



House of Commons
CANADA

Standing Committee on the Status of Women

FEWO • NUMBER 039 • 2nd SESSION • 40th PARLIAMENT

EVIDENCE

Thursday, November 5, 2009

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Chair

The Honourable Hedy Fry

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• (1540)

[English]

The Acting Chair (Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC)): Order. Good afternoon, everybody.

Welcome to the 39th meeting here at the Standing Committee on the Status of Women for our study on women and pension security.

We have with us today, from the Organisation for Economic Co-operation and Development, Edward Whitehouse, head of pension policy analysis, social policy division; from Towers Perrin, James Pierlot, senior consultant, and Steve Bonnar, principal; and as an individual, Beverley Smith, member of the Care of the Child Coalition.

We will commence. We later have a motion to deal with, so we will have to stop for that sometime after 5 p.m.

Welcome to all of you. Welcome from the world of technology. We're glad you could all make it.

We will begin the meeting with presentations from our witnesses. You have 10 minutes, and we'll try to keep you within that timeframe. I'm sure we'll have a number of questions.

We'll ask the Organisation for Economic Co-operation and Development to begin.

Mr. Edward Whitehouse (Head of Pension Policy Analysis, Social Policy Division, Organisation for Economic Co-operation and Development): Thank you very much, Chairman, and thank you for standing in at the last minute to take over this committee.

It was my great pleasure and privilege yesterday to talk to the Senate finance committee. I must apologize to the members of this committee for the fact that I was earlier supposed to give evidence by a video conference link from Paris but was unable to do so because I was suffering from the flu.

At OECD we have just begun a research project on women and pensions, exactly following the topic that you are studying in this committee. I must first of all thank Human Resources and Skills Development Canada, who have made a voluntary contribution towards that research. As I have said, that research is just beginning, and therefore I'm not really in a position today to be able to give particularly concrete results of that research but am more able to set out the areas of interest and concern that we are exploring.

If we think about pension systems from first principles, if we have a world where we have men who go out to work and women who stay at home and look after children and have those caring

responsibilities, then it is quite easy and simple to devise a pension system to suit that world of the single male breadwinner. If men and women participate in the labour market on equal terms, if they have similar hours of work, similar earning levels, and they work a similar number of years over their career, then equally it is very simple to devise a pension system that suits a world of that form.

The trouble is, most countries are in a transition. Countries have been moving at different paces, but they are all moving in the same direction away from the single male breadwinner model towards a model of much more equality in the labour market between men and women. But our preliminary analysis suggests that we are still quite a long way from a position of there being equality between men and women in the labour market.

It is the experience in the labour market that very much affects, almost determines, people's incomes in retirement. Women tend to work fewer hours than men do. They have career breaks caring for children, caring for elderly relatives, so they have a shorter career in total than men do, and women still have lower hourly wages generally than men.

There is also an issue about access to pensions. In countries such as Canada, but also the United States, the United Kingdom, and Ireland, we have pension systems that are very much dependent on voluntary private pension provision, often through occupational schemes, through employer-run schemes, with the registered retirement plans in Canada being the case. We find when we look at the data that women tend to work for employers and in the occupations and industries where coverage of those private pensions is much lower than it is for the population as a whole.

We have also looked in great detail at the situation of today's retirees and the incomes and poverty rates among today's retirees. Overall we find marginally higher rates of old age income poverty for women than for men, but only slightly more. I think for the OECD countries as a whole, the old age poverty rate is about 10% for men and about 13% for women. So there is a small difference, and when we look in closer detail at the information, it's mainly the position of very old widows who are the remaining pocket of poverty among older people.

Canada is, in terms of old age poverty, one of the highest-performing of OECD countries. It has the fifth-lowest old age poverty rate among the 30 OECD countries, around 4%, compared with the OECD average of around 13%.

•(1545)

These issues are not currently a huge problem, I think, for Canada, but they may well be in the future. We are going to be in a world where we're rather more dependent on private pensions for our incomes in old age, and so that's the issue of the coverage of private pensions of women, I think, and obviously there is concern.

