House of Commons
Chambre des communes
CANADA

Standing Committee on Finance

FINA • NUMBER 043 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Thursday, February 16, 2012

Chair

Mr. James Rajotte

Standing Committee on Finance

Thursday, February 16, 2012

● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 43rd meeting of the Standing Committee on Finance. Our order of the day, pursuant to the order of reference of Wednesday, February 1, 2012, is study of Bill C-25, An Act relating to pooled registered pension plans and making related amendments to other Acts.

We want to welcome our guests here today from the Department of Finance, the Department of Justice, and the Office of the Superintendent of Financial Institutions, and particularly the Hon. Ted Menzies, Minister of State for Finance, in his first appearance before the committee on which he used to sit as a very valuable member.

Welcome, Minister Menzies, to the committee. It's a pleasure to have you here today.

I'll note that we have Mike Wallace back at the committee as well. He came just to say hello to you—as well as Mr. Marston.

Minister Menzies, I understand you have an opening statement to present to the committee, and then we'll have questions from all the members.

Hon. Ted Menzies (Minister of State (Finance)): Thank you, Mr. Chair.

It is indeed an honour to be sitting directly in front of you, instead of beside you, and cheering you on in your balanced decisions, to which we listened many days and many nights at this committee. I enjoyed it all.

Welcome to the new members here.

It is great to be back, and great to be back to speak to what I think is a well overdue option for our pension or income retirement system in Canada.

I should mention that I'm here with some very learned people, some from our Department of Finance—Diane Lafleur, Leah Anderson, Lynn Hemmings, and Yasir Syed—and as well from OSFI, or the Office of the Superintendent of Financial Institutions, a couple of experts, Carol Taraschuk and John Grace. John Grace and I and Lynn covered a lot of miles developing this new concept. They have been a tremendous help. Bill C-25, the Pooled Registered Pension Plans Act, is the reason we are here.

Mr. Chair, Canada's retirement system is recognized around the world by such experts as the OECD as a model that succeeds in reducing poverty among Canadian seniors and in providing generous levels of replacement income to retired workers. Simply put, our system is the envy of the world. The introduction of the pooled registered pension plan, or, as it has come to be known, the PRPP, will only build on this well-earned reputation.

The success of this model rests on the strength of the three pillars. The first pillar is made up of the old age security, or OAS, as well as the guaranteed income supplement, often referred to as the GIS. These programs provide a basic minimum income guarantee for seniors and are funded primarily through taxes on working Canadians. Our government has a responsibility to ensure that programs such as these are available for the next generation of Canadians as well. That's why our government will take a prudent, balanced, and responsible approach to making sure that OAS remains sustainable.

The second pillar is the Canada Pension Plan as well as the Quebec Pension Plan. These are mandatory public target benefit pension plans that provide a basic level of income to Canadian workers when they retire. There are currently 16.5 million workers contributing to either CPP or QPP. With these programs paying $44 billion in benefits per year to now more than 6.5 million Canadians, the CPP is the centrepiece of Canada's pension system. I'm proud to say that it is fully funded, it is actuarially sound, and it is sustainable for the long term.

The third pillar is composed of tax-assisted private savings opportunities to help encourage Canadians to accumulate additional savings for retirement. It includes registered pension plans and registered retirement savings plans. In total, the cost of tax assistance provided on retirement savings is currently estimated at $25 billion per year.

How do the PRPPs fit into what, as I say, is a good system already?

In 2009 a joint federal-provincial research working group conducted an in-depth examination of retirement income adequacy in Canada. While the working group concluded that Canada's retirement system is performing well, it also found that some modest- and middle-income households may not be saving enough for retirement.

Of particular concern were the following findings. Participation in employer-sponsored registered pension plans was declining. The proportion of working Canadians with such plans has declined from 41% in 1991 to 34% in 2007. Also, Canadians are not taking full advantage of other retirement savings options, such as the RRSP. Currently there is over $600 billion of unused room in RRSPs.

Through you, Mr. Chair, let me reassure the committee that our government recognizes the importance of ensuring that all Canadians have adequate income for their retirement. The report by the working group sent a clear signal that a gap exists on the voluntary side of Canada's retirement system.

● (1535)

With this information in hand, our government took immediate action to fill that gap. Over the past two years, our government's commitment to strengthen Canada's retirement system has taken me to every province and territory and countless communities across this country. In my travels, I've consulted with many Canadians, met with our provincial and territorial counterparts, and held discussions with small and medium-sized business owners as well as self-employed Canadians.

At our federal-provincial-territorial finance ministers meeting in December of 2010, after examining the various proposals that came out of the consultations, the federal, provincial, and territorial governments unanimously decided to pursue the pooled registered pension plan framework. This decision was taken because the PRPP was considered an effective and appropriate way to target those modest- and middle-income individuals who may not be saving enough, and in particular those who currently do not have access to an employer-sponsored registered pension plan.

What then are the PRPPs? They are in fact a large-scale, broad-based pension arrangement. They will be available to employees with or without a participating employer. As well, they will be available to the self-employed. This is particularly important as, incredibly, over 60% of Canadians do not now have access to a workplace pension plan. In short, PRPPs will provide these Canadians with access to a low-cost pension arrangement for the very first time.

By pooling pension savings, PRPPs will offer Canadians greater purchasing power. Basically, Canadians will be able to buy in bulk. This means more money would be left in their pockets for their retirement. The introduction of PRPPs also marks a significant advancement for small and medium-sized businesses. Small and medium-sized businesses have, until now, experienced a significant barrier in being able to offer a pension plan to their employees. Under a PRPP, most of the administrative and legal burdens associated with a pension plan will be borne by a qualified, licensed, third-party administrator.

We all understand that Canadians want their governments to work together to deliver results for them, and the PRPP is a prime example of what we can accomplish for Canadians when we do just that. Bill C-25 represents the federal portion of the PRPP framework and is a major step forward in implementing PRPPs. Once the provinces put in place their PRPP legislation, the legislative and regulatory framework for PRPPs will be operational. This will allow PRPP administrators to develop and offer plans to Canadians and to their employers.

Working together, I am confident we can get this important new retirement savings option up and running for Canadians as soon as possible. Let me quote Dan Kelly, the vice-president of the Canadian Federation of Independent Business:

> This can't come soon enough from our perspective. We think this has great potential.

Before I take questions from committee members, I cannot stress enough how the introduction of the PRPP is just the most recent example of this government's continuing commitment to ensuring that Canadians have a dignified retirement.

I would like to take some time before you today to highlight some of the actions our government has taken to secure retirement income for Canadians. Financial literacy, for example, is an area where we are working to improve retirement income outcomes. Obviously, a strong system depends on the ability of its users to make informed decisions. That is why our government launched the task force on financial literacy to make recommendations on a cohesive, national strategy to improve financial literacy across Canada.

Since 2006, our government has increased the age credit amount by $1,000 in 2006 and then another $1,000 in 2009. We've doubled the maximum amount of income eligible for pension income credit, up to $2,000.

● (1540)

We introduced pension income splitting. We increased the age limit for maturing pensions and RRSPs to 71, up from 69 years of age before.

All told, we have provided about $2.3 billion in annual targeted tax relief to seniors and pensioners.

In addition, Budget 2008 introduced the tax-free savings account, which is particularly beneficial to seniors, as it helps them meet their ongoing savings needs on a tax-efficient basis after they no longer are able to contribute to an RRSP.

Our record also includes important improvements to several specific retirement income supports. In Budget 2008, we increased the amount that can be earned before the GIS is actually reduced. We raised that to $3,500 so that GIS recipients will be able to keep more of their hard-earned money without any reduction in their GIS benefits. Also, Budget 2008 increased flexibility for seniors and older workers with federally regulated pension assets that are held in life income funds.

In May 2009, Bill C-51 reformed aspects of the CPP to increase flexibility and fairness in the plan and allow it to better reflect the way Canadians live, work, and retire.

In Budget 2011, we announced a new GIS top-up benefit for the most vulnerable seniors. Seniors with little or no income will receive an additional annual benefit of up to $600 for seniors and $840 for couples.

The next phase of Canada's economic action plan provides an additional $10 million over two years to enhance the New Horizons for Seniors program. This additional funding is enabling more seniors to participate in social events, pursue an active life, and contribute to their community. The program provides funding for projects to expand awareness of elder abuse, promote volunteering and mentoring, as well as encourage social participation of seniors.

Clearly, Mr. Chair, our records show our government is committed to the financial well-being of Canada's seniors, a commitment we've demonstrated since our first budget.

The PRPP is only the latest example of our government's continued commitment to helping Canadians realize their retirement dreams. The introduction of the PRPP not only fills a gap in Canada's retirement system but makes a system that is the envy of the world even stronger.

Thank you, Mr. Chair. I'd be happy to take questions.

The Chair: Thank you very much for your presentation, Minister Menzies.

We'll begin members' questions with Mr. Marston, for a five-minute round.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you, Mr. Chair.

And a belated happy birthday to the minister. I enjoy any opportunity I can get to centre you out a bit.

