions"). Then it seems logical to require a maturing period in order to build up some history of record of contributions so that we can pay back to the citizen benefits related to those contributions. But this contributory principle brings with it the

awful problem of the ignored citizens—the current aged and others who cannot make contributions.

3. Is there another answer to the question? Could we find a better way to relate extra social pensions to wage levels, without adopting the contributory principle? If it were possible to relate *total* social pension benefits to wage levels in various parts of Canada, this would solve the social problem. The denial of the contributory principle seems acceptable to Canadians—certainly it is not evident in the Old Age Security Act.

4. Here is a solution: Increase Old Age Security payments in the different parts of Canada by an amount which is based on the various different wage levels in those different parts of Canada. The Income Tax base (now $3,000) for the Old Age Security Tax could also be increased by varying amounts in the various parts of Canada. A detailed study of income problems of the current aged population—province by province—should indicate the required variations.

5. One might argue that it is not politically sound to provide larger social pensions to citizens of some parts of Canada than to citizens in other parts of Canada. But this criticism can be levelled at Bill C-136 as well... even more so. Surely it would be easier to overcome the objections raised because Old Age Security pensions are made to vary from province to province, than it would be to handle the social problem that would remain under the Canada Pension Plan resulting from the lack of attention to non-contributors.

6. Bill C-136 calls for variation of the monthly Old Age Security in the future to reflect changes in the "subsistence level" needs. This variation would be effective for both Canada Pension Plan contributors and non-contributors. This seems anomalous when there is no attempt to increase the pensions of all non-contributors to reflect provincial variations in wage levels. The whole concept of Bill C-136 is geared to varying benefits; for instance, the Plan would give the Newfoundland fisherman a total social pension which would cover his basic needs adequately, while at the same time it would attempt to give an industrial worker in Toronto a different total social pension which would cover *his* basic needs just as adequately—larger benefits for the Toronto industrial worker. However, the wives of these two men have differing basic needs as well, and yet—if they are attached to the labour force during their working lifetimes for only a short time or for no time at all—the social pensions that the two women will receive will be just about the same, and equal to the Old Age Security Benefit alone. Why should the benefits payable to the women not be varied in proportion to wage levels in the areas in which they live?

7. If social pensions were handled as a matter of right under the Old Age Security pay-as-you-go approach, without the contributory principle, but with total benefits per person (including wives) varying by province, the need would be met in a much better way.

8. Adoption of the contributory principle in social pensions is most undesirable because of the difficulty it creates for future governments. Once the citizens believe that they are contributing to a plan under which they will individually get back benefits with value equal to or in excess of the contributions made, then the government of the future can reduce the benefits promised only under the most dire circumstances, without losing the confidence of the voters. Consequently, if the cost of the benefits grows above the cost forecast at the outset, and increased taxation to meet the benefits cost is a necessity, then to satisfy the workers of the day who are to pay the increased tax, no diminution of future benefits for them can be contemplated.

9. For a private pension plan, the contributory principle is most desirable; for a public pension plan it is anathema. In a private plan, the equity principle

must be followed, but in social pension planning the guiding principle is—or should be—adequacy.

III. *Changes in the scope of the Canada Pension Plan—1964 version as opposed to 1963 version—and comments on "Partial Funding"*

1. The Canada Pension Plan outlined in Bill C-136 differs markedly from the proposal covered by the Actuarial Report of August 30, 1963. It is enlightening to examine the differences, in terms of the cost estimates set forth in the two Actuarial Reports.

2. Under the original Canada Pension Plan, the contributory earnings upon which contributions were based, consisted of the first $4,000 per annum. Initially, contributions were to amount to 1% from employer and 1% from employee, of contributory earnings. In the cost estimates for the years 1965 through 1974 three items were considered separately:

Item # 1—the $10 per month addition to the Old Age Security benefit was estimated to cost: .89% of contributory earning in 1966; .74% of contributory earnings in 1970; .62% of contributory earnings in 1974.

Item # 2—the optional early commencement of the $65 per month Old Age Security benefit (reduced amounts) was estimated to cost: 1.23% of contributory earnings in 1966; .79% of contributory earnings in 1970; .52% of contributory earnings in 1974.

Item # 3—earnings-related benefits were estimated to cost: .02% of contributory earnings in 1966; .25% of contributory earnings in 1970; .73% of contributory earnings in 1974.

Totals: 2.22% of contributory earnings in 1966; 1.84% of contributory earnings in 1970; 1.92% of contributory earnings in 1974.

The Total Benefits Cost varied little from the 2% level.

3. No longer does the Canada Pension Plan concern itself with flat increases in the Old Age Security benefits. The Actuarial Report dated November 6, 1964 does not deal with the cost of Old Age Security benefits. The $10 per month increase in the Old Age Security benefit—effected in the fall of 1963—was provided for through tax increase of 1% in taxable income up to $3,000. So, having dealt with that item separately, the old Canada Pension Plan proposal would—if nothing else were changed—involve benefit cost estimates of 1.25% of contributory earnings in 1966, dropping to 1.04% in 1970 and rising again to 1.25% in 1974.

4. The redesigned Bill C-136 is not nearly as generous with the options for early commencement (at reduced levels) of the basic $75.00 per month Old Age Security benefit as was the original plan. While the 1963 Canada Pension Plan allowed for early commencement of Old Age Security reduced benefits for all citizens in 1966, aged 65 years to 70 years of age, Bill C-136 allows only 69-year-olds to take optional early pension in 1966, 68 and 69-year-olds in 1967.....persons aged 65 to 69 in 1970 and thereafter, can take optional early income. Obviously, this change will reduce the 1966 through 1970 costs of the early commencement of income provisions.

5. It is interesting to observe that in the second Actuarial Report there is no mention whatsoever of the additional cost resulting from payment of reduced Old Age Security pensions at ages 65 to 69. While this is not a cost item connected with the wage-related benefits, it is a cost item flowing from Bill C-136, just as the cost of early commencement of the $65.00 per month Old Age Security benefit was a cost flowing from the original Canada Pension Plan proposal in 1963. Why was there no estimate given in the 1964 Actuarial Report for the cost of early commencement of Old Age Security pensions (at

reduced level)? In the White Paper on the Canada Pension Plan there is the following statement: "The adjustment cost of making this choice available will be financed by the existing rates of tax for Old Age Security"; but the cost should be known by the Joint Committee and the public!

6. If we were to assume that the cost of Items No. 1 and No. 2 in the original Canada Pension Plan proposal were handled either by other taxes or by reducing the benefits, the original Canada Pension Plan proposal would be left with benefits estimated to cost .02% of contributory earnings in 1966, rising to .25% in 1970, and rising to .73% in 1974.
(See 2. above).

7. These changes are in the direction of reducing the immediate benefits available from the Canada Pension Plan (and also reducing the tax dollars which must be paid out immediately in benefits); these changes effect an increase in the portion of "contributions" which may be retained by the government.

8. In the building up from this stage to Bill C-136, Disability Pensions, Survivors Pensions and Death Benefits were added. Based on the new definition of Contributory Earnings, and using the November 6, 1964 Actuarial Report figures, the estimated costs of these items, expressed as percentages of contributory earnings, are:

In 1966 ....nil
In 1970 — either .37% or .36%
In 1974 — either 1.06% or 1.03%

depending on the assumption of a 3% or 4% Annual Rate of Increase in Earnings. Corresponding Bill C-136 Age-Retirement Pension Cost estimates are:

In 1966 .... nil
In 1970 — either .21% or .21%
In 1974 — either .94% or .72%

These latter figures are very close to the corresponding figures for the wage-related pension costs under the original 1963 proposal. (Item No. 3 in 2, above.)

9. But Bill C-136 would call for the tax rate to be increased and the tax basis changed so that now total contributions are 3.6% of annual earnings over $600.00 and up to $5,000 per year. So the early benefits available would be reduced, the $10.00 per month Old Age Security benefit transferred out of the Canada Pension Plan consideration (to be paid for by other taxes), and at the same time the tax burden would be increased for many people. And all this is done to raise a "Partial Fund".

10. Is there anything good about a "partially funded" plan? In the United States it was originally felt that the Social Security System could be fully funded. However, in the early deliberations on the plan it appeared that this was not feasible and a partially funded approach was adopted. Now, after many amendments the plan has become a pay-as-you-go plan. A partially funded plan is neither fish nor fowl, and because there is no formal and natural relationship between the fund and the plan benefits, this relationship can be changed too easily as a result of political pressure. To attempt funding for a social plan is to ask for political controversy; look at the changes that have been effected in the United States Social Security Act—amendments in 1939, 1946, 1950, 1952, 1954, 1958, 1960 and 1961. These are the amendments which have passed. There have been literally hundreds of bills introduced which for one reason or another have failed to pass.

11. In 1954, as an actuarial student studying the social pension plans of both Canada and the United States, I was proud to be a Canadian when I read the comparisons drawn between the United States Social Security program—an expensive attempt at a contributory partially-funded plan— and our own effective pay-as-you-go Old Age Security plan.

12. The build-up under Bill C-136 of a partial reserve fund has been explained as one of the results of compromise between the views of the Federal Government and the views of the Provincial Governments. Miss LaMarsh testified before the Joint Committee on Wednesday, November 25th saying "The Quebec view was always very candid about the fact that it was moved by two considerations. The first was to provide protection to its citizens by a pension plan, and the second was to provide a fund for the development of its province". It is unreasonable for the Federal Government to adopt a massive federal program which may create unwieldly problems 20 years hence for the whole of Canada, when that program has a major defect—the creation of a fund—which the Federal Government appears even now to recognize as a defect. If Bill C-136 were passed, the federal Members of Parliament could not escape the responsibility for enmeshing the whole country in the partial fund concept.

13. The defect is excused sometimes because of the coupling of the Federal Government's desire for national portability of pensions, and the fact that Quebec was to have its own funded (or partly funded) plan. A federal pension plan should strive for portability of pension rights on a country-wide basis, but it is too high a price to pay for this portability when the pension plan tax and what amounts to a tax to provide provincial development funds are combined in an unnatural way as they are in Bill C-136. There must be another way to achieve national portability.

14. If a province wishes to raise funds for provincial development, the honest approach is to tell the voting public the reason for which the tax is adopted. By hiding a provincial development fund tax within the framework of the Canada Pension Plan, it is possible that the provincial and federal governments together might avoid the criticisms that would be forthcoming were the tax to be imposed directly, as a measure quite separate from the Canada Pension Plan. Combining a development fund tax with a social pension plan tax, and advertising the whole tax as a contribution to a pension plan may be politically smart, but it would not be forthright, and it would leave a legacy of problems to our children as well.

IV. *Combined long-range cost estimates for Canada Pension Plan and Old Age Security Benefits*

1. Cost estimates for both the proposed Canada Pension Plan and the Old Age Security benefits should be considered together. These two programs are so inter-related that it is only common sense to consider the combined costs.

2. In the 1963 Actuarial Report, figures were given which made it possible to estimate the long-range costs of the then proposed Canada Pension Plan and the $65.00 per month Old Age Security benefit, as percentages of contributory earnings. To estimate the Old Age Security cost, it was only necessary to multiply the cost figures for the $10.00 per month extension by 6.5; the result was approximate cost figures for the $65.00 per month benefit. Expressing all of the costs in terms of percent of contributory earnings (based

on first $4,000 of annual income) the year 2050 showed a combined Canada Pension Plan and Old Age Security High Cost assumption total of 17.75%, and a Low Cost assumption figure of 8.41%. In making these calculations it was assumed that, if average earnings increase in the period from now until 2050, there would have been increases in the basic $65.00 per month Old Age Security benefit to correspond, and so these percentages hold true for level or increasing average earnings assumptions.

3. In connection with the original 1963 Canada Pension Plan, it was unreasonable for the planners to forecast figures for only the Canada Pension Plan benefits, without including comparable forecast figures for the Old Age Security benefits. The same comment holds true with respect to Bill C-136. Where are the forecast figures for the Old Age Security benefits? They should be set down, and considered by the legislators as they consider Bill C-136. The Canada Pension Plan cannot stand by itself without Old Age Security. It has been said that the Old Age Security Act is not doing enough; then, improvements in the solution to the problem should take account of the current possibly inadequate solution. Why are the cost figures for the two divorced? How can we adequately plan for the future without consideration of the combined effect? It is inconceivable that the government planners can hide behind the White Paper statement to the effect that "Old Age Security pension will, of course, be available in addition to the new retirement pension".

4. Some approximate estimates of the 1980, 2000 and 2050 combined costs of the two programs have been developed below. In these, it has been assumed that the percentages of contributory earnings listed in the 1963 Actuarial Report for the long-range cost estimates of the $10.00 per month Old Age Security benefit (considering the whole population of Canada and based on contributory earnings equal to annual earnings with a maximum of $4,000), are approximately equal to the long-range cost estimates of the same benefit (for all Canadians excluding citizens of Quebec) when expressed in terms of contributory earnings which are annual earnings in excess of $600 with a maximum of $5,000; it is recognized that this is a rough and ready assumption. It is also assumed that the effects of the change from a more liberal, to the less liberal, "early commencement of pension" feature in Bill C-136, has worn off by 1980.

5. Following the thinking outlined in connection with the 1963 Actuarial Report, it is assumed that the cost of the $75.00 monthly Old Age Security benefit can be considered to remain unchanged, when expressed as a percentage of contributory earnings, if the benefit were to be adjusted at the same rate as the rate of change, if any, in average earnings. (It may not be unreasonable to expect future legislation to push Old Age Security benefits up at a rate higher than 2% (the maximum indexed increase) if the annual rate of increase in earnings is 3%, or 4%).

6. The table below shows the resultant total combined cost estimates:

Percentages of Contributory Earnings Required to Provide Canada Pension Plan Benefits and Expenses and Old Age Security Benefits Assuming 3% Annual Rate of Increase in Earnings

CANADA PENSION PLAN

	Age Retirement Pensions	Other Benefits	Expenses	Total	Old Age Security Plan	Grand Total
High Cost						
1980	2.00%	1.63%	.10%	3.73%	5.70%	9.43%
2000	3.70	2.22	.10	6.02	6.08	12.10
2050	6.40	3.26	.10	9.76	10.28	20.04
Low Cost						
1980	1.84	1.56	.10	3.50	5.18	8.68
2000	3.06	1.86	.10	5.02	5.03	10.05
2050	3.03	1.58	.10	4.71	4.65	9.36
"Intermediate Cost"						
1980	1.92	1.60	.10	3.62	5.44	9.06
2000	3.38	2.04	.10	5.52	5.56	11.08
2050	4.71	2.42	.10	7.23	7.47	14.70

7. It must be realized of course that Old Age Security benefits are currently provided by the 3-3-4 formula (3% manufacturers-level sales tax, 3% corporation income tax, and 4% income tax on the first $3,000 of taxable income); however, for comparison purposes we should look at the total cost of the two benefit schemes, when related to the same tax base and expressed in the same terms.

8. No doubt proper, more accurate forecasts of Old Age Security costs have been calculated by the Chief Actuary and his staff. Nevertheless the figures given above indicate the possible size of the combined program. It is to be hoped that the legislators consider the two costs together. An "Intermediate Cost" figure of 14.7% of contributory earnings for these two programs in 2050 is difficult to swallow; if the High Cost assumptions are borne out the situation would be untenable. In 1980 the High Cost and Low Cost figures are not very different—9.43% and 8.68%, with a mean of 9.06%; this would be a heavy load to carry!

V. *Conclusions*

1. More detailed statistics should be made available setting forth the distribution and numbers of aged Canadians now receiving less than adequate incomes, with figures to indicate regional differences, if any, in the "inadequacies". In other words, more information with regard to the size of the need for increased social pensions should be developed and publicized.

2. Increases in social pensions, as needs indicate, should be handled—possibly with provincial variations in amount—in a manner similar to the handling of Old Age Security benefits:

(*a*) Any extension of social pensions handled on a pay-as-you-go basis.

(*b*) Benefit extensions made available to the current aged, to the greatest degree possible.

(c) No individual records of past earnings need be kept, as individual pensions will not be based thereon.

3. The contributory aspect of the Canada Pension Plan should be removed.

4. Earnings—related portions of widows pensions and disability pensions called for under Bill C-136 (and based on the individual earnings record) should be replaced by flat-rate benefit amounts—possibly with provincial variations.

5. Optional early commencement of the current Old Age Security benefit should be made subject to a form of Earnings Test, similar to the restriction placed on the Earnings-Related benefit suggested under Bill C-136. If this provision is valid for part of the social pension, then it is valid for the other part as well.

APPENDIX A17

BRIEF

by William M. Mercer Limited
(December 28, 1964.)

Without inferring complete agreement on other aspects of the Canada Pension Plan, I wish to draw the attention of the Special Joint Committee of the Senate and the House of Commons on Canada Pension Plan to one feature, in particular, of the proposed Plan.

The Plan effectively provides a pension, payable from age 65, after a transition period of 10 years, of 25% of adjusted average earnings on which contributions have been assessed.

While a pension which is completely earnings-related may be appropriate to a person at present of age 18, who contributes throughout to age 65, and might be a feature suitable to a private employer subsidised pension plan, it is not appropriate to a national plan.

I recommend that the plan formula after the transition period, as far as age pensions are concerned—widows' and disability pensions and transition period pensions conforming—should be 25% *not* of the adjusted average earnings on which contributions have been assessed, but of adjusted average earnings since age 18, on the assumption that, in all cases, the average earnings since the attainment of age 18, up to 1st January, 1966, adjusted to that date, were a fixed flat amount. (Examples are later given where the fixed amount is $2,000, or, again $2,500.)

These figures are selected purely for purposes of demonstration. Any figure used in practice would be based on proper analyses of the situation.

The fundamental fault in computing the entire pension on an actual earnings-related basis, and its correction by the recommended formula, is most obvious when we consider a married male whose 55th birthday falls on 1st January, 1966.

Under the proposed Canada Pension Plan he will be eligible from age 65 to a pension of 25% of his adjusted actual earnings, with a substantial proportion of the pension continuing to a surviving widow after his death.

On a reasonable actuarial basis, which it serves no present purpose to define, where the adjusted earnings are $5,000, this benefit at age 65 has a capitalised value of approximately $16,000, towards which the person concerned will contribute $792, assuming no changes based on future indexes of cost of living and wages. Where the adjusted earnings are $3,000, the capitalised value is $9,600 against contributions of $432.

This differential might be appropriate under a private plan, because an employer wishing to retire an employee may feel morally committed to provide him with a pension appropriate to his final earned income.

This differential is completely inappropriate in a publc plan.

This feature did not go unrecognized in the original proposed Quebec Pension Plan. (See Table No. 29 on page 156 of Volume 1 of the "Rapport du Comité Interministériel d'Étude sur le Régime de Rentes de Québec" published April, 1964.) Under the original Quebec Plan this differential was maximised at age 45, due to the 20-year transition period. This report, in effect, apologised for this unfortunate feature of the Plan.

The Quebec Report was weak in making no positive suggestion for correction, but the fault in that Plan, when carried into the compromise Plan developed with the Federal Government, and now known as the Canada Pension Plan, has been exaggerated rather than diminished, now that the transition period has been shortened to 10 years.

My recommended formula would correct this by treating part of the total benefit as in respect of years prior to 1st January, 1966, during which nobody contributed, and the remainder as in respect of years after 1st January, 1966, during which contributions are made.

The benefit of the former years, where no contributions were made, *would not* be earnings related.

The benefit of the latter years, when contributions were made based on earnings received, *would* be earnings related.

Consider, now, the situation under the proposed and recommended Plans, in respect of two males both aged 55 on 1st January, 1966, assuming annual earnings from age 55 to age 65 averaged $3,000 (Case 1) and $5,000 (Case 2), respectively, making no allowance for future adjustments due to cost of living or wage indexes, but allowing for the "drop-out" feature in computing the overall average. Figures in brackets indicate approximate capital value at age 65 of benefits less members' own contributions.

	Case 1		*Case 2*	
Average actual earnings in last 10 years	$3,000		$5,000	
Proposed Canada Plan annual pension (25%)	750	($9,200)	1,250	($15,200)
Average lifetime earnings since age 18, assuming fixed figure of *$2,000* for average of such earnings prior to 1st January, 1966, adjusted to that date. (37(55-18) years, less drop-out period of 10% of 47(65-18) years or 32 years at $2,000, plus 10 years at average of actual earnings after 1st January, 1966.)	2,238		2,714	
Recommended Canada (25%) Plan annual pension where fixed earnings are *$2,000*	559	($6,700)	679	($ 7,900)
Average lifetime earnings since age 18, assuming fixed figure of *$2,500* for average of such earnings prior to 1st January, 1966, adjusted to that date. (32 years at $2,500 plus 10 years at average of actual earnings after 1st January, 1966 (see above))	2,620		3,095	
Recommended Canada (25%) Plan annual pension, where fixed earnings are *$2,500*	655	($7,900)	774	($ 9,100)

It is very obvious how this procedure reduces the differential to a basis more consistent with what should be expected of a national plan, in that it should provide mainly for the needy.

The same principles would apply at other ages, both above and below age 55.

If the average last 10 years' earnings were less than the fixed figure, the former only would be used.

It should not be difficult to adjust figures already prepared in the actuarial report to determine the financial implications of this recommendation.

The financial strain imposed on the accumulating fund would be reduced. This would increase the fund and certainly defer the day when an increase in rate of contribution, or change in funding philosophy, might become necessary.

The change would materially facilitate the process of "integration" or "co-ordination" with existing private plans.

Alternatively, the "saving" so achieved could be utilised to improve the pensions of what might be termed the "lost generation", those now well above age 55 and for very low income groups who are benefited little, if at all, by this Plan for "all Canadians".

If finances permitted this indeed could logically be achieved by regarding all these as eligible for benefits based on average earnings, equal to the fixed figure selected, between ages 18 and 65. This would effectively give those now or over age 65 an annual pension of 25% of *$2,000* (or $2,500) over and above present Old Age Security, but I will not press this point.

CYRIL J. WOODS,
Fellow of the Institute of Actuaries,
Fellow of the Society of Actuaries.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964-1965

SPECIAL JOINT COMMITTEE OF THE SENATE AND OF THE HOUSE OF COMMONS

Appointed to Consider and Report upon Bill C-136, An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors.

Joint Chairmen: Senator Muriel McQ. Fergusson and Mr. A. J. P. Cameron (*High Park*).

MINUTES OF PROCEEDINGS AND EVIDENCE

(Meetings held during the adjournment of the Senate and of the House of Commons, as of January 12, 1965.)

No. 17

TUESDAY, JANUARY 19, 1965

WITNESSES:

Messrs. J. E. E. Osborne, Technical Adviser to the Committee, and D. E. Kilgour, from Winnipeg, Manitoba; *From Life Underwriters Association of Canada:* Messrs. J. L. Etherington, Chairman of the Board; R. L. Kayler, Executive Director and General Counsel; Fraser Deacon, Chairman of Taxation and Legislation Committee; R. A. Mitchell, Honorary Treasurer of the Association and Member of Taxation and Legislation Committee; *From the Canadian Chamber of Commerce:* Messrs. A. J. Little, President; H. F. Hoerig, Chairman of the Executive Council; D. L. Morrell, General Manager; *From the Health and Welfare Committee of the Canadian Chamber of Commerce:* Dr. W. H. Cruickshank, Chairman, and Messrs. W. J. McNally, Secretary; R. B. MacPherson, member; Léon Mondoux, member; R. S. Davies, member; and *From the Winnipeg Chamber of Commerce:* Mr. G. R. Hunter, Q.C., Past President.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

21755—1

MEMBERS OF THE COMMITTEE FOR THE SENATE

Honourable Senator Muriel McQ. Fergusson, *Chairman*

and honourable Senators:

Blois
Boucher
Croll
Denis
Flynn
Lefrançois
McCutcheon
Smith (*Queens-Shelburne*)
Smith (*Kamloops*)
Stambaugh
Thorvaldson

MEMBERS OF THE COMMITTEE FOR THE HOUSE OF COMMONS

Mr. A. J. P. Cameron M.P. (*High Park*), *Chairman*

and Messrs.

Aiken
Basford
Cantelon
Cashin
Chatterton
Côté (*Longueuil*)
Enns
Francis
Gray
Gundlock
Howe (*Wellington-Huron*)
Knowles
Laverdière
Leboe
Lloyd
Macaluso
Monteith
Morison
Munro
Perron
Prittie
Rhéaume
(Mrs.) Rideout

Maxime Guitard,
Clerk of the Special Joint Committee.

(Meetings held during adjournment of the House)

MINUTES OF PROCEEDINGS

TUESDAY, January 19, 1965
(32)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan met at 10:10 o'clock a.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Croll, Denis, Lefrançois, Stambaugh, Thorvaldson—6.

Representing the House of Commons: Messrs. Basford, Cameron, (*High Park*), Cantelon, Cashin, Côté (*Longueuil*), Francis, Gray, Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro, Prittie—16.

In attendance: From Life Underwriters Association of Canada: Messrs. J. L. Etherington, Chairman of the Board; R. L. Kayler, Executive Director and General Counsel; Fraser Deacon, Chairman of Taxation and Legislation Committee; R. A. Mitchell, Honorary Treasurer of the Association and Member of Taxation and Legislation Committee.

Also in attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee.

The Joint Chairman invited Mr. Etherington to introduce the members of his delegation.

Then Mr. Etherington made a preliminary statement and Mr. Kayler put forward the recommendations of his Association.

The Committee then proceeded to its questioning of the witnesses.

On motion of Mr. Cashin, seconded by Mr. Francis,

Resolved,—That beginning today, all briefs submitted by witnesses appearing before the Committee and including the one previously submitted, for distribution, by the Life Underwriters Association of Canada, be, without requesting further motion to that effect, appended to the Minutes of Proceedings and Evidence of the day on which the said witnesses are heard. (*See Appendix A18*)

The Committee having concluded its examination of the witnesses, the Joint Chairman thanked them and they retired.

On motion of Mr. Munro, seconded by Mr. Knowles,

Resolved unanimously,—That a vote of thanks and appreciation be extended to the representatives of the Life Underwriters Association of Canada for their contribution.

At 1:08 o'clock p.m. the Committee adjourned until 2:30 o'clock this afternoon.

21755—1½

AFTERNOON SITTING

(33)

The Special Joint Committee of the Senate and of the House of Commons on the Canada Pension Plan reconvened at 2:39 o'clock p.m. this day. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Honourable Senators Boucher, Croll, Denis, Lefrançois, Stambaugh, Thorvaldson—6.

Representing the House of Commons: Messrs. Basford, Cameron (*High Park*), Cantelon, Cashin, Côté (*Longueuil*), Francis, Gray, Knowles, Laverdière, Leboe, Lloyd, Macaluso, Monteith, Morison, Munro, Prittie—16.

In attendance: From the Canadian Chamber of Commerce: Messrs. A. J. Little President; H. F. Hoerig, Chairman of the Executive Council; D. L. Morrell, General Manager. *From the Health and Welfare Committee of the Canadian Chamber of Commerce:* Dr. W. H. Cruickshank, Chairman and Messrs. W. J. McNally, Secretary; R. B. MacPherson, member, Léon Mondoux, member, R. S. Davies, member, and *from the Winnipeg Chamber of Commerce,* Mr. G. R. Hunter, Q.C., Past President.

Also in attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee.

The Joint Chairman read a letter in which the Canadian Chamber of Commerce asked the Committee to note an erratum in the first full paragraph at page 14 of their brief previously submitted for distribution. The first part of that paragraph should read "If it is the decision of the Committee to examine alternatives, etc." (*See appendix A 19 for corrected brief as requested*).

The Clerk of the Committee was asked by the Joint Chairman to read a letter from the Manitoba Chamber of Commerce.

Then the Joint Chairman invited Mr. A. J. Little to introduce the members of the delegations from both the Canadian and Winnipeg Chambers of Commerce.

Dr. W. H. Cruickshank made a preliminary statement and was questioned thereon assisted by members of the delegation of the Canadian Chamber of Commerce.

In accordance with a previous motion, the brief previously submitted for distribution by the Winnipeg Chamber of Commerce is printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A 20*).

On motion of Mr. Monteith, seconded unanimously,

Resolved: That the answer, prepared by Mr. Osborne to the question asked by Mr. Monteith, be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A 21*).

The Committee having concluded its examination of the delegation from the Canadian Chamber of Commerce, the Joint Chairman thanked the witnesses and they retired.

Then Mr. G. R. Hunter, Q.C., was called and examined.

The examination of the witness being completed, the Joint Chairman thanked Mr. Hunter who retired.

At 5:44 o'clock p.m. the Committee adjourned until 8:00 o'clock p.m. this evening.

EVENING SITTING

(34)

The Special Committee of the Senate and of the House of Commons on the Canada Pension Plan reassembled at 8:05 o'clock this evening. The Joint Chairman of the House of Commons section, Mr. Cameron (*High Park*), presided.

Members present:

Representing the Senate: Honourable Senators Croll, Fergusson, Lefrançois, McCutcheon, Smith (*Kamloops*), Stambaugh, Thorvaldson—7.

Representing the House of Commons: Mrs. Rideout and Messrs. Basford, Cameron (*High Park*), Cantelon, Cashin, Côté (*Longueuil*), Francis, Gray, Gundlock, Knowles, Lloyd, Macaluso, Monteith, Munro, Prittie—15.

In attendance: Mr. D. E. Kilgour, from Winnipeg, Manitoba.

Also in attendance: Mr. J. E. E. Osborne, Technical Adviser to this Committee.

The Joint Chairman invited Mr. Kilgour to make a preliminary statement before being questioned thereon.

In consequence to a motion agreed upon at this morning's sitting, Mr. Kilgour's brief, previously submitted for distribution, is printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A 22*).

The Committee concluded its questioning of the witness.

Then the Joint Chairman thanked Mr. Kilgour who retired.

At 10:38 o'clock p.m. the Committee adjourned until 10:00 o'clock a.m. on Wednesday, January 20, 1965.

Maxime Guitard,
Clerk of Committee.

EVIDENCE

TUESDAY, January 19, 1965.

The CHAIRMAN (*Mr. Cameron*): Gentlemen, it is ten after ten and we have a quorum. I have no business to bring before the committee. I think Mr. Cashin has a motion he would like to make about the filing of briefs, that in the case of each witness who appears and files a brief, and in the case of each brief submitted, the brief be automatically recorded in that day's proceedings as an appendix and that it be not necessary to make a motion each day in respect of the filing of briefs.

Mr. CASHIN: I so move.

Mr. FRANCIS: I second the motion.

The CHAIRMAN (*Mr. Cameron*): Does that meet with the approval of the committee?

Members of the Committee: Agreed.

The CHAIRMAN (*Mr. Cameron*): We have before us this morning the Life Underwriters Association of Canada. Mr. R. L. Kayler is Executive Director and General Counsel. You have had a copy of the brief and have had an opportunity to read it. Mr. Etherington will make the opening statement on behalf of the association and will introduce the other members of the delegation.

Mr. L. J. ETHERINGTON, *Chairman of the Board, Life Underwriters Association of Canada*: Mr. Chairman and members of the committee, it is my pleasure to introduce to you the officers and executive of the Life Underwriters Association of Canada. On my far right is Mr. Fraser Deacon, C.L.U., a past chairman of our board of directors and currently chairman of our Taxation and Legislation Committee. Next to him is Mr. R. A. Mitchell, C.L.U., honorary treasurer of the Life Underwriters Association of Canada and a member of the Committee on Taxation and Legislation. On my right is Mr. R. L. Kayler, LL.B., C.L.U., Executive Director of the Life Underwriters Association of Canada and also its General Counsel.

Mr. KNOWLES: Mr. Chairman, before the witness commences, I wonder if he would permit a question which might sound a little awkward. When we had the Canadian Life Insurance Officers Association here we sometimes gave them the wrong name and called them the Life Underwriters Association. We do not know whether they were insulted or complimented. Could you distinguish between the two associations?

Mr. ETHERINGTON: I would be happy to do so. The organization to which you have referred, the Canadian Life Insurance Officers Association, which appeared last week, is an organization the members of which are officers of 102 life insurance companies doing business in Canada. Their member companies represent about 99 per cent of the business transacted in the field of life insurance in Canada.

Our organization, the Life Underwriters Association of Canada, is an organization of life insurance agents, and our membership consists of slightly over 12,000 life insurance agents from coast to coast. These agents are under contract to all the various companies doing business in Canada.

The Life Underwriters Association therefore represents the point of view of the life insurance agent. The Canadian Life Insurance Officers Association represents the point of view of industry as concerned with companies. Does that explain it?

Mr. KNOWLES: Yes. Thank you, very much.

Mr. ETHERINGTON: Mr. Chairman, in our memorandum which has been submitted, we state our support for the broadly stated objectives of the Canada Pension Plan to provide benefits for all Canadians in retirement, and for the disabled, the widowed and the orphaned. We go on to point out that if the Canada Pension Plan is to achieve these objectives we submit there are amendments that should be considered.

Before we get into the details of our submission, I would like to make a few brief interjectory comments, as follows:

First, our organization, the Life Underwriters Association of Canada, is basing its submissions primarily on the point of view of our 12,000 members, who are in their daily work in contact with a large portion of the 10 million Canadians who are policy owners in the life insurance companies in Canada.

Our members are required to advise individual Canadians in the area of their finnacial planning and security, and therefore are in a position to assess the effects of the proposed Canada Pension Plan on individuals in a variety of circumstances.

Secondly, we would like to make it clear that our association does not have at its disposal economists or actuarial staff. Therefore, in our submission on the Canada Pension Plan we have largely stayed away from areas of economics and funding. Our main concern is how the Canadian Pension Plan will affect individual Canadians, and while we are not presuming to be expert in the areas of economics and funding, we do feel that we have a point of view which is worth while considering from the standpoint of the effect of the pension plan on Canadian citizens.

Thirdly, we would like to comment on the objectivity of our presentation. First, however, let me make it clear that the Life Underwriters Association of Canada has consistently supported old age security, and will continue to do so, including any desirable amendments to the system.

Many of our members believe that the Canada Pension Plan will result in Canadians becoming more conscious of the value of pensions, and that therefore the climate for future sales of insurance and annuities will be improved. It is true that there will likely be a reduction in premiums going into insured pension plans, but these constitute only about one-fifth of the private pensions industry, and the gains and other phases of life insurance and annuities sales will likely offset any possible losses in regular pension plans. Therefore, we believe on balance that life underwriters stand to gain from a Canada Pension Plan, regardless of what form it takes.

Our purpose in appearing before this committee is to look at this whole question from the viewpoint of the public interest, and in this area we feel certain that this viewpoint is shared by the committee.

The core of our submission is that the broad objectives of the Canada Pension Plan, with which we agree, can only be fully achieved if the Canada Pension Plan is moulded to bring under its wing the whole broad area of universal flat benefits to provide the desired level of Government benefits to retired people, to widows, to orphans and to disabled persons.

We believe that a flat pension approach which has been introduced in part 4 of Bill C-136 could be substantially expanded along the lines that I have just indicated, thereby enabling the earnings related aspect to be deleted, and the Canada Pension Plan could then cover the four main categories of special need fully and equitably.

Now, Mr. Chairman, we are in your hands at this point. Perhaps the committee will wish to ask questions at this stage, or perhaps you will wish to proceed through our submission in detail, or perhaps you would like to hear a further summary of our specific recommendations.

The CHAIRMAN (*Mr. Cameron*): I think we would like the latter first, the summary of your recommendations.

Mr. ETHERINGTON: Thank you—in which case I will call on your Executive Director and General Counsel, Mr. R. L. Kayler, to present these.

R. L. KAYLER (*Executive Director and General Counsel, Life Underwriters Association of Canada*): Mr. Chairman, and members of the committee, following upon Mr. Etherington's broad statement of our position to become more specific in this area, I can direct your attention, if you will, to page 7 of our submission, beginning perhaps at the paragraph numbered 12. Let me preface our look at this section of our submission with this general introductory comment. In our suggestions in the way of expanding flat benefits under both old age security and family allowances, we make these not in any way feeling that this is the only possible answer or that the figures here as to the levels of benefit are precise. For example, we do not feel there is any special magic in the figure of $75 a month.

Our purpose in putting these suggestions before you is rather to focus attention on the basic matter of the principle of flat benefits, and feeling that if his approach eventually recommends itself to this committee, the committee obviously would have to have a great deal more information and background, economic and statistical, to come up with any final conclusions as to exactly what shall be the precise level of benefits in these various areas.

Having made this preliminary observation, we are suggesting here that—is there a question first, Mr. Chairman?

Mr. PRETTIE: No; we are just getting ready.

Mr. KAYLER: Our first area of suggestion here is in connection with the retirement age, and we have suggested that consideration could be given to lowering to age 65 the commencement age for the flat benefits under old age security.

We are not necessarily suggesting here a complete across the board $75 a month for all, but we are suggesting that, in the first instance, this could be for people who are single or widowed when they reach the age of 65. Turning to people who are married, take a man who is married at 65. We suggest here that he could look at the age of his wife, and if she were under the age of 60 he, too, should be entitled to the full $75 a month, commencing at age 75.

Then moving a step forward, you have the husband and wife relationship. During the period that the husband is 65 or over, and his wife is between age 60 and 70, this $75 a month could be stepped up to perhaps $125, and then, of course, when both partners, both spouses are 70, the full $150, or whatever the old age security level of benefit is, would apply at that time.

There is one further comment in connection with this part of our suggestion. I said at the beginning we are not wedded in any particular way to the figure of $75 a month. Our feeling is that if the flat benefit system is going to be expanded, the first step in this expansion is to cover areas of aid not now covered at all, both as to age and as to category, such as the widowed, the disabled, and so on.

Now, if that is done, the next obvious step is to give consideration to the amount of flat benefits, whether $75 or something higher should be the figure.

Going on from this, we make the general observation on page 8, paragraph (c), that we feel it makes sense there be provision in the Canada Pension Plan for periodic review on some fairly definite pre-determined schedule, so it is not a matter of accident or expediency, as the case may be; that there be some pre-determined formula for a review, to make sure the level of benefits is in line with what seems reasonable when you look at our standard of living for the population as a whole.

Secondly, in a similar vein, we have seen considerable evidence put forward recently from various quarters that indicates that in the category of old age the need for additional income from Government sources may well tend to increase as the age level rises. It may be that the committee should seek further information in this area, and that any future increases of old age security perhaps should not be on a flat amount across the board at all ages, but some account perhaps should be taken of the fact people who are 75 and over perhaps need more than those who are under, and that when they become 80 they need more still. As we have said, our association does not have the economic or statistical resources to make specific recommendations in this area, so we are posing the broad principle we feel this is a field that should be explored.

Moving on from this category, we mention our concern for the people who are widowed and those who are in the category of disabled persons. We feel very strongly that coverage of these groups is important, and that whatever is done in this area should be applicable to all people in these categories, not just those who would be fortunate enough to fall into the categories that would be covered under the earnings-related formula.

One way—and perhaps it is not the only way, and perhaps not even the best way, but one way of dealing with this problem, as we have suggested, is to extend downward the commencement age and application of old age security to reach down into these two specific categories of hardship, that of widowhood and that of disability. There may be some minimum age that would be considered desirable to cover people in these two categories. Whatever the age is and whatever the amount is, this could be, in effect, an extension of the old age security flat benefit system.

Moving on to item 13 on page 8 of our recommendations, we deal with the fourth category of hardship that has been considered in the Canada Pension Plan, namely that of orphans. The term "orphan" is not in its full, legal sense. I think it is intended to apply to the situation where one parent has died and there are still dependent children. In Canada we have already an organization and system for paying benefits in relation to children through our family allowances.

It is our feeling, again, a possible way to move into this area—perhaps not the only way, but a possible way—would be further to expand the application of family allowances so that in the case of children who fall into the category of orphans an additional amount would be paid. We have suggested here a figure of $25 per month per orphan, mainly because this is the figure which has been suggested in Bill C-136 under the Canada Pension Plan. We have no strong feeling whether $25 per month is too high or too low. We are simply following along with the suggestion that has been made.

With regard to the age limit for payments in respect of orphans, again in the Canada Pension Plan, dealing with the limited group that would be covered, it is suggested that coverage could extend up to the age of 25 in the case of children who are still at school or university. We think this is very sound and, presumably, any extension of flat benefits under family allowances could cover this period.

I think, Mr. Chairman, this is pretty much a summary of, if you want to call them such, our specific recommendations, though in some areas, as I have said, they are far from specific.

The CHAIRMAN (*Mr. Cameron*): Thank you very much, Mr. Etherington and Mr. Kayler. We will now proceed to the questioning period.

Mr. CASHIN: To the gentlemen there, through you, Mr. Chairman, in your preparation for appearing before this committee did you examine any other wage-related pension plans by governments of other countries? If so, did you discover such plans covered people not covered in this plan?

Mr. KAYLER: Mr. Chairman, I think our answer to the first part of the question is that we have not made a detailed study at all of wage-related plans in other countries. We have some familiarity, but not a complete concept of old age security in the United States, primarily because the life insurance business is rather international in scope in the North American continent, and our members are involved to some extent with people in the United States, and vice versa. We really have only a rather rough working knowledge of old age security in the United States, and our understanding of the system there is that even over the period of almost 30 years that this plan has been in operation—and it has been amended and expanded on many occasions during this period—there is still a significant portion of the retired population in the United States which is not covered. My impression is that it is somewhere in the order of 10 per cent, but I have no specific information on this point.

Mr. CASHIN: You are suggesting the extension or revision of the universal flat rate benefits by this. In 1952, when the O.A.S. was set at $40 a month, did your association have any views on the adequacy of that figure? I say "adequacy" in relation to what you felt could have been afforded at the time. Did you think the figure was too high or too low?

Mr. KAYLER: I think our position at that time was this. As we have said in our brief, in principle we have always been strongly in support, and in 1952 we were in support of the basic principle of the flat benefits amount. Again, our association had no strong feeling as to whether there was any specific magic in the figure of $40—again, for the reasons I have already stated today, that we do not have the economic, statistical research background on which to base any very firm opinion in this area.

Mr. CASHIN: So, presumably you left it to others to decide as to whether or not this met the needs of the pensioners, or the adequacy of the figure itself?

Mr. KAYLER: Yes, as to the level of the amount.

Mr. CASHIN: I point out to you that from 1952 to 1963 the O.A.S. figure went from $40 to $75. I am not saying the figure of $40 met the needs of the old age pensioners or that it was adequate in 1952, but if we look at the average weekly wages and salaries in this country from 1952, when that figure of $40 was introduced, to 1963, we will see an increase of a little better than 50 per cent, from 54-point-something to 83-point-something. Consequently, I say to you that successive governments have increased the O.A.S. in excess of the rise in wages and salaries, and we still have with that increase in O.A.S. the situation where many Canadian people—in fact, over two-thirds of the present Canadian working force—are not presented with the same opportunity to prepare for retirement through a wage-related plan. Therefore, what we are really talking about are two distinct problems: The one, the problem of people in retirement today; and the other, the retirement of those who are now in the working force. Don't you agree we should plan for the retirement of the whole of the Canadian population today, particularly those two-thirds who are not in wage-related plans? Don't you agree these are two separate things? Do you see a difference in these two problems?

Mr. KAYLER: Mr. Chairman, we agree wholeheartedly with the suggestion made in the question, that we are concerned about the retirement program for all Canadians, including those who are presently young and in the working force. I think our feeling is that the most effective and the most equitable way to do this, considering the basic responsibility of government to take care of needs at the primary level, is through the flat benefit system. We think, for example, it is more urgent in the priority of needs that the existing level of flat benefits be extended to cover those who are not now covered, the widowed, the disabled, and so on. It covered all of these people who are now in this unfortunate position in our country, so that at least they would have the $75 a month, or as much as the people who are already covered in the over 70 bracket.

Now, this to us makes much more sense in terms of covering the needs of Canadians, and we think in terms of achieving what has been stated to be the intention of the Canada Pension Plan—not to continue to overlook and ignore these people who are already in this severe area of need, and to start providing, in effect, a second layer of pensions for those who happen now to be in the working category.

I think there is a real question that has to be determined at some point. Once, as a country, we have succeeded in covering all these areas of need up to a specified amount, which will cost a lot of money to be sure, it will be a good question then as to how much more will be available to be added to this. My feeling is that whatever amount will be available should be added not to a select few, or those who happen by circumstances to be presently employed, but again to all people in these basic four categories or hardship.

Mr. CASHIN: You obviously approve, though, of earning being related to pension plans on a private basis; so you would leave it to private enterprise to supply this type of plan to the other two-thirds, or 70 per cent of the work force?

Mr. KAYLER: Yes. Further to that, sir, keep in mind that in addition to what has been referred to as the private pension plan, the formal type of private pension plan that exists in industry today, we have seen figures vary from 30 per cent to 40 per cent as to the working force being covered.

In addition to this, of course, there is another substantial group of people covered by companies which have pension plans.

Over and above all this, do not overlook the fact that there are somewhere in the neighbourhood of 10 million Canadians today who are policy owners of life insurance policies, and the biggest proportion of these life insurance policies have a savings and investment feature.

Most people do not like to think that they are going to die tomorrow, and the great majority are looking forward to supplementing their retiring income with assets they are building up in their life insurance policies. This is a very substantial number of people, and we consider it our mission in life, and the mission of the Life Underwriters Association, to do all we can to expand this coverage.

Mr. CASHIN: In my last question you objected to the Canada Pension Plan for the reasons you outlined, but since 1952 what formal representation has your Association made to the Government on behalf of the widowed, the disabled and old age pensioners in general?

Mr. KAYLER: I think, if you are speaking of a formal presentation, a brief presented to the Government, there has been no formal presentation as such during this period of which you are speaking.

Mr. GRAY: I just want to follow up the question Mr. Cashin ended with. Can you tell me why, in view of the social need to which you refer in your brief, you have not come up with a public statement before this time? It is very commendable for you to raise the question with respect to groups not covered by the Canada Pension Plan, and, as you say, who are in need now, but why have you not come forward with a public statement on their behalf before this time.

Mr. KAYLER: Mr. Chairman, rightly or wrongly the feeling of our association and its board of directors was that when the idea of a Canada Pension

Plan was first a matter of public knowledge—which I believe goes back something like a year and a half ago—our basic position was that this was a very complex, far-reaching matter. We felt strongly that the way to approach this problem was for some kind of public body to handle it, whether it was a royal commission or a joint parliamentary committee such as this.

There should be some public body of this nature established by the Government so that interested members of the public and organizations such as ours could have the opportunity to appear before this group and make our representations. We are delighted that it has finally happened, but it is not our fault that this machinery was not set up before it was so that we might have had the opportunity to appear.

Mr. GRAY: You are saying in effect that you did not consider the need pressing enough that if this committee had not been set up you would have felt obliged to make some public statement anyway?

Hon. Mr. THORVALDSON: Mr. Chairman, on a point of order! I am sure the Chairman is interested in relevancy in these proceedings, and it occurs to me it is not relevant at all whether organizations coming before us have either gone on the air waves or into the newspapers and advocated the points of view that they are expressing now.

After all is said and done I think it is well known that there have not been any parliamentary proceedings or hearings of committees in the last few years with respect to pensions and the matters that we are considering now. I am just wondering what is the object of questions like this and whether they are really fair. No doubt, the Chair will deal with the matter.

Mr. GRAY: I would like to address myself to this point. These witnesses, and I praise them for their public-spirited approach in coming forward and expressing their views, have come forward and expressed certain views as to the pressing social need for additional pension coverage of certain groups in the community at the present time.

Now, I think it is relevant to see whether or not their statement in this regard can be fully accepted or supported. It is relevant to find out if they have been raising this question on other occasions or if in fact they are taking a contradictory position.

I might say in passing that I would take issue with Senator Thorvaldson's suggestion that there have been no other proceedings in which this could have been raised. I think that in Throne Speeches, budget debates, private bills, and so on and so forth, there have been other discussions in which these questions could have been raised and where opportunity has been given to these groups to make public statements or statements to members. In fact, it occurs to me that there has been a committee sitting in the Senate for some time, the Special Commitee on Aging. When did that start, senator?

Hon. Mr. CROLL: Yes; the insurance people have appeared before that committee.

Mr. GRAY: And they should be commended for doing so, but any witness coming here expects to be given the courtesy due him, and the compliment of having his views tested by questions and discussions. But we are not saying much for a witness by just letting him come here and present his brief and have it filed.

I think it is very relevant to see why, for example in this particular instance, only this occasion has apparently been chosen to express this type of view, with perhaps the exception of the senator's committee recently.

Mr. LEBOE: On a point of order, Mr. Chairman, I agree with Senator Thorvaldson. This is not relevant to what we are doing here at all; it is merely questioning the motives of the people coming before this committee. That is it in a nutshell, and I agree with the senator.

The CHAIRMAN (*Mr. Cameron*): My point of view is that the question is verging on the field that both you and Senator Thorvaldson are talking about, but I do not think it has transgressed to such an extent that I should rule the question out of order. If a member of the committee wants this information he should have it. This is not a court of law or a matter of argument.

Mr. MONTEITH: It sounds like it.

The CHAIRMAN (*Mr. Cameron*): I would think that what we want to do is examine the contents of the brief and the opinion of the delegates now before us and their recommendations. Mr. Gray feels that he would like to know if they have ever done that before. It is a simple question and only deserves a simple answer. I think you, Senator Thorvaldson, have given a very good answer for Mr. Kayler and he will probably adopt it as his answer. In my opinion the line has to be drawn somewhere, but I don't think that the question has transgressed to such an extent that it should be ruled out of order.

Mr. CANTELON: With all deference, this is getting to be common procedure. Yesterday we had some almost rabid attacks made on one of the witnesses—

Mr. CASHIN: Oh, come, come.

Mr. CANTELON: Well, I will withdraw the word "rabid," but certainly they were very strong.

Mr. KNOWLES: Let's get on, Mr. Chairman.

Mr. CANTELON: The first day we started this kind of questioning, and now, on Tuesday, we have had the same thing happen again, and it is getting to be just a little too often.

The CHAIRMAN (*Mr. Cameron*): Well, I have made my ruling. I recognize the point raised by the members and I know there is a limit, but I am suggesting that at the present time Mr. Gray has not gone beyond that limit. He may be getting close to it. His questions were in the nature of cross-examination and what we want is not cross-examination. We want opinions from the witnesses substantiating their briefs and their recommendations.

Mr. ETHERINGTON: Mr. Chairman, if I may, I shall attempt to answer the question on this matter of the Life Underwriters Association coming forward in the past. First, may I say that our organization is primarily interested in, and it devotes a large part of its time and money to, an educational program designed to upgrade the standards of life underwriters in Canada.

On the question of motivation, in our daily work we are engaged in talking to people about their problems of providing for security in the event of death, old age and disability. On numerous occasions members of our association at all levels—officers, members of the board and private members—have discussed the problems which are now being explored publicly with individual members of Parliament. At that time we were told that there was no bill contemplated; that there was no thought that the whole structure of welfare and old age security be reviewed. Therefore, there was no point.