There are also social developments, particularly the increasing prevalence of divorce. We are, compared with past generations, going to see many women moving into retirement who have been divorced or have been lone parents and so maybe have not been able to build up much pension in their own right because they have not been able to work quite so much whilst their children have been at young ages. I think those are very important issues that we need to look at.

The issue of divorce, of course, brings us into a very complex set of areas. I am an economist, not a lawyer, and would not claim to be an expert on divorce law, but that, I think, is an issue that needs to be addressed as we go into the future.

I'll wind up my brief opening statement there. I look forward to your questions. We'll try to answer them.

The Acting Chair (Mr. Dave Van Kesteren): Thank you, sir. That's given us a little bit of extra time.

James Pierlot, I believe you are giving the presentation for Towers Perrin.

Mr. James Pierlot (Senior Consultant, Towers Perrin): Thank you.

As a point of order, do we have 10 minutes in total or 20 minutes?

The Acting Chair (Mr. Dave Van Kesteren): Ten minutes in total.

Mr. James Pierlot: That's what we thought.

The Acting Chair (Mr. Dave Van Kesteren): You can split your time.

Mr. James Pierlot: Thank you.

What we wanted to talk to you about today is the current state of the retirement savings system in Canada and where it's expected to go, according to three themes: coverage, meaning who has access to a pension plan; adequacy, meaning how many people are likely to have saved enough; and pension benefit security. I'll be covering the first two points and my colleague, Steve, will cover the third.

I've also brought with me some statistics from Statistics Canada on what we can expect women, as compared to men, to have accumulated in retirement savings.

The questions for retirement income security in Canada really are: what are you going to get from government pensions; how many Canadians have pension plans, and who are they; how much does a person need to save for retirement; and how much have Canadians saved?

Government benefits cannot be expected to provide an individual with more than about \$15,000 to \$20,000 a year in lifetime retirement income. That's income from the Canada Pension Plan, the

old age security program, and the guaranteed income supplement, and the allowance, if you get it. In most parts of Canada, \$15,000 to \$20,000 is not enough to have saved for a comfortable retirement.

Pension plan membership in Canada is heavily weighted towards the public sector, where about 2.8 million workers, or 85% of all public sector workers, are members of a defined benefit pension plan. In the private sector, it's under 20% of workers who have a defined benefit pension plan, and those plans typically tend to be much less generous. As for private sector employees, 75% of them—over 11 million people—do not belong to a pension plan and they rely heavily on RRSP savings. In the public sector, a slight majority of women belong to pension plans; but in the private sector, among those who actually have pension plans, it's about 58% to 60% male.

In terms of the retirement income that people need, the question is how much do you have to save during your lifetime? I'm just going to put some numbers out here so that you have an idea of how expensive it is to provide for a good retirement income at typical retirement ages. When I say "typical", I mean an age of 58 in the public sector, which is the median retirement age. In the private sector, it's 62. And for self-employed people, it's a bit higher than that.

So if you want a pension, payable at age 60, and you want that pension indexed and with a spousal survivor benefit, every dollar of pension is going to cost you \$21. If you want that pension at age 65, it'll cost you a bit less, or about \$18.50. What that means in practice is that if you want to have a \$20,000, \$40,000, \$60,000, or \$80,000 pension, it is going to cost you a minimum—for the \$20,000 pension at age 60—of \$420,000. If you want a \$40,000 pension, it will cost you \$845,000. And if you want a \$60,000 to \$80,000 pension, it's going to cost you \$1.2 million to \$1.7 million.

I think it's fairly obvious to everyone here that people are not saving this much, particularly in the private sector. In the public sector, saving rates are very good, but in the private sector they do not approach that. According to Statistics Canada, median family retirement savings are \$55,000 in families where the major income recipient is between the age of 55 and 64 and where they only have an RRSP; \$225,000 for those families who have a pension plan only; and about \$250,000 for those families with a pension plan and an RRSP. That \$250,000 isn't even enough to buy you a pension of \$20,000 a year. It's important to remember that these numbers I've quoted are for family retirement savings.

Now, there are other sources of income that you can receive in retirement. There are non-sheltered savings, home equity, etc., but many people rely heavily on their sheltered savings.