I'm also pleased to hear the minister talk about OECD. The OECD recently reported that the OAS system in Canada is fully sustainable, and I'd like to see that quote coming from the government from time to time.

Like the minister, I toured the country over two summers, with 40 community meetings, and I never once had anybody say they would like another vehicle that exposes their pension savings to market fluctuations. We already have that with RRSPs.

Specifically, when we consider the legal and financial risks associated with defined benefit pensions, employers who will receive, as they see it, additional savings in the PRPP administration fees because they'll be paid by the employee.... In effect, I believe this legislation has created a powerful incentive for employers to potentially want to shift their existing pension plans, whether they be defined contributions, defined benefit, or even group RRSPs, to PRPPs.

I'm concerned, and I'm sure Canadians will be concerned. For those who have a defined benefit workplace pension now, this will in a sense undermine the security they have going forward.

I'd like the minister's comments.

● (1545)

Hon. Ted Menzies: Thank you, Mr. Marston, and thank you for your kind wishes, speaking of seniors....

Mr. Wayne Marston: Mine's in 10 days and I turn 65.

Hon. Ted Menzies: Well, an early happy birthday to you!

It's a good question and a reasonable question, as I always expect from Mr. Marston. He's a very thoughtful gentleman, and I know he has put a lot of his time into speaking with constituents and Canadians about this. And it is important. I think the whole aspect of looking at the overall retirement income adequacy of Canadians has become very topical, certainly with the downturn in the markets. I think we all understand that.

There actually has become a very national dialogue about retirement income adequacy, and I think the media has played a very valuable role in that as well, because people are reading the headlines and asking if they have enough for their retirement.

The pooled registered pension plan is not meant to take away from any other pension option out there; it's meant to contribute to it. I need to go back to the fact that RRSPs have been there for years. They have worked well, but people aren't using them adequately. So we're going to provide this broad-based option through the employers. When an employer chooses to offer this pension option to its employees, the employees will be automatically enrolled, and they'll have, then, the option to opt out, if they so choose. They'll have a 60-day period where they can opt out.

It has been proven in other countries that this brings more people in. It makes the pool larger. The returns will be better. It is low cost because there is more competition in the system to keep the price low. We think that will provide, as I say, one more option to help people save.

Mr. Wayne Marston: It may be an option, Minister, but there are 12 million Canadians who don't have any savings and don't have any pension. And this proposal is voluntary. You know from our discussions that the NDP has talked about enhancing the CPP because it's mandatory, it's portable, and there's a lot of discussion we could have around that.

But it's the fact that people feel they can't afford to do any serious investment at all. At least if we double the CPP and we increase the premium, which is mandatory, they would be able to pay part of the cost of their future retirement. From the standpoint of the government, I know you see that as an increased taxation. There has to be a balance between the wall that Canadians will hit in 35 years...the 12 million people who have nothing.

Going back to the Canada Pension Plan and increasing that, to be very clear it seems like a—

The Chair: Question.

Mr. Wayne Marston: —much better option.

The Chair: Just a very brief response, Minister, please.

Hon. Ted Menzies: Thank you.

It's difficult to have a brief response; it's a very complex issue. It's a good question, again.

We've looked at expanding the Canada Pension Plan. We can't do it single-handedly because the provinces are our partners in that. We did not get unanimous support from the provinces to expand the Canada Pension Plan at this time, and exactly for what you said: it is going to cost businesses and it's a mandatory deduction.

You talk about people who can't afford to save. Then you're going to demand that they take money out of their cheque before they ever see it.

We think this option will be good, and we are hoping that people will start young. Even if they put a few dollars away, it gives them a safe, well-protected pool

● (1550)

The Chair: Thank you.

Thank you, Mr. Marston.

Ms. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair.

Welcome once again, Minister.

The one thing I have to confess is that I know you have very big shoes to fill, because I am trying my best to fill them here. I'll tell you that these folks alongside me have appreciated every ounce of advice you have given them over the years. I'm certainly trying to do my best to give them advice as well, but I'll never match what you did here on the committee. So I want to thank you on behalf of this group.

Hon. Ted Menzies: I gave no financial advice, though.

Mrs. Shelly Glover: It's nice to see Wayne Marston back. He has contributed quite a bit to the pension discussion.

I want to follow up on what you just talked about with regard to the CPP versus the PRPP, because Canadians continue to hear politicians push on the issue of trying to do something with the CPP. So this is just to be very, very clear. How many provinces were in for the PRPP? How many provinces said no way...CPP. We can't do it at this point?

Hon. Ted Menzies: Thank you, Ms. Glover, for that question.

It was a very interesting discussion. It was actually over two years that we discussed this. First of all, when we first started developing the PRPP, several of the provinces shared their concerns that this would cost their local businesses more money. They were concerned about that. Certainly, some of the provinces encouraged us to continue to look at the options in CPP to see if there was some way to improve it. In the midst of that we were actually doing a triennial review of the Canada Pension Plan, and that's when we came up with the findings that it is actuarially sound; it's in good shape.

In politics, if you have everyone saying this is a good idea, that's consensus, and that's what we had. We did not have consensus from the provinces to pursue at this time a Canada Pension Plan expansion.

We moved forward with that. Some of the provinces actually wished we had moved faster. Quebec, for example, actually reflected their plan to move very quickly with this in their last year's budget. They think this is a great option for people within their jurisdiction. They're ready to go, and many other provinces are ready to go. We'll be having the consultations on the regulations coming out soon. We think this certainly is accepted better by the Canadian Federation of Independent Business, as I quoted before.

Let me just read you another quote:

> For every one percentage point increase in CPP premiums beyond the current 9.9 per cent rate, it would cost 220,000 person-years of employment and force wages down roughly 2.5 per cent in the long run.

That is troubling. That's why many of the provinces said go forward with the pooled registered pension plan.

Mrs. Shelly Glover: You did mention in response to Mr. Marston as well the fact that the mandatory nature of CPP is not something that's attractive to some Canadians. We tried for it in my own riding. People like to have options, so this is why I think PRPP is a great choice. Small and medium-sized businesses, as you indicated, are very troubled about the suggestion of CPP. I know in my riding they've commented that they're just recovering from a recession that was felt globally.

How do you see this affecting small and medium-sized businesses? How do you think the PRPP is going to help them?

Hon. Ted Menzies: Many businesses that I have spoken to, when you explain the process.... In fact, one of my friends sitting here witnessing this appearance today is one of the gentlemen...Doug Fletcher of Home Hardware is a business owner in my local community. When I explained it to him—and this wasn't staged, he just happened to be here today—he said this will give him an option to provide a pension plan for his employees, and this way, he won't have to take on the responsibility of the management of it. He's not carrying the fiduciary responsibility. That's in the plan administrator's role. Many businesses don't have time to be a financial advisor, but if through a simple process they can offer this to their employees, that's a great tool for them. In my province of Alberta, that's something you can add as enticement to get people to come to work for you.

● (1555)

The Chair: Great.

Thank you, Ms. Glover.

We'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Chairman.

Welcome, Minister.

Minister, you mentioned it was Doug Fletcher of Home Hardware.

Hon. Ted Menzies: Yes.

Hon. Scott Brison: When I spoke with Jeff Redden, who owns the Home Hardware in Windsor, Nova Scotia, the birthplace of hockey, I asked him if, in addition to the PRPP, which is an additional choice for him to help his employees build a retirement plan, he would be open to an optional voluntary supplemental CPP —in addition to PRPP. He thought it was quite an interesting idea, for a couple of reasons.

First, the PRPP is not a defined benefit plan, and CPP is, so in addition to that, it would help. The PRPP, by nature, doesn't protect you against market drops when you're approaching or in retirement.

Second, the CPP is very well managed, has a low fee structure and management cost, has diversification across asset class—everything from private equity and public equity and real estate to geographic diversification—and across sector.

Why aren't you, as a government, pursuing the option, in addition to the PRPP, of offering a voluntary supplemental CPP to give people like Jeff Redden of Windsor Home Hardware and his employees an opportunity to have that option?

One other benefit, Minister, would be that this other option would also help keep the PRPP fees lower, by providing some really low-cost competition that would be a very attractive investment.

Hon. Ted Menzies: Thank you for that question and advertisement for your local Home Hardware. Perhaps we'd better draw this advertising session to an end.

It's a good question, Mr. Brison, and I appreciate that.

We looked at that. We've been looking at all options for some time. We've talked to the Canada Pension Plan Investment Board as well as its administrators as to what the options are, and what simple changes we could make to CPP that wouldn't negatively impact the strength of the existing fund. As you say, it's solid, and their results, just released the other day, are very good. But it would change the structure of the Canada Pension Plan if they had to include individual accounts and voluntary contributions. They told us they could do it, but it would increase the costs. The fundamental principle of the pooled registered pension plan is that it's broad-based and it's going to be very low cost. Competition will keep the cost low.

We don't need another expensive option because RRSPs are out there. You can invest in whatever.

Hon. Scott Brison: Yes, but did you ask them what the fee structure impact would be and what the cost would be? I bet you that even if there were a slight increase in administrative cost, based on the size of the CPP fund, they would still be more competitive than the PRPP options. I bet you they would still be cheaper.