Now, in coming forward at this time we felt that as the matter was a matter of public interest, and was being looked at very carefully by the Government, it would be only appropriate for us to take advantage of the opportunity and the courtsey extended to us by this committee to place on the record our views.

If we have been remiss in not mounting the platform in the past perhaps there was a practical consideration involved, inasmuch as all of us in the association devote our time to its affairs, except for the executive director and his staff, on a voluntary basis, and in the meantime we spend the rest of our time, as other citizens do, in the pursuit of earning a living.

The CHAIRMAN (*Mr. Cameron*): Thank you, Mr. Etherington. I think maybe we can close off this chapter, and Mr. Gray can proceed. I would suggest to all members that they do not probe beyond reasonable inquiry into the merits of the brief and its recommendations. Let us not get into anything that might imply we are inquiring into the motives of the delegation or the particular witness who is appearing before us.

Hon. Mr. THORVALDSON: Thank you, Mr. Chairman. That is my thought.

Mr. BASFORD: On the other hand, Mr. Chairman, we do want to examine the witnesses and not be, like the senator, a patsy for some insurance company.

Mr. CANTELON: With due respect, Mr. Chairman, we are all affected by our own views. To expect anything else but intelligent selfishness from all of us would be folly. The witnesses naturally exhibit this trait, and they should not be criticized for it.

The CHAIRMAN (*Mr. Cameron*): You can leave it to the Chair to protect the witnesses in a fair and reasonable manner.

Mr. GRAY: There is nothing wrong with intelligent selfishness, but if there are witnesses before us whose views are based on this respectable concept of intelligent selfishness then it is incumbent upon every member of this committee to ask questions to delineate the ambit of that intelligent selfishness. I am not saying that that is the case with respect to these witnesses, but I just make that comment.

The CHAIRMAN (*Mr. Cameron*): Let us proceed.

Mr. GRAY: On page 4 of the brief, paragraph 9 reads:

> The proposed Canada Pension Plan will not accomplish this fundamental objective and can never fully do so despite any amendments that could be enacted so long as it is subject to the limitations of a contributory earnings related pension plan.

Is it not a fact that the companies with which your members are associated sell contributory earnings related plans?

Mr. ETHERINGTON: That is a fact.

Mr. GRAY: Do any of your companies sell private pension plans based on flat rate benefits?

Mr. ETHERINGTON: Yes.

Mr. GRAY: What percentage, would you estimate?

Mr. ETHERINGTON: I would like to ask Mr. Mitchell to comment on that question.

Mr. MITCHELL: Well, in the first place, insurance companies are selling precisely what the public wants to buy, and almost anything that can be designed actuarially can be sold. Now, some of these plans provide benefits that are purchased by a flat number of dollars. In other words, the benefit itself will increase depending on what it will buy from time to time. Other plans provide flat amounts at a given point in the future, and the contributions over a period of time are adjusted in order for that objective to be obtained. Is that what you are asking, or—

Mr. GRAY: No, I should like to know—what you have said is very interesting and helpful—whether any of the companies with which you are affiliated sell plans that operate in a similar manner to the Old Age Security; that is to say, within that group everybody contributes a percentage of their incomes in the manner of the Old Age Security tax, and when they reach retirement everybody gets exactly the same payment.

Mr. MITCHELL: Yes, this is done not infrequently. However, I think there is one very serious difference between the approach of the Canada Pension Plan, shall we say, and the ones that are provided in private enterprise in that the benefits that are received by the individual are in direct proportion to the contributions that are made by that person and on his behalf, as opposed to the Canada Pension Plan where the contributions that are made have no relationship whatever to the benefit that will ultimately be received.

I was asked a few moments ago about whether or not we had compared the benefits available in other countries with what is proposed here in Canada. Let me make only one comment with respect to social security in the United States. One of the saving graces in that particular plan, speaking now politically as well as economically, is that the benefits that are provided under social security in the United States are in direct proportion to the contributions that are made by the individuals to the plan. In other words, they say to the people that if they want another 5 per cent increase in benefits, like they are talking about now, then that is going to cost them so many dollars. This is one of the things that does not obtain in the Canada Pension Plan, and it is one of the areas upon which the Canadian Life Underwriters Association has found it necessary to comment. In other words, here you are really talking about a welfare scheme; you are not talking about a pension plan *per se* in the normal sense. We are suggesting this is a very different thing altogether.

Mr. GRAY: Would you agree that the great majority of private pension plans sold by the companies with which you are affiliated are contributory earnings related?

Mr. MITCHELL: Yes, I do, and I think there is a very good reason for it. When a person is getting close to retirement date, or when he does reach retirement date, he has established a certain standard of living, and it is necessary for people, perhaps, in the larger centres where the cost of living is greater to need more benefits in retirement than some other people. We are not talking now about welfare.

Mr. GRAY: Is not what you have just said a very good argument for any pension plan provided through Government to be also related to earnings so that the pension a person gets will be linked to the standard of living he has before retirement?

Mr. MITCHELL: Perhaps I have not made myself too clear. Perhaps I should give you a couple of figures. I costed before I came down here what it would cost for an individual who was aged 55—in other words, as you know, under the Canada Pension Plan, if you come into the plan at 55 and retire at 65 you get the full benefit, whereas if you come in at 18 and contribute all the way through to 65 you are going to get precisely the same benefit. Now, to buy $104 a month at age 65 on a male life contributing for 10 years, would cost—if you could get $104 a month, although it is limited, as you know, to $100—$943.31 a year. Now, under the Canada Pension Plan as proposed the contribution by the individual is something less than $80—it is $79 and change—and a similar amount by his employer, so we are talking about $160 a year coming in for 10 years, as opposed to a cost of $943.31 per year.

Now, it is quite apparent, therefore, that we are subsidizing very strongly those people who happen by accident of birth to be exactly and precisely at age 55 on January 1, 1967, and therefore obtain the maximum benefit. On the other hand, if a young fellow at age 20 comes into the plan and contributes the $80 a year himself and a similar amount by his employer the benefit provided by his contribution is about 35 per cent more than what he is going to receive. In other words, the young people today are going to be subsidizing the older people who are there now.

Mr. GRAY: Is not that what we are doing right now?

Mr. MITCHELL: I suggest this is welfare, and not pension.

Mr. LLOYD: No.

Mr. GRAY: Is not that what we are doing right now?

Mr. MITCHELL: No, it is not what we are doing right now, because in private enterprise or in company pension plans the benefits that the individual receives are at least equal to what has been contributed by him and on his behalf. Now, it is true that we are, in company pension plans, contributing different amounts for different people, depending upon their age—

Mr. GRAY: And their income.

Mr. MITCHELL: Yes, and based upon their income, but you do the same for the young fellow as you do for the old fellow at the different points in time.

Mr. GRAY: Well, sir, you have just alluded to something which I understand is part of common practice in plans sold by companies with which you are affiliated, and that is the provision of paid-up credits for past service by the employer.

Mr. MITCHELL: That is right.

Mr. GRAY: Does that not mean a windfall to the man who has not made his own contribution because he is close to retirement when the plan comes into effect?

Mr. MITCHELL: This is existing naturally over a period but not at the expense of those who come to retirement later on.

Mr. GRAY: I gather, then, that you do not criticize this approach that the money for the past service credit comes from the employer?

Mr. MITCHELL: Not at all.

Mr. GRAY: If it could be demonstrated to you that all or most of the contributions to provide the full pension for a person to retire under the Canada Pension Plan could be provided from the employer, then you would have no objection to that?

Mr. MITCHELL: No. I think perhaps you are taking an extra step because there is then a highly discriminatory area in which the Canada Pension Plan is now proposing to operate and if you are thinking of any kind of welfare benefits the first thing is to look at any priorities, and we are not sure that those are priorities to be considered.

Mr. GRAY: Is this welfare or social insurance?

Mr. MITCHELL: I do not know. Take your choice.

Mr. GRAY: Speaking of priorities, I was interested to note your final paragraph 26, which refers to the need for an overall evaluation to look at priorities in relation "to the cost of other growing and critical demands on our economy for education, health care, and other public projects". You say then:

> This kind of overall evaluation seems essential before an intelligent decision can be made as to whether Canadians should be committed now to a program of escalating cost to provide a further level of government pensions which by most reasonable standards seems excessive.

I gather that in this you are suggesting that if this Canada Pension Plan comes into effect further funds would be taken away from individual savings, and so on, which might be used for these other purposes.

Mr. MITCHELL: I think that is so.

Mr. GRAY: Would it not be logical then to go a step further and recommend a freeze of the private pension plans so that there may be no risk of not having money available for this type of public investment?

Mr. KAYLER: I think that once again we are perhaps twisting welfare and pension plans. If you are producing a pension plan that is fully paid for by your people and the individuals themselves and by their employers, this is a different thing from making a charge on taxation for welfare and getting a select group to receive the benefits. It is a different thing.

Mr. GRAY: From the point of view of aggregates of national income, whatever money is taken out of the national income screen for it is out.

Mr. KAYLER: Do you suggest we do not buy any more houses?

Mr. GRAY: I am not suggesting that. It occurs to me in reading paragraph 26 and the preceding paragraph which seems to go along with it, that you want to suggest a cause of analyzing priorities, for fear of getting some portion of the national income screen committed and not having the portion now committed through the sale of private pension plans or invested in public pension plans, that there ought to be a freeze on private pension plans so that the money will not be tied up in a way which might turn out not to be the best priority.

Mr. KAYLER: I think our feeling was that it was only relevant for us to comment on the public sector, because the whole issue of the Canada Pension Plan involves the collection of taxes and the spending of them. Our only purpose in raising this question, is that we understand there are many other pressing needs for taxation. We feel that it would be wise that the government of the day be satisfied that the tax money which is going to be available is being spent in the areas of greatest need first. This seems to be quite a separate question from what goes on in the private sector.

Mr. GRAY: Was not this very serious problem you raised partially answered at least by the fact that it is proposed that the funds collected by the Canada Pension Plan be made available for investment by the provinces in what it is suggested might be the greatest sources of public need at the present time.

Mr. KAYLER: Again, we have to go back and say that our chairman has pointed out that we are not economists. We make no pretense of being economic experts. We have raised this question as a question of concern, partly because some thinking people, and apparently experts in this area, have expressed the same view. This is not a major presentation as far as our association is concerned but it seems to us that it is an area which should be considered.

Mr. LEBOE: On a point of order, Mr. Chairman, I am not on the point of asking any questions, so I think it is appropriate for me to raise this point of order. If every member is going to take the allotted time that this member has had to question the witnesses, we will be here until midnight with these witnesses, if everyone is to get a chance.

The CHAIRMAN (*Mr. Cameron*): I am sure Mr. Gray will take note of that.

Mr. GRAY: I will complete my questioning. I had not been watching the time.

Hon. Mr. THORVALDSON: I think the questions are away outside the submission that has been made.

The CHAIRMAN (*Mr. Cameron*): It is a question of opinion.

Mr. BASFORD: If the brief is important, we should be prepared to stay here until midnight.

Mr. LEBOE: We have two other organizations to deal with.

A MEMBER: We can ask them to come back next week.

Mr. GRAY: I had not been watching the time. The brief was interesting and stimulating and the time seemed to pass. I will end my questioning and leave the ground to the next person.

Mr. MUNRO: I was interested in the recommendations of the Life Underwriters Association, especially in regard to old age security. As I understand it, these recommendations are pretty well summarized on page 22 of the brief.

Mr. KAYLER: More precisely on pages 7, 8 and 9.

Mr. MUNRO: On page 7 you are recommending $75 a month payable from age 65 to single persons and to married men with wives under age 60. You also recommend $125 per month payable as a family benefit during the period that a married man is age 65 or over and his wife is between age 60 and 70. Then you go on to deal with a provision for widows, and so on. Have you any estimated cost, even roughly, of this? I realize it would be difficult to have it specifically. Can you estimate what it would entail?

Mr. KAYLER: We have not made any calculations as to the cost of any of this, for the reasons which we have already suggested, that we do not have facilities for doing this. This is why we feel we cannot presume to come before the committee and be dogmatic in stating that we think the level of benefits should be specifically some amount. Your question is very fair and very logical but we have to confess that our presentation to this committee is on the basis of principle. We have made suggestions that seemed to indicate the line in which our thinking is going, but beyond that we are not prepared to be precise.

The CHAIRMAN (*Mr. Cameron*): I would think, Mr. Munro, that you would get that information by directing a question to Mr. Osborne.

Mr. MUNRO: In your recommendations, as I see them, you are not making any recommendation for any increase in old age security for those persons presently retired at age 70 and over and now receiving O.A.S.

Mr. KAYLER: We are recommending in principle that the $75 figure should be reviewed not only now but periodically in the future. We tried to say this in page 8(*c*). We think there are two areas to be considered, both the across the board level and also this other factor which has been raised, that perhaps the people in retiring areas should be looked at in age categories and that there may be a different level of benefit, increasing the level of benefit for the people in the higher age categories. Again we are not prepared to be specific, because these are questions which can only be determined by very elaborate and complete reviews.

Mr. MUNRO: In regard to the recommendations that you made specifically on page 7 and page 8, there is no recommendation there for any increase in old age security for those persons, that you estimated at one million elsewhere in your brief, age 70 and over. I took the interpretation from paragraph 14 on page 9, that these suggestions are worthy of consideration, and that is why I bring it up. On page 9, in paragraph 14, you say:

> The association believes that the implementation of these recommendations—

Presumably this refers to the recommendations you have made on pages 7 and 8—

> Both as to timing and as to amount should be determined only after due evaluation of the relative urgency of additional pensions in relation to the whole spectrum of welfare and educational needs in Canada.

I take it that you were not recommending any increase, or you would have said so, in the $75 for those persons over 70; but you were making these recommendations that you have enumerated.

Mr. KAYLER: Yes, but again because we are trying to illustrate our principle. Presumably we could have said under paragraph (*c*) "consider raising the $75 a month to $80, $90 or $100 a month," or any figure you may take. But we felt this would not be helpful to the committee, because we are not prepared, for the reasons I have given, to substantiate that document from an economic point of view, as to precisely what these benefits should be. Let me make it clear that we are not against the possibility of raising the $75 a month, but we think that if we cannot come up with something specific which we are prepared to document, it would be presumptuous on our part to be saying that it should be a specific amount.

Mr. MUNRO: I take it that you are not prepared as an association to go on record at this time recommending an increase in the O.A.S. Would that be fair to say?

Mr. FRASER DEACON (*Chairman, Taxation and Legislation Committee, Life Underwriters Association of Canada*): We feel that the Government has economists and statisticians throughout the country better equipped to say whether or not the plan should be increased, but we are not against it being increased if the need is demonstrated.

Mr. MUNRO: Mr. Chairman, through you, would it be fair to say that even the recommendations you do make on pages 7 and 8 are subject to the qualification of paragraph 14? In other words, do you advise we do not do this until the overall review as to priorities is undertaken?

Mr. KAYLER: That is correct.

Mr. MUNRO: I think you suggested elsewhere that perhaps under the Canada Pension Plan with, as you refer to it, its rather complicated recommendations, this would also entail later on a review by a royal commission. Is it fair to say from your brief that it would appear a review would be needed in either case, whether we adopt your recommendations of expansion of old age security or proceed with the provisions of the Canada Pension Plan?

Mr. KAYLER: So far as proceeding with the Canada Pension Plan, and if any weight is given to our argument that there is a need for this full area of expansion of our welfare needs in Canada, we are not experts in parliamentary procedure. If it is within the terms of reference and the capacity of this joint committee to summon before it witnesses and obtain research and data to do this, it is perfectly fine. We have no preference for the way it is done, as long as it is in fact done.

Mr. MUNRO: You have also pointed out in your brief that the American social security system does not provide benefits even at the level of our $75 a month old age security. When you pointed this out I took it to be logical that perhaps on a relevant basis of comparison with the American system you thought the $75 a month was adequate. But that may be an unfair inference.

Mr. KAYLER: I think our main purpose in making the observation was that, compared with the United States, apparently we are doing pretty well in this area. This is not to say we should not try to do better, but it seemed to us that when by comparative standards we are doing a fair job in this area, it would be logical for us to be addressing our concern to those people who are widowed and disabled and not covered at all at the present time and who would not be covered under the fullest Canada Pension Plan, and that consideration should be given to this area first before we become too excited about improving our relative position with the United States.

Mr. MUNRO: One final question. On page 15 of your brief, at the top of the page you say:

> Based on non agricultural population it has been estimated that 14 per cent of husband and wife families could eventually qualify for government pension benefits varying from 100 per cent to 175 per cent of pre retirement earnings. Another 11 per cent could qualify for benefits ranging from 75 per cent to 100 per cent of pre retirement earnings. Another 22 per cent could qualify for benefits of 56 per cent to 75 per cent of pre retirement earnings. (b) The statistics in (a) relate to the

lower 47 per cent in the earning scale but the proposed C.P.P. would also make quite a startling impact on persons who already have generous pension plans.

Now, your figures of 100 per cent to 175 per cent are referring, I take it, to appendix I in the schedule attached to the brief of the Canadian Life Insurance Officers Association?

Mr. KAYLER: Yes, for this information we asked the life officers, who have a research department, if they had access to any figures which compared this relative amount of government benefits with the wage earning levels of Canada. They provided this, which we subsequently saw was included in their presentation to this committee.

Mr. MUNRO: Do you think that the percentages are too high?

Mr. KAYLER: Not necessarily. Our main point in the observations, both in (a) and (b) under paragraph 18, was to indicate that as to the contemplated level of government benefits which rises to this fairly high percentage in relation to earnings, we think it is ground for wondering whether going on to this level is really a matter of priority at the present time when there are still widows and orphans and disabled people who are not getting anything. We do not necessarily say that this is the wrong way for these particular people. If everybody in the country was able to have this it might be a fine thing, but it is again to illustrate our point that there are other basic needs getting into this level of benefits.

Mr. MUNRO: Your highest percentages here relate to those wage earners in the lower income brackets?

Mr. KAYLER: Yes.

Mr. MUNRO: And you used this as an example to point out, as you indicated, the general level in benefits here. Do you recommend that these percentages be increased, that is, this 100 per cent to 175 per cent?

Mr. KAYLER: In line with our basic recommendations that we think the flat benefit system should, first, be expanded to include others who should be covered and, secondly, increase the $75 to some higher figure. If you take a husband and wife, the amount of earnings would be $1,800, and this is obviously 100 per cent of people who were earning $1,800, and we have no objection to that. If the flat benefit amount is increased beyond $75 a month it will further increase the percentage, and we have no objection to that. Our concern is that this thing apply equitably, and not proceed to give people 100 per cent or 150 per cent or 175 per cent pensions, when there are other people in our society who have nothing other than what old age security will provide.

Mr. MUNRO: Would you agree, though, that this Canada Pension Plan, assuming that it is implemented, for the sake of argument, will provide for future generations? I think you have indicated that in 25 years' time the vast majority of Canadians would be covered in one way or another under the plan, which would provide for those Canadians in their old age.

Mr. KAYLER: It would provide certainly for the vast majority, eventually, after 25 or 30 years, whatever the period of maturity is. However, the thing which concerns us greatly is that from a government point of view the philosophy is, and we think quite rightly so, that covering 80 per cent or 85 per cent of 90 per cent of the population is not good enough. There are still 10 per cent, and this presumably includes the people in greatest need in this country. Surely if there is government responsibility it is in this area.

Private enterprise is sometimes criticized that it has not been able to bring the benefits of pensions and insurance to 100 per cent of the citizens in Canada. We obviously cannot do so, but we think that it would not be sound for government to be settling for something less than 100 per cent, because this is the only thing that you can justify when you are talking in the area of welfare.

Mr. MUNRO: Of course, that is if the Government would abdicate all responsibility for all very low wage earners in the 10 per cent area. There have been other programs to assist these people, do you not agree?

Mr. KAYLER: I think the present assistance programs, Mr. Chairman, would have to continue to stand or fall on their merits. Still, whatever is done in the expansion of flat benefits, both as to age and amount, there may still be specific areas that require something special in the way of assistance. We expect it to decrease, and I think the experience actually has been that even what you consider modest increases in old age security—and these have happened periodically over the last 10 or 12 years—it is a fact that the degree to which the assistance programs were used decreased somewhat. However, they certainly have not been eliminated, and probably never will be.

The CHAIRMAN (*Mr. Cameron*): Senator Croll.

Hon. Mr. CROLL: One of the advantages of being fourth or fifth on the list of questioners, is that following men like Cashin, Gray and Munro, one finds they have asked all the questions. Therefore, we shall not be here all hours of the night, I assure you.

Just for the record, I answered a question that Mr. Gray asked me, and I think I should say, in fairness, the Canadian Life Insurance Officers Association appeared before the Committee on Aging and presented a very extensive and excellent brief. The underwriters were never invited. I do not think I knew you were in existence. Looking at the record for 1952, the Canadian Life Insurance Officers Association also appeared at that time, and I think you people spoke through them. That is for the record.

Now, let me see if I can get agreement on something. You discussed for a few moments the American plan. Let us see if these figures are correct. If they are not, correct them. When the Americans went into their plan 30 years ago they had about 10 per cent of the labour force covered in private pension plans, and the evidence before us the other day was that they now have about 70 per cent receiving an average of $75 per month. The evidence before the committee in Ontario was about 40 per cent of the Ontario labour force was covered. I am not sure whether we have the evidence on the record, but it may be in there some place, that about 20 to 25 per cent of overall Canadians in the labour force are covered. Is that a fair statement? Does that sum it up? Can someone disagree or agree with me?

Mr. MITCHELL: I think your figures are substantially correct. I do not have them before me, but my recollection of the U.S. figures when social security was introduced there is that about 7 per cent were covered; and your other figure of 30 per cent I think is correct. I also believe your figure of 40 per cent, from the recent figures re Ontario, is substantially correct. I think the one for Canada is a little higher than 25 per cent. I think it is over 30 per cent. This is, again, speaking off the top of my head.

Hon. Mr. CROLL: Just one thing occurs to me. I have seen and heard and read that Canadians are the most over-insured people in the world. Is this because of your great competence, or is it because there is a gap and people want social security of some kind or another, and we have not been able to fill that gap, and no one else has?

Mr. ETHERINGTON: With deference, Senator Croll, may I suggest the elimination of one word from that statement?

Hon. Mr. CROLL: All right, I will take back "over-insured" and say "insured". Percentagewise, I have seen the figures time and again.

Mr. ETHERINGTON: On a per capita basis you are correct: Canadians are the largest buyers of life insurance. On the other hand, when one divides the total amount of insurance in force by the population, the average figure is a very modest one. I do not know if any of my colleagues have any comments on that figure.

Mr. MITCHELL: It is $11,000 per family, I think.

Mr. KAYLER: Perhaps the more meaningful statistic in this area is that the life insurance coverage of Canadians is approximately 1¾ years national income.

Mr. ETHERINGTON: Gross national income.

Mr. KAYLER: This is an average figure. Some people have their earnings covered to the extent of 8 or 10 times earnings, and some people have none at all; but the average works out about one year and nine months earnings would be continued through life insurance. We do not think this is an extravagant amount.

Hon. Mr. CROLL: You do not think so, but it is higher than it is in other countries. That is my point. It would be helpful if you could give us some reason. We ask ourselves the question, and we do not know the answer. It would be important to have the answer, and I thought you might be able to give it to us.

Mr. KAYLER: We can give you our answer as to why it is a little higher in Canada than some other countries. We have to preface this perhaps by saying we speak from a position of prejudice in this particular respect.

It is a fact that in no other country where life insurance is sold to any extent has the process or means of selling life insurance been developed through the medium of a full-time, reasonably well-trained career agency force to the degree that is the case in Canada. The aim of the Life Underwriters Association of Canada, which we represent, since 1906 when it was founded, has been to deal with, in every way possible, this concept that life insurance sales and service should not be a catch-as-catch-can operation on a part-time basis, but that to every extent possible it should be a career which is attractive, which is full time and in which people are required to study and improve their capacity and knowledge. It is only reasonable to expect, I think, that under this kind of system we have had higher amounts of life insurance sold in Canada than any other countries. In actual fact, today a good 90 per cent of life insurance annuities sold in Canada are sold by people you could classify as full-time, career life insurance agents.

If you move to the United States, there are no specific figures that are processed, but estimates we have received indicate there are something like a quarter of a million people licensed to sell life insurance in the United States. Our sister organization there, the National Association of Life Underwriters, as it is called, has a membership of only about 75,000 or 80,000, a relatively small percentage of this vast number. This is explained by the fact that a very substantial number of these quarter of a million people are part-time people. They are in other businessses; they are in other jobs; they have taken on life insurance selling as a bit of a sideline to pick up a few extra dollars. This is not the kind of thing that serves the public well, in our opinion, so far as meeting the need for giving life insurance service and advice. Fortunately, in Canada we have made a lot more progress in this direction, and that is the explanation we have for the fact Canadians are better insured than any other nation.

Hon. Mr. CROLL: And a very good explanation, I might say.

Mr. MONTEITH: Mr. Chairman, if I might just ask a question. I understand from your brief that you believe the Canada Pension Plan to be a pension plan as such, not a welfare scheme.

Mr. KAYLER: Our feeling is that the kind of pension plan proposed is, in fact, a welfare scheme.

Mr. MONTEITH: It is, in fact, a welfare scheme, but in your estimation it does not cover a great number of people who should be covered in a welfare scheme?

Mr. KAYLER: Yes, right.

Mr. MONTEITH: We have seen some graphs presented by the Life Officers to the effect that by 1976 there will be something like 67 per cent of the population in that age group which will not be benefiting at all from the Canada Pension Plan. You accept those figures too, do you?

Mr. KAYLER: Yes. Again, we have no research of our own to substantiate this, but we have no reason to doubt it.

Mr. MONTEITH: You are laying stress on the fact you think that any scheme we bring in should be a broader scheme and attempt to take in these categories which are now left out. You do not limit the amount to $75. You say this should be reviewed by an apropriate body. You are saying that in addition survivorship, disability, orphans, lesser age and this large number now left out should be brought in under old age security. You have your specific recommendations here, and you mentioned the possibility of an increase as the age level rises. Have you any thoughts or any evidence at all that this probably should be done, or have you any thoughts as to how we can find out whether or not it should be done or might be considered—put it that way?

Mr. KAYLER: Mr. Chairman, we realize this is a statistical problem and that it requires basic data. Again, this is something we cannot help the committee with. We wish we could, but we cannot. We are aware of some work that has been done by W. M. Anderson, who is the chairman of the North American Life in this area. I am not certain whether or not he has appeared before this committee.

Mr. MONTEITH: Yes, he has.

Mr. KAYLER: I think that he has, presumably, a source of information as to where additional data is forthcoming. I think he feels he has made some progress in this area himself, but I do not think even he pretends to have the final answer.

Mr. MONTEITH: Mr. Chairman, I do not know whether this is the time or not, but I wonder if we might, as a committee, ask Mr. Osborne if he could compile some figures as to the approximate annual cost of recommendations of the Life Insurance Underwriters as set out under paragraph 12?

The CHAIRMAN (*Mr. Cameron*): You had better ask Mr. Osborne if he feels that is something which is feasible.

Mr. Osborne: Yes, certainly, Mr. Chairman, we will make the estimates we can.

Mr. MONTEITH: And paragraph 13 as well.

The CHAIRMAN (*Mr. Cameron*): Which is the other paragraph?

Mr. MONTEITH: Paragraphs 12 and 13.

The CHAIRMAN (*Mr. Cameron*): You want an estimate of the figures from Mr. Osborne. Is it agreed that Mr. Osborne will secure that information?

Mr. KNOWLES: When Mr. Monteith asks for that what does he have in mind under paragraph 12(c)? How can Mr. Osborne prepare a cost for a figure which is not stable?

Mr. MONTEITH: The Underwriters indicated that they felt that the $75 the figure should be reviewed from time to time in a predetermined manner. However, I am going on the basis that we have here, using the $75 figure which now exists.

Mr. FRANCIS: In other words, there is no adjustment for paragraph (c).

Mr. MONTEITH: There would be adjustment from time to time.

Mr. KAYLER: Concerning widows and disabled people under paragraph (d), you would use the $75 figure, and there would be $25 for orphans.

The CHAIRMAN (*Mr. Cameron*): Mr. Osborne would like to get some enlightenment on exactly what you want.

Mr. OSBORNE: I would like to know the specific benefit to be paid to widows and what the specific age would be. That is paragraph 12 (d).

Mr. KAYLER: You might use the age suggested in the Canada Pension Plan.

Mr. MONTEITH: That would be fair.

Mr. OSBORNE: May I remind you that in the Canada Pension Plan there was a scaling down between the ages of 35 and 45 for widows. Do you want a similar scaling down for these widows?

Mr. MONTEITH: All right.

Mr. OSBORNE: It says "Provision for widows above a specified age". Is the $75 a month what you have in mind?

Mr. KAYLER: Yes.

Mr. OSBORNE: Thank you.

The CHAIRMAN (*Mr. Cameron*): That is agreed, then?

Mr. CÔTÉ (*Longueuil*): I wonder, Mr. Chairman, if I could ask a question.

The CHAIRMAN (*Mr. Cameron*): I do not think Mr. Monteith is quite through.

Mr. CÔTÉ (*Longueuil*): I did not quite understand an answer to Mr. Monteith. Did you ask him if they said that in 20 years from now about 30 per cent of the people will be covered by this plan?

Mr. MONTEITH: Graph 2 in the brief of the Canadian Life Insurance Officers Association indicated that in 1976 some 67 per cent of the people in that age category would not be covered by the present Canada Pension Plan.

Mr. CÔTÉ (*Longueuil*): And the witness agreed to that?

Mr. MONTEITH: I don't want to put words in the mouths of the witnesses, but they indicated that they did not have the figures themselves and were going more or less on what the insurance officers had produced.

Mr. CÔTÉ (*Longueuil*): I was concerned because at the top of page 5 they say "it will take at least 25 years before the Canada Pension Plan will provide retirement benefits for its maximum potential of 85 per cent to 90 per cent of those in retirement."

Mr. KAYLER: Well, Mr. Chairman, we make this just as the statement of laymen. Obviously, people who are now less than 70 or 65, whichever age you want to take, may be in the retirement category. The retirement category covers a range of roughly 25 years, so that when you are starting a plan off from scratch it is going to be something like 25 years before you have everybody in the plan to the extent that they will be actually covered.

Mr. MONTEITH: I think we asked Mr. Osborne for figures in that respect from the years 81 to 86.

Mr. OSBORNE: Eighty-six?

Mr. MONTEITH: Yes, a comparable picture to that chart 2 in the Insurance Officers' brief. We asked for some other years also.

Mr. KNOWLES: Mr. Chatterton started this.

Mr. OSBORNE: We have 1970, 1975, and 1980. Did you want to go to 1985 as well.

Mr. MONTEITH: Whatever Mr. Chatterton asked for is all right.

Mr. OSBORNE: All right. We have not yet seen the record of Mr. Chatterton's question.

Mr. LLOYD: Mr. Chairman, I think that such a calculation of statistics, if I may observe a point of order here, in itself requires some observation by our advising economist on the implications of following such a practice.

We do have the economic implications of the Canada Pension Plan in submissions made to us by Mr. Bryce, but if you are going to ask for these calculations of costs, Mr. Monteith, may I suggest that we should invite Mr. Bryce to comment also on the economic implications of this approach?

Mr. MONTEITH: I have no objection to that; I would be very happy to have him do so.

Mr. LLOYD: It would be much more meaningful to us. The witnesses themselves have admitted that they do not claim to be authorities in the economics of this operation. I think we should have this from Mr. Bryce.

Mr. MONTEITH: I would be happy to have him.

Mr. LLOYD: I think we should have some comment by Mr. Bryce on the appropriate economic implications involved in following your line of questions.

Mr. OSBORNE: May I say, Mr. Chairman, that in the actuarial report, page 499 of the proceedings, it shows that widows' benefits under the Canada Pension Plan would be $18 million in 1970. Under this proposal widows' benefits would be $261 million in 1970. On the same page the actuarial report for orphans' benefits would be $14½ million, where as under this proposal, at $25 each, the orphans' benefits in 1970 would be in the neighbourhood of $117 million.

Hon. Mr. CROLL: As against 14?

Mr. OSBORNE: $117 million as against $14.5 million.

Mr. MONTEITH: Could I ask for an explanation of the variance in the two figures?

Mr. OSBORNE: The numbers of people involved, Mr. Chairman, in each case is much greater if you are extending a flat rate benefit to all widows and orphans in the country.

Now, I may not have understood correctly the proposals of the Life Underwriters Association with regard to orphans' benefits. Would they or would they not pay an orphan's benefit to a parentless child? Or would they only pay orphans' benefits to children who had widowed mothers?

Mr. KAYLER: Our thought, Mr. Chairman, was that the description of the category "orphan" as put forward in the Canada Pension Plan is fine. We go along with this and would make no change in it.

Mr. OSBORNE: You differ from the Life Insurance Officers' proposals, then. They said that it would cost $35 million to meet their proposals.

Mr. KAYLER: Mr. Osborne's figures are not at all surprising to us, and I think they illustrate much better than we have been able to do the burden of our presentation—that there are a lot of people in these categories of hardship whom we are forgetting about, and it is a good yardstick as to what extent we are forgetting them.

Hon. Mr. THORVALDSON: Would you give the page, please?

Mr. OSBORNE: That is page 499. That page gives the actuarial figures for the Canada Pension Plan. The other figures were from some work I had done myself.

Mr. MITCHELL: Examples like this make us feel that political pressures will become intolerable later on. They will become tremendous. There will be pressure to make supplements which would bring additional cost burdens on the economy. This is the whole basis of our submission. First things first. We feel that it is too important a matter to be disregarded, and this brings us back to the whole theory of flat benefits.

The CHAIRMAN (*Mr. Cameron*): It is a very salutary rule to put first things first.

Mr. FRANCIS: I have a supplementary question related to Mr. Osborne's figures. The statement given by the Life Insurance Officers Association on orphan's benefits was $35 million. I would like to ask Mr. Osborne first, bearing in mind that this is the estimate of the association, whether there has been any check or verification of this estimate by Mr. Osborne or his staff?

Mr. OSBORNE: I discussed it with Mr. Dimock when that association appeared before you, and he pointed out to me that they had included only orphans who had widowed mothers caring for them. They had not included full orphans; that is, those who had neither parents living. In 1970, according to my projections, there would be 196,000 of these. There would be 192,000 fatherless children with widowed mothers, and about 45,000 motherless children with widowed fathers, but I did not include those in the figures I gave you.

Mr. CASHIN: I have a supplementary comment about what the Underwriters said about the disparity of the figures. It should be noted what the Government intended to do here; the orphans covered are those orphans of contributors or people who were contributors.

Also, when you make comments such as you have made, you are assuming that nothing is being done now under present types of welfare systems or programs. You are not taking into account that any of the widows have received life insurance to take care of these orphans.

Mr. FRANCIS: Yes, there are existing public programs.

The CHAIRMAN (*Mr. Cameron*): Mr. Monteith, are you through with your questions?

Mr. MONTEITH: Yes.

The CHAIRMAN (*Mr. Cameron*): Then, I shall ask Mr. Lloyd to proceed, and then Mr. Côté and Mr. Knowles. I have you down, Mr. Macaluso, but not in the first three.

Mr. LLOYD: Mr. Chairman, I heard the observation that the Canada Pension Plan was a welfare proposition. I wonder if the gentleman who made this statement would agree with this observation, that to the extent a wage related plan is adopted—a wage related plan or an earnings related plan—we substitute Government taxation to provide benefits instead of private savings and the income from the investment of those savings—is not that really what we do?

Mr. MITCHELL: I think, Mr. Chairman, this is substantially true, except why go through the exercise of collecting contributions if it is a matter of taxation that you are using. In other words, one of the big complaints that I run across, as a man in the pension field and one who spends a great percentage of his time on these matters, is that the benefit that the individual gets for his 1.8 per cent contribution, or his $79.40 a year plus his company's contribution of a similar amount, is a pension of $104 and change at age 65. Let us assume he is in a plan which requires an employee contribution of 5 per cent. Let us keep the pay at $5,000 a year so that we are comparing equal with equal. Then, he is contributing 3.2 per cent of his pay towards a company provided, and a company contributory, pension plan. He suddenly finds his 3.2 per cent plus an equal amount paid by his employer does not buy anything like what the 1.8 per cent multiplied by 2 buys. In other words, there is no relationship between the benefits provided and the contributions that are put in.

Mr. LLOYD: Obviously, the answer to that is that you are asking the individual to spend less of his disposable income so that he might accumulate in concert with his employer through the service provided by the underwriters and by trustee plans—he is going to spend less of his disposable income now in order through savings to provide a larger benefit at a later date, whereas under the Canada Pension Plan he is sharing with all other Canadians the opportunity at a lower rate now to obtain a larger benefit later without the savings feature that you have described. Is not this the basic difference?

Mr. MITCHELL: No. I think this is true—

Mr. LLOYD: Whether this is right or wrong, Mr. Mitchell, in terms of economic or social philosophy this is a fact, is it not?

Mr. MITCHELL: Except for one thing, and I hate to be splitting hairs, Mr. Lloyd, but he is not sharing it with all other Canadians. In other words, some of them are going to be reaping rather substantial benefits.

Mr. LLOYD: Well, you admitted earlier you had not gone into the economic implications, but I suggest to you he is sharing in it because of the fact that the employer is involved in producing goods for the market place and he tends in the long run to shift to the consumers his portion of the cost, so, in that respect, he is sharing.

Mr. MITCHELL: All right.

Mr. LLOYD: Now, you mentioned, Mr. Etherington, that you had not studied the economic implications of the plan. I think you said that you felt you did not have sufficient information, or something like that.

Mr. ETHERINGTON: That is correct, Mr. Lloyd. We do not have within our resources economists, nor actuaries.

Mr. LLOYD: Have you studied the implications of this kind of a plan on the investment policies of insurance companies, and what it might mean to you?

Mr. ETHERINGTON: No. I think I commented to the effect in my opening statement that insured pension plans in Canada represent about one-fifth of the total private pension industry, and I also commented to the effect that the members of our organization—the great majority of the members of our organization—feel that focusing, as it will, attention in the area of retirement benefits the Canada Pension Plan in whatever form it takes will undoubtedly increase the interest of Canadians in this area, and it is felt by our members that the resulting effect on our business, if you like, will probably be good.

Mr. LLOYD: Well, apart from trying to get down to something which appears to me must have occupied the attention of those in the life insurance field, it seems to me that you would have made, regardless of whether you had authorities in the economic sector advising you, some study of this plan in an appraisal of the effect of it on your investment policy in the life insurance field, because as Mr. Bryce points out at page 417 of No. 8 of the committee's proceedings:

> If funds from the Pension Plan should provide a substantial part of the net new borrowing requirements of a province, it may be expected that the province would wish to make some of the funds available to provincial agencies, institutions or municipalities.

He goes on to say:

> A consequence of these developments would be that the investment dealers, as underwriters of provincial securities, would see this part of their Canadian dollar underwritings reduced. It is estimated that about 10 per cent of their Canadian dollar underwritings have, in recent years, taken the form of net new provincial securities.

You have not read this part. I think Mr. Mitchell said he had.

Mr. MITCHELL: Yes.

Mr. LLOYD: Does this have an implication to people in the insurance field?

Mr. ETHERINGTON: Mr. Lloyd, we are not underwriters of securities.

Mr. LLOYD: But you are investors in provincial Government securities.

Mr. ETHERINGTON: The companies we represent are investors in provincial government securities.

Mr. LLOYD: Then, Mr. Bryce went on further. He tries to study the effect of this building up of a large fund for investment under a pension plan, and he says:

> If total national saving were to be unchanged, as a result of the Pension Plan, the financial intermediaries would have a relatively smaller amount of funds available for investment, and there would be a correspondingly smaller demand for funds by provincial authorities.

Then, conversely:

> If national savings should increase as a result of the Pension Plan, as could well happen in the early years, there would be a tendency for financial intermediaries to have available on balance a supply of funds relatively larger than the demand for funds. In these circumstances, financial intermediaries could be expected to search out ways and means of placing their funds profitably, and this could lead to some lessening of pressures on interest rates, and perhaps to greater reliance on domestic markets for borrowing.

However, he does go on to say that it is possible to exaggerate these effects.

Have you studied the implications of this on your investment portfolios, and your investment opportunities in the insurance and the pension fund fields?

Hon. Mr. THORVALDSON: On a point of order, Mr. Chairman, has this any relevancy? I wonder if Mr. Lloyd would explainwhat the relevancy of this question is. Surely, these are not life insurance officers of the life insurance companies.

Mr. ETHERINGTON: I am quite prepared to answer.

Hon. Mr. THORVALDSON: I think this is wholly irrelevant, and a waste of time.

The CHAIRMAN (*Mr. Cameron*): I do not think it is a waste of time, but it is probably repeating something that has been said before. However, Mr. Etherington has indicated his willingness to answer the question, and perhaps it would save time if we allow him to do so.

Mr. LLOYD: Mr. Chairman, despite the senator's observation, this line of questioning is not only relevant to our appraisal of this matter, but we would be derelict in our studies if we did not study this aspect of the matter much more extensively than we have. Attention is being focused on what the Government should do in the flat rate earning field of social welfare, and I think this is extremely important to our intelligent appraisal of what is called well-founded self-interest.

The CHAIRMAN (*Mr. Cameron*): You have justified your asking the question, and Mr. Etherington has indicated his willingness to answer it, so we shall proceed from there.

Mr. ETHERINGTON: Mr. Chairman, first, we would not quarrel with the observations that Mr. Bryce has made. Secondly, let me make it very clear indeed that we consider the life insurance companies in Canada to be quite capable of coping with whatever problems of investment that might arise as a result of any Canada Pension Plan that in its wisdom the Government brings forward and establishes.

With regard to the question which I think is implied here as to the method of funding, we made it quite clear at the outset that we had no comment to make. We are not economists, nor do we pretend to be. We are trying to represent here today the view of 12,000 people who in their daily work are at the ground level of this thing and who are dealing with Canadians and the possible effects of this type of plan. I think one of the main reasons behind our presentation here is that as life insurance men sitting down with a citizen the present form of old age security represents a floor which he can look forward to when he reaches—

Mr. LLOYD: You are getting away from my line of questioning.

Hon. Mr. THORVALDSON: I would like to hear the answer, Mr. Chairman.

Mr. ETHERINGTON: I think perhaps, with the chairman's permission, I would like to enlarge very briefly on this.

Mr. LLOYD: All right.

Mr. ETHERINGTON: The citizen, looking at the present arrangement and understanding clearly that he has a floor at age 70 of $75 a month is happy to receive counsel with respect to his entire retirement picture. Everything else is superimposed upon this.

The proposal in the Canadian Pension Plan is extremely difficult to interpret. The special committee which we have established for some time, studying methods in which we would instruct our people in explaining this to the public, has had a great deal of difficulty in arriving at a method which would be simple and understandable. Therefore, in their opinion, the proposal would have to be on top rather than otherwise.

Mr. LLOYD: Does part of this difficulty arise from the fact that no final decision has been made yet and that your people are reluctant to deal in final terms with what you might do in adjusting yourselves to living with the Canada Pension Plan, until you see what the final amendments might be.

Mr. ETHERINGTON: We have only been able to base our work thus far on what we have seen in the bill.

Mr. LLOYD: Coming back to my observations with respect to investment, the fact that the Canada Pension Plan diverts a large volume of savings into Governments hands causes you no concern whatsoever?

Mr. ETHERINGTON: As an association, no. We do not take any stand on the question of whether the funding of the Canada Pension Plan should be in the public or the private sector.

Mr. LLOYD: So you think that, if this volume of savings is extracted, as you pursue the private pension plan as underwriters as distinct from trustees, you can still pursue that type of pension offering for the public and be assured that you can find the appropriate yield of investments in other sectors of the economy?

Mr. ETHERINGTON: As underwriters we can still pursue successfully the marketing of pension and other insurance plans, and the question of investment is the problem of the companies we represent.

Mr. LLOYD: The reason I make this observation, Mr. Etherington, is that I notice we seem to be getting a continued focusing of our attention on the need for old age security improvement in flat rate benefits, substantially from the people who are engaged in the underwriting of plans, as distinct from those who merely act as the administrators of funds in the trustee field. For, instance, the trustee plans operate on the basis of a fee for the work they perform. They take no responsibility for the investment. On the other hand, those who underwrite plans undertake to provide certain benefits at a certain rate of contribution, and take all the responsibility for the investment of the funds; and their reward, their legitimate reward, is found in the net operations resulting from their judgment of the market place for investment. It seems to me that the persons who are involved in the investment of funds have a much greater interest in this Canada Pension Plan than do those who are handling pension plans on a trustee basis. This is why I ask you, what is there about this type of pension plan that eliminates funding, that concerns you? Could you be more particular about it? How would it affect your industry?

Mr. KAYLER: Speaking on behalf of my associates here, I think quite frankly we are confused by what Mr. Lloyd is saying. I am sure it is our fault, not his. Frankly, I do not think we appreciate the point or know what the significance is of the point he is raising, and I do not think we have anything to contribute unless we can understand it better than we have.

Mr. LLOYD: I think the record is quite clear as to what was said, and I thank you.

Mr. CÔTÉ: I am very glad to see that in your conclusions your association supports broadly the stated objective of the Canada Pension Plan. I think it is commendable that you have come to contribute your help to this committee. You also say that in its present form the Canada Pension Plan cannot achieve this object. That is the reason why you recommend that subsidies or the flat rate increases should be given to fill what you call the gaps of the plan. Would you say that these subsidies or increases of flat rate should be taken out of the fund of the Canada Pension Plan?

Mr. KAYLER: Our feeling would be that the basic formula of taxation that has been established to support old age security should continue to be a basic system of taxation. I think it is pretty obvious that the level of taxation would have to be increased if these extended benefits are to be paid. One obvious advantage of this is that it is a fully mature plan from the outset, so that it can be operated on a pay-as-you-go basis, with current taxes in fact paying for current benefits, as is the present case under the flat benefit system.

Mr. CÔTÉ: You would not think it would not be fair, being a contributory plan, to use the fund contributed for these benefits, to pay these extended benefits or increases in the flat rate?

Mr. KAYLER: We feel that as this provides benefits for all, that the tax base for this should be as widely distributed as possible, rather than being narrowed down to people who qualify as contributors under the Canada Pension Plan.

Mr. CÔTÉ: Are you aware that many of these gaps that you are referring to are being filled by provincial laws or assistance and that we have to keep in mind that the matter of welfare is under both jurisdictions, provincial and federal? For example, the female bachelor over 60 in the Province of Quebec gets a pension. Do you think this should be amended so that we can subsidize the orphans and widows under this plan?

Mr. KAYLER: We certainly are aware that there are co-operative schemes between the provinces and the federal Government in these areas. In some cases I think a means test is involved. We as an association do not particularly favour a means test. We think that the flat benefit coverage for all is far simpler to administer and that equity results because in the tax process, people of greater means of course return some of those benefits in taxation, while those who are below taxable levels are getting the full benefit of it; and in the final analysis this is probably a more practical and efficient system than one which involves a means test. If there are constitutional problems involved in working this out with the provinces, we are ready to recognize that those constitutional problems will have to be dealt with. Again, this is an area of expertise and we would not presume to say how it should be done in terms of specifics.

Mr. CÔTÉ: Do you think that what you call gaps in the plan should prevent us from adopting the Canada Pension Plan now until those gaps are filled;

or that we should pass this legislation as soon as possible and have it clarified and after that we could deal with other cases by the O.S.A. and family allowances or some other method of intervention?

Mr. KAYLER: Our feeling is that the order should be reversed, that the areas of need should be fully covered by the minimum flat benefit basis. From some of the preliminary figures we heard from Mr. Osborne, it appears that this will cost quite a lot of money. Our feeling is that this would have to be evaluated before this committee or any other committee would be in a position to decide whether a superimposed wage related plan should go on top of this.

Mr. CÔTÉ: Even if these gaps are filled already by the provincial laws?

Mr. KAYLER: Our feeling is that they are not filled. They are filled in part, but not completely. Again, this is another area in which we have suggested that a very full study of welfare needs, and the extent to which they are being filled or not being filled at the present time, should be number one on the list of priorities, to make sure that they are being filled, and what it is going to cost us to fill them. Then and only then are we in a logical position to consider the second step.

Mr. CÔTÉ: Do you not think we have already looked after many of these problems by different laws? And is it not about time now to try to get as many working Canadians in a pension plan on a contributory basis? Do you not think it is a different problem altogether?

Mr. KAYLER: We can recognize that there are the two areas, but our feeling is that the flat benefit system, universal coverage, getting away from the provision of a means test and possible gaps in coverage, is the area that should be filled first? I do not think that at the moment there is a clear picture as to just how big and how costly this particular phase of the job really is. Until we know, we cannot speculate, I think, what the next steps could be, because they may be entirely impractical.

Mr. CÔTÉ: Have you any idea how long it would take to install those flat benefits?

Mr. KAYLER: Our feeling is that once this committee has the data and statistics on which to make a recommendation in this area—I do not know whether this is a matter of days or weeks or months, but I would hope it is something which would not take an undue length of time.

Mr. CÔTÉ: And then when all these gaps are filled we could come back with this bill and you would be prepared to say whether you are for or against it.

Mr. DEACON: Mr. Côté, we are not against the general stated objectives of the Canada Pension Plan, but we feel it should be amended to embrace a much broader field than it does at present, including these amendments in the old age security; but the recommendations we are making obviously would cost a good deal of money, and therefore we feel that the whole picture needs to be looked at carefully to see whether the gaps which are so large right now do not need to be filled, and must be filled, before you think in terms of the other. The flat rate benefit method is less discriminating than earnings related pensions. So we are not attempting to tear down the Canada Pension Plan. In fact, in a certain sense, it should be broadened in its sphere, but there is one very basic part we feel ought to be amended, and that is the earnings related scheme should be changed to a flat benefit.

Mr. CÔTÉ: But what discrimination do you see in this plan which is to help people who contribute a certain amount so that in their old age they get a benefit?

Mr. DEACON: In has been demonstrated not only in our brief, but in other briefs presented before this committee, that there is great discrimination of certain individuals as opposed to other individuals.

Mr. CÔTÉ: As opposed to others who have not contributed?

Mr. ETHERINGTON: The man starting out now at age 55 is benefited far more than the young man who is starting out at say 25 or 30.

Mr. CÔTÉ: But it is only for the first years. I think it is like that in any plan, and it does not cost anybody else any money.

Mr. ETHERINGTON: The second point is that the man in the most need with the smallest income or no income is benefitted least.

Mr. CÔTÉ: Not if you look at it in relation to the O.A.S. He is getting more than the other person.

Mr. ETHERINGTON: The person who is not in a position to be a contributor, who is not employed—

Mr. CÔTÉ: Well, he has not contributed. There is no discrimination to him.