The conclusions that we draw from this are that if you rely on pension benefits from government sources, you're going to be poor; that Canadians are not well prepared for retirement; and that more Canadians need to be in better pension arrangements.

•(1550)

Some other facts to keep in mind are that women live longer than men, three to four years longer on average, which means they need to save more; that men outnumber women overall in pension coverage; that women earn less per hour worked than men do; that twice as many women as men are in part-time employment; that women, obviously, participate in the labour force at lower rates: women take time off for child care.

Women receive less in Canada Pension Plan benefits than men. Women in Canada are saving less than men, even though they need to save more. They cannot save as much as men because they don't make as much, as a proportion of income. This means that women are more likely to experience poverty in retirement than men are.

There was a University of Waterloo study that suggested that by 2030, two-thirds of Canadian retirees will not have enough to live on. That's the picture globally between men and women that we're looking forward to. We know, based on women's income and their participation in the labour force, etc., that they will be in an even worse position than men.

•(1555)

Mr. Steve Bonnar (Principal, Towers Perrin): I'm going to talk for the next little while about security of pension benefits.

As background, James took you through some of the numbers concerning people in Canada who participate in pension arrangements in the public sector and the private sector. I will take a separate cut at this and look at the number of people who participate in defined benefit pension plans. Those are benefits whereby you basically come to retirement, a formula is run through, and an amount of income is provided to you for the rest of your life. Roughly speaking, in Canada there are about 4.5 million people covered by those kinds of pension arrangements.

There are almost half a million other people who are covered by combination types of arrangements that are part "defined benefit" and part "defined contribution". Defined contribution is something that works just like your RRSP. So there are about five million working Canadians who are covered by a pension arrangement that provides a known level of income for the balance of their life.

Of the balance of working Canadians, about one million participate in defined contribution pension plans—that is, pension arrangements from their employer that work like your RRSP balance. The remaining 11 million-plus Canadians either have nothing or save for retirement through RRSPs. So you have over 12 million Canadians in total who are not participating in defined benefit pension plans; that's over two-thirds of the working population.

There are a number of issues for that group. For women in particular, we need to think about the fact that they live on average longer than men. Their requirement for savings through these defined contribution arrangements is larger than that for men. That's an additional risk, separate and apart from the fact that as individuals save for retirement through defined contribution arrangements, they need not to consider that they'll live the average length of time, but to consider how long they as an individual will live, which in essence tends to require over-saving: if you live longer than the average,

you're in trouble if you've saved to live just for the average length of time.

Let me put some numbers around this. We've heard about the financial troubles of pension plans, particularly as we went through last year. But we've had a couple of perfect storms in the financial markets in this decade alone, in which we've seen defined benefit pension plans move from a situation where they had on average, at the end of 2000, more than enough assets to provide for their liabilities—about 108% assets relative to liabilities at the end of calendar year 2000, and this is from public company financial statements—to, at the end of last year, about 85% assets relative to liabilities. So we've had a 25% drop in the average.

The Acting Chair (Mr. Dave Van Kesteren): You're over time. I'm going to give you a couple of minutes because Mr. Whitehouse was pretty quick, but try to wrap it up as quickly as possible.

Mr. Steve Bonnar: I will.

The point I want to make is that this is focusing on defined benefit pension plans, and they've gone down in value. That's been front page news. Everybody's RRSP account balance and defined contribution account balance has gone down in a similar fashion over that period of time. It reflects the reduction in the benefit you would expect to receive out of your defined contribution account balance.

With that, I will leave it.

•(1600)

The Acting Chair (Mr. Dave Van Kesteren): That's very good. Thank you.

Ms. Smith.

Ms. Beverley Smith (Member of Care of the Child Coalition, As an Individual): Thank you.

Is this audible to everybody?

The Acting Chair (Mr. Dave Van Kesteren): We read you loud and clear.

Ms. Beverley Smith: Thank you.

I'm in Calgary; thank you for letting me be part of this. The financial well-being of women is a long-time concern of mine.