Hon. Ted Menzies: I'm not that much of a betting man but—

Hon. Scott Brison: No, but will you pursue that?

Hon. Ted Menzies: We did ask that question.

Hon. Scott Brison: So what would the increase be?

Hon. Ted Menzies: I don't remember the numbers, but the word “substantial” was there. They said they could do it, but it's a substantial increase to the cost because they're changing the structure of it and—

Hon. Scott Brison: If they were to analyze what the delta between their current fee structure or cost structure would be and the option of a supplemental voluntary CPP, and if you found that it was lower than PRPP options, would you consider it in that case?

● (1600)

Hon. Ted Menzies: We have the unanimous support of the provinces and territories to move forward with this at this point.

The Chair: You have about 30 seconds.

Hon. Ted Menzies: We're moving forward because we have support. We've always said, Mr. Brison, that we continue to look at all options on the Canada Pension Plan.

As I've said, this is an option; this isn't the be-all and end-all. As investments change, as the world changes, we need to make sure that we adapt to make sure we make this system sustainable in whole.

The Chair: You have five seconds.

Hon. Scott Brison: So you are open to at least looking at the option down the road.

Hon. Ted Menzies: With our partners, the provinces and the territories, we're continually looking at the Canada Pension Plan.

Hon. Scott Brison: I think you might find they're interested in this.

The Chair: I think that's a general “yes”.

Thank you, Mr. Brison.

We'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Chair, and thank you, Minister, for appearing before us.

I think we have to clarify what was just said across the way. The idea of the PRPP is that they're automatically rolled. Is that not correct? And they can opt out if they so choose.

Hon. Ted Menzies: You're right.

Mr. Dave Van Kesteren: There's some confusion, I think, with CPP too, because we all get the invitations and it always seems so simple; we can fix this with CPP.

What is the contribution from the employer currently with CPP, and what is the contribution from the employee?

Hon. Ted Menzies: It's a total of 9.9%, half from the employer and half from the employee. We reflected on what that would be. For a small business, it may not be much, but for a large business it's substantial. The CFIB has crunched the numbers and that's their analysis.

Mr. Dave Van Kesteren: Of course, with the PRPP that can happen or it cannot happen. If the employer doesn't have the means to make that contribution, the employee can still make a contribution, and he doesn't have to limit it to 9%, for instance. He can reach his full...whatever that percentage is.

Hon. Ted Menzies: Yes, it all fits within the maximum RRSP level of contribution per individual. Whether it's split between the employer and the employee, it can't go above the overall maximum allowable contribution.

Mr. Dave Van Kesteren: You also said, in regard to your agreements between the provinces and the feds, that at that point you'd have a look at where you're at, and you'd see where the pool is and how it's been invested and what the returns are. I suppose if you introduced a PRPP and there wasn't a normal sharing, it would be very difficult to know exactly whether or not you have enough money in the pool, because it's obviously going to different people, and going for different rates as well. Do you understand what I'm saying?

Hon. Ted Menzies: Yes, but we're getting into technicalities that aren't in the legislation itself. The regulations that will be coming out once this has passed the House of Commons and the Senate...those will be detailed as to the investment. There's a protection mechanism in there that makes it better than an RRSP because it is protected under the same type of legislation as the Pension Benefits Standards Act, so it's protected in that way. It's a safer investment. We're not going to guarantee, and I don't think anybody expects the government to guarantee, what the return on the investment is; that's up to the plan administrators.

Mr. Dave Van Kesteren: You mentioned RRSPs. Is that the only difference, or are there other differences between the RRSPs and the PRPPs?

Hon. Ted Menzies: They fit within the same maximum contribution level, but as we say, people aren't contributing. There's $600 billion of unused room. It makes it safer because it's protected. It's simple. Businesses can offer a group RRSP, but the employer is then administering the group RRSP. This makes it simpler for the employer, and it's safer for the employee. It's a fiduciary responsibility on the plan administrator to make the best return to the plan member. That's the fundamental protection in the PRPPs.

The Chair: One minute.

Mr. Dave Van Kesteren: Very quickly, how many different banks can offer the services? Is there a limit, or do you open it up to whoever?

● (1605)

Hon. Ted Menzies: There will be a—

Mr. Dave Van Kesteren: Banks or companies.

Hon. Ted Menzies: Yes, it could be financial institutions, credit unions, or existing pension funds as well. The Office of the Superintendent of Financial Institutions will set up criteria. They will be required to meet specific criteria to be able to be accepted to offer these to employers, as well as to the self-employed.

Mr. Dave Van Kesteren: I expect they will be scrutinized very closely as well.

Hon. Ted Menzies: Very closely. That's why I have OSFI on both sides of me.

Mr. Dave Van Kesteren: Thank you.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Chisholm, please.

Mr. Robert Chisholm (Dartmouth—Cole Harbour, NDP): Thank you very much, Mr. Chair.

Minister Menzies, thank you for being here with your staff and your family. Welcome to you and to them.

I have to tell you that I'm disappointed we weren't able to do more in terms of the CPP. I had the opportunity in a previous life to visit an awful lot of employers throughout Nova Scotia and Newfoundland and Labrador, where the workplaces had defined contribution plans or group RRSPs. I saw workers with 35 years in getting ready to retire, and as a result of the downturn in the economy, they lost hundreds of thousands of dollars in their pensions over six or eight months. I watched these grown men and women cry because of the insecurity of that form of investment.

I think we can do better. I talked to one of the provincial finance ministers during some of these negotiations. I understand there was one province that was a holdout. I wish the federal government could do more on this. I don't see this as anything more than having private plans out there that are completely subject to the market. Increased competition will mean more plans, more administration, and more costs. Ultimately it's not going to do what you state we're trying to do.

I want to again say that on the whole question of the CPP and what makes it work, it seems like a health benefit plan. It's mandatory, people have to participate, it's guaranteed that way, it's properly funded, and it's well administered. It's just like a health benefit plan, cafeteria style. It gives people choice. That's how it's sold. All of the healthy people pick a few items in that lineup, and the people who end up needing it don't have the coverage. The costs are increased for the people who do need the plan.

I really have a number of concerns with this. I don't think we're doing anything to try to deal with the whole question of retirement income security. We have the CPP fully funded for 75 years. I just think we could have done a whole lot more as a country and a government that's being lauded for the work it has done with the CPP.

I urge you and your colleagues to go back to the drawing board and try to pull something together on the CPP. I think there's a will out there among provincial governments.

Hon. Ted Menzies: Thank you, Mr. Chisholm, for your question.

I take exception to your term “holdout”. There were certain provinces that said they would like us to continue looking at the option of CPP, but there was unanimous support for the framework for the pooled registered pension plan. There was no holdout. You can go back and read the press releases when both of those meetings broke up. That signalled to us that there was enough support to develop a framework, so we set to work doing that. What we have here is exactly what you said: it's choice.

You talked about the number of people you've spoken to who haven't saved enough. I go back to what our analysis showed us: 60% of people in the workforce in Canada right now don't have access to any workplace pension plan at all. It wouldn't have been very prudent of either a federal, provincial, or territorial government to set aside an option for 60% of the workforce in Canada. That's why we're pursuing this. We think we've developed a viable option that is just that. We're not going to force people to use it.

● (1610)

The Chair: Thank you. Thank you, Mr. Chisholm.

Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair.

And thank you, Minister, for being here this afternoon.

It's clear that Canadians want, and expect, their government to focus on ensuring that the government has a long-term plan to safeguard the retirement income system.

Having said that, I hold round tables every Friday morning in my riding for an hour with small business people, and what's clearly apparent with a lot of small businesses is that the people who work for them are not just employees; they're like family in a lot of cases. A lot of these small business owners would like to offer them an option of a pension or security to retire with some kind of dignity.

To a person, to a business, and I've probably heard from about 75 small businesses in my riding in the last six months, every single one of them has praised the PRPP proposal.

For those who aren't enlightened, could you please expand on how this is so beneficial for small business, and some of the advantages?

I know we've heard the Canadian Federation of Independent Business speak about it, but for small businesses out there who don't have a voice—whom you heard from when you were crossing the country and who I hear from when I hold my business round tables every Friday morning—could you please talk about that and how beneficial this would be to a lot of those businesses?

Hon. Ted Menzies: Thank you, Mr. Adler.

That is exactly what we heard when we first started looking at the challenges we were facing in the fall of 2008 with the federally regulated defined benefit pension plan, and we subsequently made improvements to that.

We heard loud and clear from many people who came to our pension consultations on exactly that. They told us they didn't have anything to offer their employees. They came pleading for us to develop something that is easy, not onerous, for them to use.

So part of the concept is to provide this. It's a simple process, and we've seen some concepts of how simple this may be for an employer to enrol his or her entire staff electronically. There are some options out there that may be electronic: a simple online enrollment to line this up for your employee.

That's what businesses need. They need something simple. We've been working at getting rid of red tape. We don't want to add more red tape or take them away from their focus of business. But the responsibility is on the plan administrator and not on the small business person.