Mr. ETHERINGTON: If he is in an area of need we submit his need should be looked at first.

Mr. CÔTÉ: But there is no discrimination against people who are not contributors because they did not contribute; but you object because there might be more gaps, because some people won't be able to contribute or get any benefits, and you would amend the O.A.S. However, you do not give anything that would amend this plan so that we are able to pay benefits to these people who do not contribute.

Mr. DEACON: There is discrimination, Mr. Côté, in the old age security plan. There is bound to be, just as there is in the Canada Pension Plan, but we feel that the type of discrimination in the Canada Pension Plan under the present legislation on the earnings related basis is greater and more inequitable than you find in the old age security flat benefit type. We cannot be fair to everybody, and we realize that.

The CHAIRMAN (*Mr. Cameron*): Are we not debating the various ideas of these plans? We are here to find out what the views are of these representatives.

Mr. CÔTÉ: That is what I am trying to get.

The CHAIRMAN (*Mr. Cameron*): I think these gentlemen have explained their views clearly, and abundantly clearly, as between people who are not getting benefits under the act and those who will do so. I think it is for the committee, when they sit down to study the evidence and come to a conclusion, and then we can go into the argument pro and con as to which is or not the proper method to be followed. I do not think we are here to try and convince these gentlemen that if there is a contrary view they should accept it. They have expressed their views, and that is what we started to find out from them.

Hon. Mr. THORVALDSON: Mr. Chairman, may I make the observation that we covered this very point for a period of two hours with Mr. Woods last night, and probably Mr. Côté was not here, I do not know.

Mr. CÔTÉ: I was here.

Hon. Mr. THORVALDSON: We covered that point completely.

Mr. CÔTÉ: Do you think that just because we had witnesses before us, Mr. Chairman, at another session we cannot ask questions now?

The CHAIRMAN (*Mr. Cameron*): No, I am not suggesting that, but I suggest that you direct your questions more to the content of the brief, rather than to arguing the respective points of view as to the impact or advisability of a Canada Pension Plan versus the O.A.S.

Mr. Côté: I think all the recommendations of the brief are to amend these acts instead of trying to get something out of the Canada Pension Plan.

The Chairman (*Mr. Cameron*): I have no objection to the recommendations but I am not debating whether one is better than the other.

Mr. Lloyd: There is no question of conflict of interest here, is there, Mr. Chairman?

The Chairman (*Mr. Cameron*): No.

Mr. Côté: I have finished.

The Chairman (*Mr. Cameron*): Mr. Knowles?

Mr. Knowles: Mr. Chairman, even though, as might be expected, I disagree with some of the points made by the delegation now before us, I should like, in a word, to express my appreciation of the thought that has been put into this brief, and also my appreciation of the manner in which the members of the delegation have presented it in answering our request.

I shall try not to be repetitive; in fact I have made some notes to try to get along as quickly as I can.

First of all, despite what I have said, it is clear that your association believes that the flat rate old age security benefit should be increased to a higher figure than the present $75, and that the age at which it is paid, at least, in some circumstances, should be lower?

Mr. Kayler: Yes.

Mr. Etherington: With this qualification, that on the question of increasing it, the increase should be in the light of economic facts as established, and we are not capable at this point of determining the amount of increase.

Mr. Knowles: You do not feel qualified or in a position to give a figure?

Mr. Etherington: No, that is correct.

Mr. Knowles: But you do stand four square for an increase and for a lowering of the age?

Mr. Etherington: We are not against an increase if the economy can stand it.

Mr. Knowles: I appreciate that position; but I do wish, in view of your concern that the Canada Pension Plan does not provide an increase for people now 70 and over, you would be a little more outspoken on this, and instead of saying you are not against an increase, you should be in a position to say you are for it.

Mr. Etherington: We would say that if the studies, and the information produced by these studies indicate we were capable of increasing the amount, yes, we would be in favour.

Mr. Knowles: With respect to possible increases in old age security, your brief makes it clear that you are opposed to indexing, certainly to any indexing based on the consumer price index, because you stated in your brief you think this has an inflationary effect. I merely state something which is in your brief, without arguing about it. On the other hand, it is correct, is it not, that you think that the benefits under old age security should be kept in a proper relationship to the standard of living for the population as a whole? I am looking at page 8 of your brief. In other words, you feel that any increases in old age security should be related to the community's standard of living, to our productivity rather than to just a consumer price index?

Mr. Kayler: Yes. I think, Mr. Knowles, it might at first blush seem that the two comments were partly in conflict.

Mr. KNOWLES: I am glad you said that.

Mr. KAYLER: We are rather concerned about this somewhat formalized automatic hitching on, if you like, to this consumer price index, as having a certain perhaps psychological effect, apart from the economic implication, as being a sort of endorsement that we are in a period of constantly rising costs of living, and the inference may be that we are having a depreciation of the value of the dollar.

We are rather concerned about the general climate or attitude that this specific index might create, that while everything is pretty well taken care of now we don't need to bother about planning the budget or living within our means. We would rather see the same kind of thing, in effect, accomplished through a periodic review that is not tied to any specific straitjacket as such. We suspect there might be a lot of other factors beside the specific consumer cost price index that have to be taken into consideration periodically to determine what is the right level of benefits. We think the system of review should be periodic—whether it should be every three or five years, I do not know, that is a matter of opinion—and that whatever Government authority or body would be established to do this would not necessarily be bound or limited in its findings, but should deal with what is relevant.

Mr. KNOWLES: I appreciate your position with respect to the consumer price index. As everyone knows, I happen to feel there are other factors more important—wage increases, productivity levels, standard of living, and so on. I just hope the conflict you have already drawn attention to is not going to be resolved the wrong way. You are against indexing on the basis of consumer price index, but you are for adjustments to keep benefits in proper relationship to the standard of living?

Mr. KAYLER: Yes.

Mr. KNOWLES: You stand by that?

Mr. KAYLER: Yes.

Mr. KNOWLES: You have talked a good deal today about the virtues of the flat rate benefit, but you have also talked about areas of need and meeting the needs of our people, and so on. I am not trying to set a trap of any kind, but I would just like to know whether this frequent reference to need signifies you would qualify any increases in flat rate benefits by any kind of means test or, when you advocate flat rate benefits in the field of old age security, for orphans, widows and so on, do you mean a flat rate benefit without means test?

Mr. KAYLER: Yes, we do.

Mr. KNOWLES: Earlier this morning, Mr. Kayler, you expressed your approval of the flat rate benefit, not only on the benefit side but because you liked a tax base that is as widely distributed as possible. I took the words down when you were speaking. I hope I have not distorted what you said. You said this in the context of not liking the Canada Pension Plan because these contributions were, in effect, a form of tax and all benefits were not related to those contributions. You said you liked the other system better—and you used those words—because it provided a tax base as widely distributed as possible. In view of your concern for the wide distribution of the tax base, in view of your concern for a flat rate benefit, so the people get this general floor, would you make any modification in the formula we now have? I am referring to the 4-3-3 formula, but I am referring more specifically to the ceiling of $120 on personal income tax? Would you, in order to pay these extra benefits and achieve your interest in the whole community providing for the needs of the people, like to see that ceiling raised?

Mr. KAYLER: This is an excellent question, Mr. Knowles. Our group did discuss this matter at quite some length. There was quite a strong feeling that the limitation of the 4 per cent as it now stands, only to taxable income up to $3,000, is perhaps too restrictive. We did not come up with any firm thinking as to whether the ceiling should be raised or the floor lowered—which, I suppose, is another possibility. Obviously, the sales tax part of the formula and the tax on corporate profits is all-inclusive in those particular areas, whereas one on personal income tax is not. Again, this is only a layman's opinion as a result of discussion. We think this would be an area for exploration, and perhaps this area should be expanded, but I have not taken a specific position yet.

Mr. KNOWLES: You recognize the position, that happens to be mine, if we are going to have flat rate benefits, that it is better to have everybody in, no matter what amount of income they might have, that it should be paid on the whole income?

Mr. MITCHELL: With respect to the Canada Pension Plan there is a significant difference in the contributions, in that you are contributing on any pay in excess of $600 and up to $5,000. But significantly there is no personal exemption. In other words, under your old age security you do not start to tax until you have knocked off the $1,000 for a man, $1,000 for his wife and $100 optional standard deduction, or whatever his personal exemptions happen to be. We think this is an area in which we are perhaps incorrect, where under the Canada Pension Plan, as proposed, we are not even allowed the normal personal exemptions which have always been set in any taxing statute we have had in Canada heretofore.

Mr. KNOWLES: Obviously, both schemes, the tax scheme and the other, the contributions scheme, have their starting points and ending points. I appreciate what you said about the starting point. I would be more interested in what you, Mr. Kayler, and others have said about the upper limit. As a matter of fact, I think it is a matter that should be looked at in both the taxation on personal incomes for old age security and the contributions to the Canada Pension Plan. I think there is a case for people above $5,000 making contributions—

Mr. KAYLER: Yes.

Mr. KNOWLES: —but not getting the benefit above the $5,000. You said "yes" before I finished. Does that apply to the whole question?

Mr. MITCHELL: I think it is a question of where you get the dollars. I think we are only talking words now. We know the benefits provided for these people are going to be subsidized. How it is subsidized I think is something that should be discussed.

Mr. KNOWLES: I think it has been useful to have the views, even though they are the unformalized views, of the representatives of this body.

Mr. DEACON: Mr. Knowles did suggest four, no matter how high the income. I do not think it is fair to say we go along with you all the way.

Mr. KNOWLES: But you would go higher than the present $3,000 level?

Mr. DEACON: Yes.

Mr. KNOWLES: Well, that is progress.

Mr. DEACON: $3,001, perhaps!

Mr. KNOWLES: Let us go at least up to $18,000.

Mr. LLOYD: If you don't he will nationalize you!

Mr. KNOWLES: A couple of times one or more of the delegates, and Mr. Mitchell in particular, have used the phrase that there is no relationship whatever between the Canada Pension Plan contributions and the benefits received. Now, I wonder if you would not like to modify that a bit. I can understand your saying—and I would say it myself—that the relationship is a subsidized one, or it is an adjusted relationship, but surely it is not a well-thought-out position to say there is no relationship between the contributions made by contributors and the benefits to which they are entitled?

Mr. MITCHELL: I think perhaps my words have been twisted—I do not say intentionally, Mr. Knowles. I think we should clarify the point I was trying to make. I was saying there was no relationship between the contributions by the individual, made by him and on his behalf—I am thinking now of the employer, for instance, the general charge against taxation—and his own benefit. I am not saying there is not any relationship between the total contributions and the total benefit, the total contribution made up 1.8 per cent by the employer and employee, and the rest is just charged on taxation.

Mr. KNOWLES: I am thinking in the same area as you are. Isn't it a fact that the individual gets a benefit—whether it is a pension benefit or a death benefit or orphan's benefit, or what have you—that is determined under a formula by his relationship to the plan, by the amount that he has contributed. I am not thinking of the kind of direct monetary relationship you think of in a private pension plan, but the very fact you talk about the gaps, the people who do not contribute and therefore do not get any benefit, indicates that for every individual there is some kind of relationship—it may be a subsidized relationship or an adjusted one, but, surely, there is a relationship?

Mr. MITCHELL: As a matter of fact, the figures I gave a little earlier contemplated a man aged 55 contributing or getting benefit—and just talking now about pension and ignoring death benefit, survivors' benefit, and so forth — worth $943-odd a year against a contribution made by him or his company of just under $160. You cannot tell me there is much relationship between the benefits that he gets and that he contributes. I was contrasting that with a young fellow aged 20 who puts his $80 and his company's rough $80 into the plan and gets much less than he could buy if he went out and bought a great deal in the way of pension benefits. I am suggesting that perhaps there is not much relationship between the benefits collected by the individual and what is paid. I am suggesting that perhaps there is not much relationship, Mr. Knowles, between the benefits collected by the individual and the contributions made.

Mr. KNOWLES: Yes, the question of relationship is one of definition, I suppose, but as a matter of fact you have now recited the two examples you used before, and I took them down because I wanted to ask you a question about the young chap who was 18 years old.

Mr. MITCHELL: Yes, he was 18.

Mr. KNOWLES: You indicated how much this 18-year old would pay over the 45 or 47 years of his career as a worker and then you said that his pension as a result would be worth only so much, and you had him suffering a loss compared to the 55-year old man who gets a so-called windfall.

What is involved in this is the whole principle of social insurance, which I think is an area we have to appreciate. However, I would not get into that at the present time. But the point I wanted to make with respect to the 18 or 20-year old is that he is buying, if you may put it in insurance terms, not only a pension that he may get at 65, which, incidentally, in the 47 years years will be escalated, but he will be getting the benefit later of contributions higher than he actually made. In addition to that he gets along the way, a disability benefit, a death benefit, a widow's benefit, and an orphan's benefit.

Now, you gentlemen are all in the field and you know that these things would be worth a great deal. Therefore, would you not admit that you should amend that example by saying that this 18 or 20-year old, though he gets less of a windfall in terms of his eventual pension, has these other benefits that are worth a good many hundreds or thousands of dollars to him?

Mr. MITCHELL: I think this is perhaps a very valid comment, Mr. Knowles, and I think we would be very interested in having this costed to determine what these things are worth and what has been asked for.

We are trying to demonstrate very strongly that we are not doing as the accountant would do, as Mr. Lloyd would understand. We are not funding as we go along but we are passing to the next generation a liability which exists today, and we are strongly in favour of flat benefits now, paid for now through taxes now, rather than passing this to future generations which will have only the result of creating inflationary trends which will have to be inherent in such an action.

Mr. KNOWLES: There are interesting comments in last night's record on this so I will not take up time by repeating them, but a few weeks ago I asked Mr. Osborne or Dr. Willard for the kind of information that I mentioned, and the department have promised it but they say that it will take months to produce the actuarial value of these benefits.

Mr. Chairman, I have just one other question. The danger of just one other question, of course, is that it might be a difficult one. You have had questions from Mr. Munro and others about the level to which you would like to see old age security raised, and you have told him as you told me that you don't feel you should set a figure. I wonder if you realize that the reason we ask questions such as this is that under the Canada Pension Plan we do see the possibility in a matter of five or 10 years of quite a few Canadians having pensions of $80, $90 or $100 a month. In 10 years some will be at a pension of $179 and some cents a month; in fact, those pensions could be $75 more than that in the case of a man and wife.

In other words, what we are envisaging here is a time not too far off when instead of flat pensions of only $75 a month, ordinary Canadians will have pensions of $175 or $200 a month.

Now, you have urged the virtues of the flat rate system. This is music in the ears of a few of us who were on the committee of 1950, but the question I would like to put to you is this: by which method do you think we will get sooner to the pensions of that category, $150 to $200 a month? And I ask that question as between two courses: one would be staying with the flat rate benefit only, and the other would be the combination of the flat rate and the earnings-related plan.

Mr. MITCHELL: Mr. Chairman, I do not wish to presume to try to answer this on behalf of all four people, but I would like to comment on one point, if I may. I think we are not competent to say just how this would be accomplished, Mr. Knowles, but there is something I would point out. The $75 a month for people aged 70, the old age security, now has an actuarial equivalent of $43 for those aged 65. That is for the male life. Yet, under this integration it is going to be allowed to be part of the Canada Pension Plan and we are bumping $43 up to $51, which is quite a substantial hike there. If you are talking about a female life it is even a greater subsidy.

I think it would be very dangerous for us indeed to try to answer your question as to how to get to this in the best manner possible, because we have already built in the actuarial cost of quite a substantial amount in the old age security benefit by just this very simple and quick change. I think the significance of all these things has to be examined, as Mr. Kayler mentioned earlier.

Certainly it requires a very sophisticated study of the economic cost of this thing. The ability of the public or the taxed to support certain levels now, whether the level should be $200 or $179, or $154, which it would be at 65 with the integration, or $155 or around there, is something we could not just answer off the cuff.

Mr. KNOWLES: I appreciate that, but you do see what is in the minds of some of us, that we are not at all happy with schemes which merely talk of an $80 or $90 pension. We are concerned about finding a plan that really gets pensions up, and while I am personally grateful for the help you have been in pointing out the gaps we do not fill—well, I was going to say that I wish you had been of more help to us in the other area, but I can't say that because I would be quoting you as having helped us. However, you do want people in a better area and you do want pensions adjusted according to the standard of living as a whole.

Mr. DEACON: I think, Mr. Knowles, as I have said to a lot of people, we can be excited at having another $100 added on. This is exciting in terms of the people who might be getting it, but we are missing the people with needs. Therefore, it is much more important to direct dollars available to getting at the areas of need, because you are going to get complaints from people reaching 70 ten years from now but who did not get benefits from this $100. It will not be the people who do but who don't. We should be attacking it on a universal basis.

Mr. KNOWLES: Mr. Chairman, I welcome very strongly this insistence upon doing something for the people who are not getting it, but I am also glad to see in the plan that 25 years from now the Canada Pension Plan will provide retirement benefits for a maximum potential of 85 to 90 per cent of those in retirement.

The CHAIRMAN (*Mr. Cameron*): It is now a quarter to one, gentlemen, and I have actually four others who want to ask questions. Mr. Leboe is not here, but there are Mr. Francis, Mr. Macaluso and Mr. Morison. I trust that they will make their questions pointed in order to get pointed answers.

Mr. MUNRO: Mr. Chairman, I might indicate to Senator Thorvaldson the reason why the Liberal members are so well behaved. It is that the minister is in the audience.

Mr. KNOWLES: We had not noticed.

The CHAIRMAN (*Mr. Cameron*): Mr. Francis.

Mr. FRANCIS: I have just one very brief question. On page 17 there is a statement made that "In five European countries that have indexed initial pension benefits, the government has completely taken over the pensionable earnings area." Could we have an indication of which countries are in mind at the present time? Could the delegation explain to us which countries are meant?

Mr. KAYLER: This was a statement made by Mr. Bryden, President of the North American Life. It was a statement in the press. He is a recognized economist and we accepted his statement at face value, but we do not know which five countries he is referring to.

Mr. FRANCIS: My concern is this, that if there was no substantial insurance industry in the first place then the inference is perhaps stronger than called for. My understanding is that when a country goes through inflation and has to adopt another country's currency, this has drastic results. Is this not so? It almost wipes them out.

Mr. KAYLER: I believe these are countries of western Europe.

Mr. FRANCIS: But how many of these were countries which adopted a new currency?

Mr. KAYLER: I am sorry, but we cannot give you that specific information.

The CHAIRMAN (*Mr. Cameron*): Mr. Macaluso?

Mr. MACALUSO: Most of my questions have been answered, but I must say that I am happy to see Mr. Mitchell here. He and I had some fun on a panel when the first bill came out. I think that earlier there was a question as to whether the gentlemen had studied the social security pension schemes in Western Europe. I understand that this has not been done. One of the reasons I raised this is because there is a booklet published by the Noble Lowndes Group entitled "Social Security and Pension Practice in Western Europe," and it lists 13 countries in Western Europe that have pension schemes, and in each of them there are contributions on a wage related plan. You, in your brief, are opposed to contributions based on an earnings related plan. Of course, you cannot answer why these 13 countries have it and why we should not have it.

There was another matter that came up dealing with discrimination. The charge of discrimination can be levelled against the present old age security system, whereby young married people are paying for the citizens who do not pay income tax and for those who can well afford not to receive the Old Age Pension. Surely, the principle of discrimination applies to the old age security system so far as some old people are concerned.

Mr. KAYLER: We realize that the old age security system is not foolproof, and probably no system is.

Mr. MACALUSO: That is exactly my point—no system is.

Mr. KAYLER: But, consider the fact that old age security does provide universal benefits for everyone in whatever category of hardship they are in. You may have philosophical arguments as to whether the flat amount is completely fair in every case, but you cannot argue against the fact that the universal flat benefit system does provide benefits for everybody, and a wage related plan cannot do that.

Mr. MACALUSO: What I am saying, Mr. Kayler, is that although the old age security system is universal one of the greatest criticisms of it is that there are people receiving the old age pension of $75 per month who do not need it. In many of these briefs we hear of the equity aspect of it; that those most in need should receive, but under the old age security system there are people who are 70 years of age and over who do not require the old age pension of $75 a month, and there are others who receive only the $75 a month and who still require more.

As you say, no system is perfect, and that is what I am saying. I do not claim that the Canada Pension Plan is perfect. It is going to require many changes. We have had evidence before this committee from Mr. Meyers of the United States Plan to the effect that it has undergone continual change for 30 years. I cannot envisage any social insurance legislation not undergoing change, perhaps every two years.

However, there is another principle of life insurance that comes up here, and I am referring to the criticisms with respect to this so-called windfall. You could have a man paying premiums for 40 years still living, and yet I could pay the premium for only six months or one year, and if I pass away at the end of that time my family will get a complete payment out of that plan. My family will receive the benefits of the policy, but the person paying for 40 years is going to be paying my family for that windfall they have received. That is where this principle of windfalls and discrimination comes in. There are two sides to it. It does not apply to one and not to the other.

The question I am concerned about here—and it will be my last one because most of the questions I would have asked have been answered—is that there has been a criticism in many briefs that we have received that the consequences of developing a large pension fund which will be provided by the Canada Pension Plan will take away from the availability of capital to the producing sector of our economy.

The Economic Report, in paragraph 5 on page 412, under the section entitled "Personal Income, Spending and Saving" states that the historical record in Canada and other countries suggests that increased public provision for retired people is not accompanied statistically by a reduction in the personal savings ratio. I am just wondering if you would care to comment on that. I would like your views on the statement that the personal savings ratio will not be reduced.

Mr. MITCHELL: May I comment on two things, Mr. Chairman? Mr. Macaluso has been going ahead there with a full head of steam. There are a couple of comments I should like to make.

First of all, Mr. Macaluso, I am happy to see the changes that have been made since our little battle a couple of years ago. I think the Canada Pension Plan is more palatable now than it was then, although it still needs a few changes in the best interests of the public. You mentioned the fact that some people are receiving old age security and who do not need it, but I would point out that you still have a certain amount of recovering through the income tax arrangements. These people who do not need it are certainly paying it back in taxes to a certain extent, and this is right and proper.

With respect to the economic sector that you have just brought up I would say that this is not an area in which we presume to be expert. The only thing we can say is that when social security was introduced in the United States, and similarly when old age security was introduced in Canada, there was certainly no drop-off in the sale of life insurance. We see no reason to expect that it is going to hurt the people who are actively selling life insurance in Canada today, even if the Canada Pension Plan as it is now is adopted.

Mr. MACALUSO: That was my statement to you two years ago.

Mr. MITCHELL: Yes. I think this to be true, but this still does not mean that this plan is doing the job it should be doing in the areas that, in our judgment, are the priority areas. In other words, if you want to give out windfalls and you want subsidies, then your area should be examined first to see where the greatest need happens to be. Of course, our alarm, as has been already stated many times, is that we are not getting at so many people. The flat rate benefits, even though it is far from perfect, at least gets everybody, and you do obtain a certain recovery through the medium of income tax.

Mr. MACALUSO: At the commencement of old age security it did not do the same thing. When it first came into being it discriminated against a large number of people.

Mr. MITCHELL: No, everybody who was of a certain age received the benefit.

Mr. MACALUSO: What about the person who was 70 less a day?

Mr. MITCHELL: But he got it when he was 70.

Mr. MACALUSO: There was an example that was mentioned to this committee. I think it concerned those who were 70 plus a day.

Mr. MITCHELL: They had to wait a month in order to get the payment. I hope you are not justifying this by the mistakes of the past?

Mr. MACALUSO: Of course not.

Mr. LLOYD: I have a short supplementary question, Mr. Chairman. It is also a fact, Mr. Mitchell, that very substantial tax reductions are allowed on the contributions side of pension funds. They are very substantial, according to Mr. Latimer writing in the *Financial Post* on January 9. Do you agree with that?

Mr. MITCHELL: Not substantial.

Mr. LLOYD: Enough to wipe out the profits of a company in one year—or, at least, so said Mr. Latimer.

Mr. MITCHELL: That is an abuse.

Mr. LLOYD: But those abuses exist.

Mr. MACALUSO: I have just one last question with respect to income tax deductions and old age security. On page 6, in paragraph 11(c), of your brief you state:

> The system of flat benefits automatically provides the largest relative amount of assistance to those in greatest need and avoids the proposed inequity of providing the largest tax subsidies to the fortunate people in our society that have above average earnings.

Do you not think also that the income tax provisions will take care of that?

Mr. MITCHELL: I think not. I think Mr. Kayler will want to comment on this.

Mr. KAYLER: I think the main point we see here is that you will be paying a flat benefit—the same dollar amount to every individual in the category—and this has inherent within it the characteristic that $75, or whatever the figure is going to be, will mean a lot more to the individual who has nothing than it will to the individual who has something, and still less to the individual who has a great deal. All the economic theories about the provision of money go out the window when you do not have any. To a person who has no money $100 is a fortune. The point is that the flat benefit system automatically has the inherent characteristic that the people who are at the greatest level of need are those who are going to be helped relatively the most by that flat amount, but to a person who has an income of $50,000 a year it is completely meaningless. He will pay back most of it in income tax, anyway.

Mr. MACALUSO: Yes, but I think the point that concerns us is that if we have a contributory plan that comes out on a wage related basis how, at the commencement of it, you can possibly take care of that group that we all recognize. Of course, your submission is: Let us not have a wage related plan, but let us have a flat benefit.

Mr. DEACON: First.

Mr. KNOWLES: Both.

The CHAIRMAN (*Mr. Cameron*): Mr. Morison, you now have your opportunity. Patience is its own reward.

Mr. MORISON: Thank you, Mr. Chairman. I am very pleased to see the life underwriters here. As they point out, they are not actuaries nor economists, but they are a group of people who have their fingers on the pulse of the Canadian public—perhaps more so than Mr. Davey.

I notice that in the brief you state you have 10,000 policy holders in Canada. This is very commendable.

Mr. ETHERINGTON: We have 10 million policyholders.

Mr. MORISON: Pardon me. That is almost twice the working force, so there is a policyholder in almost every household. That brings me down to your statement in the brief, on pages 4 and 5, that within the next 25 years, 85 or 90 per cent of those in retirement will be covered by the plan. You also say that those not included in the plan would include the hard core of those in most severe economic need and that when this fact is fully understood by the Canadian public, serious repercussions are bound to occur. I rather think that, with the excellent career agents we have in Canada, going into almost every household, doing the job that they are well able to do, it will mean they will more or less adapt the plans that we have privately, into the ever increasing public plan that we have today. If this is done, as they are well able to do it, why should there be "serious repercussions" from the public, or what exactly do you expect us to fear from them?

Mr. ETHERINGTON: Our feeling is that this hard core of people who could never be covered by the wage related scheme will include the people who were never covered for the simple reason that they were never able to earn enough to pay contributions. We have all respect for our salesmen in the life insurance business, but they are not good enough to sell life insurance to people who have not got money, so those people will not be covered by private enterprise or by the plan. The only answer to it is the universal flat benefit system.

Mr. MORISON: You have mentioned that the flat benefit of $75 which they are getting under O.A.S. is more than the benefit they would get in the United Kingdom. To me that is enough to believe that the rewards are given to those who work for them, and that is why I like the Canada Pension Plan. As to the old age security, it may be there should be another plan to cover those who will not work for the reward for which we all struggle.

Mr. KAYLER: Our feeling is that under the Canada Pension Plan many people will be getting windfalls which they have not earned. This is unrelated to contributions.

Mr. MORISON: Mr. Woods discussed that last night in his brief, in which most of us were interested. I want your opinion—this may not be good politically—with your career agents going into every strata of society and, as you all know, having the possibility of planning programs for everybody. There are the poor people or those who cannot earn up to $5,000 a year. They have certain wants and needs which you have filled and which we are trying to fill. There are others of us who have made $5,000 or better. We have needs and wants, we also have expenses. It may be that we have better homes than some, we have automobiles, we have television, we have more things, we even have more debts. We are struggling to live in a sophisticated society. Do you feel that it is a fallacy that I am going to suffer psychologically more by taking a reduced income or less, shall we say, by taking a reduced income after retirement, than perhaps someone who has not had the benefits that some of us have worked for through our lives? In other words, if a person were used to getting along on $2,500 or $3,000 a year and then is retired on half that pension, you compare that with a man who has been making over $5,000 a year. Do you think there will not be more psychological adjustment on the part of the wealthier man? Why is there a fallacy that the retirement need is only half as great on a man making less than $5,000 a year, to work on half the $5,000?

Mr. KAYLER: It is purely a layman's opinion, Mr. Morison, but my feeling is, about the poor individual who is so unfortunate as to have to live on $1,200 a year—I cannot ever conceive of him ever struggling on less than that—I think he should have at least 100 per cent of that level of income.

Mr. MORISON: The increased amount will mean less to him than to a more successful individual?

Mr. KAYLER: No, it would mean much more. The person who is struggling all his life if possible on $100 a month, if he suddenly had $150 a month it seems to me that he would feel like a millionaire, relatively speaking.

Mr. MORISON: Evidently I have not made myself clear, Mr. Kayler. I was thinking of this example. I am going to paragraph (*b*) on page 13, where you use this example:

> The actuarial report shows that a person earning $5,000 could receive an annual pension of $1,356. But if the same person earned only $2,500, then the C.P. would provide him with a pension of $678.

I am thinking of a man with $5,000. He is municipally taxed, he has had mortgages and other expenses. Then take a man with £20,000—if he is not going to suffer a greater physchological impact on retirement than the man making $2,500, he should have a higher pension?

Mr. KAYLER: Our feeling is in this example you have mentioned we should be more concerned about the fellow earning $2,500 having to struggle along on $678. He should be brought up, if possible, as close to the $1,300. That is what we accomplish under the flat benefit system.

Mr. MORISON: This is in addition to what he is getting under O.A.S., which would bring him up to a good percentage of what he has been used to making. That is why I say there is no fallacy.

Mr. MITCHELL: In taking those numbers you are not hitting much of the fallacy. I think there is a certain basic income which everyone must have in order to keep the wolf from the door. I would suggest that everyone above that level has the responsibility as an individual and not under a government plan. If you are talking about the person earning $1,500 or $2,500 who has to get by on half, then there is the person who is earning $20,000 and who has to get by on $10,000 but he is still pretty well off, as opposed to the fellow getting $2,500 who is now going to be cut to $1,500.

Mr. MORISON: A man making $12,000 during his life has needs which will continue into retirement. There is a thought running through my mind—and I have listened to all these briefs—as to just what figures we would have been using, if the Government had not had the foresight to increase the payment to $75 last year.

Some MEMBERS: Foresight?

Mr. KNOWLES: Was it foresight? They were forced.

Mr. MORISON: We had the foresight to put it up to $75 before this plan comes in.

Mr. MUNRO: I think that if you go back to 1963, when the increase was recommended to the minister, it was $65 at that time and there were no recommendations from you for an increase.

Mr. ETHERINGTON: Perhaps you are referring to the Life Insurance Officers Association?

Mr. MUNRO: No. Was not "The Monitor" your bulletin?

Mr. KAYLER: That is an internal bulletin for information.

Mr. MUNRO: May I, on behalf of the members, move a vote of thanks to the Life Underwriters Association of Canada for their well-prepared brief and for their courtesy in submitting themselves to questions from us and for their very helpful answers?

Mr. KNOWLES: I second that motion.

The CHAIRMAN (*Mr. Cameron*): I am pleased to pass that appreciation on to you and the other members of your delegation. We appreciate your co-operation. You have given us a lot of thought. Thank you very much.

Mr. ETHERINGTON: We appreciate the opportunity we have had to be here today.

The CHAIRMAN (*Mr. Cameron*): We can call this long session to a close. We meet again at 2.30 p.m. Some photographers will be here at that time.

AFTERNOON SITTING

TUESDAY, January 19, 1965

The CHAIRMAN (*Mr. Cameron*): Gentlemen, we have a quorum. I have a memorandum about a correction to be made. On page 14 of the brief of the Canadian Chamber of Commerce the first full paragraph reads:

> It is the decision of the committee to examine alternatives...

etcetera. It is requested that the word "if" be inserted before "It", so that the paragraph will commence as follows:

> If it is the decision of the committee to examine alternatives...

The Clerk has a letter from the Manitoba Chamber of Commerce, which I will ask him to read.

The CLERK OF THE COMMITTEE (*Reading*):

January 15, 1965

The Co-Chairmen and Members,
The Joint Committee of the Senate and
House of Commons appointed to consider
Bill-136, The Canada Pension Plan,
Ottawa, Canada.

Dear Sirs:

As President of the Manitoba Chambers of Commerce and Chairman of the Executive Committee may I respectfully submit the following statement.

"That the Manitoba Chambers of Commerce, without reservation, fully endorse the Submission of the Executive Council of the Canadian Chamber of Commerce to the Joint Committee of the Senate and House of Commons appointed to consider Bill C-136, The Canada Pension Plan."

As there will be no representation from the Manitoba Chambers of Commerce, may this statement be read into the Minutes of the proceedings of the Joint Committee.

Respectfully yours,

H. J. Mather,
President.

The CHAIRMAN (*Mr. Cameron*): Is that agreed?

—Agreed.

The CHAIRMAN (*Mr. Cameron*): You may have noticed a photographer on the perimeter of the seating. I believe he wants to take a photograph of the committee. It will be for the committee to decide if he has that privilege. If you so decide, I suggest that probably he should wait until more of the members arrive. They will be returning here shortly.

We have with us this afternoon Mr. D. L. Morrell, General Manager of the Canadian Chamber of Commerce, who will be presenting the brief on their behalf, and also Mr. G. R. Hunter, on behalf of the Winnipeg Chamber of Commerce. May I tell both gentlemen that their briefs will be printed in the record of today as part of the proceedings, and therefore it is not necessary for them to read them in full. Furthermore, all members have had an opportunity of reading and studying them, and no doubt they will have many questions ready to ask. I do not know how you wish to present these briefs, whether separately, or one following the other.

A. J. LITTLE (*President, Canadian Chamber of Commerce*): Mr. Chairman, I am the President of the Canadian Chamber of Commerce, and it was our decision in Winnipeg that with your indulgence we would like to present the Canadian Chamber of Commerce brief first. We have a number of witnesses available to reply to questions. Following that, Mr. G. R. Hunter, Q.C., of Winnipeg, will speak briefly.

The CHAIRMAN (*Mr. Cameron*): If it is agreeable to the committee and to Mr. Hunter, who is going to come in the second place.

Mr. HUNTER: Precisely.

The CHAIRMAN (*Mr. Cameron*): Mr. Morrell, will you proceed?

Mr. LITTLE: Mr. Chairman, my name is Little. Mr. Morrell is seated behind me. We are grateful to be here, and that goes without saying.

Our brief, as you will have noticed, was prepared by the Executive Committee of the Canadian Chamber of Commerce, which is the day to day working committee which operates the Chamber of Commerce, and it has been assisted in the preparation of the brief by our standing committee on health and welfare.

With me today is Dr. H. F. Hoering, seated at my left. He is Chairman of the Executive Council of the Canadian Chamber of Commerce, and Dr. Harvey Cruickshank, seated to the right of the secretary, who is Chairman of the Health and Welfare Committee. Dr. Harvey Cruickshank as Chairman of that committee would like to make a brief statement on our brief.

In addition to Dr. Harvey Cruickshank, there are a number of members of our Health and Welfare Committee with us, namely, Mr. R. B. McPherson, Mr. R. S. Davies, and Mr. Leon Mondoux.

Naturally, we are very well aware of the importance of this legislation, Mr. Chairman, and we think it is probably one of the more important things that has been taken under discussion for a long time. We expect that it may have a great effect on the economy of the country.

We are not technical pension experts and we think that our function is to bring you the viewpoint of business, and we do that from the experience we have gained in commerce and industry throughout the country. We think we speak for our members as a whole in the views we put forward, and we hope that our views will be of help to you in assessing the feeling of people as to the needs of the people who should come first, and we think this can be accomplished with the least inconvenience.

I will now ask Dr. Harvey Cruickshank to highlight our brief, which, as you say, you have already read. Following that, if you wish our people to answer questions they are ready to do so.

Mr. BASFORD: Before Dr. Cruickshank commences, may I ask if he is a doctor of medecine, or what kind of a doctor he is?

Dr. W. Harvey CRUICKSHANK (*Chairman, Health and Welfare Committee, Canadian Chamber of Commerce*): Mr. Chairman, members of the committee, officers and associates of the Chambers of Commerce: I am a physician. In dealing with the proposed pension plan, our submission recognizes that the plan contains many good features such as provision for portability, the provision of benefits to widows, orphans and disabled citizens, the provision of retirement benefits for those under 70, the proposal of the contributory principles and benefits that will be calculated on a uniform basis regardless of geographic considerations. We do raise in our submission a number of questions on the current pension proposals which cause concern, and they are under the following headings.

1 First, the Canadian Pension Plan should be considered in the light of Canada's total needs, and its effect on other priorities, I think, should be recognized.

Second, the Canada Pension Plan does not provide for those Canadians who are now aged, orphans, widows and disabled, and never will be covered. 2

The Canada Pension Plan directs the greatest benefits to those who need them the least, and lacks universality.

The indexing of pensions can have farreaching inflationary consequences, in our view. The consequences of the development of a large pension fund on the 3 availability of Canadian capital for the producing sector of the economy, we think should be recognized.

Features incorporated in the proposed plan complicate integration of existing pilot plans with the Canadian Pension Plan. Each of these questions is elaborated in the submission that we have presented to you. 4

Our recommendations are rather short, but perhaps I might take a moment to read them. They are set out at page 13 of our submission, and are as follows:

We believe that within your terms of reference your committee must decide whether the further development of our country's social security system should conform to the principles contained in Bill C-136 or whether further developments should follow the principles of universal coverage through suitable modification and reformation of the Old Age Security Act in the light of present day needs and resources. With either course, we urge that the Committee give thorough consideration to the examination of the priorities of needs in this country.

If it is the decision of the Committee to accept the principles of Bill C-136 departing from the concept of universal coverage we make the following recommendations:

(1) That the maturity period be lengthened to facilitate the problems of integration with private pension plans;

(2) That the principle of indexing of pensions be not adopted;

(3) That the contributions to be funded in the hands of state agencies should be kept separate, that they be annually reported on and that the monies collected from employees and employers be considered as being held in trust in the same manner as monies held under private pension plans;

(4) That the Canada Pension Plan Advisory Committee include economists, actuaries and personnel drawn from the financial community.

If it is the decision of the Committee to examine alternatives to meet the social objectives of Bill C-136 and to include those groups which are not covered in Bill C-136 and to which we have referred in our brief, we suggest that these objectives could be achieved through suitable modification and reform of the Old Age Security Act. This approach to achieve current social security needs of our country which cannot be met through private initiative was adopted by The Canadian Chamber of Commerce at its Annual Meeting in September of 1964. It was recommended that the Federal Government should adjust the present Old Age Security Plan considering particularly the following groups: persons who retire before age 70; widows of pensioners; persons of very advanced age; couples with a large age spread between man and wife; and other survivors and disabled persons.

That all Canadians should be able to retire with adequate provision for their post-working years is an objective on which all will agree. We hope the questions we have raised concerning the present provisions in Bill C-136 will assist your Committee in achieving changes to effect this objective.

Mr. Chairman, as a point of clarification, at page 21 of the Minutes and Proceedings, No. 1 of this committee, the Minister of National Health and Welfare stated that the Chamber in its annual presentation on policy to the Prime Minister and Cabinet had suggested that the Old Age Pension payments of

$100 a month be made payable at age 65. The Chamber, I might say, made no such proposal, and we are rather at a loss to understand the minister's statement in this regard. I expect the reason was that she was not at this particular session.

Finally, we feel Canada is moving forward very nicely toward a higher standard of living. It seems rather astonishing the Government should attempt to replace private plans and at the same time neglect gaps in the present scheme which affect a fair number of people who cannot help themselves. There is some indication that the proposed plan is moving in the wrong direction.

Mr. Chairman, I think that is all I would like to state in summary of our brief at this time.

The CHAIRMAN (*Mr. Cameron*): Thank you very much, Dr. Cruickshank. We are now open for questions.

Mr. PRITTIE: Mr. Chairman, my questions will not be too specific, but I think the delegation will understand the general intent of them. I would like to refer to the table on page 5 which shows the Government expenditures on health and social welfare as a percentage of national income. They show here various countries, advanced western industrial countries—the United States, Australia, Canada, the United Kingdom and New Zealand. I have a feeling these percentages are presented in a vacuum. They do not mean too much to me. For example, does it mean there is some danger point a country will reach in percentage of national income which they spend for items under the heading of health and social welfare? Take New Zealand, it is the highest on the list with 14 per cent. This does not mean very much to me. Does this mean that if New Zealand increased it by 2 or 3 per cent they would be reaching a danger point which might affect future economic growth in the country? I do not quite see the meaning of these percentages. That is the first point.

Secondly, there is the suggestion in this brief, which I have heard from a great many other sources, that there should be a list of priorities established in this country—how much we have to spend on education, scientific research, health and welfare, and so on—that a list of priorities should be established. I have a feeling that implied in this suggestion that expenditures under this heading—particularly Health and Social Welfare—are some type of a drag on the economy—that is, they are Government expenditures which have to be taken in either by taxation or payroll deductions—nevertheless there is something wrong with this kind of exepnditure, that it may inhibit the growth of the economy. I would like to suggest to the delegation there are other aspects as well. Do these type of expenditures not stimulate the economy in many ways? They are transfer payments and, as others have pointed out, they go into the hands of people who largely use them for consumer purposes, so they come back into the economy again. I have the feeling this whole thing is presented in a vacuum and without too much regard to the total economic picture. That is as specific as I can be, but I think they will know what I am driving at.

Dr. CRUICKSHANK: I will ask Mr. McPherson, if I may, to take a crack at those questions.

Mr. R. B. MCPHERSON (*Member of the Committee on Health and Welfare, Canadian Chamber of Commerce*): Mr. Chairman, I am sure I could not give a precise, quantitative answer to all the gentleman's questions. I could merely talk to them.

Mr. PRITTIE: That is all I did.

Mr. MCPHERSON: This table was not presented to suggest any maximum. As you know, economists in various countries have suggested from time to time a certain quantitative maximum as to the amount of social security expenditures.

I personally feel there is no absolute quantity, that that depends on the wealth of the country and the state of economic development. This was not put in for that purpose. This was put in for one or two other purposes. It does show that the country with whom we have to compete, our largest competitor, its social security costs are less than ours. It is a fact we wish to bring to the committee's attention.

You did mention there was another side of the coin in terms of cost, and there certainly is. The cost is one side; the incomes are the other side of the coin. The income is generated by the social security expenditures. I think it is the task of any group which is trying to further the growth of the economy—whether from the standpoint of business or government—to strike that balance. I certainly cannot suggest any particular balance, but there has to be, in my opinion, a balance developed. Maybe social security expenditures could be a drag if they became too large. They might be a drag if the incomes were too low. In other words, it is a balance we are trying to achieve.

You mentioned one other factor, and that is priorities. Of course, that opens a very large door. I have a list of some of the things that I think should be taken into account in establishing a system of national priorities. There are social priorities, education, pensions, cultural priorities, industry investment versus expenditures, developmental roads, public works, and defence. This long list is complicated by the fact that you have to establish priorities in terms of current expenses and capital expenses.

Mr. PRITTIE: I have one other question. Perhaps Mr. Osborne could answer it.

I have not read the recent report of the Economic Council, but does that report or any other economic study refer to the percentage of national income that a country can afford for health and welfare measures? The gentleman answering said he could not be absolutely sure, and I said I could not understand that. However, are there any studies in this field?

Mr. OSBORNE: Mr. Chairman, may I say that I have not read the report of the Economic Council in full, so I cannot say whether or not it includes such references. Secondly, in the economic report it was reported by Mr. Bryce and was appended to the proceedings of this committee a reference to the percentage of gross national product that is spent on income security for the aged in selected foreign countries, and you will recall that of the countries chosen Canada was at the bottom of the list.

Mr. PRITTIE: Yes, that is one particular item you are referring to there.

Dr. H. F. HOERIG (*Chairman of the Executive Council, Canadian Chamber of Commerce*): Mr. Chairman, may I attempt to answer further the question raised by the honourable gentleman. I would like to read from the First Annual Review of the Economic Council of Canada, because I believe, sir, it partly answers your question, and I believe that the philosophy which is expressed is one which the Canadian Chamber of Commerce finds sympathetic to its own views.

What the report says may be a little long, but I think it is worth reading into the record. This is from page 199 to 200, starting with the second paragraph of page 199:

> Social progress obviously requires balanced development in a number of fields, including social security, education and worker training, health services and standards, housing, and cultural and recreational opportunities. Social progress is thus not attained solely through higher rates of pay, shorter hours of work, and improved material standards of living. The growth of physical production, however, sets the limits within which continuing social progress can be made. Thus, improved

social welfare programmes and economic growth are not really alternatives. Only if sustained increases in productivity can be achieved will it be possible to have, over the longer run, consistent advances in social welfare.

We would therefore argue that the most important contribution which can be made to future improvements in social welfare will be successful attainment of our basic economic and social objectives, including the goals of high employment, rapid productivity growth and reasonable stability of prices. We emphasize that the real costs of failure to attain our basic objectives will ultimately fall on individuals in terms of unemployment, lost income or reduced purchasing power. Moreover, such failure—for example, in the form of high unemployment or rapid price increases—would obviously tend to intensify both the needs and the social pressures for government programmes and policies to safeguard individuals against inequitable costs and burdens in the highly complex and highly urbanized Canadian economy in which we now live. Conversely, successful achievement of the goals will help to minimize not only the extent and the severity of individual hardships and burdens in the economy, but also the welfare problems and needs in Canadian society. The most effective "war on poverty" will be effective achievement of potential output, with adequate accompanying labour market policies and other measures to facilitate adjustment to change. Steady economic growth would also make possible significant improvements in standards for low-income groups, and provide rising margins of income and resources over time for further advances towards more comprehensive and adequate services and facilities in the social welfare field.

Nevertheless, we recognize that there will be Canadians who, for various reasons, will be unable to participate in the high employment and income opportunities under conditions of rapid and sustained growth, and whose poverty may become more acute and more obvious in a high-income, high-growth economy. The public must ultimately decide what degree of income redistribution it is prepared to make and what form it should take. But we believe that in an increasingly affluent society there will be growing scope for energetic measures to attack the problems of poverty.

We are impressed by the extensive array of private and public social welfare payments and services which have been established and are available in Canada. At the same time, we believe that over the longer run it will be important to consider remaining gaps—for example, in the field of medical care. At the centre of interest in this latter field is, clearly, care for the aged whose needs are greatest, and care for the poor whose resources are slimmest. More generally, we recognize that medical catastrophe remains an unpredictable threat to the financial security of many families. Other potential areas of need are those of safeguards against loss of wages during prolonged periods of illness, and more effective rehabilitation services for both the physically and socially handicapped. We are well aware that there are many complex questions involved in considering what combination of public and private means may be appropriate to the administration or financing of such advances in social welfare.

You raised the question of priorities, sir. We would not attempt to advise the Government on the exact order of priorities, but I think we are somewhat surprised to find that one of the first major steps of the Government is in an area of pensions, which is already being served by the private enterprise system, and that it leaves untouched some of the needs to which this document refers and with which we are in complete agreement.

In other words, we can at least define priorities to the extent that as businessmen we have seen ourselves making significant progress in this country in providing jointly with employees a system of pensions which, while it has not become universal, has nevertheless been making steady progress towards the assurance that gainfully employed workers shall, sir, have a pension plan which will provide a part of their livelihood in retirement, and the Canadian, I think, has always been effective as a rugged individualist to do some planning for himself.

Now, these people, sir, are the ones who are really in a position to take care of themselves, but the new plan proposed has, we think, a weakness in that it leaves untouched large areas where people who are not gainfully employed and who may be casual workers are not covered by the scheme. These are people who have suffered by the stresses which come in the field of human relationships and are not covered by any one specific scheme such as the pension plan.

These people are not provided for and it seems to us that this is a priority which perhaps comes first, and private industry which has done a job in the pension field is not in nearly as much need.

Mr. PRITTIE: I wonder, Mr. Chairman, if the question of whether the private insurance field has adequately covered pension needs has been raised. I am sure other members of the committee would like to raise that, and so I will content myself with one comment.

One can hardly argue with the statement of the report of the Economic Council which the gentleman has read. They are simply saying that there seems to be a need for a continuing prosperity, and I would like to stress that these transfer payments of this type and others help to sustain the demand for a prosperous economy. In other words, a great deal of money goes to the private enterprise field.

Mr. LLOYD: Mr. Chairman, may I make an observation here on a question of procedure. It is not a supplementary. I believe it was Dr. Hoerig who read into the record these excerpts from pages 199 to 200 of the Economic Goals for Canada to 1970. I am sure that he would like us to have the full context because it begins with some observations as to social capital needs in the areas where they must be supplied.

I wonder if he would object if the first two paragraphs at the bottom of page 198 were included with his observations? Otherwise, it is meaningless.

Dr. HOERIG: I would agree that these first two paragraphs should be read into the record, but they do not change at all the views that were expressed in the latter part.

Mr. LLOYD: Well, we will ask you about that later.

Hon. Mr. CROLL: Let them be placed on the record.

> The assumed pattern of government expenditure at potential output in 1970 allows for a high and sustained rate of growth in investment in social capital. This is required for increased over-all productive efficiency in the economy. It also reflects the growing demands in a high-income society for improved schools, hospitals, highways, streets, parks, cultural and recreational facilities.
>
> There is a particular need to improve our cities for both economic and social reasons. This requires, among other things, rehabilitation of dilapidated residential areas or clearing some of these areas for more efficient use for commercial and other purposes. In the field of housing there is a need for improved living accommodation for families and

individuals who are now relegated, by economic circumstances and urban decay, to substandard and blighted living conditions. To attempt to deal in a comprehensive manner with these needs will require the development of policies and programmes directed towards the elimination of their underlying causes. Many problems exist in this field and available information about them is meagre. But we believe that it is essential to develop a much larger and more effective programme than now exists for urban renewal and low-rental housing.

The CHAIRMAN (*Mr. Cameron*): Senator Thorvaldson, you had a question?

Hon. Mr. THORVALDSON: I have no questions at the moment.

The CHAIRMAN (*Mr. Cameron*): Then, we are back to you, Mr. Knowles.

Mr. KNOWLES: I thought Mr. Basford was next.

The CHAIRMAN (*Mr. Cameron*): Yes I put him ahead of you.