Government and private pensions are tied to paid labour, and these formulas are inappropriate for unpaid work. I want to thank the gentleman who spoke ahead of me, who defined the problem very well. Since it is mainly women who take time from paid careers to tend the young, sick, handicapped, elderly, or dying, it has been women who are paid less over the course of a life. As seniors, these penalties add up. Since women outlive men, we get a large population of senior women in poverty. Our system keeps women poor for life.

Traditional economics assumes that only men's work matters and ignores the equally vital role at home in the economy. I take issue with the term one of the speakers was using, saying "women don't work as much as men". That's a problem of definition. Though we let women into the paid work sphere, we still say unpaid work has no value. We have, however, lately had two revelations.

First, as women were pressured to leave the home, suddenly government was asked to foot the bill for their roles back there. Costs of formal elder care and child care were reaching the billions. Second, women, tired after a long paid workday, still had to do housework and tend children. Men, asked to pitch in, also noticed how intense this care role was.

Women now outnumber men on university campuses and in the paid workforce in the United States. This shift may be seen by some as a boon for women's rights, but it is not unless it is accompanied by a realization that someone still has to do the care roles. It may be men now doing them, or paid staff, but we notice the value of what used to be invisible.

Pensions are given upon retirement, but women never retire. They go on cooking, cleaning, and tending others until they die. The terminology that traditional economics arranged into nice categories of work and leisure do not apply. We must create for caregivers a particular pension. The paradigms for paid work are not appropriate, and neither is the assumption that the tasks are over.

So I make four suggestions.

MP Ted Menzies says Canadians must save for their own retirement. But unpaid workers have nothing to save. We need funding for the care role when it is happening; then we'd have money to save. There should be a universal birth bonus, universal maternity benefit, a benefit per child until age 18, and income splitting.

Having the spouse fund the pension of the caregiver sounds like an option. It sounds good, for RRSPs. But it does have a flaw. The earner may not be able or willing to contribute for the spouse; the woman is forced into dependency. We should not make women so vulnerable, since their caregiver role continues, like a clock ticking in a thunderstorm. With pension splitting we did recognize the care role, because it treated both parties as equals.

A key resource to raise pensions is to ask employers to provide better ones. But those policy changes apply to paid labour; for caregivers, there is no employer. So government has a role to play, and mainly out of a debt to women.

For years government has had a free ride. Women provided every new generation of children to become taxpayers; they provided free care of the sick to get them back to health without a hospital stay; they provide care of the elderly and handicapped to keep them out of costly institutional care; by attention to emotional needs and presence, women kept down the costs in the criminal justice system. The state never paid women for this. It got the labour free. It owes women.

A pension for caregivers is similar to a pension for service in the armed forces. The time spent benefited the nation and came at a price of self-sacrifice.

These suggestions challenge traditional economics, but this should not frighten us. It would be recognition of the half of the economy that we have been blind to. It has always been there, and it's just time to open our eyes.

The Acting Chair (Mr. Dave Van Kesteren): Thank you, ma'am. Again we've gained a little time; that's great.

Our first round of questions will be of seven minutes. I'll ask that those who present the questions do so as quickly as possible.

And could you follow along with our time limit, please? I will give you a warning when you're becoming a bit lengthy.

Mr. McCallum, you, sir, are first.

• (1605)

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

Thank you very much to all of our witnesses for being with us this afternoon.

What I'd like to do, at least in the first part of my time, is focus on the issue of unpaid labour and how best to ensure that women—or men, but mainly women—in such positions receive an adequate retirement income.

Perhaps this could be done through the Canada Pension Plan, on the theory that women should be compensated for time spent caring for young children or older people. My understanding is that right now Canadians can exclude 15% of the years of lowest earnings when the CPP pension is calculated.

My first question is to Ms. Smith. Perhaps 15% is not enough, but do you think increasing that percentage might be part of a solution, so that if a woman, for example, had a substantial number of years as a caregiver, the percentage could be—I don't know—35%, 40%? Would that improve the situation significantly?

Ms. Beverley Smith: I appreciate your trying to work within the system. I'm a little more of a revolutionary. I think the Canada Pension Plan is designed to value paid labour and is out of sync with what women do. The dropout provision has bad optics because it looks like "we will forgive you for being a caregiver". I don't want to be forgiven; I want to be valued.