It won't just be for small businesses, but we think it will be a great option for exactly who you were referring to.

Mr. Mark Adler: And they've all praised this plan, to a person.

I also want to pursue the 60% of Canadians you mentioned who do not have retirement pension income plans.

With that light at the end of the demographic tunnel racing toward us, could you talk about the dangers of that 60% bubble working its way through the system and what that bodes for our income security for retirement years?

● (1615)

The Chair: There is about one minute.

Hon. Ted Menzies: I certainly don't want to alarm people, but as I referred to in answering an earlier question, this is an important discussion that everyone should have with their spouse and family at the kitchen table: “Do we have enough to retire on, and if we don't, then what can we do to make sure we do?”

The Canada Pension Plan is there. OAS and GIS are there. But we need to make sure that if you want to have a happy life—maybe a set of Pings in the back of your car to play some golf—you need to plan for that.

This is one option where you'll be able to plan, through this large pool of funds. Your returns will be increased because the cost is low. That's the main benefit of this over many of the other pension plans. The costs will be very, very low so there will be more money in your pocket.

The Chair: Okay. Thank you.

[*Translation*]

Mr. Mai, you have the floor.

Mr. Hoang Mai (Brossard—La Prairie, NDP): Mr. Chair, I'm going to share my time with Mr. Marston.

The direct objective of this bill is to save money, but by going through the private sector. This is one of our concerns. As for the Canada and Quebec pension plans, the administration costs are going to be lower. In this case, we're talking about low costs and regulation. Can you really guarantee that the administration costs will be lower than the costs under the Canada pension plan?

[*English*]

Hon. Ted Menzies: You're right that the regulations will define how that is.... We're not going to regulate it, if that's where your question is going. If I choose a management expense ratio, I might choose one too high and everyone would gravitate to that. Competition will make sure it is low, and the supervisory authority will require that the costs are low. There will be a regular analysis of what the fees are. But the competition through many plan sponsors will keep the costs much lower than what we're seeing today.

[*Translation*]

Mr. Hoang Mai: I wanted to say that these costs would surely be higher than the costs associated with the Canada pension plan.

I'll now give Mr. Marston the floor.

[*English*]

Mr. Wayne Marston: Thank you, Mr. Chair.

Hon. Ted Menzies: Actually, no, if I can jump in, they will not be.

Mr. Wayne Marston: Minister, you spoke a moment ago about the consensus around the CPP, and that you had full consensus on this. I don't dispute that point at all. But technically speaking, two-thirds of the provinces are required to pass something, so it doesn't require a full 100% consensus. If you look at the Australian super fund, for example, after 10 years it was reviewed and hadn't even kept up with the pace of inflation. That's why we have concerns.

As far as the cost of CPP, an increase has been proposed. On $10,000 it's 76¢ a week. On $40,000 it's $3.10 per week. On the comment about enrollment and the cost of enrollment and setting up the PRPP, people are already enrolled in the Canada Pension Plan. We certainly see some advantages to that. The proposition we put forward would be enacted in three years with a seven-year phase-in period. So the impact on business would be spread out over a full seven years. When you juxtapose that against the super fund in Australia and the lack of what that was able to produce for those people, I am still drawn back to the CPP.

Hon. Ted Menzies: I sense that in your questions, Mr. Marston. But thank you for continuing your effort.

The Canada Pension Plan is in good shape, but we would be asking them to fundamentally change their entire process to do this. There's a suggestion out there to double the Canada Pension Plan. The analysis has shown that it would take 40 years to actually be of benefit. Some of us remember when the Canada Pension Plan was started, and it took some time before it was actuarially sound. We think we have an urgent need. We saw that in the summer of 2008 when the stock market started going south. So we need to provide another option for these people to start saving as soon as they possibly can, and this is the option that's not mandatory.

The challenge with the Canada Pension Plan is that not everybody has only the Canada Pension Plan. Many people save in another method, so you'll be demanding that they have another deduction taken off their paycheque.

● (1620)

Mr. Wayne Marston: The point of CPP is that in doubling it you go to $1,800.00, which is a foundation for people. At that point the money is defined benefit and something they can count on, but they can't count on the market with the PRPP. So obviously we have a disagreement here.

The Chair: Make a very brief response if you want, Minister.

Hon. Ted Menzies: I guess Wayne and I can still remain friends, even though we do disagree on these small points.

I don't dispute the fact that it certainly would pay more, but how long does it take before it ever happens, and what happens to a business that is struggling to recover from the recession right now? They've told us loud and clear, through the Canadian Federation of Independent Business and many other business associations, please, don't raise our taxes.

The Chair: Thank you.

Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair, and I'd also like to wish the minister a happy birthday.

I want to briefly reflect on financial literacy. Certainly, I can recall in my youth—I have a health care background—many of the young 20- and 30-year-olds deciding to withdraw their contributions and have a great holiday, not actually having any understanding in terms of the impact that would have later in their life. I think we have some tremendous work we can do there in terms of preparing people to start thinking about what's available and how they need to prepare for it. So I'm really glad to see a lot of that work in terms of financial literacy going forward.

First of all, I'd like to get you to reflect on how the PRPPs will actually achieve low cost. I know we've had some conversations around the Canada Pension Plan and that it would be a change in the business model. RRSPs, of course, have significant cost, but can you talk again about how the PRPPs will achieve the low cost?

Hon. Ted Menzies: Thank you, Ms. McLeod.

It's a reasonable question, no doubt, because I think even Mr. Marston was concerned about how we keep the cost low. We keep the cost low through the scale and design of the fund: simple, straightforward, easy to administer, broad-based, and offered through as many competitors as the superintendent sees fit—to provide a broad-based pension available across any business that is interested in taking these up.

The low cost will be prescribed in the regulations and the regulations will be forthcoming. As I said, I think the worst mistake we could make would be to actually set a maximum management expense ratio, because that would be the default that everyone would go to. But the competitiveness of being offered broadly by a credit union, a financial institution, or an existing fund that's already operating will keep the cost low.

Mrs. Cathy McLeod: Thank you.

The other thing that we often hear, and perhaps it's from the people who are looking for some opportunity to criticize PRPPs, even though I think it's such a great bill that there's not much room in terms of.... They say, well, this is not going to help Canadians save for retirement; it's just going to help the banks earn greater profits. Can you speak to that issue.

● (1625)

Hon. Ted Menzies: Yes, I, too, have heard that criticism. I'm not sure why or where. There's the fact that these financial institutions will have to show a track record before they're ever approved to offer this and the fact that there will be oversight bodies making sure they do protect these funds for the members. Our largest concern is making sure that is protected...but offered by many different institutions, whether it's the public pension plan or the Saskatchewan Pension Plan. OMERS, the Ontario Municipal Employees Retirement System, has a very sound structure, and they're interested. I'm not suggesting they're going to qualify; that's not for me to decide. But the competition will keep the prices low.

I've had many discussions with the financial institutions, and they're of the understanding that this isn't going to be a high return item; it's going to be a high volume item. The banks understand that and they're interested; the financial institutions, the credit unions, are interested because it will be a large volume, so they can keep their costs low.

The Chair: You have 30 seconds.

Mrs. Cathy McLeod: Quickly, if you were going to talk about the biggest difference between the PRPP and the RRSP, what is the biggest difference?

Hon. Ted Menzies: It's protection. There is better protection, because it is treated as a pension.

Mrs. Cathy McLeod: Thank you.

The Chair: Minister, we were advised beforehand that you have to leave at 4:30 p.m. sharp. Your officials will stay for the next hour.

Monsieur Giguère, you can have a two-minute round now or you can start the next round with the officials.

[*Translation*]

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): I'd like to ask the minister a few questions, particularly about the voluntary nature of this registered pension plan.

Already, 67% of the population does not have an RRSP. These are people with the lowest incomes, people who have absolutely no pension plan.

Why do you think that these people, who already can't pay their rent, buy groceries or cover their mortgage, are going to be more likely to participate in a voluntary registered pension plan?

[*English*]

Hon. Ted Menzies: Thank you for that question. I also need to go back to previous questions about the mandatory Canada Pension Plan contributions.

If, as you say, they can't afford the necessities of life, in expanding the Canada Pension Plan we would take that money away from them and force them to put it into a retirement savings plan. But this—

[*Translation*]

Mr. Alain Giguère: I can respond right away to what you said, Mr. Minister. The proposed Canadian pension plan is spread out over seven years and there's a delay of three years. So after 10 years people are going to be making the full contribution. In this case, your plan allows them to make the full contribution as of the first week. With the Canada pension plan, it's after 10 years that you can withdraw a fraction of the enrichment to set it aside as savings. The people don't have a real fall in income. It's simply that a fraction of the growth of their income is dedicated to the pension, which is very different from your plan. The drain is immediate and total.

Did you come to the same conclusions as I did in this respect?