Mr. BASFORD: Mr. Chairman, through you I would like to ask the delegation a question with respect to the comment that is found at page 11 of their brief, to the effect that the consequences of the development of a large pension fund provided by the Canada Pension Plan on the availability of Canadian capital for the producing sector of the economy should be recognized. Dr. Hoerig has cited with approval the first annual report of the Economic Council, and I am wondering whether he would also cite with approval some other quotations from the same report which discusses the proposed universal contributory pension plan. I quote:

> However, calculations based upon the growth conditions we have assumed for employment, income and prices indicate that by 1970 the annual contribution income of the plans (based upon the rate provisions outlined in the federal government White Paper) would amount to slightly more than 5 per cent of total gross private saving. This would be somewhat more than one per cent of the Gross National Product. Consequently, as the White Paper notes, even if this entire sum were diverted from the stream of private saving, the effect on the rate of total saving would be limited.

Then, projecting further beyond 1970 at page 130 the report goes on:

> We incline to the belief that the stability of the rate of gross private saving will not be significantly affected by the introduction of the plans.

Having approved of one part of the report I wonder if you would also approve of those parts?

Dr. HOERIG: Well, sir, I assume that the figures you read are based upon a factual analysis and, therefore, they cannot very well be rejected, and I shall accept them. However, I think that our position as stated in our brief is —as we have pointed out, if it is the with of Parliament and the Government to take this course of action the country is going to survive, and it is going to grow. We suggest that it may not be the best way, nor may it be the most most important thing to do at this time.

Dr. CRUICKSHANK: I wonder if I could ask Mr. McPherson to comment on Mr. Basford's question?

The CHAIRMAN (*Mr. Cameron*): Yes, certainly.

Mr. MCPHERSON: This opens up a fairly large question. I am an economist in industry, and I have the greatest respect for the Economic Council, and also for the White Paper presented by Dr. Bryce which is reported in the Minutes and Proceedings of this committee, No. 8. The Government, of course, has a much larger research organization than I could command, or that anybody in industry could command. The only reason that I might quarrel with some of their figures—and one in particular—is that for a quarter of a century I have been pretty close to the investment operations of this country, and the one major figure with which I disagree is that which has to do with long term capital requirements.

Private industry in 1964 invested something of the order of $5 billion. Now, if we are going to provide the tools for the 150,000 people who will be entering the working force each year then by 1970 I think this figure will probably be double that. It will be $10 billion or $11 billion.

This, of course, is an estimate. I prepare it for our board of directors, and I had no ulterior motive. My figure is double that of the estimate of industrial expenditures being made today. If we add to that the actual expenditures of government and of housing and all those other things we can obtain a capital investment figure by 1970 of from $15 billion to $16 billion. This is where I am higher than the figure of the Government agencies.

In terms of savings, the best I can see is something like $12 billion. That means this country will be faced with a capital deficiency by 1970, if we are to have full employment, of something between $3 billion and $4 billion.

These are figures that are not presented to this committee in order to give precise quantitative estimates. They are orders of magnitude. They do suggest a very serious gap which I think anyone embarking on a program such as this should investigate much more fully. I cannot say it is going to be this, but I can say I have done enough work to suggest that this estimate deserves a great deal of consideration.

I do see a gap, and I do differ from Dr. Bryce's White Paper and the report of the Economic Council to that extent.

Mr. BASFORD: I want to be brief so that the other members have an opportunity of asking questions. Again, I notice at page 11, subparagraph (6) reads:

> The additional costs arising from the current pension proposals will add their contribution to making our competitive position at home and abroad more difficult.

I can appreciate very much the concern of the Canadian Chamber of Commerce over the cost of doing business. I am from British Columbia, and I am probably most concerned with the cost to the pulp and paper industry which is, of course, an exceptionally important industry to Canada. It is the largest earner of foreign exchange in Canada. We had submitted to us the other day a submission of the Canadian Pulp and Paper Association which had this to say:

> If the actuarial assumptions as to the cost of the Canada Pension Plan are correct, and if the pulp and paper industry is able to achieve satisfactory integration with existing private plans, the cost of the Canada Pension Plan will not be detrimental to our industry.

When they say "the cost of the Canada Pension Plan will not be detrimental to our industry" I presume they mean it will not be detrimental to their competitive position at home and abroad. I find that a very important statement from this very important trade association, and it would seem to differ from your general conclusion in your brief.

Mr. LITTLE: Mr. Chairman, I think the point taken by the pulp and paper association is quite understandable. I think you must deal with industries one by one in this connection, and this happens to be a low-labour intensive industry, as I understand it. You can take other examples in which you will find that the reverse is true. I think the White Paper does come to the conclusion—and this is at page 419—that it seems likely from a consideration of the figures and the economic interrelationships that the commencement of the pension plan will give rise to a modest increase in prices in the Canadian economy, perhaps of the order of 1 per cent. Now, this 1 per cent increase in price is, in our view, not insignificant when we are already in difficulties from a price point of view in competing with those abroad.

We are back to this question of priorities. If you take a series of costs, one by one, and say: "We will adjust this by 1 per cent, and we will adjust this by 1 per cent, and we will adjust this by 1 per cent"—well, in isolation each can be made to appear very insignificant and something that you can accept, but when we look at the whole broad spectrum of prices in this country over the next five years we see a different picture, and we should consider what comes first.

Mr. BASFORD: I was interested in your comment on this comment of this important industry, which is to the effect that this will not be a factor in their competitive position.

The CHAIRMAN (*Mr. Cameron*): Mr. Knowles?

Mr. KNOWLES: May I draw attention to, and base a question on, a statement that is to be found at page 7 of the Chamber's brief. On that page I note the words:

> The Canada Pension Plan does not provide for those Canadians who are now aged, orphans, widows and disabled.

Then, a sentence or two further down, one part of that is repeated in these words:

> The Canada Pension Plan will provide no benefits to any person aged 69 and over as of today.

I might say to the delegation that this is a shortcoming about which I too am deeply concerned. I wonder if the Chamber could tell us what they propose we should do for Canadians who are now 70 years of age and over.

Dr. CRUICKSHANK: I did read out the recommendation, Mr. Knowles.

Mr. KNOWLES: There is a reference at page 13 which suggests that something be done through suitable modification and reformation of the Old Age Security Act to meet present day needs.

Dr. CRUICKSHANK: That is right.

Mr. KNOWLES: I think you will realize that I am asking you, with all respect, to be a little more specific, and tell us what precisely it is that you do not agree with in the Canada Pension Plan and what you would propose to do for this group of people.

Dr. CRUICKSHANK: May I ask Mr. Davies to take that one on, Mr. Chairman?

Mr. DAVIES: We are proposing that some changes be made in the Old Age Security Act to fill the gaps which we have observed in the Canada Pension Plan as it is now written, to take care of people who are over the age of 70. We feel that something should be done for people who are very old. I will not say what ages should be considered, but we are concerned about the fact that over the course of time an individual's savings decrease. We referred to that, and we refer to persons of very advanced ages. In addition, we are thinking of situations in which there is a sufficient spread between the ages of a man and his wife so that the wife is not entitled to the old age pension and yet not young enough to be a wage earner. Again, we have not spelled these figures out in dolar and cents. We are merely pointing out the fact that to solve the problem larger sums of money must be provided for couples who are in such a situation.

Mainly, we are saying that the gaps that we see in the Canada Pension Plan can be filled, and we are thinking not only of those aged 70 and over, but those of other gaps, and also the old age security program.

Mr. KNOWLES: Mr. Davies, I appreciate that you have made precise suggestions with regard to different categories—for example, those who have attained 75 or 80, the case of a husband and wife, both of pensionable age—but does not that still leave you in the position of not carrying through with your complaint about the pension plan that it does nothing for those Canadians who are now aging? What about the people from 70 to 75 who are on $75 a month? Does the Chamber propose that that flat rate of benefit be increased?

Mr. DAVIES: Again, as I say, we have not come up with dollars and figures. We are talking about the individual who is a single person or who is a married person and we may have a different answer. When a man and his wife jointly are over the age of 70 we are talking of a pension of $150 to the two together.

Mr. KNOWLES: That is the present position.

Mr. DAVIES: That is the present program without the Canada Pension Plan. I would not say whether this is exactly adequate but it certainly is not adequate where the wife is not of an age to enable her to get the additional $75 and this is the purpose of suggesting an additional sum in the case of men and their wives where there is a discrepancy in the age group. That would take care of the man of 72 or 73 whose wife is 62 or 63.

Mr. KNOWLES: But you do not propose any increase in the amount of the flat rate benefit on any universal basis?

Dr. CRUICKSHANK: We think of people of very advanced age who have their savings depleted and the cost going up and we think that probably that is a reasonable recommendation. We also think there ought to be some provision in the present plan for the widows and for widows of pensioners. There should be some provision for people who retire before age 70. Perhaps you would need some sort of an income test. However, these are the types of things we feel are needed to keep the universality of the present O.A.S. together, and perhaps not incur any later obligation than the plan that is recommended. On page 4 we have a list of the various questions we had, and I might get Mr. Davies to speak to you. You realize that the figures here are not subject to very close review.

Mr. DAVIES: Once again we are talking about certain gaps in the Canada Pension Plan. You mentioned certain gaps a moment ago. At the moment the plan does not provide anything for the present aged, orphans, widows and disabled. We feel that a program of this nature, which is a welfare program, should be more concerned about the people who need the funds most. Later on there will be reference to the fact that we see windfalls coming to those people who perhaps do not need them, but we see nothing for those who needs the funds most at present. They are the widows, the orphans and the disabled. At the present time we estimate that we may be talking of one million people in that category, roughly speaking, where we feel there is a weakness in the Canada Pension Plan.

Mr. KNOWLES: I wonder if the delegation realizes the rather difficult spot in which this committee is placed in this respect. We have had a number of delegations take more or less the position the Chamber is taking, namely, that the priorities are wrong, that the Canada Pension Plan should not be gone through with, because there are other things that represent greater need. Yet, with very few exceptions, most of those delegations will not come straight out and tell us what is to be done about those other needs. You have told us there are a million people. You would be giving us some alternative to the

C.P.P., to the money we would be prepared to raise and spend on it, if you could say that so much money should be placed in a certain flat rate benefit to certain people.

Mr. LITTLE: I wonder if I might speak on behalf of the chamber. It may be that we were at fault, but we did not think it our duty to come with an alternative to the C.P.P. In our view, we were doing a service when we analyzed the plan, when we put forward our opinions on it and detailed the shortcomings we thought to be in it. We simply point out that there are very serious and important gaps which we think can be covered by suitable amendments and adjustments of the old age security plan. There is no doubt about that. It is quite true that we have not tried to analyse whether the $75 a month should be $110 or $162. This is a study in depth and should be made of the pension requirements of the people of the country. We must be the first to confess that we have not estimated this. We are simply pointing out what we think was a shortcoming and we thought the detailed analysis was perhaps your job, sir.

Mr. KNOWLES: I take it then that the Chamber has objections to the Canada Pension Plan, thinks there are other things to be done, but the Chamber is not itself presenting precise alternatives?

Mr. LITTLE: Not precise.

Dr. CRUICKSHANK: Fairly direct, though. We are not setting down dollar figures.

Mr. KNOWLES: Consider our position as members of the committee to which a bill has been referred, which has had second reading in the house and, in case you may not know this, for which we all voted. We have to report back. What do we recommend? That the bill be adopted as is; or do we try to amend; or do we say "In view of the representations we have heard, we think the bill should be rejected." What would be your advice to us?

Mr. LITTLE: Mr. Chairman, if I may take responsibility for the Chamber, there would not be any doubt in my mind that the present bill should not pass and that the question should have a great deal further study.

Mr. KNOWLES: I want to express appreciation of that forthright answer. I do not say I agree with it but it leads us to understand what we are asking about. Let me ask another question.

Hon. Mr. THORVALDSON: Mr. Knowles, would you allow a supplementary question to the one you have put—just one?

Mr. KNOWLES: Delighted.

Hon. Mr. THORVALDSON: I was going to ask Mr. Little or Dr. Cruickshank whether you would think as an alternative that there be a complete review of our social service system from the federal point of view, such as there was when the old age pensions system was adopted in 1950. You will recall that there was a joint committee of the House of Commons and the Senate which sat for long periods of time. They considered the whole needs of the country. In reply to Mr. Knowles, would you suggest that such a review, a comprehensive one, might be preferable to throwing into this committee one bill, the Canada Pension Plan, and saying "Here it is, take it or leave it, and that is it."

Dr. CRUICKSHANK: That was our first point, senator.

Mr. BASFORD: On a question of privilege, no one has told us "Here is a bill, take it or leave it." The Prime Minister has made it very clear, as also has the Minister of National Health and Welfare, that this committee is to examine and is free to make whatever amendments it wishes and report on it.

Hon. Mr. THORVALDSON: It seems very much that it means "Take it or leave it," and I hope it does not.

Mr. KNOWLES: I did not mind the supplementary question, but I would like to ask questions now about some details. You make it clear in your brief that you are opposed to the indexing feature of the Canada Pension Plan, certainly the provision of increases either in the Canada Pension Plan benefit or the old age security plan benefit, or based on increases in the consumer price index. I am right in interpreting that as your position?

Dr. CRUICKSHANK: Yes.

Mr. KNOWLES: Do you have any alternative method to suggest for increasing the rates of pension or benefit through the years?

Dr. CRUICKSHANK: Yes, we have.

Mr. KNOWLES: What are they?

Mr. MCPHERSON: In regard to that, I would like to give the subject more attention than I have. I object to the indexing on this basis, that it occurs in an inflationary situation, that is, when the demand for goods exceeds the supply. It should be the concern, during that particular period, to curb demand to prevent any further distortion in demand. Suppose we have a period of increase in prices and then the pensioners are not as well off as they were before. While it may be a harsh suggestion in your eyes, my suggestion is that we should not increase pensions as of that time during this period of acute economic difficulty, but that we postpone this inevitable adjustment until supply and demand are in better balance, and then adjustments can be made without seriously distorting our price system. In other words, do not add fuel to the flames. Let us put the fire out and then make the adjustment.

Mr. KNOWLES: May I indicate that the witnesses we had before us this morning, the group representing the life insurance underwriters, were also opposed to indexing on the basis of the consumer price index, but they did say quite categorically that they thought pension rates should be adjusted in keeping with the general standard of living of the community. Would you support that principle?

Mr. MCPHERSON: That brings something into consideration—the question of policy of the Chamber, which I have not at my fingertips, but we are committed to a policy which takes care of the aged.

Mr. KNOWLES: By the aged, do you mean people who grow up to 75 or 80, or the older age population in general?

Mr. MCPHERSON: I mean the old age population generally. I think that is our policy, but I am speaking from memory.

Dr. HOERIG: I think the answer to Mr. Knowles' question is that we believe the indexing provision is a kind of straightjacket. It prescribes what has to be done in advance of really being able to say what the situation may be like 20 years from now. As business people, we like a posture of flexibility to meet our competitive problems, and it seems to me that the recommendation needed to be made would depend on the resources of the economy at any time. The plan should be subject to adjustment, but based on the needs and the situation existing at the time, rather than prescribing a formula.

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Mr. KNOWLES: When you object to indexing are you referring only to the indexing included in this plan, post-retirement, on the basis of the consumer price index changes, or are you also opposed to the indexing that upgrades the pension of a competitive scheme according to the wage level?

Dr. CRUICKSHANK: It is the automatic feature we object to, sir.

Mr. KNOWLES: You are in favour of adjustments, but not automatic adjustments?

Dr. Cruickshank: That is right.

Mr. Knowles: I have one other question.

Mr. Basford: May I put one question first? Mr. Anderson, Chairman of the North American Life, who made a very valuable contribution to this committee, suggested that if the increases were tied to wage levels this would avoid the bad features of trying to index. I wonder if Mr. McPherson has any comment.

Mr. McPherson: Again, one would have to look at the actual situation as it exists at the time. If the index of wages were followed by productivity it would be reasonable to tie the two together, but if it were a result of inflationary pressures I would be against tying the pension to the wages. I think it all depends on the conditions prevailing. I thnk any government or person administrating would appreciate the flexibility feature.

Mr. Basford: Mr. Anderson's thesis was that by tying it to wages you would be tying it to productivity.

Dr. Cruickshank: I think if it were related to the real standard of living, it would be an increase we would appreciate.

Mr. Knowles: May I now go to my other question? This is a hypothetical question, but I do not think that the hypothesis is unfair. If there is going to be something of the order of the Canada Pension Plan in Canada—and I am addressing this question to you as representative of the opposing side of the table—I have in mind your complaints about the complications of the plan. Which would you rather see, one plan for all of Canada or a plan in which one or more than one province opts out? I should not be coy about this. We know that Quebec has opted out. What about Ontario's position? If it opts out, does it make things more complicated in handling this plan?

Dr. Cruickshank: No doubt the greater number of plans the more complicated it is for industry administratively.

Mr. Knowles: In other words, if there must be a plan, you prefer the fewer number of plans?

Dr. Cruickshank: We do not prefer this one as it is in its present form.

Mr. Knowles: I realize that. That is why my question was hypothetical.

Dr. Cruickshank: You add to the complications.

Dr. Hoerig: Certainly in our modern society mobility in population is a very important point. I think we would support wholeheartedly uniform legislation right across the country, whether passed by a province or by the federal Government.

Mr. Knowles: In other words, you want uniformity and portability.

Dr. Cruickshank: Yes.

Mr. Morison: How do you present this mobility from one province to another?

Dr. Hoerig: We have been asked whether we prefer uniformity or not, and we do. I know that the practicalities of provincial and federal integration are perhaps of a broad scope, and we would like to collaborate with government.

Mr. Basford: Are you prepared to tell Premier Robarts that?

Mr. Monteith: Or Premier Lesage?

The Chairman (*Mr. Cameron*): Senator Croll?

FIND THIS QUOTE

Hon. Mr. Croll: Well, we want a plan for Canada, and if Mr. Lesage is listening, that is good, too. However, let me ask this question in the light of that background. I understood Dr. Cruickshank to say that we were meeting in an atmosphere of prosperity—although I do not think he used the word "booming." But I lead up to this to indicate that when you are thinking about measures such as this, this is the time to do it rather than when the economy is not in such a healthy state. The matter of priorities appears in your brief, as well as in many other briefs.

Dr. CRUICKSHANK: Yes.

Hon. Mr. CROLL: You speak of pensions and health, education, and I think you use the words, "priorities for human betterment and improved standards of living." No one disagrees with you, doctor.

Then I think it also appears in your brief that these things cannot be done simultaneously. Whether or not that appeared in your brief, I am not sure. In any event, you would have to agree that they cannot be done simultaneously.

Now, Mr. Little said in answer to a question that the problem is what should come first. Is that not a political problem, and has that not been solved by Parliament in making a choice, wise or unwise, and in saying, "This is our choice of the priorities, and we present this plan?" So I get back to your recommendations, referring to page 13 at the bottom, and continuing on page 14. As I understand it, what you are really saying is, "If you people are going ahead with the plan, which we don't like . . ."—and that is your privilege, of course—"this is what we suggest you should take into consideration in addition."

About two-thirds of the way down on page 14, the brief says, "It was recommended that the federal government should adjust the present old age security plan." That has troubled us ever since we have been sitting here. It is the real crux of the whole business. However, what you are saying is that if you were going ahead with the plan, some such plan, these are the four things we want you to consider in addition to these other matters. Is this correct?

Dr. CRUICKSHANK: It provides for universality, yes.

Hon. Mr. CROLL: No, we are not dealing with universality. What you are saying in effect is that if it is the decision of the people to accept the principle of Bill C-136, you will have some ideas, even if we are stuck with this. You say that the maturity period could be lengthened. What have you in mind?

Dr. CRUICKSHANK: Twenty year.

Hon. Mr. CROLL: That was the original suggestion. The indexing, I am not going to cover because Mr. Knowles has done that. I am not going to cover number (4), because that is so obvious that it will be done. We take a look at number (3), and I do not quite understand what you are saying there. Dr. Cruickshank, you will accept for the moment that the plan is accepted in principle. If a plan is accepted in principle, how can you possibly invoke (3), because (3) is contrary to the principle of the plan? Were you trying to say something else, or what?

Dr. CRUICKSHANK: I will call on my financial friend to answer this one.

Mr. LEON MONDOUX (*Health and Welfare Committee, Canadian Chamber of Commerce*): I believe this paragraph arose from wear that perhaps we would be submitted to undue pressure from the public.

Hon. Mr. CROLL: From the public?

Mr. MONDOUX: Yes, with regard to things that the funds were not intended to cover. We realize that perhaps this will be left in the hands of the provinces, but we felt we had to say something about the necessity to protect the funds so that being a savings they would be used as savings, promises to pay and available to pay the promises, and when the date came up, to pay back. I believe that was the intention there, a sort of message to the nation.

Hon. Mr. CROLL: While you are on your feet, you know that if a province borrows from this fund it pays at a rate of 5 per cent. I think that is in the bill someplace.

Mr. KNOWLES: There is a formula.

Hon. Mr. CROLL: Which means 5 per cent. That is not an unreasonable or too low a rate, is it?

Mr. MONDOUX: Isn't it possible, by using these funds that way, to by-pass the usual checks and balances the province has to face when borrowing money?

Hon. Mr. CROLL: What checks and balances does the province have to face when borrowing money? Constantly throughout these briefs—and the same thing last night from very intelligent people—has been expressed the constant fear the province was going to put it in its pocket and go to Florida. It appears in many of the briefs. Here it is in the Winnipeg brief. I am waiting to ask the question if they are talking about the premier of the province. I am sure they are not, but I just marked it. I cannot understand the constant repetition of doubting the integrity of the provinces. My own view is, and this goes for all the provinces, that in the main they are generally well run and they are pretty careful.

Mr. MONDOUX: We were aware of the dangers when we put that down, that it could be interpreted as a slight, but it was not at all. We have seen what has happened to the Unemployment Insurance fund.

Hon. Mr. CROLL: Yes. Don't open me up on that, will you?

Mr. BASFORD: Coming from British Columbia, I do not accept Senator Croll's suggestion regarding provincial finances.

Mr. MACALUSO: Mr. Chairman, a supplementary question on that. The Chamber recommends this be held in trust like private pension funds. Is the Chamber recommending these funds be held by a state agency for investment, as private plans do?

Mr. MONDOUX: We hope it would be put under some form of control by the provinces. I imagine it will be so in many quarters.

Mr. MACALUSO: Are you recommending—or I assume you might be—that in investing they might invest in real estate, bonds and common stock?

Mr. MONDOUX: No, I think investing in a school is a good investment, but putting two swimming pools in the school is not a good investment.

Mr. MACALUSO: I am not following you. What do you suggest they use the funds for investing in?

Mr. MONDOUX: I would not embark on that.

Mr. MACALUSO: Would not a state agency, by your suggestion, be competing with private interests in the investment field—something you are against and something probably I am against?

Hon. Mr. CROLL: May I ask you one question? You are a financial man.

Mr. MONDOUX: Not necessarily, and that is why I am in hot water just now.

Dr. CRUICKSHANK: I would like to get Mr. McPherson to say a word to this.

Hon. Mr. CROLL: Very well, go ahead, Mr. McPherson.

Mr. MCPHERSON: When the committee was discussing this problem we raised the question—and we did not have the answer to it—whether these increased borrowing powers of the provinces would be used to enlarge their expenditures, their spheres of activity, or whether they would be used instead to supplement or to present alternative forms of financing. We did not know the answer to that question, but we thought it reasonable to suggest that these funds be segregated so they could be published and so that the public, the voter, would know how they were used.

Hon. Mr. CROLL: I do not think anybody would disagree with you. As I recall it, many of the provincial premiers who talked about this used the term "social capital".

Mr. MCPHERSON: Yes.

Hon. Mr. CROLL: That is significant. Dr. Cruickshank will tell you what that means—he has lived with it many years.

One more thing while we are on funds. We have heard a great deal of talk here from various people, who were also interested in the economy and the welfare of Canada, about the general investment funds that are used in Canada—and they are considerable—and that this will be a drain from the funds normally used for general investment. The evidence before us indicates 5.7 per cent of, I think, what was used last year or projected the year after. Is that a serious matter, or does that figure—I think $600 million, or whatever it was—

Dr. CRUICKSHANK: I think Mr. McPherson has some figures on that.

Mr. MCPHERSON: Senator Croll, I talk about this serious gap between the supply of savings and the demand for capital. Now, I pointed out some people do not agree with me, but if I am right then it injects a really new priority into this situation, and that priority against which every other capital expenditure must be judged. That is, are we going to have the money to provide the equipment to employ the 150,000 people coming on the labour force? That, to me, is the crucial question. If this country is assured we have this capital then my argument loses all validity. But, if in the view of what I consider a deficit, we are diverting funds away from those people to provide equipment for social capital, then that could, in the long run, be working to the detriment of the economy and would be a serious drag on the economy. We might have the healthiest, best educated group of unemployed in the world.

Hon. Mr. CROLL: I agree with everything you have said, but the question I asked was, regarding this 5.7 per cent of that capital you speak about in any given period of time, why would that have any effect on what you and I can at the moment see, an economy that seems to be moving up from year to year and time to time, and will continue to?

Mr. MCPHERSON: Let us put it in orders of magnitude. Suppose there is a shortage of $3 billion, a gap between savings and investment. Say by 1970 something like $600 million is diverted from the private sector to this other sector. That is $600 million of $3 billion, which is about 20 per cent, is that it? It is 20 per cent of the gap.

Hon. Mr. CROLL: The figure given here was $5 billion as against $600 million, and it came down to 5.7.

Mr. MCPHERSON: Five billion dollars is our private capital investment this year. I believe our private capital investment by 1970, if we are going to have full employment, will be double what it was in 1964. This amount we are diverting becomes much more serious in terms of the size of our gap.

Dr. CRUICKSHANK: Hasn't it to do with the employment of capital to improve the efficiency of the province so you can get a return on your investment?

Mr. MCPHERSON: This gap is something I have given a great deal of thought to. We have not only to provide the tools but we have to take care of the wear and tear and technological advances. The figure is truly staggering. All I am saying is, let us be sure we have given consideration to this very essential ingredient of any growth.

Hon. Mr. CROLL: Doctor, I bow to your knowledge of this subject. I am the last one in the world to question it, because I certainly have not the understanding you have, but I am quoting expert evidence from witnesses who appeared before our committee. I cannot recall who said it, but it stuck with me and I marked it down at the time, so there is a divergence of opinion between you experts.

Mr. MCPHERSON: Yes, very definitely. There is this divergence, and I respect the viewpoint of other people very much, but I have looked at it this way and I am merely suggesting this is something which merits a great deal of investigation.

Mr. LITTLE: I quite understand the problem of trying to assess whether 5.7 per cent of savings is serious or of vital concern. We do not know, but our conclusion is certainly based on the report of the Economic Council that this country is going to need every bit of productivity and savings it can muster up within the next five years, and if there is a fall of 5 per cent this will affect millions of people and this is a very significant factor.

INVEST [illegible] FUND

Hon. Mr. CROLL: Mr. Little, you are the man to answer this: When the Premier of the Province of Ontario has $100 million or $50 million, whatever is in that fund, surely to goodness he is going to use it in such a way that he does not have to go into the market against Joe Smith. Surely Joe Smith can get the money from somebody else and it will all be used. It is not going to lie there and rot. We are not building Fort Knoxes.

Mr. LITTLE: I would like to put it the other way round. We are the first to think that business can invest that money better than the government can.

Dr. CRUICKSHANK: Mr. McPherson was going to make a point concerning benefits.

The CHAIRMAN (*Mr. Cameron*): We will have Mr. Munro's question.

Mr. MONTEITH: I think Mr. McPerson was going to make another comment.

Mr. MCPHERSON: No.

Mr. MUNRO: I would like to ask the gentlemen from the Chamber a question concerning item 6 on page 12 of their report—"Features incorporated in the proposed plan complicate integration of existing private plans with the Canada Pension Plan." Then they go on to say: "In a 1963 survey by the federal Department of Labour, in establishments in Canada employing 15 or more employees, 77 per cent of the employees were in firms with private pension plans."

Now, could you tell me whether you have any idea in numbers what that 77 per cent represents?

Mr. DAVIES: In numbers I don't think I can answer the question. Could you just hold that for a minute? Perhaps I could get some figures for you.

Mr. MUNRO: I just wondered because you state here that this is 77 per cent.

Hon. Mr. CROLL: The evidence we had this morning was that only 40 per cent in Ontario were covered.

Mr. MUNRO: I was going to ask if they have any idea of how many employees the are in that number of smaller or marginal firms with 15 employees or less.

Mr. MCNALLY: This is taken from report No. 7, 1963, published by the Economics and Research Branch of the Department of Labour. It is entitled "Working Conditions in Canadian Industry". In the non-office employees this is covering firms with 15 employees or more, with the total number of employees involved being a million and a half.

Mr. MUNRO: Those are firms employing 15 or more?

Mr. McNALLY: That is right. It is broken down also into office employees. The figure I just gave you was of plant employees, and in the office employees it is roughly 681,000.

Mr. MUNRO: That is included in the million and a half figure which you have indicated?

Mr. McNALLY: No, one is the nonloffice employees, which is a million and a half, and the office employees is 681,000. If you add up 1.5 million and 681,000, you get a figure for a weighted average of 77 per cent, and I would like to point out to the committee that these are figures showing where pension plans are established.

It does not say that all employees are covered, but in a document which has been filed with the committee, and with which Mr. Osborne is probably familiar, there is a figure indicating that of this 77 per cent, about 70 per cent of the employees are covered within those plants.

Mr. MUNRO: About 70? I take it that you are saying that the overall employees in your figure are in firms that have pension plans, and would total approximately over 2 million?

Mr. McNALLY: About 2 million, yes.

Mr. MUNRO: Now, I wonder if you had any figures of how many employees were included in firms with fewer than 15 employees?

Mr. McNALLY: No, I am sorry we do not have that, and I don't think the department has it either because this is the figure they gave in their report

Mr. MUNRO: Now, I wonder if the Chamber is aware of recent statistics, having their source with the Dominion Bureau of Statistics, which would indicate that approximately 70 per cent of labour force are not covered under any private pension plan? I wonder whether they would disagree with that figure? Perhaps I should qualify that to be more precise by saying that they are not benefiting from any pension.

Mr. LITTLE: We don't have that information and I don't know whether we can agree with that in the absence of knowledge. Does that include everybody considered to be a part of the labour force?

Mr. MUNRO: Yes, the non-agricultural labour force who are not participating in any plan over 70 per cent. Approximately 70 per cent of the labour force.

Hon. Mr. THORVALDSON: Mr. Munro, would you give the source of that, please?

Mr. MUNRO: The Dominion Bureau of Statistics. Mr. Osborne has it and will supply it, senator.

Mr. LITTLE: This presumably will cover farm labour as well.

Mr. MUNRO: Perhaps I could have Mr. Osborne give the source of that information.

Mr. OSBORNE: Mr. Chairman, this is a publication of the Dominion Bureau of Statistics entitled "Pension Plans Non-Financial Statistics 1960" reporting the result of a survey the bureau conducted of pension plans.

Reference to the labour force should have made it clear that the 70 per cent figure is the proportion of the total labour force, including the agricultural members of the labour force. These data are for 1960. That was the last survey conducted.

Mr. LEBOE: That is five years old.

Mr. OSBORNE: At that time the figure was 72 per cent of the labour force which were not covered, or 28 per cent covered. One specific figure is 1.8 million persons covered out of the labour force of 6.4 million.

Mr. GRAY: Is there not a very recent publication giving the number of employees covered by trustee plans?

Mr. OSBORNE: Yes, those are only the trustee plans.

Mr. KNOWLES: May I ask a supplementary question? Would a reconciliation of these figures be achieved if we considered the 77 per cent referred to by the Chamber as being the 77 per cent of 2 million employees, which is about one million and a half, whereas the 30 per cent we are talking about is the total of 1.8 million out of the labour force.

Now, maybe the figures are of different years, but there does seem to be a reconciliation. The Chamber is talking about 77 per cent of a select group of 2 million and D.B.S. is talking about 30 per cent of the total labour force.

Mr. MUNRO: I think that would be an accurate summary, Mr. Knowles.

Mr. DAVIES: May I make a comment on that. I have a note here on pension plan coverage in Ontario, where it says that 63 per cent of paid workers are employed by employers who had a pension plan and 44 per cent with members of the pension plans. This refers to Ontario, and this latter figure is for all Canada. But what we have to remember when we have a figure of that nature which appears to be low, is that first of all we can only concern ourselves with employee-employer relationships and, secondly, that the covering does not take into account the employees who cannot join because of the eligibility requirements, that they would be entitled to join in some few years hence. I think if we were going to make a statement of how well employers have done we should really consider the age more close to retirement. I don't have any figures like that, but obviously it would be much greater for employees, say, from age of 50 to 65, or something of that nature, which show the figure to be in excess of your 34 per cent.

The CHAIRMAN (*Mr. Cameron*): I think, Senator Thorvaldson, you have something to inquire about.

Hon. Mr. THORVALDSON: We have been getting a lot of these figures based on various other figures and the committee itself could not get these through our own economists—at least not up-to-date figures that would be accurate in every way. I think it is important to have those figures so that we would not have to ask every witness what they are.

Mr. OSBORNE: Mr. Chairman, it is not possible to get up to date figures of a survey that is conducted only irregularly. The 1960 survey was a special survey of trust companies and insurance companies operating pension plans. In the absence of another survey, you cannot just produce the figures.

Mr. DAVIES: May I suggest that this Ontario survey is quite recent, and I doubt that the figures you are looking for, other than what is available in Ontario, are available.

The CHAIRMAN (*Mr. Cameron*): The information you have given is on the record.

Hon. Mr. CROLL: Mr. Chairman, that information was given this morning in connection with the Ontario Pension Plan by people who are well acquainted with it.

Mr. MUNRO: May I continue, Mr. Chairman? It would indicate, at any rate, that the Chamber, through its own authorities, has come to the conclusion that approximately 2 million people in the work force are employed by employers who have pension plans, but this does not necessarily mean that they are participating in the plan. Is that fair?

Mr. MCNALLY: May I refer to the 1963 report No. 7, published by the Economic and Research branch of the Department of Labour entitled "Working Conditions in Canadian Industry"? This report shows that in respect of non-office employees there were roughly a billion and a half employees in the survey, and of these there were 72 per cent in establishments, employing 15 or more persons, reporting a pension plan.

Mr. MUNRO: And the totals came to somewhere in the vicinity of 2 million people.

Mr. LITTLE: That is a fair statement for that category of employer with over 15 employees.

Mr. MUNRO: Now, of course, we get into the question of those employers with under 15 employees, and I would suggest that in that area you are talking about small firms and marginal firms, with respect to which the percentage of participation in a pension plan would be less than it would be with respect to the larger firms.

Dr. HOERIG: That may be correct.

Mr. MUNRO: Even going back to 1960 when you had an estimated total labour force—and this includes agricultural workers; I made an error before —of 6.4 million, which would have increased very substantially since that time, I would think. But, even working on that figure of 6.4 million we are talking in terms of 3 million to 4 million people, I think you can safely say, and you can say 4 million people if it were not for this unknown factor concerning those firms with 15 or less employees, and just what degree of participation there is in private plans.

My question to the Chamber is: What do you propose so far as any participation in private plans is concerned by those approximately 3 million to 4 million people? I make that 1 million area differential there so that I will not be interpreted as being unfair in any way. What do you propose for this very substantial percentage of the work force?

Dr. CRUICKSHANK: First of all, we suggest there are some gaps to fill under the old age security, which are spelled out, although they are not spelled out in any specific way. Then, I would think, if you saw a curve of participation in private plans you would see an encouraging trend. We have discussed the importance of extending private pension plans on many occasions, but I do not think we have any specific recommendation to make there.

Dr. HOERIG: I would like to add to Dr. Cruickshank's remarks our alternate proposal to provide wider coverage over the old age security that is aimed at the concept that there are many people, perhaps, among this group who are not covered by private pension plans but who at the time of retirement are in a position of need for various reasons, and that is where—

Mr. MUNRO: I am sorry, I think my question was misunderstood. Perhaps it is my fault. I say except for those 3 million to 4 million that are in this range—I think I am giving the benefit of the doubt here because we are counting really 2 million in there who have pension plans, and it is acknowledged that many of them are not yet participating for some reason or other. What are you proposing, in respect of pension coverage for them, so far as participation in a pension plan is concerned? I am not talking about when they are retired, but since they are workers and do represent a substantial proportion of our labour force, they should have some accessibility to some type of pension coverage, and I wonder how you felt they should be dealt with.

Mr. LITTLE: I think the answer there, sir, is that there is a trend towards the inclusion of more and more of the work force. I think the latest data is for 1960. If you looked at 1965 you would probably see that this trend has continued.

As a matter of fact, in a society which reasonably prosperous pension plans become a condition of work, and an industry is, in a sense, competitive to the extent that it provides an adequate pension plan as a part of the employment environment. I believe that as our economy grows we shall see—if the economy is allowed to take its course—a greater and greater coverage of the working force by private pension plan schemes. To me this is an evolution that can take place, and should take place.

Dr. CRUICKSHANK: With the broadened concept of the old age security as the basis.

Mr. LITTLE: Yes, with the broadened concept of the old age security as the basis to take care of cases of real need.

Mr. MUNRO: In this figure of approximately 3 million to 4 million—and again I emphasize that a great proportion of these are agricultural workers—many are obviously employed by very small employers, in the sense that they employ two or three employees. I think you will agree that private pension plans are not readily available to agricultural workers, and other such small employers. That being the case, if you agree with that, I am wondering what you would propose so far as allowing these people who number in the millions, I would say, some type of pension scheme in which they can participate.

Mr. LITTLE: It may be that that is an area in which the Government could take action to provide essentially a pension system which perhaps would be on a basis similar to that on which the private plans operate—an actuarial system. Perhaps such a plan could be devised to solve the problem of the employees of very small companies. This might be a possible area for Government action, but I think this would require some study.

If I understand your question correctly, what you are saying is that there are many small companies that are really not organized to handle this problem in the way that a larger company would be. It is possible there might be an area of section by the Government here, just as in the case of automobiles, for example, where the provinces require that the people themselves assume the liability for insurance in the event of an accident. I can conceive of legislation which would require a certain minimum standard on the part of employers in respect of adequate plans.

Mr. MUNRO: I think even the Ontario Government acknowledges the point that employers with less than 15 employees find it very difficult to participate in any private pension plan, and that is why they set that standard at 15 or more.

Mr. LITTLE: Yes, that is correct.

Mr. MUNRO: Then, you are prepared to concede that there is a very large percentage of our work force that should have some access to some type of contributory scheme, perhaps financed by the Government, subject to your giving the matter more study?

Mr. LITTLE: I think the Chamber of Commerce would agree with you, that there is room for progress in this area.

Mr. MUNRO: There is only one other question I want to ask. You did refer in your appendix—you were talking about private pension plans. I am referring to appendix II. At the bottom of the page you talk about private pension plans, and you say in the second paragraph from the bottom:

> Any Government regulations governing such plans should provide a maximum of flexibility to meet the varying types of employer-employee relationships in different kinds of business and industry.

Then you go on to say:

> Great caution should be exercised in any regulations respecting pensions, especially respecting vesting. To achieve effective portability, employees would have to be induced to not withdraw their contributions

in cash when changing employment and employers would have to be induced to provide for earlier vesting of employer's contributions under both contributory and non-contributory plans.

When the Chamber talks of these private pension plans, have they studied any figures as to the quality of these pension plans and the variance of benefits afforded under them?

Mr. LITTLE: I cannot quote you any figures on that, but the Chamber of Commerce, like any other society, changes its point of view as we progress. You have quoted here a paragraph from the 1961-62 statement of the Chamber of Commerce. I think it will be fair to say that the Chamber at this point recognizes the importance of portability and the impact it has on vesting. I do not know that the Ontario scheme—which I think calls for ten years of service prior to vesting or a minimum age of 35 provides this. I think our views are that private plans should move towards the area of improved portability. In our brief we commend this aspect of the C.P.P., the portability feature.

To come back to your earlier question on this group which is not covered by the private pension plans, it is true in a sense that they are at present contributing to the present contributory plan, O.A.S. and are covered to the extent that O.A.S. does cover the retired worker. Our proposal is that this may not be adequate and that the modifications of the O.A.S. may broaden the benefits of this group.

Mr. MUNRO: Mr. Chairman, without referring to a specific page, I think the Chamber would agree that they have talked about the great need for mobility of labour. It is a desirable need and we also talked of that. Yet there is some talk about these private pension plans. I wonder if the Chamber is not aware that many of these private pension plans that you are talking about are built up on a basis of perhaps 1 per cent a year of the employees' wages. This is one of the great motivating factors for the Canada Pension Plan, not only for those employees in such plans as that, but for all these employees in the work force that are not even covered, that they be allowed some uniform standard to have portability and that you will never get portability in such schemes that have such a slow build-up. Would the Chamber not be prepared to agree that this is one of the great incentives necessary for governmental legislation such as the Canada Pension Plan, not only to provide benefits for a great percentage who have not accessibility to private plans but also to assist in the mobility of the labour force who are covered under pension plans and who, were it not for this governmental action, would be obliged to remain with one employer all their lives.

Dr. CRUICKSHANK: I think the hon. member mentioned mobility of labour as an increasing part of our industrial economy but I do not think we should forget that stability of labour is also going to be a consideration over the years; so we have this sort of conflicting necessity actually in our modern industrial society.

Mr. MUNRO: Is the Chamber advocating competition and free enterprise in business but that the labour force should not compete and a man get the best price for his labour wherever he may go?

Dr. CRUICKSHANK: That is right, he should be able to do that; and industry also should be able to choose its workers.

Mr. LEBOE: Is Mr. Munro suggesting that there is no other legislative program which can provide portability? I want that clarified.

Mr. MUNRO: Yes, I am suggesting that, as the Chamber said here, on the variations they would want. I grant this was back in 1962 in the Chamber brief and the position may have changed. They said then:

> Any Government regulations governing such plans should provide a maximum of flexibility to meet the varying types of employer-employee relationships in different kinds of business and industry.
>
> Great caution should be exercised in any regulations respecting pensions, especially respecting vesting. To achieve effective portability, employees would have to be induced to not withdraw their contributions in cash when changing employment and employers would have to be induced to provide for earlier vesting of employer's contributions under both contributory and non-contributory plans. Since earlier vesting costs more than later vesting or no vesting, this becomes a matter of increased labour costs and a matter of price competition in both domestic and international markets. It is obviously inequitable to require employers already providing pension plans to meet standards that will increase their cost of operations while their competitors are operating without any pension plan.

I use that as an example, that it is difficult to get portability under any existing type of pension plan. I say that even if the Chamber made the statements they have in respect to private pension plans.

Mr. LEBOE: For clarification, are you saying it is impossible to have legislation outside of the Canada Pension Plan which would provide portability?

Mr. MUNRO: For all practical purposes, it is, considering the provincial jurisdiction and the necessity for co-operation amongst all provinces and considering the inherent difficulties involved in trying to get any real uniformity in all existing plans—I say that for all practical purposes it is impossible in the private pension field.

Mr. MCNALLY: The provinces had a meeting at the behest of Ontario, in which they brought together the other provinces to discuss the possibility of developing some sort of uniform regulations and requirements to deal with private pension plans they have within their own provinces. According to a press report, they discussed such things as the possibility of portability within the private pension plans within the provinces, the question of adjusting; and the question of uniform requirements; and the question of registration. So at least there was this discussion going on at the provincial level, having been called by Ontario to do these things, vis-à-vis private pension plans.

Mr. MUNRO: Even if this end could be attained, despite all the tremendous difficulties, we still have not coped with the many millions of workers who are either employed in agriculture or with very small marginal firms, under 15 persons, where it has been acknowledged private pension plans have a great deal of difficulty in servicing.

Hon. Mr. CROLL: Following what Mr. McNally said, I do not think it should just remain like that on the record—not that he misstated anything but that he did not say enough. The purpose of that meeting was in order to provide supervision for the plans which have gone unsupervised since 1949. Many of them—and I have not said this before the committee—unfortunately are not solvent, and that is what is troubling them more than anything else. When the federal Government withdrew from supervision, no one supervised them and they have done a lot of tricks, but that is no part of the issue. They have been called together—and Saskatchewan was the first to pass an act for disclosure. A couple of years ago Ontario followed and now they are joining to try and get some uniform disclosures act.

Mr. McNALLY: We welcome this development.

Hon. Mr. CROLL: So do we.

Mr. BASFORD: On a question of order, we still have the Winnipeg brief to deal with.

Hon. Mr. CROLL: I suggest that the further questions be brought forward

Mr. MONTEITH: In regard to the funds which are to be distributed to the provinces, I raised this question previously and have not got a satisfactory answer, to my mind. I can visualize some difficulty after these funds have been distributed to the provinces. These are reserve funds for use presumably if the pension fund requires additional money to pay it. What does the Chamber think the reaction might be in a province, if funds had been loaned to it and, for argument sake, if the federal people felt they were going to require additional funds to meet their benefit payments at some time in the future and were to call on the provinces to rebate their loans, to make good on them as at that point? Could the Chamber give any idea as to whether or not they could see difficulties arise if suddenly any one province were asked to make good or pay up on part of its commitment to the Government?

Dr. CRUICKSHANK: That was essentially the point we had in earmarking the funds.

Mr. MCPHERSON: I can add very little to what honourable members know. If a province is going to borrow, it could hardly borrow on terms of a demand loan. It must have some indication of the maturity of this loan, because it might have to refinance this loan at a time when the market conditions were not propitious and it would be a most unstable position.

Mr. MONTEITH: If the province had borrowed considerably from the fund, when it borrowed to refinance, if called upon by the federal authority, it would then have to face the market place as it existed at that moment.

Mr. BASFORD: Having operated and lived for a great deal of time in Winnipeg, I feel some responsibility. I was going to suggest, if it is agreeable, that we go on with the brief of the Winnipeg Chamber of Commerce and that those on the list for asking questions of the Canadian Chamber be first on the list of the Winnipeg Chamber.

The CHAIRMAN (*Mr. Cameron*): I think we had better proceed. The questions and answers will then have been covered pretty extensively, and in this way it will take less time. So I will ask Mr. Lloyd to put his questions.

Mr. LLOYD: Dr. Cruickshank, I am reminded of the story of the town planner who suggested, when addressing a chamber of commerce meeting on the subject of urban renewal, there was so much to do that he felt like a flea in a nudist colony—he didn't know where to begin. I am not suffering from that predicament, and I will be restricted to a very short space of minutes.

I am trying to identify what you believe is an area of disagreement, which in fact may not be disagreement at all, but objective. I think perhaps Mr. McPherson might be the person I should more properly direct my questions to.

Mr. McPherson, the emphasis here, and with others who have been before us, has been to occupy our attention first with flat level old age security payments, and to stay away from a wage related pension plan. This has been the emphasis, but curiously enough we do not get from these people who advocate this, any precise indication of how much we should be involved in the welfare sector. I am certain, and I am sure you will agree with me, that if this should be very substantial you would be just as much against that as you are presently, apparently, against a wage related pension plan. I think you said that you certainly have to keep them in balance. Is that not so?

Mr. McPHERSON: In balance, yes.

Mr. LLOYD: So what you seek from this committee is assurances that we look at this objectively. Now, the reason you draw our attention to this fact is because you subscribe to the philosophy which I gather from reading comes from the economists, otherwise called the "prophets of possibilities". They never say anything too exact about what is going to happen. However, you indicate that there are three elements involved in growth, namely, consumption, net investment and government expenditures. When you say me must keep this in balance, because we must think in terms of economic growth, this is what you mean, is it not, that this committee when examining what it shall devote to pension planning by way of dollars derived from taxation that must be kept in balance with these other essential elements of growth in an economy. Do you say this?

Mr. McPHERSON: Yes, I have said that. I think we are talking of the same thing. I think if we are to have a maximum growth, we must have it balanced between consumption and investment, that, on the one hand, will provide a market, and on the other hand provide the capital to purchase the equipment.

Mr. LLOYD: We are concerned about the provincial holding of the funds, and if the provinces continue to hold the funds coming into their hands for capital construction to be provided to expand their services, it will not be so bad; but you are frightened that some new philosophy of finance will come about and that they will employ these funds for current purposes. You are giving us a warning, are you not, when you say this?

Mr. McPHERSON: I did not intend to warn this committee. My purpose was merely to let you look at this problem through our eyes. For instance, it might very well be that looking at it through the eyes of a province, a road in some particular area might be awfully important, but from a national viewpoint it might not.

Mr. LLOYD: On the other hand, emphasis on education is given throughout the report of the Economic Council of Canada, as well as on health. In this report, I notice in one section they emphasise education. In other words equipping our labour force and our earning people of the future for the tremendous and sometimes frightening technological changes that will hit us, and education requires facilities not only to house children but to train teachers, too. The provinces require capital funds for this purpose. So there is some ground in the argument of making it possible for provinces to do these things, provided it does not get out of balance—as long as you keep yourself on target.

Mr. McPHERSON: As a person who taught school in your native province, I would certainly agree with that.

Mr. LLOYD: On page 201 of the first annual review of the Economic Council —and, Dr. Cruickshank, you referred to stability in the labour force, and all of us agree we have a problem with portability—it is stated as follows:

> The prospects of economic growth will not automatically mean good news to all organizations, institutions and individuals. Progress produces casualties—

And then it goes on to enumerate the carriage makers, blacksmiths, manufacturers of steam locomotives, and the firemen on diesel engines. And it mentions the "displacement of existing machines by better machines."

The report goes on to say:

> Economic growth necessarily implies the expansion of some activities and the withering of others—

Hon. Mr. THORVALDSON: Mr. Chairman, on a point of order, is the gentleman making a statement, speech, or giving evidence; or is he proposing to answer questions, because I do not want to be sitting here if this continues, for a couple of days. Where are we getting?

Mr. LLOYD: Mr. Chairman, I object to this interruption.

Hon. Mr. THORVALDSON: Mr. Chairman, I raise this on a point of order. You are the Chairman, and I am wondering if it is appropriate to the work of the committee.

The CHAIRMAN (*Mr. Cameron*): Mr. Lloyd may be taking a sort of circuitous route to get to his point, but I have been very lenient. I wanted everything on the record and everybody's opinion. There has been some argument, and questions and preambles to questions. I think perhaps Mr. Lloyd understands that he should phrase his questions in as direct a method as possible. I appreciate what you are saying, senator, and I am also thinking that the Winnipef Chamber of Commerce will have a brief yet to be presented. However, I want everything on the record that the people want to put on the record.

Mr. LLOYD: I cannot miss the opportunity of saying, Mr. Chairman, that had the senator read this section in more detail he probably would have had more questions to put on the matter.

The report goes on to say:

> ...the development of new knowledge and better techniques and the obsolescence and upsetting of traditional and established know-how and methods.

And then we come to the frightening part:

> ...where there is little or no change there will be little or no growth.
> When sudden, severe and inequitable burdens—both economic and social—fall on individual workers and firms, and on particular communities, it is natural to expect strong pressures aimed at slowing down or even halting, the processes of change.

