

P E N S I O N S   &   P O L I T I C S

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to

T H E   C A N A D I A N   C L U B   -

T O R O N T O

on

MONDAY, 1st MARCH, 1976.

## PENSIONS AND POLITICS

Canadians are said to be the most security conscious people in the world. They rarely engage in speculation except for the occasional Olympics Lottery Ticket, preferring to invest their money in solid bonds or savings certificates. That is their reputation, although many Canadians who risked their capital in mining and oil ventures may not fully agree. Certainly Canadians are heavily insured and they are - or they were until recently - great savers. They support universal social security plans including national hospital and medical care. They have a seemingly insatiable appetite for pension benefits both public and private.

Is this quest for security really a fundamental characteristic of the Canadian people? Is there something about our history, our political system or even our climate that predisposes us to seek safety, comfort and a secure future rather than striving for the bigger prizes?

Students of history have argued that the coming of law to Canada's western lands in advance of settlement had the effect of making Canadians more law-abiding, less likely to take risks and consequently less entrepreneurial than the people thrusting westward from the former colonies to the south. Perhaps, but Canada would never have become a country at all without some powerful risk-taking by the British and French and later on the Americans who came first to search out its wealth. They took chances that were wild by any standard.

Is it our political system, which demands party loyalty much more rigid than the U.S. system, and has little room for mavericks? Canadian parties put heavy emphasis on conformity, and there is really nowhere for party dissidents to go in Canadian politics. You vote with the party or else.....

It could even be the climate. The colder the winters, the more of a premium is put on qualities of prudence in setting aside food and fuel for the bitter months. It can be theorized that balmy climates, like those of the United States, encourage a larger taking of chances.

Whatever the reasons, contemporary Canadians are not among the world's greatest risk-takers. On the whole we are a cautious people.

It cannot have been that way with the pioneers who opened up the country. I am sure that Jacques Cartier, as he fought his way by sled and canoe, did not say to himself "Ten years more and I can retire on a 70% pension". Nor is it likely that Samuel de Champlain spent his evenings reviewing his travel accident insurance policies. There was no more retirement security, I suspect, for the thousands who built the Canadian Pacific Railway.

We must of course remember that the pension plan is a relatively recent concept and government pensions, except on a strictly welfare basis, even more recent. The word pension was not even respectable when I came to Canada 27 years ago - I was advised the phrase "retirement income" was more acceptable.

- Samuel Johnson's famous "Dictionary of the English Language" - our first dictionary, published in 1755 - included the following definition "PENSION - an allowance made to any one without an equivalent. In England it is generally understood to mean pay given to a state hireling for treason to his country".

The attitude today could not be more different. Today pensions are considered a right. Society is considered to have an obligation to ensure that every citizen has a pension that is adequate in relation to previous salary or wages, however adequacy is defined - and the definition becomes more generous every year. The only question is what proportions of the pension should be derived from public and from private sources. The target today, if not the expectation, is typified by the proposals of the United Auto Workers and the Canadian Labour Congress. The U.A.W.'s aim for its members is that on retirement at any age after 30 years of service, the pension should be equal to 75% of pay, with survivors' benefits, with immediate vesting fully indexed for cost of living increases after retirement, and all paid for by the employer. The Canadian Labour Congress wants the government to do the job. It proposes that the Canada Pension Plan should provide pensions equal to 70% of final pay commencing at age 60, fully indexed and with survivors' benefits in the event of the contributor's death.

There is nothing immoral about aiming for high levels of pension, provided there is full recognition of the costs in relation to personal and national priorities. Unfortunately pension planning without full information on costs and implications can become a dangerous game in which the stakes are high.

About twelve years ago pensions came into the spotlight. Before that there was virtually no legislation controlling the terms and conditions and funding of pension plans - only some indirect control through the policy of the Minister of Finance in registering plans for income tax purposes. Two streams of legislation have flowed since then, the one expanding our social security system and the other supervising the private arrangements.

John Diefenbaker promised a national contributory pension plan but nothing came of it. Upon their election in 1963 the Liberals under Lester Pearson announced "Sixty days of Decision" for implementation of their ambitious social programs. Judy La Marsh, Minister of National Health and Welfare outlined the first version of CPP, which she claimed, was designed to take pensions out of politics. She soon found that she had a tiger by the tail. Pensions have been in politics ever since - where they belong like any other important issue.

It eventually took over two years of rewriting the plan and negotiations with the provinces before the plan could be brought into force. The Canada and Quebec Pension Plans began to operate on January 1st, 1966.