[*English*]

Hon. Ted Menzies: Not exactly, because we haven't told you what the deduction amount is. If an individual chooses—and I'm a big fan of choice—not to participate in a plan that his or her employer has offered to him or her, that's the person's choice. I don't feel that it's my right to force that on a person. We found that many of the other countries that have offered processes similar to this have found that people will stay in. It's overcoming inertia. You have to—

[*Translation*]

Mr. Alain Giguère: I have one last question for you, Mr. Minister.

Your notes on foreign plans are fairly well done. Thank you. One of the major differences, though, is that the employer contributes to the voluntary registered pension plan. In fact, your own notes indicate that the employer matches the employee's contributions dollar for dollar. But this isn't the case with the plan you are proposing.

● (1630)

[*English*]

The Chair: Minister, can you just give a brief response? Then we'll wrap it up.

Hon. Ted Menzies: Once again, the option is there for the employers to contribute on behalf of their employees. Once again, it's about choice.

The Chair: Thank you. *Merci*.

Minister, I want to thank you for being with us here today and for your presentation and your responses to our questions. If there's anything further you wish us to consider as a committee, we will be considering it over the next three and a half sessions of the committee.

Hon. Ted Menzies: Thank you.

The Chair: Thank you.

Colleagues, I will suspend very briefly to allow the minister to depart, and then we will resume again with the officials.

● (1630)

(Pause)

● (1630)

The Chair: Colleagues, I'll call the meeting back to order. Again, I want to thank the officials for staying the extra hour.

Unfortunately, two colleagues did not get their question time, so I'm going to go to them. I have Mr. Hoback on the list. Can I go to Ms. Glover, or is it Mr. Jean?

Ms. Glover, if you could, start us off, please.

Mrs. Shelly Glover: Sure. Thanks, Mr. Chair.

While I have the opportunity, I want to welcome all of our officials. I know how hard they work on these very important projects.

I want you to take a moment to clarify something that was asked by opposition members with regard to the payments into CPP. Mr. Giguère suggested that he believes, for whatever reason, that no payments to CPP will come out of an employee's pocket for 10 years. The difference between the PRPP and the CPP is that under a PRPP, the choice is there to never pay if you choose not to stay in the plan. If we were to go to CPP, would employees have that choice to opt out?

Ms. Diane Lafleur (General Director, Financial Sector Policy Branch, Department of Finance): You're correct that there is the choice built into the framework for the PRPPs. There is the choice at the front end, where the employer chooses to join, where the employees have up to 60 days to opt out altogether, and even if employees do not opt out at the front end, if their circumstances change at some point in their employment—they might be facing financial difficulties or whatever—they can choose to set their contribution rate to zero for a period of time to allow them to get through that, and then at a later date increase their contributions again. There is that choice that is built right into the framework.

Mrs. Shelly Glover: Comparing it to the CPP, is there choice for employers or employees to opt in at any point, opt out at any point, or set the levels they want to put in?

Ms. Diane Lafleur: No.

Mrs. Shelly Glover: That is the major difference with this. I want you to take a moment to perhaps explain it so that the opposition understands—

Mr. Hoang Mai: We understand.

Mrs. Shelly Glover: —that there is in fact a serious problem with trying to force people who cannot afford it. Perhaps right now they can't afford it. Perhaps in two or three years they could afford it.

The difference again between the PRPP—for those folks who can't afford it today but maybe can in two years—and the CPP, for those folks who have that problem....

Ms. Diane Lafleur: You're correct in the sense that people can opt out at the front end because their circumstances just don't allow them to make those contributions, but to the extent that their employer is a participating employer they can choose to join at a later date. What the employer cannot do, though, is force the auto-enrolment of somebody who has opted out at the front end.

● (1635)

Mrs. Shelly Glover: Then there is mobility, correct?

Ms. Diane Lafleur: Correct.

Mrs. Shelly Glover: If an employee had a pension plan, a PRPP at McDonald's, say, which is usually one of the starting jobs, and then moved to a job working as a clerk at Home Depot or something, there is a mobility factor if those employers are offering PRPPs. Correct?

Ms. Diane Lafleur: The design of the PRPP is intended to encourage portability, so that if you do change employers you can maintain your PRPP. You can take it with you.

Mrs. Shelly Glover: Again, every time they make this change in employment, choice follows that PRPP as well, correct? Opting in and opting out follow them, correct?

Ms. Diane Lafleur: That's correct.

Mrs. Shelly Glover: They would have options all the way through their careers—because nowadays many people have a number of careers. They would have options continually along their careers as to what their financial status is and whether or not they want to put extra money toward this pension plan, correct?

Ms. Diane Lafleur: That's correct.

Mrs. Shelly Glover: With CPP there is no choice.

Ms. Diane Lafleur: It's mandatory.

Mrs. Shelly Glover: Thank you. I just wanted to make sure that was clarified, because I continue to hear this comparison and I just don't understand why the opposition doesn't get it. It is a mandatory versus a voluntary—

[*Translation*]

Mr. Alain Giguère: You will never understand anything.

[*English*]

The Chair: Order.

Mrs. Shelly Glover: —situation, which I, as a mother of five.... People who have children, who have really not considered what the future holds for them, when I explain it to them, seem to get it right away and are anxious to participate.

Do we have any kind of a timeline set out yet with regard to when the provinces might start to put their ducks in a row?

The Chair: You have 30 seconds.

Ms. Diane Lafleur: We've been working collaboratively with the provinces and territories all the way through this. The only province that has publicly made a commitment is the Province of Quebec. As the minister indicated, it made a commitment in its budget of last year, and I understand Quebec is hopeful it can get this regime in place by the end of this year as well.

Mrs. Shelly Glover: By the end of 2012 is what they are hoping for.

Ms. Diane Lafleur: That is their objective.

Mrs. Shelly Glover: Very good. Thank you.

The Chair: Thank you very much, Ms. Glover.

We're going to go to Mr. Hoback, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

Thank you, witnesses, for being here this afternoon. You have big shoes to follow. The minister did such a great job in the previous hour that I feel for you, but I'm sure you'll do very well.

My questions are very easy. I'm going to pick up where Ms. McLeod left off, and that's on the comparison of PRPPs and RRSPs and the security part. Can you just elaborate on how the security differences are there and what that means to the individual?

Ms. Diane Lafleur: The key difference, as the minister indicated, is that PRPPs will be supervised by the pension supervisory authority. In order to become an administrator, essentially you'll have to go through a licensing regime and qualify to become an administrator, and there will be ongoing oversight, and administrators will be subject to criteria for licensing, for disclosure, etc. That will be an ongoing process, both at the federal and eventually at the provincial level, so that there would be this additional layer of protection that the minister indicated.

The other thing that is a real benefit to members of PRPPs is that the funds in the PRPPs will be pooled and administered jointly. The scale of these funds is designed to become very large so as to reduce costs and to maintain that low-cost advantage that is not possible in the RRSP framework, where individual accounts have to be maintained, and that adds to the administrative burden.

Mr. Randy Hoback: Can you elaborate on the pooling of those accounts and what that consists of? If you're an administrator for a fund, would you be pooling all yours into one fund?

Ms. Diane Lafleur: The design is such that a PRPP administrator can offer essentially the same product choices of PRPP accounts to a number of different employers. All of these different employers contribute into one essentially pooled account, and that offers efficiencies because of scale in the design of the funds.

Mr. Randy Hoback: Do you envision, then, that you may see different accounts that would have different risk levels based on what the client was comfortable with, such as in RRSPs at this point in time?

Ms. Diane Lafleur: PRPP administrators are going to be required to offer different kinds of accounts with different kinds of risk profiles, including what we're referring to as a default account. An employee who joins a PRPP through their employer or as a self-employed individual will be given some choices as to what kinds of accounts they want to invest in.

In a lot of cases it happens that people don't make those choices. In that situation, they will be automatically put into a default account that is designed to accommodate a different range of investment risk options and people of different ages or stages in their careers, etc. If people don't decide, there will be a default option.

• (1640)

Mr. Randy Hoback: That's very interesting. It goes against what the opposition is saying. They're talking about how when you're close to retirement and all of a sudden the market trends down or cycles down, you'd be in a bad position. But in reality you'll have the options to manage those risks with your administrator, so that as you get close to retirement you may move your cash, for lack of a better word, from a high-risk account to a low-risk account or a medium-risk account. You'll have the ability to do that. Is that true?

Ms. Diane Lafleur: People will have some choices, but the fundamental point is that administrators will have a fiduciary duty of care to the members of the PRPPs. They will have to invest in the best interest of those members and they'll have to apply a prudent person's approach to those investments.

Mr. Randy Hoback: With regard to the administrators themselves, will they be based on a federal program to be classified as an administrator, or would it be province by province to become—

Ms. Diane Lafleur: I'm sorry, I didn't hear that question.

Mr. Randy Hoback: To become an administrator, would you go through a process province by province, or would you do a federal process? How does that work?

Ms. Diane Lafleur: Well, potential administrators will need to apply to the different jurisdictions they want to offer PRPPs in. At the federal level they would apply to OSFI, and at the provincial level they would go to the relevant administrator.

The legislation builds in the ability of the different jurisdictions to delegate the licensing process to each other, so if a province does not want to build the structures needed to essentially create the licensing scheme, they could by agreement delegate that to OSFI, for example.