And the Lord knows the history of the *Hansard* of the House of Commons and every provincial government will illustrate this point too clearly. Finally:

> ...increasing attention has been given to an alternative approach to the problems created by rapid change—that of facilitating adjustment from declining to expanding activities, and of increasing the mobility and adaptability of resources in the interests of maximizing both their efficient use and their incomes. Such increased mobility of resources, especially of manpower resources, is needed not merely in terms of shifts from locations and sectors of declining activity to those of expanding activity, but even more, in terms of shifts between industries and occupations.

Now, Mr. McPherson, for the satisfaction of the senator who interjected, what are you saying to this committee that it should keep in mind, when you look to the future, that it should make sure to keep this balance between investment, consumption and government expenditures? If we are going to do this I suggest that what you are really saying is, "Be careful of what you put forward to the future is related to some reasonable degree of judgment as to the growth of the economy and where it might occur."

Mr. McPHERSON: Yes. There is going to be obsolescence in skills, there is going to obsolence in equipment too. We need the capital to educate people, and to provide the equipment.

Mr. LLOYD: So if we were to require all employers—and there is some suggestion that there are 15 or more—to adopt fully funded pension plans, the immediate cost would be substantially more, would it not, on the present economy, although in the long run it may not be so?

Mr. MCPHERSON: Again, I am an economist, not an actuary. However, it would seem to me that these funds would be in the private sector; and then you might have the question put, "Are there too many of these funds in the private sector?" Again, I would have to come back and say, "Strike a balance." My point is that I am particularly impressed with the capital need of this country. This is the point I am making. We are not even self sufficient today. Our capital—

Mr. LLOYD: Well, Mr. McPherson—

Hon. Mr. THORVALDSON: Again, I must ask that the witness be allowed to finish his answer.

Mr. LLOYD: I thought he had finished, Mr. Chairman. The senator is slipping.

Finally, Mr. McPherson, it has been said by those in the municipal field advancing an argument for more investment in urban renewal, for example, that this amount of capital expenditure while we are trying to adjust our economy to new conditions, is a good thing for Canada, when you invest in school buildings, public buildings, essential roads to growth, we will say—this is pervasive to the whole Canadian economy, and you require less of imports to operate this kind of economic sector. Are they right in this observation?

Mr. MCPHERSON: I think if we have an educated, a highly trained staff, then certainly our foreign dependence is greater. But if we train a corps of highly educated people and we have not the equipment they go elsewhere, and, unfortunately, that has been our history.

Mr. LLOYD: If we look at the choice of expanding welfare on the flat payment plan as against the Canada Pension Plan, you ask us to make sure we do not put out of balance our future needs for investment?

Mr. MCPHERSON: Yes.

The CHAIRMAN (*Mr. Cameron*): Mr. Cashin?

Mr. CASHIN: I want to make one little observation at this point. I am quite encouraged by all this. We have had a great many briefs come before us pointing out various gaps, and we have not had too many help in showing us how to tackle these gaps, but I think we are getting great support—I interpret this all as great support for the great war on poverty, and we can prepare for an atmosphere where we can pull out all the stops, as we did in wartime, and wage a great war on poverty.

The CHAIRMAN (*Mr. Cameron*): Mr. Francis?

Mr. FRANCIS: After two and a half hours of questioning, I will not take any more of the time of the committee.

The CHAIRMAN (*Mr. Cameron*): Mr. Macaluso?

Mr. MACALUSO: I will pass, and become the first questioner on the Winnipeg Chamber of Commerce.

(Translation)

Mr. CÔTÉ (*Longueuil*): Mr. Chairman, I did not intend to ask any questions this afternoon but I notice that the Canadian Board of Trade Delegation includes a French-speaking member, namely, Mr. Mondoux. I would not like to miss this opportunity of showing that we have all the required facilities to speak in either one of our two official languages. I would also like to congratulate the Board of Trade for submitting a brief in French as well as one in English to this committee. It was very courteous of them to do so.

Mr. Mondoux, my question is not a very important one but I would like to know whether your association represents private employers and managers. That is more or less the group your association represents is it not?

Mr. LÉON MONDOUX (*Actuary, Member of the Welfare Committee, Canadian Chamber of Commerce*): I hardly think we can look upon ourselves as representatives of private individuals. We prefer to think of ourselves as representatives of the business world, both big and small business. In matters such as this we have to recognize that big business is better equipped in staff to collect files like these. I really think we can say that we represent the business world, both small and the big business. Does that answer you question?

Mr. CÔTÉ (*Longueuil*): Yes. Most members of your association are private managers of employers who are self-employed, are they not?

Mr. MONDOUX: That is right.

Mr. CÔTÉ (*Longueuil*): In your brief you seem mainly concerned with the fate of people who are not on the labour market at the present time or to whom this pension plan will not apply. Are you also concerned with the fate of the employees you are responsible for?

Mr. MONDOUX: I do not know to what extent employees of the members of the Canadian Board of Trade have pension funds. As a matter of fact, this brings us back to the matter dealt with a moment ago and there is a lack of statistics in this connection. But to return to the first point you brought up, we are mainly concerned about the people who are not included because they are a source of trouble for the business world. They are a headache for us because they do not have enough to live on properly at the present time. There are very few of us who do not know of people or do not have people close to us, whose income is inadequate. That is precisely our concern—measures are taken but they do not solve these problems which will continue to create pressure despite the actions certain people want to take for other social measures. A person in distress is surrounded by ten, fifteen or twenty people so that the forces that might cure the disease are five or a hundred times greater. I am sorry, I have strayed a little from the subject, but I think you have touched on one of the most important points.

Mr. CÔTÉ (*Longueuil*): Is the opinion you are submitting in your comments regarding the plan that of your employees? Do you think it represents the opinion of the employers and managers rather than that of the employees who will be personally involved in this plan? Do you, in fact, criticize the plan because it does not include a certain class of society which is not on the labour market or will never be included in the plan. You do not seem to be particularly concerned about the fact that you have employees and that the opinion of your employees should also be taken into account to some extent in this plan.

Mr. W. J. MCNALLY (*Secretary, Welfare Committee, Canadian Chamber of Commerce*): If I may add a word to Mr. Mondoux's comment, on page 32 of the French version, Appendix 3, you will find an extract from the statement of principle of the Canadian Board of Trade. The principle which was passed at our annual assembly is given and I quote:

> It is of the highest importance for the individual and for our economy as a whole that Canadians be assured of security when their working years are over. Every Canadian should be able to retire with the knowledge that his subsistance is assured.

That statement of principle was approved by all our members at our annual assembly.

Mr. CÔTÉ (*Longueuil*): Do you think the pension plan under consideration at the present time deviates from that principle?

Mr. McNally: I am not sure.

Mr. Côté (*Longueuil*): Thank you.

Mr. Gray: I shall put my first questions in French in the spirit of biculturalism. I shall put my questions in French and English.

Therefore, I would like to very briefly refer the delegates before us to page 9 of the economic report filed with this committee, if they have it with them. I was very struck by this table headed, "Government outlays on health and social welfare as a per cent of Gross National Product at market prices for the year 1957," and the country leading the list is Germany, with a government outlay of 16.1 per cent of the Gross National Product. This interested me, because I seem to recall that Germany was held out as a country which performed an economic miracle—I think that is the term usually applied with respect to its development after the war, based on principles of competitive free enterprise; and the present Chancellor when minister of finance, or whatever they call him, was held out as the fellow responsible for it.

I also seem to recall a lot of their economy is export based, and not only that but based on the export of industrial goods. Could you indicate how it was possible for Germany to spend this percentage and still not run into the problems and risks you have held out before us with respect to the outlays that are forecast for our Canada Pension Plan?

Mr. McPherson: I agree with you that Germany is an example for the world, and because it is I try to get there at least once a year.

I remember a visit I paid to a competing company. I was in a plant in which women were filling, under sterile conditions, pharmaceuticals as fast as I have seen similar bottles being filled with beer in a Molson plant. This was a terrific rate of speed under very exacting conditions. I asked the wages of these women, and they were 50 cents an hour. There were four people in there who were very productive, but their wages were only 90 cents an hour. If they are going to have wages like this, certainly industry can afford these so-called fringe benefits and still compete.

If you are going to look at these social security payments you have to look at them in terms of the Canadian wage rates as well. However, with these low wage rates they can afford to, and in fact they have to, spend these very high amounts for social security.

Mr. Gray: I understand their wage rates have had some increase in recent years.

Mr. McPherson: In September of 1963 I talked to the Federation of German Industry which told me that during 1964 they were going to keep wage increases in line with productivity, and when I was back early in 1964 that seemed to be the trend. They were keeping wage increases in line with productivity.

Mr. Gray: Your suggestion is that our own Canadian line of wage is not in rough balance with Canadian productivity?

Mr. McPherson: No, I had no intention of saying such a thing.

Mr. Gray: You agree that there is some encouragement in the fact that Germany based its increases on competitive productivity and was able to spend 16.1 per cent of its gross national income for social welfare and not only survice but thrive. There is some encouragement for us in that.

Mr. McPherson: The comparison is not realistic because their wage rate probably is a quarter to a third or a third to a half of what ours is. Certainly in the chemical industry it is not comparable because it is even less than that.

Mr. Little: In other words, sir, 16 per cent of that is the same as 4 per cent of $2.

Mr. GRAY: Sixteen per cent of the total gross national product? You are basing this on the total aggregate of the national income. We are not taking percentages of wage rates.

Mr. LITTLE: But 16 per cent of G.N.P. based on a much lower standard of living.

Mr. GRAY: Let us step down to Sweden, with 11.7 per cent; how do their wage rates compare with ours?

Mr. McPHERSON: They are very substantially less, are they not?

Mr. GRAY: Are they? I was informed that their standard of living is really comparable to ours, and may even be higher in some regards, and I understand that their industry and economy is more export-based than our own.

Dr. CRUICKSHANK: Mr. McNally says that wages are very close in Sweden.

Mr. LITTLE: We cannot put an absolute figure on what is desirable and what is undesirable. We are suggesting that Canada is a growing country and requires as much capital as it can get. We ought to make sure that money put into this kind of scheme is very carefully drawn off.

Mr. GRAY: Could you estimate for us how much of the funds which will be coming from the private sector into the Canada Pension Plan would be funds that would have gone in any event for public investment—the only difference being that through the Canada Pension Plan they would be coming directly to the Government whereas if there had not been a Canada Pension Plan they would be passed through the financial market and the financial houses.

Mr. McPHERSON: You are asking me that as a question?

Mr. GRAY: Yes.

Mr. McPHERSON: I am sorry, but I did not mean to give you that impression. I think if it were not for the private pension plan then the market forces would have more of a decisive voice and these extra savings might go to the Government or might go to private industry. It would be the market forces that would be operative at the time.

Mr. GRAY: Would you not agree that in so far as the funds are the same they would have gone through the Government anyway, the only difference being that they would not have passed through the money market? That way the possible loss to private investments would not be as great as you might have felt it to be.

Mr. McPHERSON: I think I made this point, sir, that it is impossible to determine at this time whether there is the ability to tap this increased borrowing on the part of the provinces, or whether they will use this either to increase their expenditures or merely as an alternative form of borrowing.

That is a question I don't know the answer to, but the possibility of having these extra funds available will result in greater expenditures and they will not have the disciplines of the marketplace to bear to the extent that they would have had otherwise.

Mr. GRAY: Could you give me a reason why the decision of the marketplace should be the determining factor on the fulfilling of social needs in the country?

Mr. McPHERSON: I do think that industry makes certain decisions and I do think it quite right and proper that the Government and the agencies of the Government should have a voice. I think that is proper. I was merely suggesting the possibility that this accumulation of funds would so divert capital investments to this public sector that the disciplines and directives of the marketplace would not have a chance to operate.

In other words, I do suggest the possibility—and I am choosing my words very carefully—that the dice might be loaded with undue weight toward the public sector.

Mr. GRAY: In a phrase you used on page 11 of your brief you refer to "circumventing the guiding and controlling influence exercised by market forces of supply and demand, price and available capital, which is an important element in making the competitive enterprise system effective."

Now, perhaps you could tell me, assuming that we agree that this is the proper approach in so far as the private sector of the economic forces of supply and demand, profit and loss, and so on, are concerned, why decision as to filling social needs should be based on the very same factors that are used to make decisions, whether investments should be made for the purposes of making a profit, which is perfectly all right.

Mr. MCPHERSON: Perhaps we did not word our brief as carefully as we should. We were talking about this incremental payment of the provinces which might have been as a result of the scheme. I don't think anybody would debate right under today's conditions that social security measures, expenditures, capital expenditures, should be based on quite different criteria from certain expenditures in a private sector.

Mr. GRAY: You would agree that the question of making a profit, of taking in more than you pay out, is not necessarily a basic criterion for a program of Government social welfare?

Mr. MCPHERSON: I would agree.

Mr. GRAY: Just one final question. You made reference to the money market. How many people would you estimate form the money market from the point of view of making actual investment decisions with respect to bonds?

Mr. MCPHERSON: I think it is many.

Mr. GRAY: What proportion of this money market is made up through investments of major insurance companies and companies investing trust funds?

Mr. MCPHERSON: I have seen these figures, but they are not here and it has been so long since I have seen them that I would not like to give them to this committee because I might be quite wrong.

Dr. CRUICKSHANK: They are available, though.

Mr. GRAY: It occurred to me, when studying your brief, that a larger proportion of decisions are made by a small group of officers of life insurance companies and trust companies, and so on, who are not really elected or appointed by anybody.

Mr. MCPHERSON: But they do take into account the supply demand forces, and prices. They do take that into account and they are highly skilled in determining those forces.

Mr. GRAY: Supply demand forces which you and I agree should not be the criterion.

Mr. MCPHERSON: But that should be the criterion in determining private capital measures.

Mr. GRAY: Thank you very much.

The CHAIRMAN (*Mr. Cameron*): I think that concludes the questioning.

Mr. Monteith, Mr. Osborne has the answers to your questions and he has them written out.

Mr. MONTEITH: Just add them to the record and so long as I get the record in reasonable time that will be all right.

Mr. Munro: Do you need a motion for this?

The Chairman (*Mr. Cameron*): Mr. Osborne has suggested that he will have them typed and we will pass a motion that they be included as part of today's record and not tomorrow's. Is that agreed?

Mr. Knowles: Agreed.

The Chairman (*Mr. Cameron*): We wish to thank you, Dr. Cruickshank, and the members of the Chamber of Commerce, for your appearance here today, for your very complete and able brief, and for the very full and complete manner in which you have answered questions.

Thank you sincerely for coming. You have given us much information and a lot of things to think about.

Dr. Cruickshank: Mr. Cameron, and honourable gentlemen, may I express our appreciation for the good questioning and kind attention. Thank you very much.

The Chairman (*Mr. Cameron*): We shall proceed now to hear Mr. Hunter, on behalf of the Winnipeg Chamber of Commerce.

Mr. G. R. Hunter (*Representing the Winnipeg Chamber of Commerce*): Mr. Chairman and Members of the Committee, I am appearing on behalf of the Winnipeg Chamber of Commerce. Unfortunately our president, Mr. Edson Boyd, and the chairman of our special committee in charge of preparing this submission, Mr. Ellis, are unable to be present before the committee this week because of other commitments. Therefore, I am appearing to submit this submission and the representations to the members of this committee on behalf of the Winnipeg Chamber of Commerce.

Unfortunately, I am not fully informed about these matters, and neither Am I in the position of being an expert on any of the statements in this submission. I should like to express to the members of this committee the regrets of our president as well as those of the chairman of our special committee at their inability to be here today.

Copies of the submission have been placed in the hands of the committee, and I wish at this time to formally tender it for filing and, as I think the chairman mentioned earlier, it will be included in the record.

The Chairman (*Mr. Cameron*): That is correct.

Mr. Hunter: You have heard the representations made by the Canadian Chamber of Commerce. The Winnipeg Chamber of Commerce endorses the submission of the Canadian Chamber of Commerce. I believe the points made by the Winnipeg Chamber of Commerce are, by and large, covered by the representations and submissions made in the brief of the Canadian Chamber of Commerce, and we support the answers given by those appearing on behalf of the Canadian Chamber.

As I said earlier, I do not purport to be well versed in this field. I am, therefore, authorized on behalf of the Winnipeg Chamber to support the position of the Canadian Chamber, and also to support the position taken by the representatives of the Canadian Chamber in regard to the questions put to them today.

I have nothing further to add, Mr. Chairman.

The Chairman (*Mr. Cameron*): Thank you, Mr. Hunter, Mr. Macaluso?

Mr. Macaluso: At page 2 of your brief, Mr. Hunter, in paragraph one, you state:

> Most private pension plans invest their funds in corporate and Government securities and mortgages in agreed-upon ratios.

And further down you state:

> Private plans will still invest their funds in agreed-upon ratios but at reduced levels. This will mean pension funds will be investing less in corporate securities with the result that industry will turn more to foreign capital for its requirements.

Does the Winnipeg Chamber have any statistics as to the amount of funds that private pension funds invest in Government securities and mortgages?

Mr. HUNTER: It should be explained here—I asked the same question as to who agreed to the ratios, and I was given to understand that in each company, be it an insurance company or an investment company, the investing officers over a period of time agree, in each company, upon their own ratio of investment. Therefore, to the extent that the moneys coming into their hands through private pension funds are decreased, it is *ipso facto* the amount of money they have to put into Government securities.

Mr. MACALUSO: Has the Winnipeg Chamber any statistics, or are any statistics available, to support its contention as to how much of the funds from private plans went into the type of investments set out here, and how much less will be invested?

Mr. HUNTER: No, I do not believe they have statistical material on that.

Mr. MACALUSO: In paragraph 2 on page 2 you state:

> However, under the proposed plan a levy of 3.6 per cent on payroll will in fact increase taxes which will place Canada in a less competitive position in world markets.

Does the Chamber have any statistics to support the contention, and to help this committee decide on what increase in taxes there would be, and how it would affect the competitive position of exporters in Canada?

Mr. HUNTER: I think probably this last wording which is to the effect that it will increase taxes is too strong, but certainly it amounts to a compulsory contribution.

Mr. MACALUSO: Please do not misunderstand me. I am looking for help on this for myself only. If the Chamber has any statistics I would certainly like to know what they are—that is, statistics on which they base the statements in their brief. Now, in paragraph 3 on page 2, which goes over to page 3—

Mr. CANTELON: Supplemental to that, Mr. Chairman, may I interject a question? Does the witness mean this would reduce the quantity of money available for spending by private persons and, therefore, cause a diminution of industry in the country?

Mr. HUNTER: Yes. We look upon this as a compulsory contribution and therefore, equivalent to taxation.

Mr. MACALUSO: But on that you are not agreeing with Mr. Cantelon's statement. Would you repeat that, Mr. Cantelon? It is the consumer's money that is being spent.

Mr. CANTELON: That is right. Since this money will be taken from the hands of the consumers it obviously means there will be less money for them to spend.

Mr. MACALUSO: I think the Chamber is relating here to Canadian industry and its capital production investment, but I want to know if the Chamber has made any statistical study of this.

Mr. HUNTER: No, we did not, but we did feel it was an increase in the cost of production.

Mr. MACALUSO: You are assuming it is.

Mr. HUNTER: Well, it cannot come from nowhere.

Hon. Mr. THORVALDSON: It is an obvious fact.

Mr. MACALUSO: I do not need a voluntary submission from the senator.

Mr. BASFORD: The honourable senator is pinch-hitting for McCutcheon who is trying to hold his party together.

Mr. MACALUSO: At the bottom of page 2, Mr. Hunter, you state:

> The channeling of contributions into the hands of the provicial governments by way of loans is in avoidance of the constitutional responsibility to provide means for the provincial governments to meet their needs from their own resources of credit and taxation.

Mr. HUNTER: I think this is poor wording. I quite agree. I think what is intended is the traditional responsibility that the provinces finance their own activities.

Mr. MACALUSO: Do you not agree, Mr. Hunter—and this has nothing to do with the Canada Pension Plan—that in the field of pensions the provinces have the primary jurisdiction, and if they want to have their own plan—that is, Quebec, Ontario or Saskatchewan—and to have it funded then it is their primary responsibility, and they can do it if they want to?

Mr. HUNTER: That is right.

Mr. MACALUSO: So the federal government is not avoiding any constitutional responsibility at all.

Mr. HUNTER: I think what we are suggesting here is that traditionally the provinces are required to raise their funds under their own powers under the B.N.A. Act. Here is a method of borrowing through which we think there is an avoidance of the traditional responsibility of a provincial government to raise its money internally.

Mr. MACALUSO: Do not the provinces have this right to do so anyway—to have a funded pension plan if they want one, and to initiate it themselves?

Mr. HUNTER: Yes, that is right, but they have not done so.

Mr. MACALUSO: But by agreement at a federal-provincial conference two of them indicated they did want it.

Mr. HUNTER: If this was an agreed-upon plan between the federal Government and the provinces we would have no fault to find with it at all.

Mr. MACALUSO: In paragraph 4 you state:

> The making of these loans will temporarily insulate the provinces from the judgment of the market and of the taxpayer and encourages provinces to embark on uneconomic projects.

Does the Winnipeg Chamber actually believe that the provincial Government would use these moneys on uneconomic projects, Mr. Hunter?

Mr. HUNTER: I do not believe that we feel our provincial Government today would, no, but, on the other hand, we say exactly what Dr. McIntosh said earlier, that we believe the discipline of the market is a good thing, and if 20 years from now when a province has to raise money for a certain purpose, and if they go out on the open market for it then the market will look at the purpose for which the money is being raised, but if there is a secret storehouse for which they do not have to account we believe there would be risks involved.

Mr. MACALUSO: You are speaking of Manitoba?

Mr. HUNTER: Yes.

Mr. MACALUSO: Does the Chamber believe that any of the provincial governments of today would embark on any uneconomic project?

Mr. HUNTER: I would not hazard a comment on that question.

Mr. MACALUSO: Then, this is pretty redundant, is it not? At page 6, in paragraph 3(c), the brief states:

> An economic recession would imperil the plans, which presupposes constant growth and expansion in the economy.

Does the Chamber believe there is no reasonable danger in the future of an economic recession in Canada?

Mr. HUNTER: No.

Mr. MACALUSO: I assume that the chamber is conscious of the strength of Canada and of its continued growth.

Mr. HUNTER: I think the minister stated before this committee that the plan was based on a premise that there would be a constant increase in population, that there would be an increase in productivity and that there would be gradual inflation. That is fine, but if those premises do not work out, an economic recession might jeopardize the plan. We do not see that in the immediate future.

Hon. Mr. CROLL: She did not use the word "inflation". You said a "gradual inflation". The minister did not use that word.

Mr. HUNTER: I think she said there would be a gradual increase.

Hon. Mr. CROLL: An increase in the economy, but not "inflation,"—not that word.

Mr. MACALUSO: If the chamber is confident that the economic growth will continue, this presupposes the constant growth and expansion of the economy. In that case do you feel that in Canada we cannot afford to finance more social security in the way of this Canada Pension Plan?

Mr. HUNTER: The Winnipeg Chamber is not saying you should not have a plan. We take the same attitude as the Canadian Chamber of Commerce, we recognize the necessity for this and for assistance in other lines of social welfare, including education and health. We say that rather than shotgun one plan through, please satisfy yourselves as to the priorities and how far and how fast you are going to go.

Mr. MACALUSO: You have led yourself into my next question—the importance of establishing priorities. At page 6 you quote the Premier of Manitoba as stating:

> The Premier of Manitoba has stated that amounts expended for better education, medical care, and pensions should be determined on a basis of priority. The Chamber agrees with this principle.

He then goes on:

> In addition, better medical care will eventually have to be made available to everyone. The priorities must therefore be considered very carefully when it is realized better education, medical care and pensions can all be obtained with the yield of the proposed plan, provided there is no funding. We emphasize again the importance of establishing priorities and urge that no action in the field of pensions be taken until this has been done.

I find the statement of the Chamber to be contradictory. You say that providing there is no funding there is enough yield, that we can deal with problems of education, medical care, and pensions now. If I am wrong in that, please correct me.

Mr. HUNTER: I understand your confusion. I was confused also but I asked the authors what was intended. They say the amount of money that is proposed to be raised under the plan as presently constituted gives X dollars. This is for funding. If that sum of money were made available, it could do something better in all three fields, not in the pension field alone. It would be X dollars to be spent on these three items. All they are really saying is "We believe in establishing priorities, then find out how much we can tax the people of Canada." I agree that it is confusing and misleading.

Mr. MACALUSO: I am glad that you agree with me because the way it reads you are saying, "We can grant now more for education and go into a medical care scheme and pensions all at the same time."

Mr. HUNTER: No. I said that if you did not fund the plan there would be X dollars available for these other things.

Mr. MACALUSO: That is exactly what I am saying.

Hon. Mr. THORVALDSON: Don't keep reading things into your remarks.

Mr. MACALUSO: If I am out of order, the Chair can tell me so. I don't need Senator Thorvaldson to tell me.

Hon. Mr. THORVALDSON: You certainly do. If you misstate the witness, you are going to hear from me.

Mr. MACALUSO: Mr. Chairman, I will listen to your ruling and not to Senator Thorvaldson. I put it to the witness and it is on the record. If Senator Thorvaldson does not like the answer that is his tough luck.

Hon. Mr. CROLL: What the witness said was that it may be possible to make a start on some of these things. Let's take it easy on the witness.

Mr. MACALUSO: I am not arguing with the witness. I am very happy he is forthright.

Hon. Mr. CROLL: Let's continue.

Mr. MACALUSO: I have a last question. On page 5, at the bottom you are dealing with the problem of integrating private plans with this proposed plan. It is stated there that the problems are almost insuperable. Can you tell me what problems the Winnipeg Chamber sees and where are these problems of integration?

Mr. HUNTER: All I can say in answer is that numerous members of the Chamber who are employers, who represent national firms carrying on business in several provinces, perhaps nine or ten provinces, have an existing private pension plan, and being faced with this particular plan, which is a compulsory one, will have to tailor their existing plans. At the same time, Ontario has a pension plan—

Mr. MACALUSO: Not yet.

Mr. HUNTER: —the result of which amendments have to be made now to existing plans to conform with Ontario law. The question is, in amending these plans, do they amend them only for people in Ontario? If someone from Alberta moves to Ontario two years from now, what will be his status under the plan? This is a very serious matter for employers today. I have read in the *Minutes of Proceedings*, that Mr. Hart Clark says there is no problem in integrating the Federal Civil Service plan with this Canada Pension Plan. However, the people familiar with private plans—I have done a little work myself on this—find it is a very difficult job and will get worse if more provinces come in with their own plans.

Mr. MACALUSO: Is it your opinion, and that of the Chamber, that the problem would be less complex if there were one national plan across the country rather than several provinces having their own plans?

Mr. HUNTER: Any integration will be difficult. The private plan integrating with the present plan, with this indexing method, will make it quite difficult, according to what those who know have told me, and I know something about that part of it.

Hon. Mr. CROLL: I object to the wording "insuperable". I do not think anything would be insuperable to you.

Mr. FRANCIS: On page 3, paragraph 5, with reference to the funds loaned to the provinces, which "will remain as permanent loans," I would like to know why the Chamber feels that loans of this nature would be permanent. You say "the obligation of the provincial governments to repay will be almost academic." This is contrary to my understanding. As I understand it, the procedure would be to invest in securities which are standing issues by agreement with the provincial authorities which designate the class of securities within their province. I see no impediment to those securities. Why would the Chamber take the point of view that this would be a permanent loan?

Mr. HUNTER: If these moneys from the fund are made available to the provinces, the federal Government will take security for it. The interest will have to be paid. When it comes to refunding and paying it off, the provinces will have to go into the market and raise the money or get it from some other source. It may well be that, instead of going into the market, they will just refund to the federal Government. This is a fear. There is nothing to base it on, other than worry.

Mr. FRANCIS: There is a point here and it is the first time I have seen it in a brief, and at this stage there is not very much new in the briefs. Therefore, if the Chamber has anything further to add concerning the rules for investment of the funds or concerning the procedures under which the fund should operate, we would like you to bring it to our attention. The committee would be particularly pleased to receive some guidance. I felt I could not let this remark go without further comment.

Mr. HUNTER: It is a fear we have. We say "To the extent that the funds loaned to the provinces will remain as permanent loans." This is all we are concerned about. At some point they have to be refunded and probably be refinanced.

Mr. FRANCIS: There are repeated references in the brief to the adequacy of pensions. On page 5 you say:

> The proposed benefit formulae will in the future pay less than adequate benefits to many persons whose income is stopped or reduced due to retirement, disability or widowhood after the terms of the plan are fully effective.

And on page 10 you say:

> ...we believe that pensions paid out of public funds should be related to social adequacy rather than being income related.

I put the question to the Chamber, as I did to many other groups who have made this point—what are the guidelines to adequacy? Can you give this committee some guidance as to what the Chamber would consider to be adequate pensions or what principles we could adopt in deciding or what are adequate pensions?

Mr. HUNTER: What we have suggested there is that the principle should be "pay as you go" rather than as a funding, that it should have regard to the needy and not necessarily to the greedy. That is, we recognize that there are many people in Canada who will not be in a position to provide for their old age, notwithstanding the present old age assistance. There is a gap in there. Certainly, we recognize there are groups of our people that are under this assistance, but if someone is earning over $5,000 and then comes in and is already at age 70, I think the pension in that case is $254. If that man has a wife, well, if he is earning over the amount at that point, he has an opportunity of creating his own savings; so it is our view that it is for the people who have not an opportunity to earn or save to any extent, and for those people we say it is fine.

Mr. FRANCIS: How do you determine need? You have referred to people who earn in excess of $5,000. Are you relating it to a test of income?

Mr. HUNTER: No. I think that your old age assistance is income, and the amount of the old age assistance has moved up as it was felt necessary to move it up, but it can be taxed off, so that while exerybody gets it the person who does not need it is cut off, anyway. This was the same with children's allowances. People said it was wonderful because it cuts down administration and goes across the board, with no means test. The old age assistance is the same way. We say, fine, have it universally.

Mr. FRANCIS: But old age assistance is provided with a means test at ages 65 to 69.

Mr. HUNTER: I am speaking of the $75 at age 70. That to me makes a lot of sense, because although I am not suggesting, nor am I in a position to suggest, that it is adequate. If it is not then we suggest that this bill should complete the adequacy by supplementing the old age pension.

Mr. FRANCIS: Anyway, that is the argument.

The CHAIRMAN (*Mr. Cameron*): Mr. Knowles.

Mr. KNOWLES: Mr. Chairman, any delegation from Winnipeg should get full consideration. However, I think that perhaps at this time of the day the kind of consideration Mr. Hunter would like is brevity.

Mr. MUNRO: I wonder if the chamber supports Mr. Knowles of Winnipeg.

Mr. HUNTER: The chamber does not have a vote.

The CHAIRMAN (*Mr. Cameron*): Gentlemen, I have barely a quorum, if anybody is thinking of leaving.

Mr. KNOWLES: Mr. Hunter, as you pointed out in your brief from the Winnipeg chamber, it is somewhat parallel to the brief presented by the Canadian Chamber of Commerce, and that is my observation as well. There are one or two differences, perhaps they are very slight, or perhaps I am hoping there are one or two differences. The Canadian Chamber of Commerce expresses dissatisfaction with the Canada Pension Plan because it does not provide anything for those who are now 70 years of age or over, but I had difficulty getting from them what they would do for people of 70 or over. The Winnipeg chamber's brief also expresses dissatisfaction with Bill C-136, that it does not provide anything for those in greatest need, including the aged. However, on page 9 your first recommendation reads:

> 1. Increasing the benefits paid under the present old age security program.

If I may say so, that seems a little more precise and to the point than the sentence in the Canadian chamber's brief about modifying and reforming the act. Does the Winnipeg chamber stand behind this proposition that benefits under the old age security program should be increased?

Mr. HUNTER: That is what we have said. Old age security is a type of pension. These are all security measures, whether old age security, or a pension under Bill C-136, and we are suggesting that any pension really should be built on the old age security.

Mr. KNOWLES: Would you care to say to what extent you think the $75 now paid under old age security should be increased?

Mr. HUNTER: No, I am not in a position, unfortunately.

Mr. KNOWLES: One other question, admittedly in the field Mr. Macaluso was in, but the question will be brief. On page 7 you have a reference to education and medical care as having priority along with pensions. Then on page 10 you say, in the brief of the Winnipeg chamber:

> Too much spent on pensions, for example, must minimize the urgent advances required in education and health.

I am not trying to twist you into saying, as was tried earlier, that the amount of money being spent under the Canada Pension Plan is now too little or too much; but is it fair to assume from your several references to medical care that the Winnipeg chamber does support some kind of a government medical care program?

Mr. HUNTER: We feel that in the field of education and medical care and pensions, these are very important to all Canadians, and important to all levels of government and that there should be a planning and an apportionment, an establishment of priorities. With that, of course, goes how much is it going to cost, and how far and how fast can we go into this field. I think, having done that, as long as it is a well-planned matter, I do not think the Winnipeg chamber is saying that the government should not be in the field of medical care if it is established they should be; if private enterprise is leaving gaps, then those gaps should be filled. However, all we are suggesting here, as the premier said, and as other responsible people have said, as we have got these requirements, let us add them up and put priorities on them, and see what it is going to cost.

Mr. KNOWLES: To put it in your own words, then, provided proper priorities are considered, provided the cost is considered, the chamber is not against government programs in the field of medical care?

Mr. HUNTER: And provided its programs are integrated and co-ordinated and worked out with the provinces. I mean, that is the only way you can work properly, by integration and co-ordination.

Mr. KNOWLES: And in that, we have the Winnipeg chamber as well as the Canadian Chamber of Commerce.

The CHAIRMAN (*Mr. Cameron*): Have you finished Mr. Knowles?

Mr. KNOWLES: Yes, for now.

Mr. CÔTÉ (*Longueuil*): I have one question. Could you tell me if Mr. Kilgour is a member of your chamber of commerce?

Mr. HUNTER: His company is.

Mr. CÔTÉ (*Longueuil*): But not Mr. Kilgour?

Mr. HUNTER: I don't believe he is, I am not sure. Some of his employees are, but I don't think he himself is.

Hon. Mr. THORVALDSON: The Winnipeg Chamber of Commerce has mainly corporate members, like The Great-West Life Insurance is a corporate member, and probably several members of that company are allotted as members.

Mr. HUNTER: That is right, depending on the number of employees in the company. The company pays a membership fee, and they are allotted six or eight, whatever it is.

Mr. LLOYD: That is throughout Canada?

Mr. HUNTER: I believe throughout Canada.

Mr. BASFORD: Why is it that the Winnipeg Chamber of Commerce has presented a brief, while as far as I know no requests from other individual chambers or from boards of trade have been made?

The CHAIRMAN (*Mr. Cameron*): We had a request from the Sudbury Chamber of Commerce.

The meeting will adjourn. We wish to thank you gentlemen, and through you the Winnipeg Chamber of Commerce, for your brief and your presentation today. We regret, as you do, that Mr. Edson Boyd, President of the Winnipeg Chamber of Commerce, and also Mr. J. T. Ellis, Chairman of the Public Finance and Taxation Committee of your Chamber, were not able to be present, but we feel that you have been very able substitutes, and we wish to thank you most sincerely.

EVENING SITTING

TUESDAY, January 19, 1965.

The CHAIRMAN (*Mr. Cameron*): Ladies and gentlemen, we have a quorum. I was waiting for a little while as I would like to see Mr. Monteith and Mr. Knowles here before we start. I guess they will be here very shortly. I believe Mr. Munro wants to say something to the committee before we start.

Mr. MUNRO: Mr. Chairman, in welcoming Mr. Kilgour back with us I thought it would be appropriate to refer to the last time that he was before us along with the Canadian Life Officers Association. He did not come back in the afternoon, but an apology was advanced at that time to the Canadian Life Officers Association—and to Mr. Kilgour, had he been present. If he felt there was any discourtesy shown to him it certainly was not intended, and we hope that he was not offended in any way. If the questions did sound belligerent at times we did not mean them to be. We just got rather absorbed in the whole question of pensions. So I hope Mr. Kilgour is not offended in any way, and it is very nice to have you back.

The CHAIRMAN (*Mr. Cameron*): I am sure that he is not, coming from the west, where they are used to robust living and where clean, hard fighting is considered quite in order. It may have been certain remarks were made which, on reflection, the person who made them would have wished that he had not made, but I think that Mr. Kilgour understands perfectly well that no discourtesy was intended and, certainly, as chairman tonight I know you will be asking pointed questions and I expect Mr. Kilgour will be giving pointed answers. We understand that. Without any further remarks, Mr. Kilgour, the meeting is now yours to address.

Mr. D. E. KILGOUR (*President, The Great-West Life Assurance Company*): Mr. Chairman, ladies and gentlemen, may I thank you for this opportunity to appear here tonight? May I also acknowledge Mr. Munro's remarks and assure you that I accept them, and that I had no possible misgivings about there being a genuine desire on everybody's part to contribute to our understanding of the problem. I am very grateful for your remarks.

As I understand the process here, you do not wish submissions read in any detail, and I have tried very briefly to summarize the gist of my submission.

First, may I remind the committee that this brief is submitted on my own behalf, as an individual. It has no connection with any company or association, and I am appearing on behalf of myself. Secondly, I have tried to confine my discussion to what the Canada Pension Plan does or does not do for

Canadians as individuals. I am staying completely clear of the economic or many other parts of the plan. My initial approach is to restate the principle which was stated to Parliament as the objective of the bill. I will not repeat this again, but you will observe this on page 2 of my submission, concluding with the words: "It will benefit virtually everyone."

Then that broad sweep, that it "will establish a basic level of security for all Canadians whatever their individual circumstances, whatever moves they make, and whatever economic changes occur." Then I make the statement that, "Unfortunately, the more the plan is studied, the more clearly does it fail to achieve its stated objective."

I regret that criticism of the Canada Pension Plan may be construed by some as saying that those who worked so laboriously to produce this bill are either inept or thoughtless of its shortcomings. I do not mean that in any sense, and I hope criticism of this plan is not in any way directed to its authors. I have the greatest respect for those who produced this bill, embodying as it does such diverse principles. A wage-related plan merged with a plan primarily designed to create a fund, complicated by indexing, constitutes almost impossible terms of reference for its authors, in my opinion, and it is throughout the basic principles which need re-examination, not the architecture. So, if I can release the architects of responsibility, I say it is the principles which need re-examination.

Then I go on, in turn, to examine the treatment of the present aged which, I suggest, is not good, pension benefits as they apply to different segments of the population, disability benefits, death benefits—and in all of these I suggest the character of the benefits does not fit the facts of Canadian life. Then I have a section on its application to the women of Canada, with the particular view that married women fare extraordinarily unfortunately. Then I suggest—and I use some figures to attempt to illustrate it—that perhaps one-quarter to one-third of the population cannot come under the plan by our present collection machinery.

Then I have an observation on the philosophy of this plan as distinct from the Old Age Security plan. Then I have some very brief recommendations, and finally I express the view which I can assure you is a sincere one, that:

> The Canada Pension Plan can be deemed to have served a very valuable purpose in having focused critical public examination on our social welfare problems and by its specific trial solutions pointed the ways to better ones.

This, Mr. Chairman, is the burden of my submission, and I would be delighted to try to answer any questions on any part of it or on anything else constructive which I can contribute to the committee.

The CHAIRMAN (*Mr. Cameron*): Now we are open for questions. Mr. Cantelon is the first one.

Mr. CANTELON: I am flattered at being the first to ask questions this evening, Mr. Chairman.

Mr. Kilgour, I am very much intrigued by your comment on page 3, in which you say that this act has shortcomings and that it creates social inequity by act of Parliament. You consider this inequity would be completely contrary to our national interest and incompatible with the ideals and concepts of social justice which should guide social legislation. I would be very interested in having you elaborate on this.

Mr. KILGOUR: Mr. Chairman, in response to that question, I have tried in part to state that in the part of the submission leading up to that, but, in fact, this is going to create such division between those people that get benefits and those people who do not that there will be an ever-widening breach between the "haves" and the "have-nots". This is not done by any careful appraisal of the individual involved or his circumstances. Rather it is done by saying, "You qualify. You are in the top one-third of the national economy, so you get big benefits. You are in the bottom one-third and didn't contribute, so you get nothing." That is, in effect, a direction by Parliament of where tax revenues will be re-allocated. I think I substantiated under pensions disability and death benefits. In other instances there are very harsh examples of how you get it or you do not, by act of Parliament. That is quite different than sort of "rub of the green", "that is tough luck". This is what Parliament says you get or do not get.

Mr. CANTELON: We have had a great deal of discussion and have had the matter of windfalls you mentioned raised by many others on many occasions. I wonder if you would care to say what you mean by that term, because you used it on page 5, the last of the first paragraph there, and how, in your opinion, does Bill C-136 create these windfalls?

Mr. KILGOUR: Mr. Chairman, these terms "windfall" or "bonus" or "unearned increment" I use, and I think they are generally used, to refer to those benefits which accrue to an individual that have no true relationship to his contribution to the plan. We have seen the illustrations of people over $5,000 a year in the fifties, or under 60, who can get a bonus of more than $10,000 or up to $12,000 per individual more than they contribute. The same thing is true of the death benefits, that one can get death benefits that, in comparison to others, are quite disproportionate. The same thing would be true in the case of disability benefits. A wage-related plan starting off with short maturity such as this creates very large bonuses for individuals—unfortunately, the largest in the well-to-do group.

Mr. CANTELON: Isn't this true of a private pension plan too which is earnings-related?

Mr. KILGOUR: Mr. Chairman, I would answer that by saying no. The private pension plan is an approach by an employer as a liability. He has had some people working for him for 20 or 30 years and he has pocketed the profits, accrued them in surplus, but without providing for their pension liabilities. He decides that he had better change this and so he sits down and as carefully as he can he estimates his liability to each individual person in terms of that person's service and the salary that has been paid over that period of service. Usually, strict equity is a guide in such an appraisal.

Then he adds up this liability, and, if he can afford it, he takes it on. This is a discharge of an incurred liability in his judgment that he is making on a total equitable basis as among his employees, and perhaps he pays for it over 10 or 20 years. However, there is none of the arbitrary quality where "I give so-and-so this present and I give so-and-so nothing," because of some vagary of fortune.

The employers almost invariably, in setting up pension plans, try to treat their group with strict equity, and, if they can afford the bill, they adopt the measure within their pocketbooks, treating all people on strict equity in relation to the plan.

Mr. CANTELON: I gather then that you do not think this bill treats everybody in this plan with strict equity.

Mr. KILGOUR: On the contrary. Many people get very large benefits because they are substantial earners, and some people get absolutely nothing, not because they don't earn anything but because they do not earn enough or don't qualify under the plan. So I think the non-equity business is pretty clearly evident, in my judgment.

Mr. CANTELON: Under the disability section, beginning on page 6, and right at the beginning of that section, I am very intrigued by the fact that you state that "benefits pursuant to such a complex formula as that contained in the bill will produce results which are so inequitable as to defy explanation."

This refers to disability, and I was under the impression that the terms of the bill were good as to disability. If I am wrong please correct me.

Mr. KILGOUR: Well, it is very difficult to understand the disability plan that is not precise. I start off with the fact that nobody who is disabled in 1965, 1966, 1967, 1968 or 1969 gets anything. I don't know how you will explain to a group of people—"You just got disabled a little too soon. We did not quite count you in."

All disability plans to my knowledge, and we sell many of them, cover employees as of a certain day, and if a fellow is disabled tomorrow you pay him. You don't just say, "If you wait five years we will pay."

The essence of a benefit is that it gives some feeling of security, and it is too bad if my heart attack takes place two years from now rather than five years because five years from now I am home free whereas in two years I am one of the outs.

Similarly, people are in and out of the work force and will have to have almost an actuary beside their elbows to know if they are covered and by how much when disability occurs.

The fact is that you have got a formula which is quite complicated, and I don't undertake to remember it off by heart, but in effect you have to have contributed five out of the last 10 years and to have given one-third of the time back, and you may have worked 10 years and got married and then gone back on the work force, and are you covered or not? I don't know.

This, I suggest, takes extraordinary calculation. I hold the view that benefits that are designed for welfare should be utterly explicit. If you are a widow with children you get so many dollars from the moment of the legislation, or it can even be retroactive, if you are disabled and it is proven that you get certain disability benefits. But it is a very complex bill to go through and try to discover whether you are covered, and by how much.

Mr. CANTELON: Then, first of all, you are disturbed by the fact that it is complex.

Mr. KILGOUR: And by the fact that it does not look after the bottom third of the population.

Mr. CANTELON: I have another question I wish to ask. Further on, on page 11, you are discussing the way that women are treated by the benefits that are brought in, and right at the bottom of the page you mention that "The real impact of the Canada Pension Plan on married women will flow from their husbands' financial success." This is inherent in the plan, and you go on to give an illustration here that shows that the wife may gain no benefits at all from the plan.

I wonder if you would care to enlarge on that.

Mr. KILGOUR: Yes. I think this is inherent in the plan. A wife earns nothing by herself. She may be the most valuable member of the married team, but because she does not have an income tax to report she gets no benefit, contrary to old age security in which a wife achieving the age of 70 gets $75 a month as a person.

However, this plan says that if you have not worked under the Canada Pension Plan you get nothing, and I use the illustration of the working couple in which both parties work and get much higher benefits than the couple where the husband works and earns a gross income as much as the other two together but his wife has stayed at home with the family. She suffers both in the retirement of the husband and in the event of his death. She gets less than if she had worked in the labour force. This puts a great premium on every woman who will have been in the labour force in the next decade, and particularly in her later years.

Unless a wife's husband dies before her, or unless she was a good earner, she can say that the Canada Pension Plan is pretty thin doings and does not do much for her. And I think this is an accurate appraisal, and that staying home and bringing up the family ranks rather low in the benefits from the Canada Pension Plan.

Mr. CANTELON: Well, it would encourage the husband to put his wife out to work.

Mr. KILGOUR: I don't think you have to encourage him.

Mr. CANTELON: Well, I think I have taken enough of your time, sir.

The CHAIRMAN: Mr. Basford.

Mr. BASFORD: I did not realize I was so high on the list. As a fellow Winnipeger I wish to welcome you to the committee, Mr. Kilgour.

Mr. MONTEITH: Don't let them hear that out in Vancouver.

Mr. BASFORD: Winnipegers are always welcome in Vancouver. I have one question involving me as a Member of Parliament. You come before us, sir, and I appreciate your interest and sincerity in coming before us as the president of a large insurance company, one which, according to your last annual report, is eminent in the field of pension group annuities and group pensions, and you come before us and criticize this bill as a sort of defender of the little people of Canada.

However, also before the committee have come the Canadian Welfare Council, which has told us in substance to pass the legislation, the Canadian Federation of Agriculture, which again has told us to pass the legislation, and I understand the Canadian Labour of Congress will tell us to pass the legislation. I also have done some research in my own area and have raised a little storm of my own in Vancouver.

Hon. Mr. THORVALDSON: Are you referring to the recent snowstorms? They were dandies.

Mr. BASFORD: They were most unusual. So were my own.

Mr. PRITTIE: I didn't know you had raised any storms.

Mr. BASFORD: I have correspondence; for example, correspondence from various employee groups, the office workers, civic employees, who are the ditch diggers, sewer diggers—the little people—and I think upholsterers, carpenters, plumbers, taxicab drivers, woodworkers, sheet metal workers, boilermakers, and—

Hon. Mr. THORVALDSON: Mr. Chairman, on a point of order; I want to suggest that this type of question is wholly inappropriate and improper in this committee. For instance, a moment ago, if I may say so, the honourable gentleman suggested that Mr. Kilgour being the president of a life insurance company, should not come here as the protector of the little people of Canada. There is an innuendo there that is wholly inappropriate.

The CHAIRMAN (*Mr. Cameron*): Yes, I noticed it, and I think a better word could have been used.

Hon. Mr. THORVALDSON: Motives should not be imputed, and I think it is wholly improper. I think questions can be put without these long statements, preambles and irrelevancies that have nothing to do with the case. Mr. Chairman, I appeal to you.

Mr. BASFORD: Mr. Chairman, on the point of order raised by Senator Thorvaldson, may I say I imputed not motives. I recognize Mr. Kilgour's sincerity in coming here, and I am surprised that Senator Thorvaldson, whom I am told is the representative in the Senate of the financial interests of Canada, being so terribly sensitive about the point.

Mr. KILGOUR: While acknowledging Senator Thorvaldson's defensive measures, may I say that I am quite capable of handling Mr. Basford's question.

Hon. Mr. THORVALDSON: You should see my bank book.

The CHAIRMAN (*Mr. Cameron*): I think you could have said that Mr. Kilgour is the advocate of one-third of the population which is not receiving benefits. He is not the defender but the advocate. I think that is a proper position to take.

Mr. BASFORD: I am not trying to put Mr. Kilgour on the spot. I am trying to obtain help to answer a question that I have in my mind as a member of Parliament. I have had correspondence from the painters, office cleaners, hod carriers, labourers and delivery truck drivers, and so on, all of whom seem to be pretty ordinary people—those whom, in common language we call the ordinary people, and certainly not people whom you call in your brief the "haves". I find this language of "haves" and "have-nots" not too helpful. But, in view of the representations that have been made to me and to the members of the committee by the Canadian Welfare Council and these other very prestigious and authoritative groups, surely to accept your submission we must accept the premise that these groups are not interested in the ordinary people of Canada, or they do not know what they are talking about.

Mr. KILGOUR: If I can comment on Mr. Basford's question, Mr. Chairman, I will say that I think in a political sense his question is well put. Why do I choose, if you like, to criticize a plan for what it does not do for a lot of people in Canada. I think my only reason, Mr. Chairman, is that I understand pension planning, and I think I know a little bit about Canada. I am not at all satisfied that the hod carriers or the boiler makers and the Canadian Association of Agricultural Workers have any greater capacity to understand Bill C-136 than a great many Canadians. Many of them are going by the headlines which say that this puts a great floor of social insurance under all Canadians, whatever they do and whatever their economic circumstances may happen to be. My point is that this is not going to happen. The Canadian Federation of Agriculture, which put in a brief and if I read the newspapers correctly, said they hope the people receiving around $600 a year can get some benefit. In my judgment—and it is an individual judgment—this is naive. Two-thirds of the farmers of Canada do not have taxable incomes. How are they going to get under the Canada Pension Plan. If the Canadian Federation of Agriculture thinks this is going to help the majority of their members then, in my opinion, they are wrong, and perhaps they will have a new executive five years from now when the farmers of Canada understand what is happening.

I do not intend to be provocative. I am just expressing my views in a manner that I have come to develop.

Mr. LLOYD: You have satisfied the senator, in any event, that you do not need his help.

Mr. KILGOUR: In fact, Mr. Chairman, on Mr. Basford's very point, if you would care to enquire how these benefits, pensions, disability and death benefits are going to help the underprivileged people of Canada, then I would be glad to have any error in my brief pointed out.