Following Leslie Frost's groundwork, John Robarts introduced Ontario's Pension Benefits Act, designed to

strengthen private pension plans in the province. Originally the Act required every employer with 15 or more employees to set up a pension plan - the idea apparently being to head off the national plan. In the end the compulsory feature was repealed and the Pension Benefits Act became effective on January 1st 1965. Other provinces soon followed Ontario's lead.

These developments have in my opinion led to a fairly reasonable compromise between the public and private provisions for retirement. In view of recent developments however, I am not sure if the present balance is a stable one.

The Canada Pension Plan has created a vast pool of capital for use by the provinces. Continuing liberalisation is almost guaranteed because it will create more capital for the provinces and give large additional subsidies to employees. Who pays? Future generations, and it will be a long time before they have votes.

Today people are far less willing to accept authority and to respect institutions than they were in the past. They are better informed, more permissive and likelier to question the established order. In this atmosphere, the efforts of the private sector to provide for retired and disabled employees have come under increasing criticism. There are headlines on Pensions in Crisis, talk of the failure of our private enterprise system to live up to its responsibilities towards its employees, dismay at the crunch caused by the double effect of inflation and investment depreciation. The employers are derided as doing too little and doing it too late.

I believe the achievements of business employers in providing financial security for their ex-employees and in operating employee benefits plans are vastly underrated. One must remember the news media's natural tendency to make the most of bad news, of reporting the unfavourable aspects first and, if possible, dramatically. One must make allowance for the sincere belief of many social workers that the war on poverty in our society is altogether inadequate and must be given far higher priority. One must recognize that there are groups whose philosophy - and groups whose vested interest - favours an increasing role for government, who cannot see anything praiseworthy in what business has done for the welfare of its workers.

While most people can distinguish fairly well between rhetoric and serious argument, the campaign of criticism directed against private pension plans has unfortunately created doubt in responsible circles as to whether these plans deserve to survive. Would it not be simpler to have the government take over the pension fund assets, to weld the plans into the state system and provide for more adequate pensions at an earlier age for all?

I regard much of the criticism of private pension plans as mischievous and ill-informed. The fast improving private pension system, working in combination with government plans that provide a floor of retirement and disability income, is a success, not a failure. It would neither be simple nor beneficial for government to take over. Such a take-over, apart from the inherent bureaucratic complications and the deadlining effect on our fairly free enterprise system, would reduce and eventually remove from our economy pools of capital that are unlikely to be formed in any other way.

Of course government must continue to play a part in pension planning, and an important part. But there is no logic in writing off private pensions at a time when they are responding well to universal needs and are covering an increasing number of Canadians. We need more not fewer options in this life.

Before dismissing the present system as a failure, let us look at a few facts:

- \* In the last ten years the membership of private pension plans has increased by 50%.
- \* In the last ten years the contribution income has trebled.
- \* In the last ten years the assets held by pension funds have trebled to about \$30 billion.
- \* In the last ten years the amount of pensions being paid out to retired employees has quadrupled.

If this constitutes failure, I wonder what are the criteria for success.

Benefit payments from private plans are expanding even faster than government expenditures in general. In spite of this, Don Lee of the Canadian Labour Congress has said "Someone, somewhere, has a duty to provide decent retirement incomes to workers. Private industry can't do it. Only government can". An article in the Toronto Star said "Private pension plans, their inadequacies and inefficiencies aside, are simply out-of-date. A relic of the days when employers sent round food hampers at Christmas".

These statements no doubt refer to the erosion by inflation of the purchasing power of fixed incomes. Inflation is a very serious disease of our whole economy and pension plans cannot be blamed for not being immune. I will say more on this subject in a minute.

The growth in pension payments is not the only heartening development in the last ten years. The Pension Benefits Acts have improved the quality of the pension plans by setting minimum standards of solvency and investments. They have increased the vested pensions of people whose employment is terminated. These Acts cover employers in Ontario, Quebec, Alberta, Saskatchewan and the Territories and employers under federal jurisdiction. Both Manitoba and Nova Scotia have passed similar Acts which are soon to be implemented. I expect that all these Acts will require earlier vesting before long, but politically it is difficult to move rapidly without sacrificing uniformity between the provinces.

On the social security side, the progress towards the goal of cradle-to-grave security has been very rapid. Ten years ago Old Age Security was \$75 a month payable at age 70 - now it is over \$130 a month payable five years earlier, that is from age 65. The Act also provides a Guaranteed Income Supplement subject to an income test.

The Canada & Quebec Pension Plans came into effect on January 1st 1966 so the ten year transitional period is over and the first full pensions of up to \$154 a month become payable to those retiring this year on top of Old Age Security. These government pensions have been fully indexed according to increases in the Consumer Price Index. All of this in the last ten years!

In addition there is a variety of provincial supplements, privileges and premium discounts to pensioners. They need not be detailed here in order to make the point.