The Chair: You have about 20 seconds.

Mr. Randy Hoback: How do you envision the rollout with the provinces?

This is probably not a 20-second question, but I'll do it quickly. As we move forward, assuming this legislation passes, how quickly do you imagine the provinces jumping on board? I know we have Quebec already on board.

Ms. Diane Lafleur: I don't feel it's my place to speak for the provinces.

Mr. Randy Hoback: Is your crystal ball not working?

Ms. Diane Lafleur: I don't think I want to venture down that road.

Mr. Randy Hoback: Okay, I understand that. I respect that.

The Chair: Thank you, Mr. Hoback.

We'll go to Mr. Marston again, please.

Mr. Wayne Marston: Thank you, Mr. Chair.

I want to say that I'm sure the officials here have done a good job and due diligence in putting together the framework the government has asked them to do, so there's no way I am taking potshots at anybody in what I'm talking about.

In the unionized workforce you have Canadians who go to work every day and they're in a pension plan because of the negotiated contract. They don't get to opt out; they're in that plan. For years, hundreds of thousands of Canadians had a pension plan they could count on at the end of the day because the obligation on the employer's side was to top up that plan should there be a market shortfall. It served them well.

In your opinion, if a person were to put away.... I'll back up a little bit; I'm kind of interrupting myself.

With regard to the opening for the amounts of money that somebody could put into a PRPP, the top would be, what, roughly $30,000 that they could put into it in a year?

Ms. Diane Lafleur: Well, it's fully integrated into the pension limits that exist under the tax rules.

Mr. Wayne Marston: Generally speaking, it would be in that area.

Ms. Diane Lafleur: I don't have the numbers at hand, but it's 18% of your income, up to a maximum.

Mr. Wayne Marston: Let's say it's $20,000, just for the discussion. I'm not really trying to peg you down to a specific number.

My point is that the proposition we're trying to get forward on the CPP is that a person who invests $161.20 per year would see their CPP doubled, from $918 a month to over $1,800.

In order to get a return of $900 a month by going into a PRPP, you'd have to have hundreds of thousands of dollars in there, which the average person is not going to make. If they have the latitude to be putting, let's say, the $20,000 figure in, they probably would have done that in an RRSP already.

We're having a problem with the balancing of the potential outcomes of the two programs comparatively.

I do have one very specific question, though. We had the parliamentary secretary talk about portability. Is that portability within a province or within the country?

Ms. Diane Lafleur: The design is intended to be portable right across the country.

Mr. Wayne Marston: But does it require the buy-in of each individual province, and do you have that?

Ms. Diane Lafleur: Right now the regime that is before you applies to federal areas of employment, telecoms and banking, interprovincial transportation, etc. But in order to apply right across the country, yes, you're correct that the provinces need to bring in their own provincial legislation.

• (1645)

Mr. Wayne Marston: Okay.

When you were putting this plan into place, had anybody done an analysis or looked at the report on the Australian super fund? It was in for 10 years. I think it was at the 12-year mark that they did a study, or the study was released, and what they found is that it had higher fees, higher costs, and poor investment returns. In fact, it barely stayed even with inflation. Was that looked at at all?

Ms. Diane Lafleur: When we did policy work to develop the PRPP framework, we certainly did spend quite a bit of time looking at examples in foreign jurisdictions, including the Australian example, to see what lessons we could learn from that. What we've tried to do with this framework is import the design elements that have proven to be beneficial and successful and improve on those that seem to have some shortcomings, if you will.

Mr. Wayne Marston: The implication I think we have with the PRPP that's similar to the RRSP is that there will be an inclination to take part by people who have a lot more disposable income than perhaps some other groups.

We do have a generation of young people today—and I'll include my own family in that, my kids—who have a tendency not to look much more than six months down the road. What I'm concerned about is that this will not do anything to encourage those people who could save—we can debate who can afford it and who can't afford it, but those who could. I don't see that necessarily causing them to save, the ones who are kind of superficial at this point in the way they look at their own income and expenditures. We've got a high level of indebtedness too. By a modest increase to the Canada Pension Plan, as we've been talking about—again, $161 a year—I think we could wind up with something far more substantial.

Ms. Diane Lafleur: Well, as the minister said, you need full consensus to make changes to the CPP.

Mr. Wayne Marston: That's the point we disagree on, because two-thirds of the population with two-thirds of the provinces is not consensus-driven. It's driven by a constitutional—

Ms. Diane Lafleur: You're correct about the formula, and it's my understanding that the test was not met.

Mr. Wayne Marston: Well, we can debate that. That's fine. I appreciate it.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Marston.

I'm going to take the next round as the chair.

I wanted to follow up on questioning by a couple of my colleagues, and I'll ask the officials from OSFI. My view is that OSFI is one of the gems of the Canadian financial system, in terms of its regulatory oversight functions, and I think this is an important point. It's brought out in the questions and answers we have as committee members, but I think it's important if we can get the OSFI officials on the record, to really reassure Canadians in terms of the oversight that will be done by OSFI with respect to the PRPP.

Mr. Grace, do you want to start, sir?

Mr. John Grace (Specialist, Pension Policy, Office of the Superintendent of Financial Institutions): I don't know if you want to pose a question to me exactly or how you would like me to approach that topic.

The Chair: I'm trying to explain this to people in my riding, and they raise issues of what the cost structure will be vis-à-vis RRSPs, which is what Mr. Hoback was raising. Some people will also raise the issue of whether it will be there. Is it certain? How certain can I be if I invest in this that there will be good oversight over my investments that I make in this plan?

Mr. John Grace: Right. Well, the framework is similar in many respects to a DC, a defined contribution pension plan, where members are provided an opportunity to make investment choices among options provided. As has been noted, an important investment option as well will be a default option that an administrator would offer, and the draft legislation provides a duty on the administrator to invest the assets prudently, and it also requires that the administrator administer the PRPP as a trustee for the members. OSFI's role would be to oversee the activities of an administrator, and we'd follow a risk-based approach in assessing compliance with the requirements of the legislation, including requirements around the investment options offered and including the default option.

The Chair: We have that in our briefing here as members, but for the benefit of the public, can you go into the default option in terms of what that is exactly?

Mr. John Grace: I think, as Diane Lafleur mentioned, typically an administrator would be expected to offer a number of investment options to members of the PRPP.

In some cases, members may not be engaged and may not actively make a choice, in which case funds would be put into what's typically called the default option, and that occurs in defined contributions—

● (1650)

The Chair: Which would be the lowest-risk option?

Mr. John Grace: Not necessarily. It's not necessarily the lowest risk. There would be a requirement that the investment be a prudent investment as set out in the act, as well as potentially set out in more detail in regulations.

Generally speaking, the default option would be geared towards providing a prudent investment in the context of retirement savings, so a long-term view, if you will, but with a balance of risk and return.

The Chair: Okay. Can I return in my remaining time to the issue of cost? I am getting people in the financial industry coming to me and challenging me. They're saying they're not sure this is actually going to be lower cost than RRSPs. I say if you have a fund of this size, in fact you spread the risk and you lower the cost.

I mean, that's obviously the benefit, and the minister spoke to that. Madame Lafleur, you spoke to that as well.

Our background document says:

> The legislation provides that the PRPPs will be required to be low cost to members. The Superintendent will monitor fees in accordance with the guidance on low costs that will be prescribed in regulations. Low costs will be obtained through pooling, competition between eligible administrators as well as transparent disclosure of cost to members.

I'm wondering, Ms. Lafleur, if you can expand on that and help me convince people that this will be lower cost than what's currently offered to individuals through their RRSPs.

Ms. Diane Lafleur: As you mentioned, pooling is a key feature of making sure the costs are low. RRSPs are set up as a series of individual accounts that have to be administered independently, and that's quite costly. It means that in an RRSP situation people are paying what we call retail sorts of fees—fees that you and I pay as individuals. If you're going into a pooled arrangement, it allows you to get what we would call more wholesale types of fees—big pension fund types of administration fees—because you're dealing with more scale in terms of the funds.

The other aspect that has been alluded to is that the design of the PRPPs is intended to be fairly simple, and therefore from an administrative burden point of view, both on the administrators but also on the employers, there's going to be less cost. Because the system is intended to be right across the country and portable, there's scale for administrators in terms of who they can offer to, how big these funds can get.

All of these factors together mean that by pooling their investments together and joining into these PRPPs, people can have advantages that only big pension funds have been able to offer their members in the past.

And this now will be available to the self-employed, which is really quite innovative.

The Chair: Okay, thank you. I appreciate that.

I'm going to Ms. McLeod now, please.

Mrs. Cathy McLeod: Thank you, Mr. Chair. I'm going to share my time with Mr. Hoback.

I'm wondering if you could take me through what will happen next. This legislation is going to pass. There will have to be regulations. We understand that Quebec is willing and interested in moving forward.

For example, what if you are someone who is currently employed by something that is regulated by the federal government, one of the banks, and you invest in a program and then you move to Quebec—in Quebec, of course, theoretically, the capacity would be there—and then you move to British Columbia?