Mr. BASFORD: I wanted you to help me with my problem which I have as a member of Parliament sitting, reading and weighing the representations that come from these various groups, and whom I think are quite knowledgeable.

The CHAIRMAN (*Mr. Cameron*): Mrs. Rideout?

Mrs. RIDEOUT: Mr. Kilgour, I did not think I was going to get here quite as fast either. At page 15 of your brief, in the last paragraph—this does not really relate to my remarks on the Canada Pension Plan, but it interested me—you make the point about the provinces attempting to collect hospitalization premiums from the residents. If I may quote from your brief, you say:

> Some provinces, such as Quebec, did not even try, although the strain on provincial budgets has been very great. Others tried it and gave it up.

I am presuming that in the "others" my province of New Brunswick is included?

Mr. KILGOUR: Yes.

Mrs. RIDEOUT: I should like to point out, sir, that the Province of New Brunswick—and I am saying this because I have the honour of being the only woman representing the province of New Brunswick in the House of Commons —did not give it up. It was an election promise by our Liberal Government, and one of the platforms of their election campaign, an election which they won mainly because, I would think, they promised to give it up. Since then it has not affected New Brunswick financially. To my knowledge we are now in the midst of an economic boom such as we have never known before. Do not think because I am saying this that I am suggesting that when you die you should go to New Brunswick and not to heaven, but we are certainly on the way, and the giving up of the hospitalization tax had nothing to do with it.

Mr. KILGOUR: I may have come to an erroneous conclusion, but my logic was in this vein: Hospitalization is concerned with relatively low premiums. It was a bargain because the federal Government was paying about half the cost. If the people were so unwilling to pay hospitalization premiums that they would turn out the Government that imposed them—you did say it was an election platform?

Mrs. RIDEOUT: Yes.

Mr. KILGOUR: If the people were happy to get rid of a premium of $18, $24 or $48—I have forgotten what they were in New Brunswick, but premiums of that size—if they were so anxious to get of them that they voted in a government that promised to do away with them, them how many of those people will be keen to pay a tax that starts at $600?

Mrs. RIDEOUT: My point was only to assure you that New Brunswick did not give it up, really. They voted to give it up, yes, but at the same time they still have their hospitalization.

Mr. KILGOUR: But without making any individual contributions to it?

Mrs. RIDEOUT: The point is that they felt so strongly against the premium that they were perfectly willing to give up the government that brought it in. But, I do not agree with you that the pension plan will be received in that manner. I think that the people look forward to a pension plan, and want it.

Mr. KILGOUR: More than hospitalization?

Mrs. RIDEOUT: More than hospitalization, yes, because it is something for their future and not for their immediate use.

Mr. KILGOUR: Mr. Chairman, obviously this is a matter on which one may hold his or her own opinion. I suggest that the Liberal Party felt hospitalization should come first. They put it in a long time ago.

Mr. MONTEITH: Not as far back as 1919.

Mr. KILGOUR: No, but it was a long time ago, and most provinces have concluded that the collection of small premiums is not worth the candle. We have only three provinces left doing it in Canada. It is very unpopular amongst people of moderate incomes, especially when they are harried—there are some pretty severe provisions in this bill to take care of your not paying your contribution.

Mrs. RIDEOUT: You are comparing this hospitalization tax with the Canada Pension Plan.

Mr. KILGOUR: It is another Government contributory scheme.

Mrs. RIDEOUT: It is just a matter of personal opinion. I do not relate them together, I am sorry. Thank you very much.

Hon. Mr. CROLL: Mr. Kilgour, earlier you said that under this bill you get it or you do not get it by an Act of Parliament; is that right?

Mr. KILGOUR: Yes.

Hon. Mr. CROLL: In the 1950 bill you got it or you did not get it by an Act of Parliament?

Mr. KILGOUR: Mr. Chairman, I make a great difference by pointing out that virtually everybody gets it under the Old Age Security Act.

Hon. Mr. CROLL: Everybody who was 70 years and over got it.

Mr. KILGOUR: And would get it upon attaining the age of 70.

Hon. Mr. CROLL: Yes, but that was by an Act of Parliament. We drew a line of demarcation between the two sets of voters, and we said to one set: "You will get it," and to the other "You will not get it no matter how great your need," and we said that by Act of Parliament.

Mr. KILGOUR: That is right.

Hon. Mr. CROLL: That is exactly what we are doing in another atmosphere and for another purpose, but the emphasis is that either you get it or you do not get it by Act of Parliament. My point is that this is exactly the same thing. It is something else, but it has the same principle, has it not?

Mr. KILGOUR: I would respectfully differ with that as the only security that all Canadians, subject to minor residential requirements, achieve this benefit at age 70—all Canadians, whoever they are. The pension plan gives old age pensions as high as $104.50 or $104.17 a month; or nothing at the bottom of the scale, because you did not earn enough. There is a death benefit of $80 odd at the top of the scale, plus allowances for children; or nothing if you do not qualify. To me, a death benefit, if you take it as $44 to $55, a flat benefit for widows, merits a lot more sense in present day Canada than $88 for me and nothing for someone who was unfortunate.

Hon. Mr. CROLL: I do not want to disagree with your answer but you missed the important point, and it is not such a difficult point, if you listen. I quote your words, that you do not do it by this bill, you do it by an act of Parliament. What I am saying is that in the bill in 1950 you got or you did not get it by an act of Parliament. If you were 70 you got it, if you were 69, or just one day away from 70, you did not get it.

Mr. KILGOUR: Until you became 70.

Hon. Mr. CROLL: But in this case you say that if you are 40 you are in a pretty good position to be able to get some real benefits out of this. As a matter of fact you call them windfalls. You qualify immediately under the new act, but it is also a demarkation between citizens by an act of Parliament.

Mr. KILGOUR: I am trying to be thoughtful. I thought there was a difference between a person who benefits under a universal benefit on attaining an age and one in which there are some rigid limitations, where some persons get a large benefit and other persons get a small benefit or none at all. I think there is quite a difference, but this may not appeal to the committee.

Hon. Mr. CROLL: I have no hesitation in putting you on the spot, so would you listen to what I have to read:

> One could well ask what are we waiting for? The joint Senate-Commons Committee of 1950 was so successful in establishing Old Age Security with harmoney and wide public approval that one of Mark Twain's observations is very appropriate, "Few things are harder to put up with than the annoyance of a good example."

Do you know the author?

Mr. KILGOUR: I subscribe to that, sir.

Hon. Mr. CROLL: That was a statement you made at the 72nd annual meeting of The Great-West Life Assurance Company, in Winnipeg in 1964.

Mr. KILGOUR: I have often done wrong before but I do not think I was doing so in those remarks. I think it is true that if one were to give this to a committee, and particularly if you were to designate some terms of reference, one could have a pension plan, in addition to our old age security plan, designed relatively quickly, that would meet very well the true test of what the Canadian people need.

Unfortunately, this bill has been drafted on preordained premises. It must be wage related, then later it must have a fund. If we really were to define the needs of the Canadian people, I am satisfied that an extension of old age security could be designed as harmoniously and as intelligently as it was in 1950.

Hon. Mr. CROLL: I was very much struck by those words. I have a great number of clippings. You were then advocating royal commissions—not on this.

Mr. KILGOUR: On this, too. I advocated a lot of things.

Hon. Mr. CROLL: I think what you said was:

> Prompt reference to a joint Senate-Commons Committee can achieve many things. Regardless of one's views, pro or con, on any particular aspect of the Plan, there can only be public good emerge from the healthful airing, informed debate and study which only such an inquiry can achieve.

Mr. KILGOUR: Yes, but I made those remarks terribly thoughtfully and my only regret is that they came after the second reading of the bill. I could have hoped that they would come before the bill was introduced. I meant it very seriously.

Hon. Mr. THORVALDSON: Might I ask the honourable senator for an explanation of the meaning of his question. In other words, when you made that quotation, are you referring to the type of inquiry that was made on the old age pensions committee in 1950, because if you are, the chamber of commerce delegates this afternoon took exactly the same position in regard to this as the witness does now and as indicated by Mr. Croll.

Hon. Mr. CROLL: Mr. Kilgour knew very well what he was talking about at the time he made these assertions. He knew the difference between the committee in 1950, that had a term of reference without a bill, as compared with this committee with a term of reference with a bill, at the time he made the statement; so there can be no question about that. What you were asking for at that time was for a joint Senate and House of Commons committee?

Mr. KILGOUR: Before a bill.

Hon. Mr. CROLL: There was nothing said here about "before a bill".

Hon. Mr. THORVALDSON: There was no bill at that time.

Mr. KILGOUR: I appreciate the senator's thoughtfulness but, frankly, sir, that statement was made long before any bill was even within range or sight and it was that there be a royal commission or a parliamentary committee. I referred to the King-Lesage Committee. There was a deliberate desire that this subject could be aired thoughtfully before a bill was presented. I believe I am correct in my facts and I trust that the Senate will bear me out in this now.

A MEMBER: What is the date?

Hon. Mr. CROLL: February 4,...1964.

A MEMBER: It was long before the bill.

Mr. KNOWLES: That was between the first and second versions. We are on the third version now.

Hon. Mr. CROLL: It says:

> Its recommendations would develop a measure in which Canadians could have confidence and pride.

Is that still your opinion?

Hon. Mr. MCCUTCHEON: Not of this committee.

Hon. Mr. CROLL: The question I ask is, is that still your view?

Mr. KILGOUR: I can answer this by referring back to my submission, in which I respectfully submit that the Canada Pension Plan should properly be rejected, and then I qualify that by saying that:

> If sound, equitable principles are established, a comprehensive alternative available to all Canadians at lesser cost can be achieved through a broad extension of the present Old Age Security Act.

I firmly believe that to be the case. If it were within the terms of reference, or within the mood of this committee, seriously to lay down one, two or three accepted principles, such an extension could be developed promptly, exactly as it was in 1950. But that may not be within the political orbit. However, I still hold to the principle, though if it is not properly within the terms of reference of the committee I cannot speak on it.

The CHAIRMAN (*Mr. Cameron*): You still think a committee of the Senate and House of Commons is of real value?

Mr. KILGOUR: I certainly do.

Hon. Mr. MCCUTCHEON: Before a bill.

Mr. KILGOUR: I am one of those who believe in the parliamentary system and who believe that if a Senate-House of Commons committee finds something unworthy of being passed, it will not be passed.

Mr. BASFORD: As a matter of privilege, we should welcome back to the committee Mr. McCutcheon whose presence must indicate the leadership crisis is over.

Hon. Mr. MCCUTCHEON: I did not understand there had been one.

Mr. LLOYD: Everyone will admit that if you had a choice and were starting from scratch one could deal with it from the economic angle or other angles, one could take considerations of provincial and federal governments and one could agree as to a point of time as to what they ought do. There are considerable merits in what you say about the flat rate form of assistance to people. Otherwise there would not be any Old Age Security Act. The Old Age Security Act will continue after the Canada Pension Plan is established.

Now, on page 20 you make a statement about certain situations. In the second paragraph you say:

> Contrast this with a widow supporting herself, waiting for age 70 when she will have $75 a month out of which she must pay her total upkeep.

Now, I put this to you. Anybody reading that kind of statement, such as people who do not know economics, and surely a lot of us do not know the finer points about actuarial science, would look at this and say, "Well, this is the Canada Pension Plan—it doesn't do anything for her. This gentleman is pointing out to us that it is deficient. What does he suggest we ought to do? Should we increase the old age security from $75 to $150?"

Mr. KILGOUR: Mr. Chairman, in reply to that, I would quite categorically advocate that there should be a flat rate system of pensions or benefits for all widows in Canada; and one may choose to redefine this by saying certain age categories and adding on to it that the Canada Pension Plan does give certain benefits for children. However, to me, a bill which says that we will ignore widows of 65, anyone up to 65—six, seven, eight, nine—let them raise their children any way they like—

Mr. LLOYD: From your enlightened position, Mr. Kilgour, and your vast knowledge of pension planning in Canada, at what figure would you place the assistance in 1965 if the government should supply people in this category?

Mr. KILGOUR: Mr. Chairman, if I were to volunteer out of my sole wisdom a pension plan for Canada and nominate the rates, I should not be here. It has to be an extraordinary study to arrive at that. What I am saying is that flat rate benefits, or any measure of that kind, must be according to what your total pocketbook can absorb, and be applied to the people who need it, and that is a more intelligent way of determining how to spread assistance than income related, and having some people cut out completely. I would not begin to say I can draw up a plan on the back of an envelope, because I cannot. However, I am confident that once the principles are settled, if you said that we are going to look after all these people who today are widowed and give them an income which is consistent or compatible with what we can pay old people, you can determine the costs of those things with the proper assistance quite accurately, and you can measure whether this is within your pocketbook or what you are prepared to tax off. I cannot create those figures in a moment. All pension plans are arrived at by asking what do we want to achieve, how much does it cost us to do it. You have to keep on reconciling the benefits and your capacity to do it.

Mr. LLOYD: Then, Mr. Kilgour, without extensive study and research you cannot put a figure on what it should be?

Mr. KILGOUR: I would not feel that I could authoritatively, but for arguments sake one could toss out a figure, the figure set for old age security. Seventy-five dollars a month might be an intelligent payment to a woman who is left in a certain age category and not able to re-enter the labour market, or who has dependent children.

Mr. LLOYD: So that this answer of yours really applies to any of the flat rate benefits—the disability, the death benefit—

Mr. KILGOUR: In my judgment, yes. The disability benefit again, is utterly cruel.

Mr. LLOYD: How does our present program of social assistance operate, on the basis of means testing? We do, don't we, at least provide disability assistance at the present time?

Mr. KILGOUR: Mr. Chairman, I am sorry I cannot speak on the welfare measures in effect in the different provinces. I rather was viewing this discussion as related to things that people were entitled by right to a social welfare bill enacted by the Parliament of Canada. It may be that welfare assistance—

Mr. LLOYD: But you do admit that the economics of it is involved, and involves any level of government, and that we have to have regard for the economic implications of all measures?

Mr. KILGOUR: Quite; and I would hope that any federal legislation to cover these groups would take a great load off the welfare departments and give considerable confidence to the people, having these benefits by right, instead of a welfare measure.

Mr. LLOYD: As a general statement, you do subscribe to the viewpoint that how much we can do in the social assistance field is governed by the resources of Canada?

Mr. KILGOUR: Oh, quite.

Mr. LLOYD: So it is on this allocation of resources for national objectives in which we have great responsibility that we should put the emphasis on the priorities we select?

Mr. KILGOUR: In my judgment, Mr. Chairman, clearly an allocating of funds to people who presumably need them and giving the most to the people who do not, by that means we are automatically taking the benefits away from the people at the bottom.

Mr. LLOYD: My last question is this. Let me assume for a moment that some measure of further assistance would be available in the flat rate field of social assistance. What about all those other people who now do not have access to pension funds? Should they be left? I am speaking of wage related pensions. Should we not go on expanding wage related pensions?

Mr. KILGOUR: I think that question I would answer something like this. There are incredibly great pressures at work today to expand wage related pension plans amongst employers who are solvent enough and large enough to put them in. There is the concept of responsibility that bears on employers to have a decent pension plan. This has been growing for the past 20 years. There are pressures of labour unions that we want a decent pension plan, and this has been the urge, for fringe benefits which has been very great. There is the competitive factor of an employer who does not have a plan, and cannot hire as sound labourers, perhaps, as those who have. There are the tax benefits of being in a pension plan, and having half of it paid by the federal government. All these are urging employers to put in an intelligent pension plan, who have the means to do so. It is on top of these plans that we are adding the principal benefits of the Canada Pension Plan. To everybody in a good pension plan you can say categorically they are going to get this one on top of it, and the employer may be tough and say "the government gave it, and I take it", but this is a rough position for an employer to take.

Mr. LLOYD: You do not have statistics on this such as have been asked for?

Mr. KILGOUR: No. My submission is only on what happens to the people, and not on the economics.

Mr. LLOYD: I think it would help to bring out the fact that under private plans, in the lower earnings field pensions are pretty slim.

Mr. KILGOUR: On the contrary, Mr. Chairman, every pension plan with which I am familiar has a pension formula which treats income levels equally, or if anything, a discrimination against highest salary groups. I know of no pension plan which exercises discrimination in favour of the higher salaried groups so that someone suffers a disadvantage by being in a lower salary group.

Mr. LLOYD: But private plans are all wage related plans, are they not?

Mr. KILGOUR: Yes.

Mr. LLOYD: So as to your observations with respect to wage related plans, which I think you quite extensively criticize, those who earn more are paid more. Is that not a fact of our society?

Mr. KILGOUR: Yes, Mr. Chairman, but this seems to go back to a sort of basic principle. Obviously people who earn more have more money; but for the government to say we will give a large benefit to people who earn over $5,000 a year, we will give nothing to people who haven't enough money to put in an income tax return, is allocating government revenues to people who almost by definition do not need it and not giving a nickel to people who almost by definition are poor and do need it.

Mr. LLOYD: I think what you are saying is that there is no need for government to extend in the field of wage related pension plans. You are saying we should stay out of that field and we should concern ourselves with increasing our flat benefit payments under the old age assistance program, and the like?

Mr. KILGOUR: To much broader groups, yes, that are not now covered.

The CHAIRMAN (*Mr. Cameron*): Mr. Cashin?

Mr. CASHIN: Mr. Chairman, I should like to attempt to show that there are several holes in the brief of Mr. Kilgour, but this would not be fair to other members of the committee. I am also cognizant of Mr. Kilgour's statement about principle and the reference here to philosophy. I think this is really a question of conflicting philosophies between myself and Mr. Kilgour, but somehow I think mine is more in accord with the evolution of government in North America and western Europe over the past 30 years, so, consequently, I think my philosophy is right. Of course, we could have a great debate relating back to the pre-1930 or 1935 philosophy. That being as it may, there are one or two things I would like to ask of you.

Hon. Mr. THORVALDSON: When were you born?

Mr. KNOWLES: It doesn't matter, '30 or '35.

Mr. CASHIN: It was my good fortune late enough not to have to endure too much of that pre-1935 philosophy.

Mr. MONTEITH: You missed a lot!

Mr. CASHIN: On page 10, at the bottom of page 10, you are discussing the young woman who works for five years with earnings of $2,400 per annum, and you show us in this brief that this woman gets a lower return from her participation in the Canada Pension Plan than she would if she tried Canadian Government annuities. What rate of increase in wages did you assume for the next 40 years for the purposes of this?

Mr. KILGOUR: I can give an intelligent answer to that. I use the exact figures in the Canada Pension Plan and the exact figures in the Canadian Government annuity plan. In other words, I did not attempt to index them. In other words, I used the present formulas without indexing. It could be the dollar is going to depreciate and this three-times spread will be eliminated, but if one contemplates a 2 per cent compound annual interest increase in prices for the next 20 years that means rising prices of nearly 50 per cent; but if you want to use a figure of 4 per cent rate of compound annual increase for 20 years, that more than doubles price levels. In my judgment, such increases, if they come about, will have such a sweeping impact that I would not want to even predict it. Accordingly, I have used the initial level of benefits, the only known comparison. Indexing is an unknown league, and in any such price rise 3 or 4 per cent represents the sort of blow-up I do not want to contemplate.

Mr. CASHIN: This illustrates our differences in philosophy, because the record of the economy of the past 40 years suggests you are incorrect.

Mr. KILGOUR: Forty years takes you back to—

Mr. CASHIN: —to 1926. I am using the figures quoted on page 151. We have only average salaries going back to 1939. I was going to use that example, but I thought it would be a little unfair to you because it does not include the depression. I want to be as fair as possible.

Mr. KILGOUR: Quite a lot of people did live through the depression.

Mr. CASHIN: That is right. I hope the philosophy that evolved in Canada as a result of the depression will help us to prevent the next depression, provided we can maintain and enlarge this philosophy.

Therefore, I can only conclude, if you accept history, and be very conservative, and say we are not going to do any better in the next 40 years than we did in the last 40, my breakdown of these figures comes to $24, using a growth rate of four times, on the basis of the Gross National Product. That makes $24 this young lady will get. Investing in Government annuities, I know of no way to do it where you will get someone else to pay half the contribution. So for the same amount of money she invested in the pension plan she would only get half. If you take her individual investment she would only get $8.42. We could all figure it and say it comes from different philosophies. Mine, perhaps, puts a little more hope in the future, and I hope to live a little longer in the future than many. "Hope springs eternal".

Mr. KNOWLES: We will abolish the Senate before you get that old!

Mr. CASHIN: My figure is $24 as opposed to $8. This illustrates the difference in philosophy.

Mr. KILGOUR: I deliberately said my brief was not touching on the economics. Sir, if you question whether a four-times increase in wage levels is going to be healthy for Canada, I suggest you should contact the Governor of the Bank of Canada or the Chairman of the Economic Council rather than me.

Mr. CASHIN: Was it healthy for the past 40 years?

Mr. KILGOUR: It went through a variety of stages. There was a period called 1929. Then there was a long, rugged period. I remember when the wage level was not going up but was going down.

Mr. CASHIN: But for the 40 years?

Mr. KILGOUR: It may be an interesting figure in Canadian history, and the one-way street is not something that is inevitably tied in to our economic system. That is getting off onto economics, which I should not be on.

Mr. CASHIN: I think we at least know where we stand now, and this will help me answer the kind of letters I get that Mr. Basford gets.

Mr. KILGOUR: Could I ask whether you feel a young married woman who has worked for 10 years prior to having a family fares well compared to the woman who comes out of marriage and works from age 55 to 65 and gets a pension of three or four times that which the woman who worked at the beginning of her life gets? Is that equity?

Mr. CASHIN: She fares better than she would fare now. My philosophy would be that I am all for doing for the greatest number of people the most all of the time. If we cannot solve all of the problems of all of the people at the present time, I believe we should make the best possible effort to solve as many of the problems as we can, including the problem of the $600-a-year man. The man who now makes $600 will not benefit under the Canada Pension Plan but will at age 65 get $900 a year. Is this the kind of society we want to have, where if you can survive until you are 65 you have a bonanza, and you forget about him until he is 65? We have to look at the whole problem in toto, and we just disagree.

Mr. KILGOUR: What happens if he dies and his wife has four children to raise?

Mr. CASHIN: When he is making $600 a year?

Mr. KILGOUR: Yes.

Mr. CASHIN: She probably will not be any worse off, or slightly worse off, and in either case she would be in a horrible mess, and I would not want to be in her position.

Hon. Mr. THORVALDSON: Your philosophy would do her a lot of good!

Mr. CASHIN: Certainly it would, and I hope to do that some day too.

Mr. MUNRO: Mr. Chairman, Mr. Kilgour has referred to the Canadian Life Officers Association brief, and one of the aspects that Mr. Kilgour has pointed out as a deficiency in the present Canada Pension Plan, and one of your central themes, as I understand it, is the number of people who will not be covered and will not get benefits. Assuming that to be correct generally, the chart that sort of backs up this central theme, chart 2 of the Canadian Life Underwriters—

Mr. KILGOUR: Mr. Chairman, I would rather speak on my own submission than on another one. I do illustrate the number of people that will not come in, but I used other terms on page 16. I think I am better qualified to speak on my own submisison than another one. I have brought no notes, no economists, no statisticians. I am just me.

Mr. MUNRO: Perhaps you will let me comment on it, for this reason. I think you did refer to it, in all fairness to yourself. You stood in here when the Canadian Life Officers presented their brief. You referred to the chart as an outstanding example, and you were quite articulate on this point, that this chart did point out some serious gaps in the coverage of the Canada Pension Plan. I believe you referred to 66.5 per cent at that time that would not be covered. I think also at that time there was some indication that generally it would be welcomed if the aspects of this particular chart and the basis of it were examined.

Also at that time there was some indication that generally it would be welcome if the aspect of this particular chart, and the basis of it, were examined, and the actuary has done this to a degree.

Roughly, he has examined this and come up with figures now, and it does still bear out to a degree the theme you have mentioned. But the actuary would indicate that with respect to the 1,880,000 people in 1976 over 65 who would be receiving benefits if there were complete coverage, or universal coverage, the figure of the Canadian Life Insurance Officers Association, of 33.5 per cent who would be receiving benefits, is not correct. He indicates that the percentage is 36 per cent.

I agree that this is not a great divergence, but it does involve people, and he indicates that it would be 36 per cent who would definitely be receiving benefits.

Breaking down the no-benefit area, which under your chart indicated 66.5 per cent of this 1,880,000, he says that that is 64 per cent. He breaks it down this way. He says that 32.4 per cent would be people who are over 70 and who are now retired—and when I say "now" I am referring to 1966, that is, 10 years previous to 1976—and people between 65 and 69 who are now retired.

Mr. MONTEITH: I don't want to interrupt you, but are these figures in the actuarial report?

Mr. MUNRO: It is based on the actuarial report and they are conclusions of the chief actuary.

Mr. MONTEITH: But they are not before us any place.

Mr. MUNRO: I was just about finished. I was going to ask you some questions not pertaining to the figures particularly but to what they reveal, and I think it does deal with your general theme.

Mr. KILGOUR: Mr. Chairman, I would only make this observation: If the parliamentary secretary to the Minister of National Health and Welfare says that the Government actuary confirms that 64 per cent of the people now who will be over age 65 in 1976 will be getting no benefits from the Canada Pension Plan, I think that jibes surprisingly well with our statement of the other day, and it confirms it.

In fact, Mr. Chairman, I get exactly the same figure in my discussion on page 6 as to whom the Government can collect money from, and I say that one-third of the people will never be in the plan.

Mr. MONTEITH: I come back to the simple fact that here are some figures available to Mr. Munro which the rest of us have not had.

Mr. MUNRO: Mr. Monteith, I was not strictly accurate when I said that this was from the chief actuary. These were conclusions drawn by the department as a result of a study of the actuarial report. Now, I am just indicating a study of these figures, and I am not verifying that they are absolutely and completely accurate any more than the Canadian Life Insurance Officers Association were prepared to substantiate the basis of their figures.

Mr. MONTEITH: These are figures that we are going to get, are they, Mr. Munro?

Mr. MUNRO: The figures you are going to get are ones actually from the chief actuary himself, formally delivered, which may be at some variance with these, but I wanted to bring these out with Mr. Kilgour in relation to this particular chart and then ask some questions pertaining to it. I don't think that they are going to be widely divergent from the conclusions in the chart other than that they do explain a lot of things and do reflect considerations that we should take into account when certain questions of deficiency are pointed out.

Mr. CANTELON: It might be asked that these figures be tabled, then, for the benefit of the whole committee.

The CHAIRMAN (*Mr. Cameron*): In view of the fact that Mr. Kilgour is ready to accept that the figures are reasonably close to his own, I think that the damage, or harm, that might be done has been obviated.

I would think that Mr. Munro might have put his question "assuming this to be the case", rather than as if he were quoting.

Mr. MUNRO: I agree that that would have been a more appropriate manner.

Hon. Mr. THORVALDSON: As a question of order, Mr. Chairman, what right has one person in this committee got to receive figures from the Government actuary that the rest of us don't have?

Mr. MUNRO: Senator, I corrected myself. These were not from the chief actuary but were from the department as a study of the actuarial report.

Hon. Mr. THORVALDSON: Well, they were from the department itself. It is the same thing.

Mr. MUNRO: I am sure that if any member of the committee requested information from the department they would endeavour to co-operate and supply it. I don't think any member of the committee has had difficulty in the past; at least I hope not.

When this chart was prepared, and Mr. Kilgour referred to it and based certain conclusions on it, and frankly it was a troublesome revelation at the time, I asked for this whole area of no benefit to be broken down and I am just about finished if you would just like to hear the rest of the figures.

Hon. Mr. THORVALDSON: I want to ask the Chairman what right any member of this committee has got to cross-examine the witness with regard to figures which the rest of us have not got?

Mr. MUNRO: I am not cross-examining.

Hon. Mr. THORVALDSON: Well, I would like the ruling.

Hon. Mr. CROLL: Mr. Chairman, a few days ago members from this committee asked for information with respect to certain questions that had arisen as a result of evidence that was given. I was one of them. Some of the information that had not been given then I have not received yet. But I have some indication that this information will be ready and I suspect that anybody else who wants information may ask for the same thing. It is the normal practice.

The CHAIRMAN (*Mr. Cameron*): I don't think it is a question of a right. I think it is a question that the figures are not official figures because Mr. Munro has stated he is using them as a guide or lead to question the witness, and the witness is prepared to agree that these figures are substantially correct. Otherwise I might have said, "If you are saying that these are the figures of the chief actuary we should have those figures before us before you use them."

Mr. KILGOUR: Mr. Chairman, if I could add a word, I think I am always pleasantly surprised when actuaries' long-term projects come out within 2 or 3 per cent of each other. Now, these did so and I suggest that this is not a material contribution against the fact that 10 years hence this plan is going to have more old people getting nothing from it than those who are getting something from it.

The CHAIRMAN (*Mr. Cameron*): Well, to clear the point I will rule that the figures are not official.

Mr. MUNRO: I welcome Mr. Kilgour's comments. I wish I could finish the percentages, because I indicated that on these figures here—and I agree that they are not official—it is 36 per cent receiving benefit and 32.4 per cent who in 1966 will be 65 or over and who are retired, and that includes all those in 1966 who are over 70 who will still be alive in 1976 in accordance with the chart. So that in that comparison 36 per cent receiving benefit is more than the 32.4 per cent, so that your conclusion is not quite correct on the basis of this figure.

However, I agree that this is still an alarming thing and it works out to approximately 593,000 people, on these figures, who are over the age of 70 or over 65 and who are retired.

Still on this area of no benefit, it goes on to the figure of 9.4 per cent not yet retired between 65 and 69. Now, that would refer to 1976 also, so that it cannot be assumed that all those people, the 9.4 per cent of this area, would be receiving no benefits and would not be contributing. The final area, breaking it down, is 22.2 per cent, for 1976, under 65 and not participating in the plan.

Now, again I agree that this is an alarming figure following along your general theme, Mr. Kilgour. But in that 22.2 per cent would be included widows between 55 and 64 in 1966 not working, and then you have to assume that for the 10 years from 1966 to 1976 those widows between 55 and 64 in 1966 would never be earning. All of them would never be working and earning over the $600 limit.

This 22.2 per cent would also include unemployed or disabled aged between 55 and 64 in 1966. Again you would have to assume that proportion —the unemployed proportion of this—will always be unemployed. Never during this ten year period will they exceed the $600 exemption, and never will they thereby be able to contribute to the Canada Pension Plan.

When you see it in that aspect, assuming this is correct, it does reduce considerably the impact of the conclusions that have been arrived in chart 2.

I am not still contending it does not present problems. All I am saying is that I do not think the alarming figures that have been arrived at here are accurate, and I think they can create considerable misunderstanding and alarm unless they are at least qualified and explained.

Now, I would suggest that by bringing down the percentages indicated that considerably over 50 per cent of these 1,880,000 will, in fact, be covered under the Canada Pension Plan in 1976. I am also suggesting—and I am inviting your comment—that if a chart were prepared—this is just about the worst period you could have picked for this chart—if a chart were prepared for ten years later you would find a considerably higher degree of participation so far as benefits are concerned than is indicated here.

Mr. KILGOUR: I would be glad to comment on that. I do not think that anyone could quickly assimilate Mr. Munro's analysis of those figures, which none of us have seen before, but I would strongly quarrel with the final conclusion that there would be only 22.2 per cent who would be in the plan. May I take you back—

The CHAIRMAN (*Mr. Cameron*): Before you go on, I think you said only 20 per cent in the plan—

Mr. KILGOUR: I think Mr. Munro said there would be only 22.2 per cent—

Mr. MUNRO: No, I said that 32.4 per cent were, in effect, retired in 1966, most of whom were over 70 or between 55 and 69. I agree that 32.4 per cent are not covered. Then I said that of the 22 per cent—we also agree that with respect to another 22 per cent you could allege they are not covered, but that they include these two areas of widows of between 55 and 64 in 1966—

Mr. KILGOUR: Will they be getting any benefits from anybody?

Mr. MUNRO: You could say this 22 per cent is comprised of widows and unemployed people. You could say that the whole 22.2 per cent would not get any benefits if you make two assumptions—first, that widows between 55 and 64 in 1966 will never be working and never contribute to the Canada Pension Plan in this ten year transitional period—

Mr. KILGOUR: Why not? Why would they not be in the work force? A widow should go to work so fast—a single woman. She can get a bonus of 25 per cent of her wages. If this Canada Pension Plan does not draw every wife and mother out of the house to work then it is because they do not care about money.

Mr. MUNRO: That would considerably reduce the benefit area.

Mr. KILGOUR: This would help exaggerate our biggest problem, that of finding jobs for everybody in 1970. This legislation will pull every woman out of the house for three days a week in order to get the 25 per cent—

Mr. MUNRO: These are the people you are including in your no benefits area.

Mr. KILGOUR: Mr. Chairman, I would like to make a clear-cut distinction. We cannot talk about pieces of the pie. I suggested to you, and I thought thoughtfully, at page 16 of my submission, that under the best tax machinery and collection machinery that has been devised in Canada one cannot reach more than 47 per cent of the working population by employer-employee deductions. You can scoop in another small group by income tax returns. I cite Manitoba as an example, and say that on this date which I believe to be reliable you will have a minimum of one-quarter, and probably one-third, of the population from whom you will never get deductions. It has been frequently stated that everybody earns over $600 a year, but we must go back to the base. Many of these people are married men who may earn $1,800 or $2,000, but they have spent it. Normally they have no tax liability. Many of them have no records, and to ask them to put in a tax return and pay up $42.50 or $29.75 at the end of the year is utterly unrealistic.

Mr. LLOYD: Try that on Lunenburg County and see how far you are wrong.

Mr. KILGOUR: Do you mean that you would get it right away?

Mr. LLOYD: They are pretty astute in finding a saving.

Mr. KILGOUR: This is not a saving.

Mr. LLOYD: Well, in taking advantage of an opportunity—I will put it in that way.

Mr. KILGOUR: It means you have to file satisfactory data on your total income and disbursements. It may be that in Lunenburg County they all have a perfect set of books on income and disbursements, but they do not on the small farms in my part of the country.

Mr. MUNRO: Mr. Kilgour, I just wanted an opportunity, and I am grateful to you and the members of the committee for allowing me to do so, of putting these admittedly unofficial figures on the record with respect to these figures which you gave the other day, and on which you personally based the conclusions you came to.

Mr. KILGOUR: And there may be a 2 per cent area in that group.

Mr. MUNRO: There is considerably more than 2 per cent because there is not only the 2 per cent area in the people drawing benefit under your own chart, but there is the 9.4 per cent who are not yet retired in 1976 between the ages of 65 and 69, a goodly portion of whom could be contributing to the Canada Pension Plan.

Mr. KILGOUR: If they are not drawing any benefits it will mean the group that are under the larger piece of the pie—if they are not retired it will make the people not drawing benefits an even larger proportion.

Mr. MUNRO: Who are not drawing benefits?

Mr. KILGOUR: The life officers' brief took the premise that everybody was retired. So, if you make smaller the number of those people who are retired there will be a larger percentage who are not drawing any benefits.

Mr. MUNRO: Your 1,880,000—

Mr. KILGOUR: That is assuming everybody is retired over the age of 65.

Mr. MUNRO: That is fine. I say that is a faulty assumption, and that 9.4 per cent area—

Mr. KILGOUR: That will make the people who are not covered a larger proportion.

M. MUNRO: A larger proportion?

Mr. KILGOUR: Yes.

Mr. MUNRO: We are also saying that 36 per cent of your 1,880,000 are receiving benefits—

Mr. KILGOUR: Mr. Chairman, I have a sneaking hunch that an exchange between the Government actuary and the actuary of the life officers will be more profitable than an exchange between Mr. Munro and myself.

Mr. MUNRO: And I am also indicating that this 22.2 per cent could be based on two assumptions that cannot be made.

Hon. Mr. THORVALDSON: Mr. Chairman, on a point of order; yesterday we had a discussion about this matter of examining people on matters that were entirely outside their brief. I think the chairman of yesterday upheld those who took that point of view. I still take that point of view. If we are going to examine witnesses on matters that are not in their briefs then we shall be here forever, and I object to it.

Mr. MUNRO: Mr. Chairman, taking the honourable senator's objection into account, I would say this, that this theme that has been developed surely is based on certain conclusions such as these, and the fact of the matter as to their accuracy surely is pretty relevant. It reflects on the accuracy of the statements made, and that is the only reason I am advancing it. But, I shall leave that area now and just ask this one more question.

Hon. Mr. McCutcheon: Mr. Chairman, may I interrupt for a moment? Surely, if these are figures produced by the department then we want the department's assertion that they are accurate. We want the departmental official who prepared them to come and tell us what they are, and we can examine him. We cannot examine Mr. Munro. That seems to me to be the nub of this question. He is alleging certain figures are inaccurate on the basis of a statement which none of us could follow as it was made. We shall read it with interest when we get the transcript. But, if he is challenging these figures then let us have the departmental official who prepared them come here and submit himself to our questioning.

Mr. Monteith: I agree wholeheartedly with what Senator McCutcheon has said, and I would add one postscript to the effect that I think Mr. Holmes, who was coming that day, indicated that to the best of their ability these were the figures they calculated, and he asked for confirmation from the department or the actuarial branch. This is when we asked the department to have prepared for us and for other years a similar graph on a similar basis.

Mr. Munro: I have admitted that they are not official figures. I put them to Mr. Kilgour based on certain figures that were given us. If he feels they are incorrect then all he has to do is to prove them incorrect by giving the basis of his own figures—

Mr. Kilgour: I would suggest that one of the actuaries of the life officers and the Government actuary would have no difficulty in reconciling any difference in base. Obviously I am quite incompetent to analyze a report that I have not seen and when I have not the gentleman who prepared it with me.

The Chairman (*Mr. Cameron*): I cannot agree with the statement about your incompetency, Mr. Kilgour.

Mr. Kilgour: I cannot analyse figures I have never seen.

The Chairman (*Mr. Cameron*): These were unofficial figures. I so ruled. I was allowing Mr. Munro to proceed with his argument and to ask questions.

Hon. Mr. Thorvaldson: What right has he to argue? We are on a point of order. You say you allow Mr. Munro to proceed with his argument. He is here to question, and so am I.

The Chairman (*Mr. Cameron*): I think it is inherent in Mr. Kilgour's brief. He has mentioned that he supports the Life Underwriters Association brief. It contained a chart and Mr. Munro is making certain observations about it. However, we can probably pass it over as Mr. Munro has indicated he is going to proceed to another question. The record is there of what Mr. Munro said and if it carries any weight the committee will decide that.

Mr. Lloyd: May I raise a point of order, on a question of procedure? I am in agreement in principle with Mr. McCutcheon and Mr. Monteith with respect to what we are going to do with all of these things. Mr. Kilgour, Mr. Anderson and other witnesses have made submissions to us, day after day. We have not had much opportunity to analyse in depth all the conclusions they have drawn. I presume that, after a week's recess, after the hearings, we will be calling our staff to check out those figures. At that time we can put ourselves in proper perspective on these things.

Mr. Munro: On this same point of order, Mr. Kilgour has referred in his covering letter to the Canadian Life Insurance Officers' Association brief as being much more complete and exhaustive on this subject. I do not wish to be unkind, but Mr. Kilgour did say: "How can I analyse figures I have not seen?"

Questions were asked pertaining to these figures of the Canadian Life Insurance Officers. They were not prepared to give any basis at that time for the figures they were advancing, when asked by myself. So they are both on a par in this matter.

Mr. PRITTIE: Regardless of the points Mr. Munro was raising, the facts still remain. As Mr. Kilgour and others have pointed out, many people are not covered. We knew this plan would not cover all sections of the population but this has been brought to our attention more forcibly by various briefs, and it is something we must think about.

Mr. Kilgour's brief is pretty clear. He and the Canadian Life Insurance Officers' Association favour an extension of old age security, perhaps by lowering the age benefit and so on. Apart from the extension of the O.A.S. principle, perhaps down by a fixed rate benefit, is it your final opinion that there should not be a Government plan earnings related pension?

Mr. KILGOUR: With a possible exception. I illustrate the point briefly on page 22. I personally hold the view that we cannot necessarily afford to do everything for everybody that we may want to do for some segments of the community. I suggest that if we are to require everybody to turn in an income tax form from $600 a year up, this may permit—I say "may" because this is a matter where there are differences of opinion—this may permit supplementary benefits to be payable to people whose need is clearly shown by their financial circumstances. I know this would embrace a great many problems. Rather than saying that all old age pensions must go up from $75 to $85 or $100, my own sense of economics is that there are many people in Canada whose incomes are so low that we would like to raise them. If we are to have income tax down to $600 a year, we may have clearly marked out for us those people who need supplementary measure to bring them up to $100 a month or whatever it may be.

To the extent that one person's idea may have any merit, I think this is worthy of exporation. If this new income tax screen, which apparently Parliament is willing to sanction, means that people must make returns down to $600 a year and is to be part of our national intelligence, then is it not possible that we could supplement people's income if they need it and ignore the people who have an adequate pension, that is, ignore them in terms of raising it?

Mr. PRITTIE: That would not be done by means of payroll deductions over the years?

Mr. KILGOUR: This could be part of the Old Age Security Act, if it had any merit. I can quite appreciate that if a married couple have nothing but old age security—and there must be many such—they would need to supplement this to some extent. Also, a single old person may need more than half the old age pension of a married couple. This could be done by their own income tax screen. One could bring their income up from $900 to $1,200. I think "supplement" is probably going to have to be our final test as to how those people you know are in trouble will be assisted, without scattering money across the country like crazy, to people who do not need it, and taxing young people to pay for it who may need it as badly, if not more so.

Mr. PRITTIE: I understand there would be no earnings related deductions over the years to meet that situation?

Mr KILGOUR: There would have to be revenue, whether by means of a wage tax, a combination of taxes or so on. I would rather see supplementary benefits payable to people who may be defined as needing them, rather than enlarging the whole scale up the ladder where all old age people—there are

220,000 odd in Canada—are receiving it. Air Canada is carrying them out of the country by the thousands for months and they do not need another $10 to $20 a month.

Hon. Mr. THORVALDSON: This could be a completely secret process, just as secret as the income tax?

Mr. KILGOUR: Just between the taxpayer and the state, if it was approved as part of the old age security—not a means test.

Mr. PRITTIE: It would not be anything like the proposed mechanization laid down?

Mr. KILGOUR: No.

Mr. KNOWLES: In view of the fact that you categorically recommend that we reject the Canada Pension Plan for a number of reasons that you have stated, one of them being the fact, to which I also have tried to give publicity, that it provides nothing for people now over 70, what is your alternative? What would you have us recommend that Parliament do for Canadians now 70 years and over?

Mr. KILGOUR: If I get the question correctly, my judgment—whether it is polically feasible or not—would be this. If this committee thinks as seriouly of the deficiencies of this plan as I do, one would be forced to the conclusion that this bill and the Old Age Security Act together, as they stand, do not solve the problem of many people in Canada in unfortunate circumstances or in old age.

Because of these deficiencies, there should be a re-examination of the specific approach to the problem, to bring in another one which will solve it more closely. If it is found there is no merit in plan A, then let us proceed to plan B. In my judgment, plan B must arrive to meet sertain solidly accepted principles. If you started by saying "Our problem is the unfortunates in Canada; we have a base now for everybody, which is good, but there are many people in trouble because this base is not high enough; we must find a technique to help them" there is the first problem.

If we have got a lot of existing widows who have no benefits under existing social legislation, that is problem number two. If we have a lot of disabled people in Canada who are not getting anything from the federal government, that is problem number three. If we have the fatherless and the homeless, that is number four. The object surely should be, how can we do a competent job for those people within some containable sum and raise the money. This would be my approach. How do we raise the money that it will cost to do what we feel to be an acceptable job? Then if we have any more money to spend, and there are serious questions on this view, if you have met the true social challenges as they exist, well, I suspect there is no shortage of places to put money, but undoubtedly there will have to be a continual and periodical review of the old age security, and a supplementary program perhaps every three or four years—some formerly constituted body sits down, by an analysis of existing problems, rather than by saying, "We will just raise them five or ten dollars a month." There should be a truly thoughtful process, on the basis that if this is right, then we have to do this today. I firmly believe that if you can honestly define the needs and lay down two or three principles which are mutually acceptable to the Canadian people as being fair, you can work out a plan. You can provide for periodic, thoughtful provisions which should be geared to the country's capacity to pay, and to how these people are paid in relation to the community. In my judgment, there is far greater hope in applying continually thoughtful measures, than in any such inflexible technique as an index which can help some people more than others, and do nothing for some others.

Such an inflexible technique ties the hands of Parliament, because they have promised already. It is like a 40-year contract without a relieving clause—you are just hooked to it.

Mr. KNOWLES: I would like to put to you a few frank questions, Mr. Kilgour. I wonder if you are aware of the fact that the life officers in their brief, like yourself, have drawn attention very strikingly to the fact that there is nothing in Bill C-136 for people over 70, but that you are refusing to give your own plan—plan "B", or plan "K", or whatever it is, for these people over 70.

I will go one step further. I think the storm you have tried to raise has not gone unnoticed. I can tell that from my mail from old age pensioners. In fact today I had letters from them. They are concerned about the point you have made, that here is all this legislation going through, and this committee working, but nothing in it for the present old age pensioner with $75 a month. You have just as much right as I have to point that out, but I think you have the same responsibility as I have to say what you would do now for those of 70 years of age and over. If all we do is to reject this bill, then we have done nothing for the people you say we are doing nothing for, and nothing for anybody else.

Let me go one step further. I will say for your brief that you make a couple of proposals that were not in the life officers brief the other day, or at least I did not see them. At page 22 you suggest that a single old age security recipient might have his total income brought up to a predetermined level, for example, $1,200. You seem to be suggesting that a single person over 70 who now gets $75 might have his total pension brought up to $100. That does not mean, as I read it, that his pension automatically is raised to $100, but it is a sort of—

Mr. KILGOUR: That is my Scottish approach. It is not a means test, but an income tax level approach.

Mr. KNOWLES: You also have a proposal that benefits payable at 70 could be used to enable people at 65 to bring their level of income up to $900. In other words, you are prepared to extend the coverage of old age security laterly, if I may use that term, to take in more groups of people not now covered, but you are not prepared to say that the level of old age security, the $75 level, should now be raised. The question I am putting to you is, do you think it is fair to the many pensioners in Canada who are aroused by the storm you and others have raised, that you draw attention to the fact that nothing is being done, but you do not propose yourself that something be done?

Mr. KILGOUR: This is a very fair question, Mr. Chairman. Perhaps I can answer it as frankly and honestly as I can in this way. I am satisfied that we must broaden old age security, take in more people that are not now covered. That includes widows and people out of work, and people who cannot work any more at 65. We must bring about a lateral plan to solve these problems. As to whether the level should be 75, 85, 95, 100, I do not think that I personally have sufficient knowledge on which to base a flat, and to say that this is my view. In fact, I tend in my own mind to divide elderly Canadians into about three groups. There are many of them who are well to do and who have more money, raising a family helping grandchildren and so on. Another group is getting by quite nicely—and old age security is a tremendous factor. This couple gets $150 a month, which together with their own resources makes them quite comfortable. There are those who without it would be in deep trouble; and I think this is in my brief, that there are people who with old age security get by quite decently. Another group is perhaps literally dependent on it. In this group I think anyone with a thoughtful or charitable outlook would say many of these people need more than $75. I am disenchanted with the broad cast of the social measures we have been adopting in Canada. To me, family allowances are for the birds for about 75 per cent of the population. Money goes out of my pocket to my wife, and nobody benefits.

With regard to old age pensions, we must keep a basic level, I think, that makes some sense, and maybe $75 is plenty in relation to what I would call the first and second classes. It is perhaps quite inadequate in relation to those people largely dependent on it.

I suggest a supplementary technique. Some of you know more about what can and cannot be acceptable in Canada. What I suggest, you might shoot it down in flames. To me there is nothing wrong with a couple sending in a statement saying their income is $1,200, and somebody sending them back a cheque for $300.

Mr. KNOWLES: All these supplementary techniques involve a test of some kind. Are you departing from what you regard as the virtue of old age security, namely, a universal benefit that is of a non-discriminatory nature to be given to people of a certain age? Are you not disappointed, at the same time, when you hear of these thousands of old age pensioners who like to hear the storm raised but think it is raised in your defence?

Mr. KILGOUR: Again, I would like to be frank to say there is this one-third, or thereabouts, of our entire population who, I personally think are doing quite all right with $75 coming on top of their other income and good pensions. I think you will find that increasingly in the case of people retiring from the government and private industry, all having good pensions and social security on top, who are well cared for in relation to the working population and in relation to the fact that their cumulative expenses to raise and educate children over the years are over. I am not talking about well to do people, for whom I think $75 is ample.

Mr. KNOWLES: But are you not asking the committee to reject the plan without something to take its place?

Mr. KILGOUR: Well, I wish I had the wisdom to offer a pension plan or an old age security plan that would commend itself to this committee. I doubt if any one person can do that. My view would be rather that there are certain principles that can be agreed upon. I think men of good will could agree on them. Then you have to get down and see what it will cost, to see what it is you want to do, and how you are going to raise the money. Then you get an answer.

Mr. KNOWLES: You and I have been following that idea for a number of years, but from a different point of view. If we got together, we might offer something.

Mr. KILGOUR: I would agree with you.

Mr. KNOWLES: But let me ask you another question.

Mr. MONTEITH: Why don't you get into a huddle?

Mr. KNOWLES: My colleagues in Parliament had better be well armed if you get into a huddle with me. I would like to ask one brief question about the coverage that the Canada Pension Plan will provide. I am not going to rehash all the arguments you had with Mr. Munro about the chart in the Life Officers' brief presented the other day, but I do wonder if you are aware of the figures given to us this morning by the Life Underwriters Association, when they referred to the fact that in about 25 years the Canada Pension Plan would provide retirement benefits for its maximum potential of 85 to 90 per cent of those in retirement. Would you think those would be reasonable figures that your Life Underwriters have given us?

Mr. KILGOUR: Far be it from me to challenge anybody else's brief. I am not that optimistic, but it could well be there are projections which would have many more people on the payroll.

Mr. KNOWLES: This is a group which was critical but was conservative, and even in their critical view they did admit this could happen in 25 years.

Mr. KILGOUR: I could not challenge that.

Hon. Mr. CROLL: Could I ask a supplementary to that question?

Mr. KNOWLES: Yes, go ahead.

Hon. Mr. CROLL: Following what he suggested, Mr. Myers, the actuary for the United States social security scheme, told us that after 30 years 90 per cent of their people are covered. That seems a favourable comparison. Ours is, after 25 years 85 per cent; and theirs, after 30 years 90 per cent.

Mr. KILGOUR: That is in a more industrialized nation than ours. I could not quarrel with those figures.

Mr. MONTEITH: It runs in my mind that he said 87 per cent. It may be close enough to 90 per cent not to worry.