All in all, the pension security of the average Canadian has been so vastly improved that criticism of the general pattern of protection as opposed to certain details is surely unjustified. Great strides have been made since I emigrated to Canada, when private pensions were uncommon and Canada's Old Age Security was \$40 a month paid only to those meeting a stiff means test.

There is one trend which seems to subvert the fundamental purpose of pension plans, that can add vastly to their costs and is socially undesirable. This is the trend, as early retirement benefits become more generous, for employees to claim their pensions and then to shift to another employer. Pension plans were intended to replace income for those unable to work or who wanted to cease active employment in their later years.

They are not, in my view, meant to encourage people to switch jobs and thereby obtain a greater income than ever before with pension with one employer and earnings from another. Such early retirements are unfair to other members;

put a large financial strain on the pension fund; and may cause the first employer to lose experienced men and women. It is interesting that the automobile workers appreciated this problem and negotiated very generous early retirement pensions subject to the condition that the employee genuinely retires and leaves the work force.

In the present situation, registered pension plans are criticised for covering only about 40% of the work force, but this is a misleading figure if ever there was one. First of all, over 25% of the work force consists of people under the age of 25 who as a rule are not pension plan members and could not care less. Then the work force includes the self employed and unemployed, who by definition cannot be members. The work force includes many who work for companies with pension plans but who have not yet served the qualifying period. It includes people who had the opportunity to join pension plans and who refused. It includes those who are provided for, sometimes handsomely, through profit sharing or registered retirement savings. Finally there are many workers for whom the government pension alone is close to their previous earnings. The oft-quoted 40% coverage figure gives a very incorrect impression. An in-depth survey has been promised by the Department of National Health and Welfare and it should illuminate the truth of the situation.

Part of our trouble is rising expectations - people can always find arguments why they should be entitled to more money. What constitutes an adequate income, either before or after retirement is a highly relative concept. In the old story when one man asks another, "How's your wife?" the answer is, "Compared to what?" Should pension adequacy be judged by comparison with other employers or some defined standard of living or as a percentage of previous pay? The response is apt to be subjective indeed.

Private pension plans do not automatically index the benefits for inflation, because employers are just not willing to write blank cheques for the enormous potential costs. Instead employers have been dealing with inflation as it arises, by upgrading their benefit plans and on an ad hoc basis. Most employers - and to the best of my knowledge all of the major companies - have raised the pensions of their retired employees. Fortunately, upgrading pensions after retirement or prior service pensions is allowed under the Anti-Inflation Guidelines without affecting compensation.

Two years ago the Government of Canada's policy was one of indexing against inflation. It indexed everything in sight - including social security, unemployment insurance, pensions for government employees and pensions for M.P.'s. It set an example that industry cannot afford to follow but that raised the expectations of employees. Further one suspects that a government that has sheltered itself and its own employees against the effects of growing inflation has few incentives to make the maximum effort to correct the situation. It may seem churlish not to applaud the government's generosity but I think the timing was most unfortunate.

Now two years later, the government argues that it is impossible to keep its budget from rising beyond the Anti Inflation guidelines because of these supposedly unchangeable commitments.

Nevertheless, the government managed to de-index Family Allowances and to cut back on its payments to provincial medicare.

Does this mean a realization that we have been going too fast for safety and that a pause in expanding social programs is in order? It seems not. Last month specific proposals were tabled at a Federal Provincial Conference of Welfare Ministers concerning a new guaranteed income system, incorporating income support for those who cannot work, and income supplementation for the "working poor". Proposals were also made to do more for housewives and househusbands under the Canada and Quebec Pension Plans.

In conclusion, let me urge those who believe, as I do, that the best retirement security arrangements are through partnership of the public and private sectors, to work to maintain the balance. Employers' pension plans should be improved so that the government has no excuse to squeeze them out and pre-empt the field.

Private enterprise cannot provide uniform adequate coverage for everyone. There will be gaps and even abuses - but government plans are not free from abuse, waste and extravagance. A partnership is the best arrangement in our imperfect world. I am convinced that such a partnership is essential both from a financial and moral standpoint. Public and private plans complement each other. Thus employers' pension plans provide for flexibility, experimentation and choice, while government plans provide a minimum floor,

universality and inflation protection.

The great task for employers today is to relieve, as far as possible, the hardship to pensioners caused by inflation. This is an enormously expensive but absolutely essential policy. Some few employers may index pensions, but most I believe will make periodic improvements. However the job is done, people who have relied on their employers' plans to provide a reasonable standard of living after retirement must not be disappointed. The consequences of letting the private pension system dwindle or die are too serious in their social and economic implications. That is the one risk Canadians must define as unacceptable.