Can you talk a little bit about how you see things rolling out as we move forward?

Ms. Diane Lafleur: I can really only speak to the federal level. Obviously we're hoping this legislation moves forward as quickly as possible. Then there are a number of regulations that need to be put into place to complete the framework.

We have been in discussions with our provincial and territorial colleagues about the design of those regulations and the key elements of those. They're full partners, essentially, in the policy discussions.

We hope that once the legislation is in place, we can move expeditiously to complete the framework.

We've designed the legislation, and it's our intent, by including the provinces and territories in our discussions, to design the regulations in such a way that they can be used as a model, if you will, that can be quickly imported into provincial legislation and regulations. Hopefully they will be able to take what is before you today and import it and quickly adopt a very similar model.

● (1655)

Mrs. Cathy McLeod: If someone, for example, works for a bank and the bank has offered a program through Y and then they change jobs, could they still choose to stay with the original person that provided the program? Could they say they know their new employer has a different group through which he is providing a plan, but they've started there and are happy, and could they ask if they can keep their contributions going to the original?

Ms. Lynn Hemmings (Senior Chief, Financial Sector Division, Department of Finance): Yes, they could.

Mrs. Cathy McLeod: Thank you.

The Chair: Mr. Hoback, you have two and a half minutes.

Mr. Randy Hoback: I'll go very quickly then.

I'm looking at the administrators and the funds and what the funds can or can't do, and I guess my first question is about the administrators. Would they be under the same type of rules in managing these funds as, let's say, other investment funds, like OMERS or the teachers pension plan or anything like that? Would they have to follow the same types of investment rules, and would administrators be limited to just Canadian companies offering these funds or can a foreign bank be an administrator for this case?

Ms. Diane Lafleur: The criteria essentially are going to be that you need to be able to assume the fiduciary duty to the plan members. There's just a certain number of entities that can, in practice, do that. Financial institutions, large pension funds, credit unions—

Mr. Randy Hoback: But about the investment, when they take in my money and they go to invest it, what kinds of investment rules are they going to be forced to follow, or will there be any rules in place for that?

Ms. Diane Lafleur: They're going to be required to offer some choice—that's the key word—to the plan members to invest in different funds. They're going to have three, four, or five different options each—

Mr. Randy Hoback: All right.

Ms. Diane Lafleur: —and then there will be a default option. If individual plan members don't choose one of those funds, they'll automatically be put in the default option. Each of those funds is going to have its own characteristics, mix of risk, return, etc., but people will have a choice as to what—

Mr. Randy Hoback: If you go to a financial institution and you're depositing your funds through a financial institution, does that go into their capital requirements for the financial institution, and is there any impact on the depositor's insurance, the $60,000 they have in insurance with the bank? Would that be covered in the depositor's insurance?

Ms. Diane Lafleur: These are some very different things here. If you make a deposit at your bank, if it's just a standard retail deposit, you're covered by the Canada Deposit Insurance Corporation up to $100,000.

Mr. Randy Hoback: It's $100,000.

Ms. Diane Lafleur: Yes. It went up a few years ago.

Mr. Randy Hoback: Yes, that's right.

Ms. Diane Lafleur: But the PRPP is a trust account essentially, so it's a different account, and...I'm struggling for the right words, but it is protected under pension law essentially, which is separate from CDIC protection. There are protections that are built into the trust laws around that.

The Chair: Okay.

Mr. Randy Hoback: Thanks, Chair.

The Chair: Thank you.

Thank you, Mr. Hoback.

Mr. Giguère, *encore*.

[*Translation*]

Mr. Alain Giguère: Good afternoon.

My question is for Mr. John Grace.

Economist Lucy Aproberts indicated that there is a risk of deterioration in social protection with the PRPP, basically because there's no mutualization of the risk. Have you done actuarial studies to find out whether the PRPP would reduce the problem for future pensioners?

[*English*]

Mr. John Grace: I'm sorry. I was listening to the translation. I really couldn't follow it very well. I don't know if you could re-pose your question.

[*Translation*]

Mr. Alain Giguère: Very well.

Insofar as 60% of people have no pension, have you done an actuarial study to find out how many participants there should be and what the amounts should be for there to be an actuarial change resulting in something other than financial disaster, which is where we are now headed because of a lack of savings?

[*English*]

The Chair: Ms. Lafleur, did you want to answer this?

Madame Lafleur.

[*Translation*]

Ms. Diane Lafleur: I think we have always tried to be very clear. The proposal before us isn't there to resolve all the problems with the pension system, but to offer choices and other options to the 60% of employees who currently do not have access to a plan through their employer.

● (1700)

Mr. Alain Giguère: So you admit that this solution…

Ms. Diane Lafleur: Will it solve everything? I hope so, but perhaps I'm no so ambitious.

Mr. Alain Giguère: Unless I'm mistaken, no actuarial study has been done.

Ms. Diane Lafleur: No, we haven't done one.

Mr. Alain Giguère: Thank you very much.

Let's move on now to the legal aspect. In section 30, you indicate that the employer is not responsible, whereas this same employer, according to sections 24 and 76, could receive certain inducements, certain gifts.

How can you exonerate someone for his or her participation in a plan, when that same person received an inducement, a personal benefit, for choosing the plan?

Ms. Diane Lafleur: It says that the employer is not entitled to inducements when the employer chooses a plan for the employees.

Mr. Alain Giguère: Except that the regulations related to paragraph 76(1)(*i*) allow…

[*English*]

Ms. Leah Anderson (Director, Financial Sector Division, Financial Sector Policy Branch, Department of Finance): That regulation is intended to...or it is under development, but the intention there is that there are some inducements or what we call cross-selling or tied selling that can be beneficial to all. So if an administrator is offering both a health policy as well as a plan, a PRPP, for example, everybody could benefit. It's...would you call that an inducement? It's beneficial.

[*Translation*]

Mr. Alain Giguère: You're referring to a regulation that doesn't exist. Section 24 states that a person doesn't have the right, except for what is set out in section 76. Section 76 talks about the nature of the inducement. This poses a problem.

Also, section 30 covers non-liability. Vincent Lacroix would be pleased.

Ms. Diane Lafleur: The context of section 30 is that the administrator is liable for funds management, not the employer. The purpose of this is to clarify that the administrator is liable.

Mr. Alain Giguère: Yes, but there's a cause and effect relationship between the administrator and the employer if the employer chooses the administrator based on the inducements offered.

Ms. Diane Lafleur: But…

Mr. Alain Giguère: Do you see the problem?

Section 21 basically states that the superintendent has the ability to order a transfer in the event of improper management. We understand immediately that it is urgent to protect contributors. But subsection 34(4) indicates that there is a 15-day waiting period. If it is really necessary to take urgent action and if you think the individual is insolvent, dangerous and dishonest, why give that person 15 days? Why not put the person under supervision immediately? This is exactly what happened to Vincent Lacroix in Quebec. There was a one-month period and during that month…

[*English*]

The Chair: Can we get a response on the 15-day waiting period?

Ms. Taraschuk.

Ms. Carol Taraschuk (Senior Counsel, Legal Services for the Office of the Superintendent of Financial Institutions, Department of Justice): Yes, I can answer that question.

The Chair: Please do.

Ms. Carol Taraschuk: It's similar to the provisions in the Pension Benefits Standards Act. Clause 21 allows the superintendent to act quickly and name a replacement. They're not subject to the 15-day waiting period.

The 15-day waiting period deals with directions of compliance. For example, if an employer is not making the necessary payments to the administrator, the superintendent will give 15 days' notice that she intends to issue a direction. They can make representation to the superintendent, so this is the process of fairness to the person being issued the direction. Any representation will be considered by the superintendent before a formal direction is issued.

The Chair: Okay. Thank you.

Merci, M. Giguère.

We'll go to Mr. Jean now, please.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

I'm a little interested in the Australian situation with the super funds. In particular, I understand that one of the major criticisms of the Australian super funds is that the returns quoted in the Australian Prudential Regulatory Authority are based on the total assets of the super fund rather than different investment options.

Is anybody familiar with that? Okay. Well, I understand, just from spending some time in Australia and also doing research on the subject—and being interested, because I was an investor there for a period of time—that the largest problem with the super funds in Australia is that the reporting functions take the total fund, the return on investment for the total fund, rather than the individual investment options that the funds offer. In fact, if you look at even the total funds before the economic global crisis in Australia, you see that over 35% of those funds had over a 9% return, and 10% of the super funds had double-digit returns.

So on the point that was raised earlier by the NDP, you have to look at it in a different context. If just the entire fund were looked at instead of specific performance options in the funds, obviously you would have a different return on investment, and since the global economic downturn, we've all had some sort of hit on our stock markets and investments generally.

Now, I did have the opportunity of doing an MBA in finance. During that period of time I discovered that there were four sentences that were used a lot. One was “competitive marketplace” and another was “economy of supply”. The third was “spread the risk”, and the fourth was “wake up, dummy”, which I heard a lot.

Voices: Oh, oh!