Mr. KILGOUR: In many ways that is rather sad, when you think of a plan that took close to 30 years to mature, if it still has 10 or 15 per cent of the population out.

Mr. BASFORD: At least 5 per cent were covered under state-municipal plans.

Mr. KILGOUR: The figures were not quoted to me accurately.

Mr. KNOWLES: I was giving the Life Underwriters' figures as figures of critics, and I agree it is sad it is not 100 per cent. It is something for a plan to move in that direction though. I can not help but be concerned about the number of times you and your insurance colleagues, and others, have made the assertion that the Canada Pension Plan gives the largest benefits to the wealthy. If it is true down the line, then from my point of view we had better take another look at it.

Let me try and put a question to you about this. Does the Canada Pension Plan give any greater windfall or any greater benefit of any kind to the man earning $50,000 a year than it does to the man earning $5,000 a year?

Mr. KILGOUR: Well, it is nebulous, but the fact that his contributions are deductible means that he maybe can get 57 per cent deduction off his income tax, but it is not important.

Mr. KNOWLES: These are deductions of 79.25 a year.

Mr. KILGOUR: He can get 50 per cent off, so he only pays 39.

Mr. KNOWLES: At the other end, isn't it also true that on any pension he gets he will pay on that pension a higher rate of tax?

Mr. KILGOUR: If he remains in Canada!

Mr. KNOWLES: Basically, is it not true that for the $50,000-a-year man there is no greater benefit under the Canada Pension Plan than for the $5,000-a-year man?

Mr. KILGOUR: Yes, the top bonus is about $12,000, and it does not go up above five.

Mr. KNOWLES: And for the $10,000-a-year man there is no greater benefit than for the $5,000-a-year man?

Mr. KILGOUR: Yes, if they are in the same age group.

Mr. KNOWLES: It is true we give greater benefits to the $5,000-a-year man than to the $2,000 or $1,000, but at that point it stops?

Mr. KILGOUR: Yes, above five.

Mr. KNOWLES: This is using colourful language, to keep saying this is the kind of plan that gives the greater benefits to the wealthy.

Mr. KILGOUR: I do not use colourful language as a matter of choice, but rather as a matter of conviction.

Mr. KNOWLES: And do you think you can support that conviction?

Mr. KILGOUR: Yes, I think so, because when this plan becomes full blown in 10 years there is no question what happens to you in the 10 years is a ball.

Mr. KNOWLES: That is social insurance.

Mr. KILGOUR: It is not social insurance normally. Take these complete prospectuses the Securities Exchange puts out, and everybody looks to see what shares the president owns and what his dividends and salary were last year. If we put out a list of what everybody is going to get as a bonus over the next ten years, quite a lot of us will be getting $10,300. My gardener would be in as zero. It is plain old dollars I am getting more than I paid in, "This is a contribution from a grateful country," but I do not think a guy at the bottom is going to think so. He is going to say, "These fellows really geared the plan to suit their group."

Mr. CASHIN: Give your gardener a rise.

Mr. KILGOUR: Well, he cannot speak English and cannot read the tax form, but he is a wonderful guy.

Mr. KNOWLES: I would like to meet your gardener. Where does your gardener live—in my constituency?

Mr. KILGOUR: Yes!

Mr. KNOWLES: I would like to keep on the subject, the extent to which the Canada Pension Plan gives greater bonuses to people in the higher income bracket. You have narrowed it to the first 10 years, and I am prepared to talk in terms of 10- or 40-year periods. In terms of a 10-year period—how old are you?

Mr. KILGOUR: Fifty-two. I am just two years off the perfect age for the Canada Pension Plan.

Mr. KNOWLES: I do not know what your salary is. You know what mine is! You are, roughly, a 10-year man. You will not get any greater benefit out of this than a $5,000 person of the same age.

Mr. KILGOUR: Of the same age, no, but we both get a very handsome package.

Mr. KNOWLES: You and the $5,000-man get precisely the same.

Mr. KILGOUR: True.

Mr. KNOWLES: I am not questioning how much you make, but you are in the more favoured bracket.

Mr. KILGOUR: More than $5,000!

Mr. KNOWLES: Yes. One of your predecessors used to be one of my congregation and was a very generous giver. I am going back to C. C. Ferguson, and when I was in a certain church in Winnipeg that needed help in the depression days, he was the man to go to.

Mr. GUNDLOCK: He might be a good man to go to now.

Mr. KNOWLES: In the 40-year period the $50,000 or $100,000-man gets something out of this, but he does not get any more than the $5,000 man.

Mr. KILGOUR: Of course, the fact is those extremes are so remote in Canada.

Mr. KNOWLES: Don't they have a bearing on your contention this plan is somehow or another providing bonuses for the wealthy? I am admitting it provides more for the $5,000-a-year man than it does for the man earning $4,000, $3,000, $2,000 or $1,000. I am also aware of the fact these differences are mitigated by the flat rate benefit they all get. That still does not wipe out the fact there is a difference, but wouldn't it be a little fairer in his kind of criticism to admit there is a ceiling?

Mr. KILGOUR: A ceiling on the benefit, though if some of these indexing figures go on over the next 20 years I do not know where the top benefit will be. I have not projected it, but it will be pretty high.

Mr. KNOWLES: I have just one other question, Mr. Chairman. Reference has been made to the fact that we had the Canadian Federation of Agriculture here yesterday and their representatives, whom we questioned quite sharply as to whether they really spoke for the farmers, did make it clear that the farmers wanted a compulsory plan. They had some criticism about the plan. They think that people who cannot contribute on the first $600 should get credit for it in any case.

You saw some press reference to this. However, do you not think that there is some validity to the fact that the Canadian Federation of Agriculture thinks that these premiums can be collected? These questions were put to these people yesterday and they stated that the compulsory plan is a good one. Does this have any bearing on your contention that these premiums cannot be collected from the farmers of Manitoba?

Mr. KILGOUR: I would offer the judgment that I would think that they are optimistic on this, and again I use the illustration, Mr. Chairman, in my brief that the fact that the only province that I can think of that successfully collects premiums from farmers in great numbers is using municipal machinery and not just sending out bills. They are using municipal machinery and sending out tax bills.

Manitoba and Saskatchewan have both used municipal machinery and have put it on a tax bill; otherwise the farmer just tells you where to put it. But if you put it on his tax bill through having the municipality collect it you can collect it. So that I think the probability of collecting premiums from the Manitoba farmers who constitute a very high percentage of the farmers in Canada has to be discounted heavily if any experience we have up to now counts.

Mr. KNOWLES: Would you admit that in the public mind there might be some difference in their attitude towards hospital premiums and pension premiums? People like hospital coverage, but they all hope that they will not go to the hospital. But are people not generally interested in pensions and this kind of security? Is there not likely to be a slightly different attitude in this respect?

Mr. KILGOUR: That would have to be a matter of judgment and a matter whether one wants to make a tax return, and perhaps when you actually add up your disbursements it might be different. You might have lots of taxes to include in the plan.

I don't know, but I would not impute motives to anybody.

Mr. KNOWLES: I thank Mr. Kilgour for his frank answers to my questions.

The CHAIRMAN (*Mr. Cameron*): It is 10 after 10 and I have several people wanting to ask questions, and I would like to ask a couple of supplementary questions myself. I was somewhat disappointed that you did not come out with an alternative plan, having turned down a wage related scheme. Why did you not give us an alternative plan? I think that is what Mr. Knowles was trying to obtain from you.

Disregarding the cost features, what would your all-over alternative be to this plan? Secondly, what would happen to the man who is getting $1,250 a year? What would be his pension out of this plan, and let us say that he is in the 50 per cent and upwards tax bracket. What would happen to his benefits, his $1,250?

Mr. KILGOUR: I am sorry, Mr. Chairman, but I don't understand. Do you mean the $104 a month?

The CHAIRMAN (*Mr. Cameron*): What would happen to it taxwise?

Mr. KILGOUR: Well, of course, again, if he is retired he can—

The CHAIRMAN (*Mr. Cameron*): I am talking about the man in the 50 per-cent and upward bracket. You mentioned that in one part of your answer to Mr. Knowles, and I would ask you what would happen to the man who gets $1,250 and his income tax is in that bracket.

Mr. KNOWLES: Yes, over 55 and his earnings—

Mr. KILGOUR: I think he would start to give his money to his children to reduce his tax bracket.

The CHAIRMAN (*Mr. Cameron*): Would he not be paid $600—

Mr. KILGOUR: He may not be in that bracket after retirement. We accept that he would not be. The retired person can adjust his circumstances.

Mr. LLOYD: Within limitations.

Mr. FRANCIS: Mr. Chairman, I was listening to Mr. Kilgour's remarks on the experience of collecting personal premiums. Perhaps I misunderstand Mr. Kilgour at this present time, but do I understand him to say that the only province having success in using municipal machinery to collect premiums is the Province of Manitoba? Take the Province of Ontario, for example. Is he suggesting that they are not successful, that their collection experience is—

Mr. KILGOUR: No, in fact, I would be interested in that province. I should say that the only one I am thoroughly familiar with is Manitoba, but is Ontario receiving a higher percentage from people in the outlying areas?

Mr. FRANCIS: To the best of my knowledge, Mr. Chairman, there has been no criticism directed at them.

Mr. KILGOUR: I don't think criticism has, but if I recall my figures—and I am speaking from memory—there are some 600,000 people in Ontario who have their premiums paid by the Department of Health and Welfare in the Province of Ontario.

Mr. FRANCIS: Well, there are many people on categorical welfare in the Province of Manitoba also. Is the situation different? There is bound to be this number also.

Mr. KILGOUR: If you pick up all the people in rough who pay payments through the Department of Health and Welfare you will realize that you don't have the problem of collecting premiums from them.

Mr. FRANCIS: Perhaps there is no point in pursuing this further.

Mr. KILGOUR: Ontario is a highly industrialized province as well, but they have a great number for whom premiums are paid.

Mr. MONTEITH: Well, anybody with a supplementary allowance has premiums paid.

The CHAIRMAN (*Mr. Cameron*): Mr. Côté.

Mr. CÔTÉ (*Longueuil*): Mr. Kilgour, in your brief, and in your statement, you seemed very concerned that some people that are now over 70 or who retired after the age of 65 would not get any benefits because they would be too old and would not be able to participate in the plan, even if the plan is a contributory plan. Are you also concerned with the large percentage of Canadians who are now in the labour force who do not have a chance to be covered by a pension plan?

Mr. KILGOUR: Yes, I am.

Mr. CÔTÉ (*Longueuil*): This will be a great help to that part of the population.

Mr. KILGOUR: Providing they can be brought in as contributors.

Mr. CÔTÉ (*Longueuil*): That is what I am talking about. I am talking about the working group.

Mr. KILGOUR: I believe the group that you refer to would be people who are working at several occupations during the year. Now, I don't claim any personal knowledge of the Proivnce of Quebec, but I think there would be a great many people from whom it would be hard to collect premiums.

Mr. CÔTÉ (*Longueuil*): To come back to the first category of people I was talking about, those who will be too old to participtate in the plan, is it a practice, when a firm introduces a pension plan for its employees, that it brings in employees who have worked there and are already retired? Do they bring them in and give them benefits under the new pension plan or are the employees who are already retired left without anything? Do they get any benefits from that plan?

Mr. KILGOUR: I am afraid I don't quite follow you.

Mr. CÔTÉ (*Longueuil*): I am talking about the contributory plan.

Mr. KILGOUR: I am afraid I cannot give a categorical answer on that, but a great many firms which have not had pension plans have been doing something, either keeping people on the payroll or doing something for their retired people who had no pension. Some may just turn them out, though.

Mr. CÔTÉ (*Longueuil*): There are no benefits from the new pension plan, though.

Mr. KILGOUR: Some of them do set up provisions and keep retired people on the payroll even though they are away past the age at the time they do it, but it depends a lot on the community and industry.

Mr. CÔTÉ (*Longueuil*): Most of the plans introduced now—

Mr. KILGOUR: They cover past services for present employees.

Mr. CÔTÉ (*Longueuil*): For the persons employed, but not for the ones who are retired already.

Mr. KILGOUR: That would be unusual, but some may.

Mr. CÔTÉ (*Longueuil*): But most of them do not.

Mr. KILGOUR: No, that would be true, sir.

Mr. CÔTÉ (*Longueuil*): Do you think that this is the same kind of plan because it is a contributory plan, and that we should give benefits to people already retired?

Mr. KILGOUR: Mr. Chairman, I think in reply to that I would have to express a view like this, that there have been industries that have turned out old people without a pension. I do not regard it as admirable, but they have done it, and they have left those people as a social problem in Canada. I do not think a government should adopt the harsh attitude that because somebody is over a certain age we ignore them. I call that a rather brutal attitude on the part of industry, if there is such an instance of where they just ignore people who retired last year or the year before with no pension. They just fire them and let them go. I regard that as a fairly rough attitude towards those people, but when a government adopts the same attitude then I would think it is infinitely rougher because we know they have been cast off by industry without any provision. I think the Government must pick up the group that has been kicked around.

Mr. CÔTÉ (*Longueuil*): But not through the funds of this contributory plan. That should be done through other funds such as the Old Age Security Fund.

Mr. KILGOUR: Frankly, I regard it all as money that the Government is receiving in and paying out. Even if the benefits are not related to the contributions in any way that you can understand it is the question of the Government taking in money and paying it out, and you have to accurately determine that you are taking in enough.

The CHAIRMAN (*Mr. Cameron*): Mr. Gray?

Mr. GRAY: Thank you, Mr. Chairman; I shall be very brief. Mr. Francis raised an interesting point. If in Manitoba and possibly in Ontario the Department of Welfare, or whatever it is called in the respective provinces, pays the premiums for hospital insurance for large numbers of people, is this not a solution to the problem of collecting for those at the lowest end of the spectrum?

Mr. KILGOUR: Do you mean they should pay their pension premiums too?

Mr. GRAY: Is not that a possible solution to that portion of the problem?

Mr. KILGOUR: Well, I heard that suggested by one man. I thought he was being facetious. He said it would pay a province to take on its welfare cases as consultants and pay the Canada Pension Plan contributions so that they would get the maximum benefits within ten years. I thought it was a facetious remark, but for the next ten years it might be quite lucrative, if you did not close it up in some way.

Mr. CASHIN: It would solve the problem. That is an idea.

Mr. GRAY: Let me ask you another question arising out of your exchange with Mr. Knowles about a bonus. Mr. Knowles indicated his belief, with which you agreed, that the bonus actually does not increase with people earning over $5,000; it remains the same. I gathered from the question asked by the chairman that the bonus would, in fact, decrease as incomes increase because of the greater income tax being paid.

Mr. KILGOUR: That is true. If a man has a retirement income that is much higher than somebody else's he will pay a higher income tax. He could conceivably divest himself of some of his other income, but on the other hand he gets a better deduction on his contributions on the way in. I think the point is correct, but the absolute amount of money that is paid him every month by the Government is a substantial bonus. I agree with Mr. Knowles, that it does not increase any more for the man earning $25,000 than for the man earning $5,000.

Mr. GRAY: In an earlier exchange I understood you to say that two-thirds of the farmers do not have taxable incomes. Do you mean that before or after taking into account basic deductions and exemptions?

Mr. KILGOUR: My Statement on that—and I regret I cannot document it tonight in as reliable a manner as I would like, but there are two sets of figures that are vailable; one is the number of farmers who turned in income tax returns in the various provinces. Again, I am speaking from recollection tonight, but I think that for the Prairie provinces it was about 32 or 33 per cent, and in one province it was down to a low of about 24 per cent. I am sorry for not having the Quebec and Ontario figures, but I think they were lower.

I recall a remark made by Mr. Sauvé in which he said 177,000 farmers in Canada do not have gross incomes of as much as $2,500. If you do not have a gross income, and you are married and have some children, I do not know how you figure out your net. I suspect these people cope the best they can throughout the year, and hope they have got by, and I doubt if any one could make out an income tax return showing that they had $600 a year net cash at the end of the year. I do not profess to be an accountant, but I suspect that there has been enough family labour go into the farm—

Mr. MONTEITH: The accountant's training thus far is to bring them down low.

Mr. KILGOUR: I would think there would be relatively few that could from their own records and expenses show returns that would require contributions.

Mr. GRAY: Of course, they do not all have accountants like Mr. Monteith, though.

Mr. KILGOUR: I am sure they do not. My submission is that in the main these people will not be caught by either the strain of either employer-employee deductions or the strain of income tax deductions.

Mr. GRAY: Perhaps we can compare this with one point you make in your brief, where at page 16 you say:

> Reviewing another collection machinery, the income tax system, one finds that in 1962 225,234 Manitobans had taxable incomes.

Is that the number of people filing returns in that employment category?

Mr. KILGOUR: That is all Manitobans, and that is out of labour force of—I have the figures at the back. In 1962 there were 569,000 Manitobans of 18 years of age or older of whom only 225,000 filed income tax returns. There were 364,000 who were qualified as family heads or single persons responsible for insurance, and out of these only 225,000 had taxable incomes in 1962.

Mr. GRAY: That does not mean that there was not a somewhat larger number who did not file returns?

Mr. KILGOUR: Oh, no, but let us say they did not have an income. I am not going to impute their honesty.

Mr. GRAY: But it is quite possible that a larger number filed returns who did not have taxable incomes but who earned enough to be covered by the pension plan?

Mr. MONTEITH: It is an income between $600 and $1,000.

Mr. KILGOUR: This, I admit, Mr. Chairman, is complete conjecture. A married man with four children may have had a cash income of $800. He may have spent it in supporting his family. Up to now we have allowed him to. Under this provision he may be persuaded, and there are some hard provision in the act, but I do not know how hard the tax department would be disposed to go with respect to these people. He may be persuaded to put in his return and pay his contributions.

Mr. GRAY: I have just one or two final points with reference to a very interesting portion of your brief at page 18 headed "Underlying Philosophy". You criticize the Canada Pension Plan by saying:

> It places a final seal of approval on a completely mercenary appraisal of the individual's contribution to society. Money earned no matter how, determine the individual's benefits. Whatever one deems to be the least worthy occupation will afford a higher pension than the most worthy occupation if one earns more money in its pursuit.

Are you suggesting in this that it might be possible to create some system of old age security giving higher pensions to people who by some standards are deemed to have more worthy occupations?

Mr. KILGOUR: No. I admit that when I wrote that particular sentence I was thinking of some amusing instances—in fact, I was recalling a case that was before the Exchequer Court in Vancouver. We do not give a married woman anything for all her work. She is for the birds. She can work 40 years raising a family and get not one dollar of benefit under the Canada Pension Plan, but if a person earns some money in whatever you, in your wisdom, determine to be a useful or worthy occupation, that person gets a big benefit.

Mr. BASFORD: Be careful, Mr. Kilgour. You are speaking of a former client of mine.

Mr. GRAY: This is not the time to probe into a solicitor-client relationship.

Mr. KILGOUR: That is why I said "If one chooses".

Mr. GRAY: I gather that in spite of this concept your firm does not hesitate to sell private pension coverage to anybody who has the money—

Mr. KILGOUR: Good heavens, neither does a broker. Here the Government seems to be saying to one person: "Out of this fund we have collected you can have so much", and to another person: "You can have nothing". There is quite a difference.

Mr. GRAY: You are suggesting that it is all right for people in private enterprise to be completely mercenary, but this is not a concept you would accept in any way in government?

Mr. KILGOUR: I am unhappy to see a plan in which, for example, married women—I feel strongly about this—do not get a nickel for having contributed importantly in running a farm or a house over heaven knows how many years. They do not get one cent out of the Canada Pension Plan unless they go into the labour market, and compete with their children.

Mr. GRAY: I have one final point. Would you bring this principle into the computation of incomes before retirement?

Mr. KILGOUR: Quite frankly I am very much in favour of the United States system where a married couple can divide their income.

Mr. GRAY: What I am driving at is this; you feel there is something intrinsically wrong with somebody getting a higher pension whose occupation before retirement is not as socially desirable as someone else's.

Mr. KILGOUR: That is a minor point. I put it in to illustrate that we are prepared, no matter what you earn or how you earn it—if you earn dough you get a big pension from the Canada Pension Plan, but if you are a wife and a mother you get zero. Now, that is an interesting proposition, and not one that I would write into social legislation.

Mr. GRAY: But it is all right in private business?

Mr. KILGOUR: We give people what they pay for, and so does a store.

Mr. GRAY: I hope you will urge some responsibility in private business also, as do many leading executives.

Mr. KILGOUR: In terms of responsibility in business, many businesses today are trying hard to exercise their social responsibility. I have nothing but dissatisfaction to express for those who brush them off. I would be sorry to see Government brush them off in a manner equally subject to criticism but more so because Government is a body which presumably speaks for businesses which cannot speak for themselves.

Mr. GRAY: I disagree with the word "equally" but I have finished my questions.

Mr. MACALUSO: On page 3 of your brief you state:

> ...would be completely contrary to our national interest, and incompatible with the ideals and concepts of social justice which should guide social legislation.

From reading your brief and hearing you twice before this committee I might have some idea of your philosophy but I would be interested as to what your philosophy is, as to what should be "the ideals and concepts of social justice which should guide social legislation".

Mr. KILGOUR: I think I give a reasonable illustration when I refer to the death benefit. I use the illustration of wealthy man and a farm labourer killed in an accident where the wealthy man can get $168 a month for his widow and whereas the farm labourer's wife will get zero. Under my idea of social justice both might get $50 a month, if you have a carte blanche scheme, or you could give more if there is no other resource.

Mr. MACALUSO: It is equality for everyone?

Mr. KILGOUR: Or more at the bottom.

Mr. BASFORD: You mention that your brief is based on 32 years of observation of social legislation and you have your underlying philosophy. I have a speech in front of me—and I will not try to trick you as Senator Croll tried—to the Dauphin Council of Women, of February 25, 1957, relative to the subject of national hospital insurance. On page 1 it says:

> I speak only as a Canadian who knows quite a lot about the subject—

That is, hospital insurance—

> and I have only one axe to grind, and, that is to see that the facts get some circulation before Canada makes what I believe to be a gigantic blunder, under political heat.

You refer to the proposed national hospitalization scheme as a gigantic blunder, for many of the reasons you are raising against the Canada Pension Plan, namely, that it will cover only part of the cost and cover only part of the population, etc. Are you still, with regard to hospital insurance, sticking with that statement?

Mr. KILGOUR: Obviously that speech was a bit too long for you to quote other than one extract. I felt there were many better measures than the one being put in at the time by the federal Government enacting the bill and requiring all provinces to come in willy nilly. That was the character of that legislation, if you recall. The other thing I put in was that "immediately after this will come state medicine".

Mr. KNOWLES: As a matter of correction, was it a requirement, was it not optional?

Mr. KILGOUR: Yes. The federal Government, out of taxes taken from the whole of Canada, was paying half to the provinces that had a plan, if a province did not have a plan it got zero. You could fairly say it was the greatest pressure play that ever existed on the Canadian political scene. We saw Quebec as the last that would come in. I unqualifiedly say today there could have been infinitely less costly measures put in, more efficient measures than the carte blanche measures we have today. It may be popular, but it is producing incredible pressures on every provincial budget. We have people overstaying their hospitals. Some day, many provinces will be seriously re-appraising their whole hospital scheme, to find a better answer than that universal one adopted at that time. I do not apologize for what I said then, and it was not from any lack of social assistance.

Mr. BASFORD: Without being facetious, I have a great deal of respect for your ability, but I feel that if your objection to the Canada Pension Plan is based on the same sort of philosophy that objected and still objects to our hospitalization fund, I have very little hesitation at all in opposing your submission.

Mr. KILGOUR: If you want to go back to Manitoba, where 78 per cent of the people are already covered under Blue Cross, the problem remains of 22 per cent of the people there who have to be dealt with. There would have been a far better way of handling the 22 per cent, I again respectfully suggest, than by paying the whole bill. Manitoba is having an acute number one problem today on that score alone. One has to read the whole picture.

Mr. BASFORD: I have read your speech three times.

Mr. KILGOUR: Thank you very much.

Mr. KNOWLES: I wonder where you would stand on medicare?

Hon. Mr. MCCUTCHEON: You will not have to worry about that, after you pay for this plan.

Mr. BASFORD: That is good for the record.

The CHAIRMAN (*Mr. Cameron*): On behalf of the committee, I thank you for your attendance tonight, for the splendid and clear brief you presented to the committee and for your willingness in answering questions and generally for your cheerful and optimistic personality. We have enjoyed very much hearing you and I can assure you that what is contained in your brief and what you said will receive the serious consideration of this committee.

Mr. KILGOUR: Thank you very much.

APPENDIX A19

SUBMISSION
OF
THE EXECUTIVE COUNCIL OF
THE CANADIAN CHAMBER OF COMMERCE

(December, 1964.)

INTRODUCTION

The Executive Council welcomes the opportunity accorded by the establishment of your Committee to submit its views on Old Age Security and the Canada Pension Plan.

The Canada Pension Plan, because of its far reaching implications, is perhaps the most significant piece of legislation presented to the Canadian Parliament in a number of years. It cannot be looked upon merely as a social security measure. The very fact that it has gone through so many versions not only attests to the constitutional problems, but serves to emphasize the economic implications involved. Economic decisions for years to come will be influenced by the type of pension legislation that will be finally enacted by Parliament. It could create a new relationship between the volume of savings and consumption and have a marked effect on the investment pattern of Canadian capital which in turn could be a major determinant in the rate of long term economic growth.

We note from the statements of the Prime Minister that the Committee has full power to hear the advice of interested organizations and to make recommendations of principle as well as detail concerning a pension plan including the recommendation, if it so wishes, that the plan as proposed should be fundamentally revised. We also have received a similar impression from reading the Minutes of Proceedings and Evidence No. 1 of this Committee when the Minister of National Health and Welfare was discussing the same issue before this Committee.

Development of Chamber's Position on Social Security

The Chamber's Policy Statement states that sustainable social betterment depends on healthy competitive enterprise. The statement also provides that one of the roles for Government is to foster an equitable and a favourable climate for the private sector enabling it to utilize its resources, both human and material with the utmost efficiency; the greater the efficiency in such utilization the better able is this sector of the economy to contribute to the improvement of the nation's social environment. A thriving and growing economy provides the underlying guarantee for all social security advances.

The Chamber has consistently and traditionally supported a sound social security program. The first sentence of the Chamber's approved policy on Old Age Security states: "Security for Canadians after they have passed their working years is of vital concern to individuals and to our economy as a whole. All Canadians should be able to retire with adequate provisions for their post-working years." The social responsibility of business goes hand in hand with the responsibility to develop and make use of improved technology in the continuing effort to improve the living standards of all citizens.

In 1950 the Chamber appeared before the Joint Committee of the Senate and the House of Commons on Old Age Security and proposed a basic universal pension at age 70 without a means test, to be financed on a contributory pay-as-you-go basis out of current revenue or income, rather than through some type of funded reserve. The structure of the present Old Age Security legislation basically conformed with the terms of the Chamber's recommendations.

(See Appendices No. I, II, and III for summary of Chamber Submisison to Joint Committee in 1950 and selected policies on Old Age Security.)

In the present submission, we shall offer constructive suggestions on Bill C-136 for the further development of social security measures. We feel that our greatest contribution lies in presenting to this Committee those facts which have been gained from extensive financial, commercial and industrial experience. We do this in the hope that the plan your Committee is studying will be developed to meet the true human needs of retirement years, simultaneously maintaining the continued growth of the productive elements of our economy, and with the least disruption to the private sector of our economy.

Much of the following analysis is aimed at a discussion of the weaknesses of the proposed pension plan. We recognize that the plan contains good features, such as (*a*) the provisions for portability, (*b*) the provision of benefits to widows, orphans and disabled citizens, (*c*) the provision of retirement benefits for those under 70, (*d*) the proposal of the contributory principle, and (*e*) pensions that will be uniform regardless of geographical considerations.

Elements of the Proposed Plan which Merit further Analysis and Reconsideration

We do raise a number of questions on the current pension proposals designed to take care of the retirement needs of all Canadians under the following headings:

(1) The Canada Pension Plan should be considered in the light of Canada's total needs and its effect on other priorities should be recognized.

(2) The Canada Pension Plan does not provide for those Canadians who are now aged, orphans, widows and disabled.

(3) The Canada Pension Plan directs the greatest benefits to those who need them the least and lacks universality.

(4) The indexing of pensions can have far reaching inflationary consequences.

(5) The consequences of the development of a large pension fund provided by the Canada Pension Plan on the availability of Canadian capital for the producing sector of the economy should be recognized.

(6) Features incorporated in the proposed plan complicate integration of existing private plans with the Canada Pension Plan.

(1) *The Canada Pension Plan should be considered in the light of Canada's total needs and its effect on other priorities should be recognized.*

The Canada Pension Plan ought not to be considered in isolation. In addition to the current proposals for pension payments, there are the recommendations made in the Report of the Royal Commission on Health Services. The total bill for the Federal Government for health care by 1971 is estimated by that Commission at approximately \$2¼ billion. The brief presented by the Canadian School Trustees Association to the Royal Commission on Taxation shows on page 24 that expenditure requirements for formal education in

Canada, in terms of constant 1957 dollars, will rise from $1.7 billion in 1961 to $3.3 billion in 1971 and to $5.5 billion in 1981. As a percentage of GNP, this is a rise from 4.8% in 1961 to 6.5% in 1971 and 7.2% in 1981.

Social welfare expenditures have been rising both in terms of previous Canadian experience and in terms of comparison with other countries as evidenced by the following table drawn from information derived from the Department of National Health and Welfare.

Government Expenditures on Health and Social Welfare as a Percentage of National Income

	United States	Australia	Canada	United Kingdom	New Zealand
1949-50	5.5	7.3	8.0	11.9	13.2
1958-59	7.6	9.2	11.1	12.2	13.3
1959-60	7.6	9.0	11.3	12.4	14.5
1960-61	8.4	9.5	12.2	12.4	14.5
1961-62	8.5	10.3	12.7	12.6	14.6
1962-63[a]	8.6	10.1	12.5	13.0	14.0

[a]Figures for 1962-63 are preliminary.

It is a matter of concern that according to projections made by the Royal Commission on Health Services, all expenditures by governments in constant (1957) dollars will rise from approximately $11 billion in 1961 to $20.2 billion in 1971 and to approximately $55 billion in 1991, where at that level they will amount to 41.5% of the Gross National Product.

In an editorial in the Canadian Tax Journal published by the Canadian Tax Foundation for July-August, 1964, the need for priorities is set out. The editorial states, "The most important result to date of the Report of the Royal Commission on Health Services... has been to rivet attention on the long standing need for Canadians to set an order of priorities for their goals of human betterment and improved standards of living." The editorial concludes with the words, "It is not unlikely that a poll of knowledgeable Canadian opinion at this time would list education, health, and pensions in that order of priority—the opposite to the order which appears will develop if present trends continue."

The same point has been registered by the Premier of Manitoba in an exchange of correspondence with the Prime Minister last summer when he said, "Canadians generally want better pensions. We believe that Canadians also want better health services. Above all, we are certain that they want better education for the young. How can we best phase these competing demands into the taxpaying capacity of our people? We simply cannot afford to deal with each project separately. It is imperative that we relate at least these three priorities to one another and to the national tax base before irrevocable action is taken."

The matter of priorities among Government expenditures was the subject of a public statement by the Canadian Chamber following its Annual Meeting in September of this year, urging the federal and provincial governments to co-operate in establishing priorities with respect to government expenditures in the fields of education, old age security, health and other programs affecting the public sector of the economy.

The Chamber firmly believes that progress must be made in all these areas, but that we cannot fully accomplish all these objectives simultaneously, and therefore should set priorities in expenditures based on four principles:

(1) Most urgent needs must be met first.

(2) The freedom and initiative of individual Canadians must not be destroyed.

(3) The planning of expenditures must be made on a long-term basis.

(4) Ability to pay must be determined so as not to impede the growth of the economy and its capacity to create employment.

(2) *The Canada Pension Plan does not provide for those Canadians who are now aged, orphans, widows and disabled.*

The Canada Pension Plan is said to be designed to extend social insurance to people in retirement, to widows, orphans and the disabled.

Upon examination, however, a number of exclusions in coverage become apparent. The Canada Pension Plan will provide no benefits to any person aged 69 and over as of today. Persons who today are aged 64 and are required by the terms of their employment to retire at age 65, will receive no benefit; persons today in the age bracket 54-63 will receive only partial benefit, if required to retire at age 65. Persons who are widowed prior to January 1st, 1969, will not benefit. Today's orphans will receive no benefit. Persons who are presently disabled will obtain no additional benefits under the Plan.

In fact, benefits are selectively granted only to contributors or their dependents. The Plan excludes all persons who lack access to current labour income either directly or as dependents, and will continue to exclude these persons as long as the lack of access to earnings continues.

The fact that the Canada Pension Plan does nothing for these categories of Canadians will inevitably create pressures for benefits to them, particularly as a large fund will be developed through the Pension Plan. This should be recognized now and dealt with accordingly.

(3) *The Canada Pension Plan directs the greatest benefits to those who need them the least and lacks universality.*

The current Canada Pension Plan proposal has been characterized as "upside-down welfare" because it would provide the least help or no help at all for those who require Government help the most. The following table demonstrates that the bigger unpaid-for benefits or windfalls in the proposed Canada Pension Plan would go to the higher-paid workers.

	Example 1	Example 2	Example 3	Example 4
Worker's monthly wage or salary	$ 417	$ 417 at outset rising with contributory ceiling under plan	$ 200	$ 200 at outset rising 2% a year compounded
If worker is 55 at the outset of the program and retires at 65				
1. Worker and employer pay	1,940	2,085	794	887
2. This pays for a monthly benefit of	11.5	12.4	4.7	5.3
3. Proposed Canada Pension Plan benefit	113	121	54	59
4. Monthly benefit not paid for	101	109	49	54
5. Windfall at retirement, i.e., value of unpaid-for benefit	16,989	18,335	8,242	9.083

Line 1 assumes a contribution rate by employee and employer of 3.6% compounded at 4% interest or 10 years.

The benefits are based on current Government Annuity rates adjusted to provide for widows' benefits and post-retirement price increases.

The Canada Pension Plan lacks universality. Migratory and casual workers are excluded. Workers in agriculture, horticulture, fishing, forestry, logging and lumbering who do not spend at least twenty-five working days a year with the same employer, and who do not earn at least $250 a year from the same employer, will not be covered under the Plan.

Casual workers, such as grass cutters, snow shovellers, part-time cleaning help will not be covered. There will be no benefits for persons earning less than $600 a year.

(4) *The indexing of pensions can have far reaching inflationary consequences.*

The Canada Pension Plan proposes to use an index to determine pension benefits. This proposal has significant implications including the almost inevitable eventual demand for indexing other Government commitments, e.g. Canada Savings Bonds. In Sweden, where indexing of graduated pensions was introduced in 1960 a Government study group recently recommended that the Government (to be consistent) give consideration to the indexing of Government bonds and other obligations.

Indexing would, in effect, insulate privileged sections of the community from continuing inflation. In the United Kingdom, the Joint Committee of the Institute of Actuaries and the Faculty of Actuaries set out the problem in January 1958, when they stated, "Inflation—which it is the business of government to prevent or minimize—causes hardships to many and to attempt to exempt any one section of the community its consequences is to overlook the just claims of others. An automatic adjustment in relation to a rising price level, if accorded by the state to one group, would doubtless then be claimed by other groups; but even if it could be limited to a proportion only of the population, it must. . .itself have an inflationary effect. It would tend to perpetuate or even aggravate the malady it sought to alleviate."

(5) *The consequences of the development of a large pension fund provided by the Canada Pension Plan on the availability of Canadian capital for the producing sector of the economy should be recognized.*

The main concerns about the building up of a state fund are as follows:

(1) Compulsory savings will be collected placing in the hands of governments investment capital secured without resorting to the normal money markets, thus circumventing the guiding and controlling influence exercised by market forces of supply and demand, price and available capital, which is an important element in making the competitive enterprise system effective.

(2) There will be a diminution of sources of private capital with the resulting shifting of functions from the private to the Government sector of the economy.

(3) Investment decisions in the hands of state agencies undoubtedly must be influenced by political considerations as distinct from economic considerations.

(4) Funding on the scale proposed under a nation-wide plan will be a compulsory, non-discretionary form of saving enforced by the state, the impact of which will fall more heavily on those in the lower income groups.

(5) The accumulation of a state fund coupled with no actuarial relationship between amounts collected and benefits distributed, provides a source of undesignated money which cannot fail to encourage demands from many quarters for its disbursement.

(6) The additional costs arising from the current pension proposals will add their contribution to making our competitive position at home and abroad more difficult. The additional amounts collected will certainly affect those firms with a high labour content and can be expected to be reflected in the prices of goods and services.

We quote from Professor William Hood, Professor of Economics at the University of Toronto and recently appointed advisor to the Bank of Canada, in addressing the Canadian Political Science Association and the Canadian Association of Law Teachers this summer. "The withdrawal of funds from the private sector to the government sector will impair the growth of large aggregations of capital in the private sector... I am concerned that the reduction in the growth of saving in the private sector, by adversely affecting the accumulation of large blocks of capital, may impair the ability of the private sector to undertake large scale capital projects essential to productivity growth."

(6) *Features incorporated in the proposed plan complicate integration of existing private plans with the Canada Pension Plan.*

In a 1963 survey by the Federal Department of Labour, in establishments in Canada employing fifteen or more employees, 77% of the employees were in firms with private pension plans. The private plans are geographically somewhat uneven in their distribution but according to the Ontario Pension Commission, 63% of the paid workers in the Ontario labour force are working for employers who have pension plans in effect.

With respect to the problems of integration, there is the major problem that the indexing of pension benefits in the Canada Pension Plan renders well nigh impossible the integration of private fixed-benefit plans with an unknown scale of future Government benefits.

Every time the benefit scale of the Canada Pension Plan is liberalized, many private plans will have to be adjusted. The short transitional period of ten years together with the $600 earnings exemption in the Canada Pension Plan adds to the difficulty of integration.

In effect, for a majority of employees and employers the Government is proposing to take over the area of pension coverage under the first $5000 of annual income. It is clear that the Canada Pension Plan should provide for relief from duplicate coverage on the part of both employee and employer in this area of pension coverage in which the Government has decided to supersede private action.

RECOMMENDATIONS

We believe that within your terms of reference your Committee must decide whether the further development of our country's social security system should conform to the principles contained in Bill C-136 or whether further development should follow the principles of universal coverage through suitable modification and reformation of the Old Age Security Act in the light of present day needs and resources. With either course, we urge that the Committee give thorough consideration to the examination of the priorities of needs in this country.

If it is the decision of the Committee to accept the principles of Bill C-136 departing from the concept of universal coverage we make the following recommendations:

(1) That the maturity period be lengthened to facilitate the problems of integration with private pension plans;

(2) That the principle of indexing of pensions be not adopted;
(3) That the contributions to be funded in the hands of state agencies should be kept separate, that they be annually reported on and that the monies collected from employees and employers be considered as being held in trust in the same manner as monies held under private pension plan;
(4) That the Canada Pension Plan Advisory Committee include economists, actuaries and personnel drawn form the financial community.

If it is the decision of the Committee to examine alternatives to meet the social objectives of Bill C-136 and to include those groups which are not covered in Bill C-136 and to which we have referred in our brief, we suggest that these objectives could be achieved through suitable modification and reform of the Old Age Security Act. This approach to achieve current social security needs of our country which cannot be met through private initiative was adopted by The Canadian Chamber of Commerce at its Annual Meeting in September of this year. It was recommended that the Federal Government should adjust the present Old Age Security Plan considering particularly the following groups: persons who retire before age 70; widows of pensioners; persons of very advanced age; couples with a large age spread between man and wife; and other survivors and disabled persons.

That all Canadians should be able to retire with adequate provision for their post-working years is an objective on which all will agree. We hope the questions we have raised concerning the present provisions in Bill C-136 will assist your Committee in achieving changes to effect this objective.

Annex I

BUSINESS ORGANIZATIONS

The Canadian Chamber of Commerce

The recommendations of the Canadian Chamber of Commerce were prepared by the Executive Council which was unable to submit them for the approval of its members, because there was to be no annual meeting of the Chamber prior to termination of the Committee's hearings.

The Council recognized a growing public demand for increased measures of old age security and suggested that, if the Canadian people are willing to meet the cost, a universal basic pension of $30 a month be paid without means test to all Canadians aged 70 and over. The pension proposed by the Council should be administered by the federal government and financed from current revenue. No specific proposal was made as to how the amount required to finance the program should be raised, but is was suggested, in testimony, that both direct and indirect taxation should be employed.

While concerned about the present high taxation level, the Council stated that if there is a general desire for universal pensions, ways and means for its implementation should be explored. However, because of the present budgetary position, increasing defence costs, the effect of foreign trade on domestic prosperity, and uncertainty as to the extent to which the Canadian people are able and willing to meet the costs of old age security, the Council suggested that any plan adopted at this time should be of an exploratory nature, especially in view of the tendency of expenditures of his kind to increase over the years, and to become a fixed and rigid recurring cost.

Noting that security may be attained through individual savings, insurance or employee pension plans, and voluntary welfare and assistance services, as well as through state financed plans, the Council expressed the view that whatever program is adopted should be so designed as not to discourage thrift, personal incentive or the individual sense of responsibility to provide against those risks that can be met personally. The Council considered that any integration of the various industrial retirement schemes with the proposed universal pension program should be left to the choice of industry.

Universal Basic Pension

Amount of Pension. In proposing a $30 monthly pension the Council had in mind the spending of between one and two per cent of the national income. While it was admitted in testimony that a $30 pension was low, the Council expressed the belief that revenue to finance a higher pension could not be raised, taking into consideration the present budgetary position, rising defence costs, uncertain foreign trade conditions, and existing high levels of taxation. However, it emphasized that the amount proposed is tentative and exploratory, and could be reviewed after a period of administrative experience. No future decrease in the proposed $30 pension was contemplated by the Council.

The basic pension recommended by the Council was envisaged as a basic minimum, the payment of which by the federal government would not exclude the possibility of supplementation by provincial governments.

Age Requirement

The Council, in recommending a basic universal pension at age 70, had in mind that the cost of universal pensions below that age would mount alarmingly. In considering the ageing of the population and increased life expectancy, one witness particularly emphasized the older persons should remain in productive employment, even up to age 70 and beyond, and stressed the important responsibility of business and industry in this regard.

No recommendations were made concerning persons below 70 years of age, except that they should be given every encouragement to continue in productive activity. The problem of destitute and incapacitated persons in the age group 65 to 69 was recognized but, as was pointed out in testimony, the question of incapacitation was considered beyond the scope of recommendations with respect to old age. However, one witness suggested that incapacitated persons below 70, or even 65 years, might receive assistance on a means test basis, if funds were available.

Means Test

The Council recommended the abolition of the means test in order to encourage elderly persons to continue contributing to the productive capacity of the country. It considered the test to be discriminatory, to penalize the thrifty and to tempt persons to make false declarations of income in order to secure the maximum benefit. A precedent for the payment of benefits without test, it was pointed out, had been established under the Family Allowances Act.

Financing the Program

The program proposed by the Council would be financed out of current revenue, specifically raised and earmarked for the payment of pensions. The council argued that payment of the proposed pension should be viewed as a redistribution of the national income, and should be financed on a contributory pay-as-you-go basis out of current revenue or income, rather than through some type of funded reserve. The organization pointed out that any plan operated by the government under a funded arrangement, particularly where an individual's contributions are credited to his account, would be open to the danger of high administrative costs, and that a large fund might be uneconomically accumulated. No recommendation was made as to the specific tax measure by which the necessary revenues could be obtained but, since the Council expressed the belief that all Canadians should contribute out of current income, it was suggested, in testimony, that both direct and indirect taxes might have to be levied.

Administration

The Council proposed that the program be administered by the federal government.

Annex II

EXTRACTS FROM 1961-62 POLICY STATEMENT

The Canadian Chamber of Commerce

Old Age Security

There is a need in our modern society to enable people during their working years to accumulate the resources to produce income after their retirement, so as to live with a minimum of dependence upon Government welfare or private charity.

The income from post-retirement years may come from the following sources:

1. Federal Old Age Security Benefits
2. Income Arising from Individual Planning and Thrift:
   (*a*) Private Pension Plans
   (*b*) Personal Savings
   (*c*) Profit Sharing Plans
3. Welfare Assistance at the Local Level—Municipal and Provincial.

Portability of pensions is concerned with 2 (*a*) above and should be considered in relation to the benefits and costs arising from the other ways of providing income for retirement years.

Any Government regulations governing such plans should provide a maximum of flexibility to meet the varying types of employer-employee relationships in different kinds of business and industry.

Great caution should be exercised in any regulations respecting pensions, especially respecting vesting. To achieve effective portability, employees would have to be induced to not withdraw their contributions in cash when changing employment and employers would have to be induced to provide for earlier vesting of employer's contributions under both contributory and non-contributory plans. Since earlier vesting costs more than later vesting or no vesting, this becomes a matter of increased labour costs and a matter of price competition in both domestic and international markets. It is obviously inequitable to require employers already providing pension plans to meet standards that will increase their cost of operations while their competitors are operating without any pension plan.

We believe that employers and employees could be encouraged by tax incentives to assist in bringing about the objectives of more nearly adequate pensions for Canadians. Consideration of this might well form part of an overall study of the tax structures of the Federal and Provincial Governments. Since so many Canadians move to other provinces or are employed by organizations which operate in more than one province, the co-ordination of objectives and principles between the Provincial and Federal Governments is essential.

Canada has now the basic pattern for an adequate system of retirement incomes for Canadians. If further action is required, rather than embarking on a new program of costly government-operated pension plans, we should develop and improve the existing systems.

Annex III

EXTRACTS FROM 1964-65 POLICY STATEMENT

The Canadian Chamber of Commerce

Old Age Security

Security for Canadians after they have passed their working years is of vital concern to individuals and to our economy as a whole. All Canadians should be able to retire with adequate provisions for their post-working years.

Many Canadians today are seizing opportunities and using means for the accumulation of resources for post-retirement income. These resources are being accumulated through individual initiative and thrift using any one of, or combination of, plans available such as private pension plans, personal savings, and profit-sharing plans. Supplemental post-retirement income now comes from Federal Old Age Security and in cases of need from Old Age Assistance, Unemployment Assistance and from Welfare Assistance both municipal and provincial, at the local level.

We favour the kind of pensions legislation which will extend the benefits of private pensions to more Canadians utilizing the whole range of existing savings media, extend vesting provisions and assure adequate supervision of these plans. Such measures would aid the economy by creating new private capital with resultant industrial expansion, developing new employment opportunities and facilitating the mobility of labour. Further, such legislation would maintain equity between all contributors and would avoid subsidy between various groups of the population.

The Chamber believes that Government-operated public plans should be restricted to flat-rate benefits such as provided for on a fully universal basis under the Federal Old Age Security legislation. There is concern about the proposed contributory income-related Government pension to be superimposed upon the present Old Age Security flat-rate pension. First, it proposes a form of compulsory savings which places in the hands of governments investment capital secured without resorting to the normal money markets. Secondly, governments having a captive source of finance may tend to spend more freely than they otherwise would. Thirdly, there will be a diminution of sources of private capital with the resultant shifting of functions from the private to the Government sector of the economy. Fourthly, there will be the additional cost or taxes added to the current burden of taxes to provide benefits. All of these results, in the view of the Chamber, will contribute to a slow-down in economic growth and to a deterioration of our competitive position with a resultant serious impact on employment and the overall standard of living.

Recommendations:

1. The Federal Government should co-operate with the provinces in standardizing pensions legislation throughout Canada, and before any legislation is enacted there should be established a public committee of inquiry to hear the views of all interested groups and to make recommendations.
2. Provincial Chambers of Commerce should urge their legislatures to co-operate with other provinces in enacting uniform pensions legislation concerning private pensions plans.

3. (a) The Federal Government should confine itself to the provision of flat-rate pensions.
   (b) The Federal Government, in studying possible adjustments to the present Old Age Security plan, should consider in particular the following groups:
   (i) Persons who retire before age 70
   (ii) Widows of pensioners
   (iii) Persons of very advanced age
   (iv) Couples with a large age spread between man and wife
   (v) Other survivors and disabled persons
4. The Chamber urges that Government-operated public pension plans should be on a pay-as-you-go basis, and the Chamber is opposed to the principle of accumulating a fund under a Government plan beyond the amounts necessary for financing current operations on a year-to-year basis.
5. All Canadians should be encouraged to make their own provision for financial security in their old age, over and above basic Government pension benefits.

The Canadian Chamber of Commerce is the national voluntary federation of more than 850 antonomous Boards of Trade and Chambers of Commerce (the terms are synonymous) throughout Canada. In addition to these organization members, the Chamber includes approximately 2,700 corporation members composed of businesses of all sizes and in all geographical locations as well as 25 association members. 75 per cent of the community Boards of Trade and Chambers of Commerce serve communities of less than 5,000 population. The preponderance of our corporation members can be correctly described as small business.

This brief is being submitted by the Executive Council which is appointed by the National Board of Directors, the governing body of the Chamber, to carry on the ordinary business of the Chamber during the interim between meetings of the Board.

APPENDIX A18

MEMORANDUM RE BILL C-136

by The Life Underwriters Association of Canada
41 Lesmill Road, Don Mills, Ontario
(January 6, 1965)

INTRODUCTION

1. The Life Underwriters Association of Canada, founded in 1906 and incorporated by Act of the federal parliament in 1924, is the professional association of life insurance agents. The association has approximately 12,000 members and represents about 70% of all the full time life insurance agents in Canada.

2. The association seeks to accomplish its major objective of higher standards of life insurance service to the Canadian people by administering a five year program of training and education leading to the designation Chartered Life Underwriter (C.L.U.). Approximately 22% of the association's members now hold this designation and another 53% are at various stages of the educational program. The members of the association are responsible for the major portion of the sales and service of life insurance and annuities to the Canadian people.

3. Our association welcomes the opportunity to present its views to the Joint Parliamentary Committee on Canada Pension Plan particularly as our association has consistently urged that the proposed Canada Pension Plan be given detailed study by a Joint Parliamentary Committee or other similar body which would have the benefit of hearing from persons and organizations representing the various segments of our population.

4. The members of our association deal directly with the 10 million policy-holders of life insurance companies in Canada. In the course of their daily work our members discuss with these people the highly individual matter of their financial plans and objectives. Thus our association is in a unique position to assess the proposed Canada Pension Plan and its implications from the point of view of individual members of the public.

5. It has been wrongly suggested that the members of the Life Underwriters Association have allowed selfish interest to dictate their views in the matter of a government operated pension plan. Therefore we wish to state clearly the position of the association and its members in this regard:

(*a*) The association has consistently supported the existing Canadian system of government operated Old Age Security and will continue to do so including support for any desirable extensions and improvements in the system.