Mr. Brian Jean: Those three terms were all used by the NDP, and what that indicated to me was that they certainly knew what it was to have financial options. But in all of those cases, those things speak to good investment options. In particular, spreading the risk means that with this PRPP, we are actually enabling a competitive marketplace that will spread the risk to many, many different options, which will make it not just cheaper but a better risk beta for everybody. Is that fair to say?

● (1705)

Ms. Diane Lafleur: That's the intent.

Mr. Brian Jean: Now, I also want to say that as a small business owner in Fort McMurray—I owned about 10 businesses over a 20-year period, and I can assure you that my biggest problem was retaining employees. That still is a problem for me up there.

What I like the best about this is that it gives me an option to compete against the large oil sands plants, which offer great pensions. After 15 or 20 years of service, they pay out about $2,500 per employee, and it's almost impossible.... I've tried time and time again with the chamber of commerce. I've tried a pension plan with different groups. With insurance companies, I've tried some sort of pension plan.

This certainly gives me, as a small business owner with between five and 100 employees, a tremendous opportunity to be on a level playing field or to at least offer that option. Is that what you're hearing in the marketplace?

Ms. Diane Lafleur: Well, we're certainly hearing a positive reaction to the possibility of essentially improving the benefits package that small and medium-sized businesses can offer their employees, for very little in terms of administrative and other burdens. So yes, what we're hearing is that it's an attractive option.

Mr. Brian Jean: Thank you very much.

Those were my questions. Thank you, Mr. Chair.

The Chair: Thank you, Mr. Jean.

We'll go to Mr. Mai, *s'il vous plaît*.

[*Translation*]

Mr. Hoang Mai: Thank you, Mr. Chair.

A little earlier, the minister spoke about Old Age Security, which heard isn't viable. Kevin Page said that it was viable and that there were no long-term problems, which was also confirmed by the OECD. Where do you stand on this?

Ms. Diane Lafleur: I don't have a position on this because, honestly, it's not my field. We are responsible for private pension funds, but we aren't responsible for Old Age Security.

Mr. Hoang Mai: So you have nothing on that.

I have a question about the costs. We've talked a lot about costs. It was said that cost is an important element and that costs should be as low as possible. There are currently problems with certain retirement savings plans because the costs could in some cases affect the return. I know that there are plans for a system to resolve that issue.

You mentioned that costs were much lower in the private sector than in the case of an individual RRSP. With the Canada pension plan or the Quebec pension plan, do you not think the costs would be lower since those systems have more participants and already have the administration and management in place?

Ms. Diane Lafleur: This isn't necessarily the case because the administration isn't in place. For the Canada pension plan to establish accounts like the ones we're proposing here, it would need to build a whole other administration system.

Mr. Hoang Mai: We were talking about costs related to a voluntary system. But I'm not talking about the cost of a voluntary system; I'm talking about the present costs. We know that the Canada pension plan is very effective. It's universal.

Of course, as you know, we want to improve the plan. With respect to the costs of the plan, if we improved it, would there necessarily be any impact on the administrative costs?

● (1710)

Ms. Diane Lafleur: The potential is there for the costs of the pooled registered plans that we're proposing to be very competitive with the Canada pension plan. Obviously we'll see what happens over time. But the incentives are there and the requirements will also be there for the costs to be reasonable.

Mr. Hoang Mai: But can you guarantee that the costs would be lower than the current operating costs of the Canada or Quebec pension plans?

Ms. Diane Lafleur: I can't guarantee that all the funds will offer the same lower costs. But I can tell you that there will be competition. Based on the consultations we've had, I can say that a number of administrators are willing to take on the challenge and offer these products. We are also confident that, with the competition there will be, the prices will drop.

Mr. Hoang Mai: The current RRSPs are managed by the private sector and there is competition, but the costs are still high. We are concerned because there are no guarantees in this respect.

Ms. Diane Lafleur: It's because these are individual accounts and not pooled accounts.

Mr. Hoang Mai: That's also a choice. The same product is being offered. We go through financial institutions that offer this product. So a market exists. I'm not comparing the costs of RRSPs with the costs of a plan like the one you've proposed, but I'm talking about administrative costs, regardless of the RRSP. Of course there's a change, but these costs are higher than what we could get in the public sector.

I also wanted to come to development and where we want to go with that. What guarantees are there with respect to participation?

The Chair: You have 30 seconds left.

Mr. Hoang Mai: We've talked a lot about choice and that's what Ms. Glover tried to explain to us.

I'll give you two choices. When you retire, would you choose a system that gives you a fixed amount of money that doesn't depend necessarily on external costs and the market or another that depends on the market? If you were retiring, which one would you choose?

Ms. Diane Lafleur: The idea is to give employers another option.

Mr. Hoang Mai: You didn't answer my question, but thank you.

[*English*]

The Chair: Okay, *merci*.

We'll go to Ms. Glover, please.

Mrs. Shelly Glover: Thank you once again, Mr. Chair.

Just so I'm clear, I actually am a union member. I'm a Winnipeg Police Service officer who's on a leave of absence here, and I have a pension plan at the Winnipeg Police Service. I understand that my pension plan is directly impacted by markets as well. As I understand it, the Canada Pension Plan also is impacted by markets. So the suggestion made by the NDP that only the PRPP would be at risk because of markets is completely false, and I would like you to correct me if I am wrong.

Ms. Diane Lafleur: It's a different mechanism, because the CPP is a defined benefit plan. The returns of the CPP funds are affected by market returns. However, the benefit that flows to workers is a defined benefit. So it's a guaranteed benefit. What would happen in the extreme, if you had many, many years of negative returns and the value of the funds started to climb, is that you would likely have to raise contribution rates. So current workers and employers would be paying more to pay out the guaranteed benefits of retirees.

Mrs. Shelly Glover: Very good. I take issue with the way it was explained without having the other side of it, so I appreciate that.

I do have to say that when we're talking about the pooling of funds, I understand what you're trying to say about reduced administration costs. I know you were continually interrupted, so I really want to give you the opportunity to explain how we maintain the costs at a low level. You continued to repeat yourself that it would be competitive, and the opposition continued to try to get you to say, we want a guarantee, we want a guarantee, we want a guarantee. Well, no one can guarantee that the CPP costs are going to be lower either. So I would like to give you an opportunity to answer that question without interruption.

Thank you.

Ms. Leah Anderson: There are a few things in the act that fit together to make that...in addition to the broader principles that have been elaborated. One that's new and different from RRSPs, for example, is that administrators will be licensed, and they need to be licensed in accordance with how they meet the provisions of the act. One of the provisions in the act is that these things will be offered at low cost. So at licensing time, regulations on that, which have yet to be developed and elaborated on, will be looked at by the supervisor who licenses the administrator. Also, the regulations that are to be developed to support this will set out the criteria against which an administrator will need to demonstrate that they are offering it at low cost. We are working with our provincial colleagues right now to determine the best test to demonstrate that, and there are a variety of tools one could use. People are very focused on that, because this is a key aspect of the plan they want to see realized.

● (1715)

Mrs. Shelly Glover: Very good.

I also want to give you an opportunity to answer a question that Monsieur Giguère put to you. I thought it was a very good question, to be frank. He did cite two conflicting areas of the bill, clause 24 and paragraph 76(1)(i). The question gets put and then you never get to answer fully, so I want to give you that ability.

Ms. Diane Lafleur: It's paragraph 76(1)(i) and which one?

Mrs. Shelly Glover: It's clause 24, which says that no inducement may be given. Paragraph 76(1)(i) says the Governor in Council may “specify...the circumstances in which inducements may be given”.

Ms. Diane Lafleur: The prohibition is intended to guard against a situation in which an employer might get a benefit from choosing a plan administrator. We're trying to ensure that employers make choices to the benefit of their employees and not to their own benefit. However, there can be situations in which inducements that are offered are beneficial to all parties, including the plan members. So we want to make sure we're not casting so broad a prohibition in the act that members of the PRPPs would be prevented from getting some of those benefits where, for example, a PRPP is being offered along with some health care coverage, which might be offered at a lower cost if those two are offered together. But the employee is really the winner, because the employee is getting the benefit of both.

Mrs. Shelly Glover: Very good. I understand that much better. So it really does negate what Monsieur Giguère was suggesting.

Thank you.

The Chair: Actually, those were the clarifications that I, as the chair, wanted as well.

I understand from both sides that we've had enough questions for today. We will have you back before us on March 6 for clause-by-clause, but we do appreciate your being here. If there is anything further you wish the committee to consider beyond the materials we have or your responses today, please do submit it to the clerk or to me and we'll ensure all members get it.

Thank you so much for being with us here today.

Ms. Diane Lafleur: Thank you, Mr. Chair.

The Chair: We appreciate it.

Thank you, colleagues.

The meeting is adjourned.

MAIL POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid Port payé

Lettermail Poste–lettre

1782711
Ottawa

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

Additional copies may be obtained from: Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the following address: http://www.parl.gc.ca

On peut obtenir des copies supplémentaires en écrivant à : Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : http://www.parl.gc.ca