(*b*) If the proposed Canada Pension Plan is adopted, the association believes that premiums currently going to pension plans would be reduced and also that some portion of future new pension monies that would otherwise have been channelled to the private pensions industry would be diverted to federal or provincial governments. In view of the fact that only 20% of private pension plans are insured, the impact of the proposed Canada Pension Plan on our membership would be substantially less than would be the case with other segments of the private pensions industry. However, many of our members believe that as a result of the Canada Pension Plan most Canadians would become more conscious of the value of pensions and financial security and therefore the climate for future sales of life insurance and annuities would likely be improved. The probability is that the gains would at least equal and likely would exceed any possible losses as far as the sale of life insurance and annuities are concerned.

6. Having dealt with the possible effects of the Canada Pension Plan on our members and we hope having demonstrated that our association's viewpoint is not warped by selfish interest, we turn now to the paramount question of the public interest and how the proposed Canada Pension Plan will affect Canadians.

SUMMARY OF BASIC VIEWS

7. The association is in accord with the basic objective of the proposed Canada Pension Plan as stated in the White Paper of August 1964 in the two opening paragraphs which read as follows:

> "The Canada Pension Plan is designed to extend social insurance protection to people in retirement, to widows, orphans and the disabled. It will be a basic part of Canada's social security system.
>
> "In the resolution proposed in the House of Commons in July 1963, and the statement tabled at that time, the government made known its objective for retirement pensions. This is to establish a contributory pension plan ensuring that, as soon as is possible in a fair and practical way, all Canadians will be able to look forward to retiring in security and in dignity.

8. The members of our association report that they find the general public understanding of this broadly stated objective of the Canada Pension Plan is that the Plan would provide benefits in a fair and practical manner for all Canadians in retirement as well as providing supplementary benefits for all who are disabled, widowed, and orphaned.

9. The proposed Canada Pension Plan will not accomplish this fundamental objective and can never fully do so despite any amendments that could be enacted so long as it is subject to the limitations of a contributory earnings related pension plan. This is because it will take at least 25 years before the Canada Pension Plan would provide retirement benefits for its maximum potential of 85% to 90% of those in retirement. Those who would be left out of the plan would include the hard core of those in most severe economic need. When this fact is fully understood by the Canadian public, serious repercussions are bound to occur. For example, one million Canadians now receiving Old Age Security would never receive Canada Pension Plan benefits though newly retired people would receive both. The resulting disappointment and disillusionment on the part of a large section of the electorate could hardly be ignored.

10. The association therefore believes that the proposed Canada Pension Plan should be amended to enable it to achieve the fundamental objective as stated previously in the White Paper. This means that the Plan must be designed to benefit *all* Canadians in retirement, and to benefit *all* who are disabled, widowed, or orphaned. Furthermore, the retirements benefits must be designed

so as to recognize *needs during retirement* rather than *earnings* during working years. This is the only way that the principle of fairness (stated in the White Paper) can be implemented fully.

SUMMARY OF RECOMMENDATIONS

11. The association submits that the Canada Pension Plan objective of providing a minimum level of retirement income for all Canadians and of providing supplementary benefits for widows, orphans, and disabled persons can best be achieved by amending Part IV of Bill C-136 to extend the application of Old Age Security and also to provide for extension of Family Allowance benefits. The earnings related aspect of Bill C-136 could then be deleted and the objective of the Canada Pension Plan would be more completely achieved by virtue of the following important improvements in what is currently proposed:

(*a*) All the retired population over age 65 (both present and future) would be covered with no discrimination and with no gaps in coverage.
(see paragraph 15, page 10)

(*b*) Supplementary benefits to the widows, orphans, and disabled persons would cover everyone in these categories of hardship (both present and future) instead of providing coverage on a selective and discriminatory basis.
(see paragraph 16, page 11)

(*c*) The system of flat benefits automatically provides the largest relative amount of assistance to those in greatest need and avoids the proposed inequity of providing the largest tax subsidies to the fortunate people in our society that have above average earnings.
(see paragraph 17, page 13)

(*d*) The universal application of flat benefits will avoid excessive amounts of government pension for a fortunate few and will spread government pension monies over a much broader segment of the population at the level of basic need.
(see paragraph 18, page 14)

(*e*) The system of flat benefits is far more easily understood by the people who are to benefit. Only the few persons who make a special study of the Bill could fully understand the current proposals.
(see paragraph 19, page 15)

(*f*) The system of flat benefits would be easier to integrate with existing pension plans.
(see paragraph 20, page 17)

(*g*) The dangerous inflationary pressures inherent in the proposed system of indexing would be avoided.
(see paragraph 21, page 18)

(*h*) The system of flat benefits would be far less costly to administer.
(see paragraph 22, page 18)

12. The association's specific recommendations as to possible extension of existing Old Age Security are as follows:

(*a*) $75 per month payable from age 65 to single persons and to married men with wives under age 60.

(*b*) $125 per month payable as a family benefit during period that a married man is age 65 or over and his wife is between age 60 and 70.

Note: It might be desirable to make payments in (*a*) and (*b*) subject to an earnings test up to age 70 along similar lines to that proposed for Canada Pension Plan benefits.

(*c*) Provision for periodic adjustment of the whole scale of Old Age Security benefits (i) to keep benefits in proper relationship to the standard of living for the population as a whole, and (ii) to provide for possible increased need for retired people as they advance into older age brackets.

(*d*) Provision for widows above a specified age and for those who are forced to withdraw from the labour force due to total and permanent disability could be made by extending Old Age Security payments to cover both of these categories in such amounts as may be considered proper.

13. The association's recommendation for providing "orphan" benefits is as follows:

Flat benefits for "orphans" could be paid to widows with children and to the disabled with children by increasing the Family Allowance benefits. The present Family Allowance benefits and Youth Allowances could be increased on the death or total disability of the father by $25 per month, and the age limit could be extended to age 25 for each dependent child still attending school as has been proposed under the Canada Pension Plan.

14. The association believes that the implementation of these recommendations both as to timing and as to amount should be determined only after due evaluation of the relative urgency of additional pensions in relation to the whole spectrum of welfare and educational needs in Canada. (See Priority of Needs, page 20)

REASONS FOR RECOMMENDATIONS

15. *The system of universal flat benefits (both existing benefits and suggested extensions) payable under a Canada Pension Plan which extends Old Age Security could meet the retirement needs of all Canadians without the discrimination and gaps inherent in the current proposals.*

(*a*) If the C.P.P. is extended as recommended, it would provide retirement benefits immediately for 100% of those who have reached a stated age. The current C.P.P. proposals on the other hand would provide retirement benefits only for a fortunate handful of people at the outset. In 10 years time coverage would still be limited to a minority of about one-third of the population over age 65.

(*b*) The flat benefit system is universal in its application and no one in the retirement category is overlooked. The proposed earnings related system on the other hand is limited to those in retirement who were fortunate enough to have been contributors to the plan. After a quarter of a century this might build up to a maximum of 85% to 90% of the retired population thereby still leaving out those in greatest economic need.

(*c*) A C.P.P. which expands the system of O.A.S. would prove to be far more popular with the people of Canada than would the current proposals because everyone will be treated fairly. Shocking inequities requiring political action would soon be revealed under the proposed C.P.P. For example, in 10 years time one large group of senior citizens will be receiving only Old Age Security from the government while another smaller group of senior citizens will be receiving more than $100 per month from the government in addition to O.A.S. by virtue of having paid a token tax to the C.P.P. This will split friends and relatives into two groups, the "haves" and the "have nots" so far as government pensions are concerned. It is surely apparent that this will not be acceptable in our enlightened society. This pitfall should be avoided by amending the C.P.P. to extend O.A.S. in a manner which will permit equitable treatment of all Canadians in retirement.

16. *Supplementary benefits for widows, orphans, and the disabled can be provided equitably for everyone in these categories if the Canada Pension Plan is based on extension of the existing systems of universal flat benefits but the Plan cannot do so if it is limited by the earnings related proposal.*

(*a*) The earnings related proposal would leave out the widows and disabled persons living at the commencement of the plan and would also leave out the dependent children of such persons.

(*b*) Consider the case of a widow now working and trying to struggle along until she can qualify for existing O.A.S. She would have to stand by and watch widows of 1969 bereavements draw substantial incomes from the government for the rest of their lives whether they needed them or not. Moreover, to add insult to injury she would have to pay C.P.P. taxes on her own modest earnings to help subsidize the widows of 1969 and subsequent years. Surely it is possible to conclude now that this would not stand the test of public opinion for very long. Such a widow would be covered immediately if the C.P.P. were amended to extend O.A.S. benefits as recommended.

(*c*) The element of earnings related contributions raises inequities in coverage. Future widows and disabled persons and their dependents would receive benefits under the proposed C.P.P. only if they were fortunate enough to be contributors or connected with contributors to the plan. Those who would *not* qualify as contributors are likely to include those widows and disabled persons in greatest economic stress.

(*d*) These examples of inequity in coverage would present a number of untenable situations requiring political action. These problems can be avoided by following the recommended procedure of amending the C.P.P. to extend flat benefits under O.A.S. and Family Allowances to cover *everyone* in these specified areas of hardship on an equitable basis.

17. *A Canada Pension Plan which extends the system of flat benefits as recommended would operate more equitably than the current proposals because it would provide most assistance to those whose need is greatest in retirement and would also operate equitably in different regions of Canada.*

(*a*) The system of flat benefits under O.A.S. has its own built in device for providing most help to those whose need is greatest in retirement. The proposed C.P.P. would tend to operate in reverse to this because the benefits will vary in relation to the pensionable earnings.

Thus the higher the earnings the higher will be the benefits under the proposed C.P.P. whereas retirement needs are normally greater for those whose earnings were low during their working years. Thus the C.P.P. as proposed would tend to accentuate differences in levels of retirement income whereas a C.P.P. which extends O.A.S. would tend to reduce these differences.

(*b*) There is also the question of how best to provide retirement pensions equitably in view of the variation in living costs between urban and rural areas and between different regions of Canada. Proponents of the earnings related system argue in its favour on the basis that retirement needs of people are related to their previous level of earnings. For example, the actuarial report shows that a person earning $5000 could receive an annual pension of $1356. But if the same person earned only $2500 then the C.P.P. would provide him with a pension of $678. It is a fallacy to assume that the retirement need is only half as great in the second situation.

(*c*) A better measure of relative needs in retirement is found in a comparison of the gap that exists between the average income of the working population and the average income of the retired population in different regions. An analysis of this gap made on a provincial basis from the 1961 census statistics shows that, with the exception of Prince Edward Island, the variation in this gap is remarkably small from province to province. For example, the gap is $1540 per year in Ontario and $1350 in Newfoundland. Thus it appears that the universal flat benefit approach is preferable to the proposed earnings related approach in dealing with the fluctuations in living standards in various regions.

18. *The scale of government pension benefits which would be provided for some people from the proposed Canada Pension Plan together with Old Age Security seems excessive in relation to the White Paper objective of providing "reasonable minimum levels of income" and also in relation to comparable programs in other countries.*

(*a*) Even the $75 per month O.A.S. is considerably higher than the average government pension benefits now being paid in the United States and in the United Kingdom when benefits are compared in relation to per capita gross national product. Superimposing C.P.P. benefits on top of O.A.S. would provide exceptionally generous benefits for some people thereby accentuating the inequity situation. Based on non agricultural population it has been estimated that 14% of husband and wife families could eventually qualify for government pension benefits varying from 100% to 175% of pre retirement earnings. Another 11% could qualify for benefits ranging from 75% to 100% of pre retirement earnings. Another 22% could qualify for benefits of 56% to 75% of pre retirement earnings.

(*b*) The statistics in (*a*) relate to the lower 47% in the earning scale but the proposed C.P.P. would also make quite a startling impact on persons who already have generous pension plans. For example, a man earning $5000 a year retires on a pension of $3500 at age 65, as he does under some civil service plans. He and his wife can receive at least $2474 from C.P.P. and O.A.S. This means total pension of about $6000 in relation to earnings of $5000.

19. *The enormous complexity of the proposed Canada Pension Plan would mitigate against its stability.*

(*a*) Bill C-136 has been described as one of the most complicated pieces of legislation ever to be introduced into parliament. This is hardly a virtue. It is regrettable that a measure which is intended to have widespread social and economic importance for millions of individuals is so difficult to interpret and explain. The likely result is that the many inequities, and delayed implications will tend to become apparent in a scattered and unrelated manner over a period of years thereby leading to a patchwork of legislative amendment and administrative interpretation. Past experience in Canada suggests that after some years the result would be the appointment of a Royal Commission to investigate the whole problem and make recommendations.

(*b*) This problem of complexity is of vital concern to the life insurance agents in Canada who will be called upon to a greater extent than any other group to explain the C.P.P. and demonstrate its specific application to individual members of the public. The educational department of the Life Underwriters Association has set up a committee of experts to develop a practical procedure which life insurance agents in Canada could use in the course of their financial planning for individuals in order to integrate anticipated C.P.P. benefits with existing life insurance and other assets. This committee, after wrestling with the problem for some weeks, finally concluded that the adjustment factors, the indexing, and the other variables result in so much uncertainty that is is impractical to use C.P.P. benefits as the foundation for a family's security program. Instead the technique must be to use the individual's life insurance and O.A.S. as the foundation for his financial security program and the C.P.P. benefit would be treated as supplementary and somewhat uncertain as to amount. On the other hand, the universal flat benefit approach to providing government benefits enables them to be put in their proper place as a floor of protection and they can be easily explained and understood.

20. *A Canada Pension Plan which extends the system of flat benefits would make it practical to integrate government benefits with existing pension plans.*

(*a*) The complexity of the proposed C.P.P. presents great difficulty in trying to integrate it with existing employer-employee pension plans. Actuaries had previously worked out some possible methods of integration, but the recently added feature of indexing of pension benefits has rendered the integration problem almost insoluble. The president of the North American Life gives us the probable answer when he points out that in five European countries that have indexed initial pension benefits, the government has completely taken over the pensionable earnings area. On the other hand we have some rather strong proclamations by leaders of organized labour that they will not tolerate any reduction of existing pension plans if the C.P.P. is introduced. These factors indicate the great difficulty of integrating existing pension plans with earnings related government benefits and also indicate stormy weather ahead for management labour relations.

(*b*) On the other hand integration of existing pension plans with flat benefits as in O.A.S. is quite simple and has in fact been done with a number of pension plans.

21. *A Canada Pension Plan which extends the system of flat benefits without indexing of benefits would avoid the dangerous inflationary pressures inherent in the proposed indexing of earnings related benefits.*

Indexing of pensions based on fluctuations in the consumer price index revives the problem of inflation. Again President Bryden of the North American Life points out that indexing of pensions is likely to lead to pressure for indexing of other government commitments. Once indexing begins it tends to give certain groups in the community a vested interest in continuing inflation which could ultimately destroy the incentive to invest money at interest.

22. *A Canada Pension Plan which extends the system of flat benefits would be far less costly to administer than an earnings related system.*

(*a*) A contributory earnings related plan involves substantially greater administrative cost than a flat benefit program because of the extensive individual records that would be required. The actuarial report estimates administrative expense for the C.P.P. at $17.6 million at the tenth year of operation. The Deputy Minister of National Revenue recently estimated that 1,260,000 refunds to employees would be required each year due to overpayment as a result of payroll deductions being based on a full year's earnings although the employee doesn't work for a full year.

(*b*) The flat benefit programs can be extended at considerably less administrative cost. The actuarial report estimates that in the tenth year of operation, administrative expense would be 4¾% of benefits whereas the expense factor under Old Age Security is about ¾ of 1%.

PRIORITY OF NEEDS

23. While it may appear laudable that Canada should strive to lead the world in its level of government pensions, there is a strong feeling that government pensions at this unusually high level on a selective rather than universal basis which bypasses those in greatest need is not a matter of prime urgency in Canada at this time. There are important public leaders including the Prime Minister of Manitoba who believe that the urgent needs for tax money to be diverted into education and even health care rank ahead of a second layer of government pensions.

24. The Hon. Maurice Sauve recently described 8 specific areas of poverty in Canada and another 10 areas where the situation is little better. One specific example is nine counties in the lower St. Lawrence area of Quebec where the gross income for 300,000 Canadians is $5 per week per person. It has also been noted that Canada lags behind some other countries of the western world in the technological and industrial development necessary to create the means of greater productivity to support the many desirable social welfare measures.

25. It ought to be noted that in the United States where an earnings related social security program has been in operation for nearly 30 years, the President of the United States in his recent election campaign adopted as his prime item of domestic policy "war on poverty". Moreover, since his election, the President has announced his hope to raise the federal government's contribution to education from a high of $700 million under the Kennedy regime to $3,000 million (more than 4 times) in 1965. These events to the south of us may be an indicator of what lies in store for our own country.

26. In the light of the above and other similar storm warnings our association believes there should be a full scale assessment of the whole area of welfare needs waiting to be filled, their cost and respective priority in relation to the cost of other growing and critical demands on our economy for education, health care, and other public projects. This kind of overall evaluation seems essential before an intelligent decision can be made as to whether Canadians should be committed now to a program of escalating cost to provide a further level of government pensions which by most reasonable standards seems excessive.

CONCLUSION

27. Our association supports the broadly stated objective of the Canada Pension Plan, namely to provide minimum levels of benefits on a fair basis for all Canadians in retirement and for those who are disabled, widowed, or orphaned. Since the Canada Pension Plan in its present form cannot possibly achieve this objective, our association recommends that it be amended.

28. The starting point for amendment is Part IV of Bill C-136 which already provides for some extension of Old Age Security. This Part of the Bill could be expanded to put into legislative form the recommendations for further expansion of Old Age Security and also for extension of Family Allowances to provide the desired benefits for all widows, orphans, disabled, and retired persons on a basis that is universal in coverage and equitable in application. Along with these amendments the first three Parts of the Bill could be substantially eliminated.

29. In this way the Canada Pension Plan would be designed to overcome the deficiencies in the earnings related approach and thereby achieve the following highly desirable objectives:

(*a*) Retirement benefits would be payable to all retired persons over age 65.

(*b*) Supplementary benefits for widows, orphans, and disabled persons would be paid to all in these categories of hardship.

(*c*) Benefits would relate to needs rather than earnings.

(*d*) Excessive benefits for some would be replaced by equitable benefits for all.

(*e*) Everyone could understand it.

(*f*) Government benefits could easily be integrated with private pension plans.

(*g*) The dangers of inflation inherent in indexing of pension benefits would be avoided.

(*h*) Administrative costs of operating the plan would be substantially reduced.

30. Since these eight highly desirable objectives cannot be attained through the earnings related approach, our association hopes that the Joint Parliamentary Committee will recommend changes in Bill C-136 which will enable the Canada Pension Plan to achieve these objectives.

APPENDIX A20

SUBMISSION BY THE WINNIPEG CHAMBER OF COMMERCE

OTTAWA, January 19, 1965

Approved by the Public Finance and Taxation Committee January 7, 1965 and by the Council January 12, 1965.

INTRODUCTION

The Winnipeg Chamber of Commerce has a membership of about 2,400 representing 1,400 separate enterprises, which makes it broadly representative of the business community of Greater Winnipeg. The Chamber has prepared this submission as the representative of this business community.

Our members, collectively as the Chamber of Commerce and individually as employers, managers and self-employed individuals, support the idea of a sound social security program. Our members recognize their social responsibility directly to their employees and in a broad sense to the community as a whole. The Chamber has stated on numerous occasions that it does indeed support programs of public welfare where the need exists and to the extent the nation can afford them. Therefore, the Chamber is not opposed to a national pension scheme but is strongly opposed to some of the provisions of Bill C-136 as set out below.

Funding is not the answer

There is no economic reason why a government with unlimited taxing powers should fund a pension plan, but there are many economic reasons why a government should not do this. Some of these are:—

1. Most private pension plans invest their funds in corporate and government securities and mortgages in agreed-upon ratios. If Bill C-136 is enacted a portion of the funds now invested in private plans will be diverted to provincial governments. Private plans will still invest their funds in agreed-upon ratios but at reduced levels. This will mean pension funds will be investing less in corporate securities with the result that industry will turn more to foreign capital for its requirements. This would be contrary to the present Federal Government policy of encouraging Canadians to provide their own capital for their own industries.
2. The United States has currently adopted a policy of reducing both corporate and personal income taxes with significant beneficial results in their economy. The Chamber believes Canada should follow a similar policy. However, under the proposed plan a levy of 3.6% on payroll will in fact increase taxes which will place Canada in a less competitive position in world markets. This can be alleviated by reducing the levy to cover no more than the annual cost of pensions.
3. The proposed funding of the Canada Pension Plan does nothing to relieve the government from the necessity of taxing to pay the benefits provided under the plan and does much to increase the cost.

The channeling of contributions into the hands of the provincial governments by way of loans is in avoidance of the constitutional responsibility to provide means for the provincial governments to meet their needs from their own resources of credit and taxation.

4. The making of these loans will temporarily insulate the provinces from the judgement of the market and of the taxpayer and encourages provinces to embark on uneconomic projects.

5. To the extent that the funds loaned to the provinces will remain as permanent loans, the federal government will ultimately reach the point where it is meeting the pensions out of contributions as they are received and at this stage the obligation of the provincial governments to repay will be almost academic but a tremendous amount of work and expense will have been consumed in the so-called funding process.

The Chamber believes it is unsound in principle for the Federal Government to collect excess pension contributions which provincial governments may borrow and spend. It is submitted that the so-called funding of the plan could be an expensive illusion.

Inadequacies of Bill C-136 as a welfare measure

Apart from the difficulties envisioned by the "funding" feature, we feel the proposed legislation contains weaknesses as a social welfare measure. Some of these are:—

1. A social security plan involving a transfer of funds among people in different earnings levels and in different generations should ensure that its benefits are at all times directed to those most in need of them. For this reason the Chamber believes that the benefits formulae of the proposed plan based on previous earnings statistics of individuals, adjusted on the basis of national earnings and price statistics, will not at any time ensure that its benefit payments will effect the most desirable transfer of funds available.

   For example:—

   (*a*) The most serious short-coming of the proposed plan is its failure to provide immediately for those in greatest need, including the aged, widows, orphans and the disabled. Members of the proposed plan will presumably receive pensions worth far more than contributions made on their behalf on the premise that members entering the proposed plan will always be in sufficiently increasing numbers to provide the additional funds necessary to subsidize members drawing pensions.

   The Chamber suggests it is undesirable as Government policy to subsidize one group of citizens and ignore another group who have a greater immediate need.

   (*b*) The excesses of benefits received over contributions paid are now and will continue to be greater for those with higher income histories, thereby widening differences in income—a most undesirable shortcoming in a formula for transferring funds between persons compelled to contribute.

   (c) The proposed benefit formulae will in the future pay less than adequate benefits to many persons whose income is stopped or reduced due to retirement, disability or widowhood after the terms of the plan are fully effective.

(*d*) The proposed benefit formulae will in the future pay more than adequate benefits to many persons who will retire after the terms of the plan are fully effective.

2. In Canada today there are more than 2,000,000 individuals who are members of existing pension plans. In many cases the benefits provided under the terms of these plans are greater than the proposed Government plan.

The problems of integrating private plans with the proposed plan are almost insuperable. This will result in many inequities for members of existing plans. As the rate of contribution increases under the proposed plan, the problems of integration will increase.

3. In addition to, but quite apart from the short-comings of its benefit provisions, the proposed plan contains factors capable of important and undesirable influences on the economy of the country.

For example:—

(*a*) The presence of indices to compensate for the price rises will create an apathy to inflation, discourage private saving and stimulate demands for other forms of cost living increments.

(*b*) The burden of administrative detail will be enormously complex and costly. The sole purpose of maintaining complex records of individual earnings statistics, necessarily far out of date by the time they are used and therefore requiring complex adjustments to bring them up to date, is to obtain a formula for payment of benefits.

(*c*) An economic recession would imperil the plan, which presupposes constant growth and expansion in the economy.

The Importance of Establishing Priorities

The Premier of Manitoba has stated that amounts expended for better education, medical care, and pensions should be determined on a basis of priority. The Chamber agrees with this principle.

The greatest single challenge with the promise of greatest rewards for Canadians is to provide for better education. In addition, better medical care will eventually have to be made available to everyone. The priorities must therefore be considered very carefully when it is realized better education, medical care and pensions can all be obtained with the yield of the proposed plan, provided there is no funding. We emphasize again the importance of establishing priorities and urge that no action in the field of pensions be taken until this has been done.

The Role of Government

The Chamber believes that the role of government is to maintain the economic and social environment which encourages corporate and individual initiative. Indeed, the future of the country is dependent upon the continuance of an aggressive development program of all its resources. This is particularly important today, as all signs point to the period ahead as being one of intense competition with the productive resources of other nations. Government policies, then, must be designed to motivate the creativity and productivity of Canadians and anything which tends to discourage these two elements will, in turn, adversely affect the development of the country.

Consistent with its understanding of the role of government and with appreciation of the need for social welfare programs this Chamber has endorsed—and takes this opportunity to do so again—the important principle which was established by the Joint Committee of the Senate and the House of Commons in 1950; namely:

> "Any scheme conceived under public auspices should be such as to place a floor under private or collective provisions for retirement security; this would make possible the development under private initiative of supplemental programs which, taken together with governmental provisions, would result in more adequate retirement security for the largest number of Canadians."

Type of Plan Recommended

It was stated at the outset that the Chamber does support social welfare measures. The principle enunciated by the Joint Committee of the Senate and the House of Commons in 1950 led to the establishment of the present Old Age Security program and it is this program which this Chamber submits should form the basis for an expanded Canada pension plan. It has features which have been accepted as a sound public retirement security program. Some of these are:—

1. Universal and immediate;
2. Economy of administration;
3. Flexible;
4. Simple financing;
5. Does not deter private savings;
6. Does not conflict with other objectives of national policy;
7. Is fully taxable, automatically adjusting for those who do not need it; and
8. Easily integrated with private plans.

In our view, the type of pension plan which is best suited to this country is one which contains these characteristics. In most respects these features which we believe are so important, cannot be found in the proposed legislation.

Role of the Advisory Committee

The Chamber commends the Government for its decision to set up an Advisory Committee to review from time to time various aspects of the plan. This appears to be an attempt to remove the operation of the plan from the realm of party politics, which is a step in the right direction.

Canada is a growing country in which unforseen changes will occur in comparatively short periods of time. Any social legislation should therefore be not too rigidly designed but should be capable of adapting to the changing conditions with a minimum of dislocation.

RECOMMENDATIONS

The Winnipeg Chamber of Commerce therefore recommends that, to the extent additional old age benefits are required, as determined by a study with the purpose of establishing national priorities, they can best be provided by:—

(1) Increasing the benefits paid under the present Old Age Security program;

(2) Advancing the initial age at which benefits become payable; and

(3) Including widows, orphans and disabled persons under the Old Age Security Plan.

CONCLUSION

The Canada Pension Bill is a highly complex document and its implementation will have broad and long-term social and economic effects. Far from any need for urgency, there is need for full review and careful consideration of the many aspects of the Bill and the various representations, some highly technical, which will be presented to the Joint Committee.

We have said that we favour a plan that embraces all Canadians, and that is broadly supported. We favour payment of benefits out of current revenue rather than a funded plan and we believe that pensions paid out of public funds should be related to social adequacy rather than being income related.

Such a plan could easily be developed from our present Old Age Security system and could be administered more simply and much less expensively.

We believe it to be the duty of your Committee to make certain that any departure from a tried, efficient and relatively low-cost system to a new, complex and much more expensive one, must be fully justified before abandoning a pattern on which it is possible to build all the benefits required.

On the basis of our review of the proposed legislation, the Winnipeg Chamber of Commerce believes that it goes far beyond the desirable role for government to play. Excessive costs in one area will impoverish others. Too much spent on pensions, for example, must minimize the urgent advances required in education and health. Too much public investment by compulsory savings must drain the pool of private investment required to expand our production and our ability to pay for any social legislation.

Respectfuly submitted,

THE WINNIPEG CHAMBER OF COMMERCE

J. T. ELLIS, *Chairman,*
Public Finance & Taxation
Committee.

Edson BOYD,
President.

January 7, 1965.

APPENDIX A21

Answer to Question Raised by Mr. Monteith on Tuesday, January 19, 1965, at the Morning Session

Question: What would be the approximate costs of the proposals contained in paragraphs 12 and 13 of the brief of the Life Underwriters Association of Canada, excluding item 12(d)?

Answer: In 1970, these proposals would cost about $933 million without a retirement test or almost $800 million with a retirement test, if no allowance is made for escalation of benefits.

These estimates have been developed on the basis of the following assumptions:

(*a*) At any given time, 57% of males and 91% of females in the age group 65 to 69 will be retired, none of them will be partially retired, and all wives will be retired.

(*b*) Males aged 65 to 69 will draw $75 a month; unmarried females aged 65 to 69 will draw $75 a month; and wives aged 60 to 69 of men aged 65 and over will draw $50 a month.

(*c*) Widows aged 45 to 64, and widows aged 15 to 44 with dependent children, will draw $75 a month; widows aged 35 to 44 will receive $75 a month reduced by 1/120 for each month by which their age falls short of 45 at the time they are widowed.

(*d*) Widows receiving reduced benefits will be evenly distributed through the age group 35 to 44.

(*e*) The number of widows under 45 without dependent children who are totally and permanently disabled is small enough to be disregarded in this approximation.

(*f*) Orphans benefits of $25 a month each will be paid to orphans aged 19 and under provided they are either parentless, or fatherless children of widowed mothers.

NUMBER OF BENEFICIARIES AND COSTS OF BENEFITS PROPOSED BY LIFE UNDERWRITERS, 1966, 1970, 1980

Type of Benefit	1966		1970		1980	
	Number of Beneficiaries	Expenditures	Number of Beneficiaries	Expenditures	Number of Beneficiaries	Expenditures
	(thousands)	($ million)	(thousands)	($ million)	(thousands)	($ million)
Retirement pension[a]						
—no earnings test	660	526.1	701	555.4	965	775
—with earnings test	518	398.3	553	422.4	765	595
Widow's pension[b]	262	235.8	290	261.0	352	317
Orphan's benefit[c]	348.6	104.6	388.5	116.6	504	151
Total (no test)	1,270.6	866.5	1,379.5	933	1,821	1,243
Total (with test)	1,128.6	738.7	1,231.5	800	1,621	1,063

(a) Payable to those aged 65 to 69, and to wives aged 60 to 69.
(b) Payable to widows under 65.
(c) Payable to orphans under 20.

APPENDIX A22

60 Osborne Street North,
Winnipeg 1, Man. January 1, 1965.

My submission to your Joint Committee is attached. It represents a distillation of my own views, those of many of my associates and many people to whom I have talked in most parts of Canada.

I endorse the much more complete and exhaustive submission made by the Canadian Life Insurance Officers Association which comments on each of the important elements in the Canada Pension Plan.

This submission is directed to only one point. It contends that the social inequities in the Canada Pension Plan, the very large number of Canadians who will not benefit from its provisions, and the existing welfare needs which it ignores are so grave that the Bill should not be passed in its present form. It is an attempt to weigh the impact of the Plan as it will apply to individual Canadians. It does not attempt to cover the economic implications, actuarial considerations, or potential federal-provincial problems inherent in the Plan.

It is hoped that the views expressed will be helpful to the Members of the Committee in appraising how the Canada Pension Plan fits or does not fit the real needs in their several communities, and thereby be of assistance in considering alternative solutions.

Respectfully submitted,

D. E. Kilgour.

INTRODUCTION

This submission is made on my own behalf as an individual. While I believe its viewpoint to be shared by many who understand the problems, and it reflects my thirty-two years' experience and observation of pension plans and social legislation, it should be recognized as a personal appraisal of the problems involved. Any shortcomings or errors in its logic or argument are my own, and not those of the Company with which I am associated.

There may be wide room for difference of opinion as to the economic implications, actuarial considerations, potential federal-provincial problems inherent in the Plan, but the individual Canadian will finally judge it on what it does, or does not do, for him, his family, and the economic fortunes of those people in whom he is intimately concerned.

If the Members of Parliament determine that the Canada Pension Plan and the new provisions of the Old Age Security Act will importantly alleviate the financial condition of the old, the widowed, and the disabled amongst their constituents, then its passage will be commended as worthy social legislation. If, on the other hand, it will not solve those problems, it is contended that its passage will only widen the gap between the "haves" and the "have-nots" and leave the true problem to be resolved at some future session of Parliament.

The Canada Pension Plan has very obvious attractions because it promises substantial benefits to very many Canadians. In fact, if one is in the age group from, say, forty to mid-sixties, members of Parliament are in the embarrassing position of being asked to approve a system of arbitrary benefits under which a highly preferred treatment is accorded to each person in that age group.

When the Bill was presented to Parliament, the official summary and explanation had as its first paragraph,—"The main reason for the length of the Bill is the comprehensiveness of the social insurance which the Bill proposes for the people of Canada. It will benefit virtually everyone." The conclusion of this official summary was equally sweeping—"The general effect of this complex Bill is to provide for a nation-wide system of social insurance which will establish a basic level of security for all Canadians whatever their individual circumstances, whatever moves they make, and whatever economic changes occur." It is not surprising that such a laudable objective should command very widespread support. Unfortunately, the more the Plan is studied, the more clearly does it fail to achieve its stated objective.

It seems important to point up the very large groups who will not receive benefits under the Plan, and to use some comparisons which are believed to be accurate to illustrate the dramatic contrasts that will exist between those who receive its benefits, and those who do not. It is submitted that the shortcomings are so great that to create such social inequity by Act of Parliament would be completely contrary to our national interest, and incompatible with the ideals and concepts of social justice which should guide social legislation.

By its very nature, the Canada Pension Plan excludes large numbers of Canadians from its benefits and one could fairly accurately say that the groups excluded are those that need them most. Since the Plan is not based on individual equity, but is rather a redistribution of a portion of our national income according to a complex formula, the Bill, if enacted, must be regarded as a statement of our national purpose. It will constitue a formal declaration of those people the Government wishes to aid on the one hand and, on the other, those it has decided to exclude from this re-allocation of tax revenues.

We have long had marked inequalities between individuals flowing from inheritance, talent, industry, location, health, timing, good fortune or misfortune, and most people are well aware of the "slings and arrows of outrageous fortune". However, demonstrable inequity by Act of Parliament is a completely different subject.

PENSION BENEFITS

Most of our retired population have been saved from acute distress, or their own resources have been mercifully enhanced by the Old Age Security Act and the $75 monthly benefit now being paid. But, in the vast majority of cases their incomes or pensions are extremely small in relation to those which will be payable to people who will be retiring in the next 5 or 10 years. This flows from much higher salaries now prevailing and the many improvements in pension formulae. For example, improvements in benefits and pay increases produced deficiencies in the government's superannuation accounts that amounted to $880,000,000 to bring them up to date, and much of that sum accrued to the credit of people who will retire in the future. Moreover, most of the very people who gained the greatest benefit from such pension liberalizations are to be given the largest windfalls on top of bigger pensions and the same Old Age Security benefits.

There were 1,391,000 Canadians age 65 or over in the 1961 census, and the contrast between their incomes and those of individuals who retire in the next decade or so will be extremely marked. Of this group, only 220,000 had taxable incomes, so that 1,171,000 are below that level fixed by Parliament as being sufficient that they can be fairly taxed. The Canada Pension Plan will be another major factor in accentuating the spread in incomes between our present old people and those retiring in the future.

It has been contended that the elderly group will benefit from the indexing of Old Age Security payments. In fact, any elderly person who has as much as $75 a month from a pension or fixed income securities will lose more by continuing inflation than they can gain from escalation of the Old Age Security Plan. Accordingly, a considerable portion of our present retired population could thus lose more on the swings than they gain on the roundabouts. One could pretty honestly say that our present old people gain little or nothing, even in prospect, from the Canada Pension Plan. The best that can be said is that those entirely dependent upon Old Age Security may stay roughly even with the cost of living.

Our present old people and their families have the legitimate charge that from $600 million of new taxes they get virtually nothing, and that the biggest benefits go to the generation now in power, who are already the beneficiaries of higher incomes and, in many instances, better pensions.

DISABILITY

This is a field in which benefits pursuant to such a complex formula as that contained in the Bill will produce results which are so inequitable as to defy explanation. The benefits are considerable if one qualifies. For example, most of the people in this room would get $103 a month if they should become disabled after the 1st of January, 1970. All of those people now disabled, or who have the misfortune to become disabled in 1965, 1966, 1967, 1968 or 1969, will get precisely nothing. Someone who was disabled 10 years ago at the age of 25 will have to rely on welfare payments for another 30 years when he will be entitled to $51 a month under the Old Age Security Act.

Contrast this with an executive who has a heart attack in 1970 and then has to decide whether the government's $103 monthly disability income on top of his employer's plan, together with his personal coverage, makes it desirable to hang up his spurs and go to Florida. Another $102 per month will become payable when he and his wife reach age 65 from Old Age Security.

Many years' experience in the disability field teaches that in borderline disabilities, the mental attitude of the individual is of tremendous importance. There are thousands of people at work today who could be declared disabled if they wanted to be. The severe provisions as to qualification, and they are wisely severe to avoid exploitation of the Plan, are nevertheless going to cut out most of the people who are on the lower rungs of the economic ladder.

For example, a woman whose husband dies 10 years hence in 1975 having not been a contributor and leaving her without resources, and who goes to work to support herself, could be disabled in 1979 while being a contributor and will have no disability pension because she had not contributed for one-third of the number of years since the Plan was started.

If one accepts the premise that the poorest people in Canada are unlikely to be contributors to the Plan, then it follows that they are unlikely to gain any important benefit from the disability provisions of the Canada Pension Plan. The Plan simply ignores those now disabled, or those who may become so in the next few years.

DEATH BENEFIT

The same shortcomings are apparent in the death benefit as in the disability provisions. Present widows and orphans are ignored entirely. Similarly, widows of 1965, 1966 and 1967 must have it explained to them that their husbands died too soon.

The contrasts, again between the fortunate and the unfortunate will be dramatic and irrational. An automobile accident which kills a wealthy man and a farm labourer may result in the wealthy man's widow getting $168 a month, and the farm labourer's widow getting nothing because he was not a contributor.

This is completely different than what could happen today when the one man may have $100,000 of insurance he bought and paid for, and the other man none. Here, the discrepancy arises from the private provision that one man made and the other did not.

Under the Canada Pension Plan, the discrepancy arises because Parliament would have passed an Act granting the benefits to the one man and explicitly denying them to the other because he did not have any money. It is submitted that such re-allocation of tax revenues without regard to need or equity could not stand the test of time.

BENEFITS FOR WOMEN

The effect of the Canada Pension Plan on the women of Canada is far from apparent on the surface. Working women make equal contributions as do men, and draw equal benefits. This sounds thoroughly equitable, but its total impact is dramatically affected by the facts of life.

Most women work at the younger ages, and there will be a very large group who work for, say, 5 years prior to marriage. There are also a substantial number who continue as working wives, in which case perhaps 10 years might be set as a normal working period prior to withdrawing from the labour market to raise a family.

Two illustrations are set out below of the benefits accruing to these people under the Canada Pension Plan if they do not re-enter the labour market.

> A young woman begins work at age 20 and works for 5 years at average earnings of $2,400 per annum. If she does not return to the labour market, her pension at age 65 will be $6.17 monthly. The combined contributions made to the Plan could alternatively have bought her a pension of $16.84 a month from the Canadian Government Annuities Branch.
>
> A young woman beginning to work at age 20 and working for 10 years with earnings averaging $3,000 per annum will be entitled to a Canada Pension Plan benefit of $15.43 monthly at age 65. The same contributions could have purchased her a Government Annuity of $40.05 monthly at age 65.

It is submitted that the Plan is wholly unattractive to young women who intend to work for a few years prior to marriage, and contrasts dramatically with the benefit of $62.50 a month available under the Canada Pension Plan to a woman of 55 who goes to work for 10 years at $3,000 a year.

The real impact of the Canada Pension Plan on married women will flow from their husband's financial success. If her husband earns over $5,000 per year, a wife will get the maximum benefits available under it. If, at the other extreme, he has an unfortunate earnings record, he may never be a contributor and she will gain no benefits from the Plan.

If she should become divorced, be deserted, have her husband disabled while she has young children, or widowed, her benefits, if any, will flow only from her husband's financial success. If he was not a contributor, she will draw no benefits. One could fairly accurately say that successful marriages in financial terms become more solid financially, whereas those rather rocky marriages in a financial sense, with which our society is plentifully endowed, will become even more unfortunate by contrast.

The married woman who devotes her life to her family, her home and her community, can look forward to an old age in which she will have a much smaller income from the Canada Pension Plan than the couple next door who have no children and both work, even if both families earned identical gross incomes. A working couple can receive benefits at age 65 of as much as $310.34 a month from the Canada Pension Plan and Old Age Security. The maximum available to a couple in which the wife does not work for salary or wages is $206.17. If their husbands both died at age 66, the widow who had raised the family will have a continuing income of $113.50 a month, whereas the widow who had no children would receive $194.23 per month.

In a Plan in which we are taxing the young to pay benefits to some of the old, the mother who raised the young fares rather poorly.

The incentive for married women to work, which is created by the windfalls available under the Canada Pension Plan, cannot be accurately measured, but it is very great. Just as Unemployment Insurance has proven deeply vulnerable to selection against it,—e.g., someone who was never unemployed a day in his working life drawing his full benefits when he retires,—so the windfalls in the Canada Pension Plan can attract legal discrimination against it on a very large scale.

Women who go to work in 1966 will have a bargain available to them in the form of pensions that will be unrivalled in history, and improbable of ever being offered again. A woman of 55 who will even work 3 days a week for $100 a month will get a pension of $25 a month. The maximum which she can contribute, or have contributed on her behalf by her employer and herself, is $216 over the 10 years. The value of the benefit she receives is set at $3,517 by the current government annuity rates so there is a windfall of over $3,300. If she can earn $200 a month, the windfall is approximately $6,400 and, of course, there are subsidiary benefits such as disability.

When you consider that this windfall is more than 25% of her earnings during the 10-year period, you have a powerful inducement to take married women in this age group out of the home, into the labour market, whether this is truly desirable or not. It is the social impact of this force in Canadian families that is questioned, let alone its impact on the unemployment market.

COVERAGE

Who will be covered by the Canada Pension Plan?

Employer-employee groups will be compulsorily in the plan, and those who enjoy permanent employment will, in the main, draw its full benefits. This group, of course, contains all those who now benefit from existing employer pension plans, so that a high degree of dual pensioning is automatic.

The remainder must come in through the income tax road.

How effective can tax machinery be expected to be in collecting contributions for a Plan whose benefits are long deferred?

An interesting parallel is presented by government hospitalization in Canada and the success of premium collections from other than employer-employee groups. In hospitalization, the premiums were low, the benefits highly subsidized, which made them attractive, and the probability of frequent use was considerable.

Today, only three provinces, Saskatchewan, Manitoba and Ontario, even attempt to collect hospitalization premiums from their residents. Some provinces, such as Quebec, did not even try, although the strain on provincial budgets has been very great. Others tried it and gave it up. The experience in Manitoba, which is continuing to collect premiums at the rate of $24 per annum for a single person and $48 per annum for a family head, may shed some light on the number of people who can be brought into the Canada Pension Plan.

The law requires all people in the Province to pay hospitalization premiums, and it is estimated that there were 374,000[1] single persons and family heads in Manitoba in 1962, as defined for hospitalization purposes.

177,300[1], or 47.4% of these are reached through employer-employee deductions. Conversely, 52.6% or 196,700 have to be reached through some other means, and this has been achieved by making municipalities responsible for

[1] See attached Appendix.

premium collections. The municipalities bill the individuals and if these bills are not paid, they can be added to the tax bill of property owners, and if all collection efforts fail, the municipality pays the premium rather than incur the hospital liability of non-subscribers. It demonstrates the difficulty of collecting even known sums, $24 or $48, from other than employer-employee deductions.

Reviewing another collection machinery, the income tax tystem, one finds that in 1962, 225,234[1] Manitobans had taxable incomes. Of these, 195,177[1] where classified as employees. That this group is larger than those reached by hospitalization employer-employee deductions may be partially explained by working wives, together with some difference in definition between taxation classifications and those stipulated for hospitalization deductions.

These figures, however, strongly suggest that the double screening by employer-employee deductions and income tax collections could not reach as many as 250,000 workers in Manitoba. This represents approximately two-thirds of the single persons and family heads responsible for payment of hospital insurance premiums, and less than half of the population 18 years of age or older.

It would appear that 124,000 single people and family heads in the work force are unlikely to be reached by this dual machinery. This may not be surprising since there are a larger number of self-employed, small farmers whose incomes are low, and those who work for a variety of employers who are not required to make deductions. Most of these people would, in fact, have incomes exceeding $600 a year (or $800 for self-employed), but for many, their records would be incomplete or non-existent, and the probability of their making tax returns and sending in the cash required for contributions to the Canada Pension Plan would seem to be extremely remote. This group almost certainly embraces the neediest 25% in the Province.

Realizing that no contributions means no benefits, it seems inevitable that the Canada Pension Plan brings little or nothing to the least fortunate quarter of our work force.

UNDERLYING PHILOSOPHY

The Canada Pension Plan relates benefits to cash earnings. High earnings qualify for high benefits. Low earnings qualify for low benefits, or none if one was not a contributor. It places a final seal of approval on a completely mercenary appraisal of the individual's contribution to society. Monies earned no matter how, determine the individual's benefits. Whatever one deems to be the least worthy occupation will afford a higher pension than the most worthy occupation if one earns more money in its pursuit. The lowest ranking occupation, since no cash earnings are derived, is that of a wife and mother who stays at home.

The Old Age Security Plan, in contrast, treats old age as a *condition* and people as *individual human beings* who have made some contribution to society and are thereby entitled to a measure of support. Its benefits characteristically mean most to those who have the least. Its underlying merit is as valid today as when it was unanimously approved in 1950.

Because so many of our social measures in Canada are universal,—family allowances, old age security, hospitalization, it is far too easy to think of new layers of social welfare as filling the greatest need. It is submitted that, in fact, the greatest need exists amongst those people who are now in trouble, as well as those whose future circumstances will in good conscience call for specific assistance.

The redundancy of our shotgun approach to social welfare as it has developed in Canada can be illustrated by one example. People who must be cared

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[1] Source: Page 78 of 1964 Taxation Statistics, Part 1—Individuals, Analyzing 1962 T1 Individual Income Tax Returns, Department of National Revenue, Taxation Division.

for in mental institutions have their total care provided by the government. In at least one province to my knowledge, and perhaps in all, their Old Age Security benefits, less $10 a month for personal comforts are accumulated by the Administrator of Estates of the Mentally Incompetent for their ultimate heirs. The longer the state supports them, the bigger the benefit to the heirs.

Contrast this with a widow supporting herself, waiting for age 70 when she will have $75 a month out of which she must pay her total upkeep.

We obviously need a finer screen and benefits more thoughtfully determined than flat benefits for all, or mathematical formulae which ignore the very wide variations in individual security from other sources.

RECOMMENDATION

The approach which can help all Canadians who are truly in need seems to be a broad expansion of the Old Age Security Act. Retirement benefits earlier than age 70, widows' and orphans' benefits, disability income could be provided immediately for people who now qualify as well as those who will qualify in the future, if Parliament so decides.

The Canada Pension Plan has introduced a new window through which needy people can be identified without a means test. It proposes that all Canadians must reveal their incomes down to $600 per annum through the taxing machinery. It has none of the unpopular flavour which traditionally surrounds a means test. It can shed new light on Canadian social needs and permit a new approach to filling the income needs of Canadians.

The same data and principles upon which Parliament bases income tax assessments could be used for supplementary benefits to people who, from time to time, may qualify.

The new income data which would be available would permit additional benefits to be granted only to those people whose circumstances required them. For example, old age security benefits now payable at age 70 could provide supplementary benefits to people over 65 to bring their incomes up to a level of $900 per annum.

Widows whose income is less than a predetermined level, adjusted for age and dependent children along the lines proposed by the Canada Pension Plan, could have supplementary benefits payable to bring their incomes up to that determined level.

Disabled people whose incomes are less than $900 a year, and with some adjustment for dependents, could have their incomes supplemented to the predetermined level.

Higher benefits could be paid to single old age security recipients to bring their total income up to a predetermined level,—e.g., $1,200 per annum.

Such a philosophy and mechanism could let us direct additional social welfare payment benefits only to those people who need them and only in sufficient amount to fill the need.

Such supplementary benefits as may be deemed advisable could be quickly and relatively simply woven into the Old Age Security Plan. Benefits could be clearly stipulated and known to every informed Canadian. People who are very old, ill, or uninformed as to their rights, could be advised by their families, doctors, social workers or welfare offices, that the mere filing of a tax return giving the necessary data would set the wheels in motion. Instead of being required to pay taxes flowing from their income being over certain limits, they would receive benefits because their incomes are under certain limits, if properly qualified. The monies so distributed would, in fact, be going to those who most truly need them, and at a fraction of the cost of further universal benefits.

Summarizing briefly, I respectfully submit that the proposed Canada Pension Plan should properly be rejected for these reasons alone:

1. The Plan will not benefit those who most need financial assistance.
2. The Plan, by its very nature, widens the gap between economically fortunate Canadians and their less fortunate fellow citizens.
3. If sound, equitable principles are established, a comprehensive alternative available to all Canadians at lesser cost can be achieved through a broad extension of the present Old Age Security Act.

The Canada Pension Plan can be deemed to have served a very valuable purpose in having focused critical public examination on our social welfare problems and by its specific trial solutions pointed the ways to better ones.

(APPENDIX TO THIS BRIEF)

Province of Manitoba Data for the Year 1962

1. The number of single persons and family heads registered for the Manitoba Hospital Services Plan in 1962 is estimated to be 374,000.

This estimate is derived as follows:

(*a*) Manitoba Hospital Services Plan statistical studies provide the number of single persons and family heads registered for the Plan in 1959	364,625
(*b*) The number of Manitobans 18 years of age or older in 1959	569,700
(*c*) Ration of (*a*) to (*b*)	.640

(*d*) Application of this ratio (.640) to the number of Manitobans 18 years of age or older in 1962 (585,000 per Dominion Bureau of Statistics Catalogue No. 91-202 September 1962) produces the above estimate of 374,000.

2. The number of single persons and family heads paying hospitalization premiums through employers in 1962 is estimated to be 177,300.

This estimate is derived as follows:

(*a*) Manitoba Hospital Services Plan statistics provide the number of single persons and family heads paying hospitalization premiums through employers in 1959	172,627
(*b*) The total number of single persons and family heads registered for the hospitailzation plan in 1959 (see 1(*a*) above)	364,625
(*c*) Ration of (*a*) to (*b*)	.474

(*d*) Application of this ratio (.474) to the number of single persons and family heads registered for the plan in 1962 (374,000 per 1 above) produces the above estimate of 177,300.