If you have to work within that system, which I believe is a flawed system, then yes, of course, raise the limit.

Hon. John McCallum: I think we could find alternative words. I don't want to get too hung up on semantics. I value unpaid labour, but I'm trying to find a solution. Do you have any idea what the appropriate percent would be—from 15% to what?

Ms. Beverley Smith: You said 35% or 40%. Let's go with that; I like it.

Hon. John McCallum: I just took the numbers out of my head.

Well, now perhaps I can turn to people who know more about pensions than I do and ask both of our groups of witnesses.

If the objective is to be fairer to women, on the grounds that women—I have to choose my words carefully—devote more time to unpaid labour than men do, in terms of caring for the young and the old, and we want to compensate women in a fair way for this fact of life and want to do it through the CPP, then—let's start with Mr. Pierlot—would you agree that raising the 15% number would be an appropriate way to go, or would you have some other solution?

Mr. James Pierlot: It's one approach. One of my concerns with it would be that the Canada Pension Plan in many ways isn't really a pension plan. It's a kind of hybrid vehicle that provides disability insurance and pension income insurance and that started out as a pay-as-you-go system and then was transitioned into a funded system. It really operates under a very delicate balance right now. If you wanted to increase the earnings dropouts for people, then you would need to increase the contribution rates.

I'm not saying it's a bad idea, but I bear in mind that Canada Pension Plan benefits are not very large, and they are determined by reference to earnings. I'm not sure this would be a complete solution to the problem Ms. Smith raises.

Hon. John McCallum: Mr. Whitehouse, are other countries experienced, perhaps, in this area?

Mr. Edward Whitehouse: I would start by saying that the Canada Pension Plan is not the only thing that's happening in provision of retirement incomes in Canada. Canada has old age security and the guaranteed income supplement, and those are particularly significant sources of income for women in their old age. Yes, Canada Pension Plan and the private pensions that people have are very much tied to earnings and therefore to paid work, but old age security is simply tied to residency in Canada, and the guaranteed income supplement to residency in Canada and to the position of having a low income.

The fact that Canada has this very redistributive retirement income provision compared with those of many OECD countries, where even public pensions are much more strongly tied to individuals' earnings and to individuals being in paid work, makes an extraordinarily large difference. We can't simply take CPP on its own and say it must be adjusted—

•(1610)

Hon. John McCallum: No, I'm not trying to do that. OAS and GIS are critical parts of the system for men and women, but they are equal for men and women. I'm trying to look for a mechanism that would compensate women for the fact that they have a higher proportion of their life in unpaid work.

To Mr. Pierlot, I think the proposal to expand the CPP, coupled with moving, say, from 15% to 30%, would by definition improve the situation for women more. But let me ask you, without tying your hands in any way: just overall, if someone asked you what the most effective way would be to compensate women for the fact that they have more years of unpaid work, how would you answer that question?

Mr. James Pierlot: I think there's no question that, to increase the number of years you could use for an earnings, dropout would help, because it would increase the CPP benefits that women get in retirement.

Is this the best way of doing it? I think it depends to some degree what kind of family unit you have and what the reasons for unpaid labour are. We're working on the assumption here that unpaid labour is not done by choice. It's done for reasons of child care. I'm going to work with that assumption. I'm also going to work with the assumption that there's a two-income family. Another approach would be to allow for greater income splitting within couple units when you have children being raised.

The reason I suggest this is that for couples or for women it's very difficult to raise children, because they're a heavy cost to the family, and yet they have a very significant benefit to society, because they keep society from aging or they slow the process of aging. That's one of the great challenges that Canada is facing: the replacement ratio isn't as high as it needs to be and we don't have enough workers coming up to replace the ones who are going out. One of the reasons for this is that it's very difficult for families to have children. I think it would make sense for society to recognize that, by perhaps allowing more income splitting within couples to lower their tax rates, to allow them to make more effective use of their income. This will probably make it easier for them to save for retirement while they're working.

Hon. John McCallum: Thank you very much.

The Acting Chair (Mr. Dave Van Kesteren): Monsieur Desnoyers.

[Translation]

Mr. Luc Desnoyers (Rivière-des-Mille-Îles, BQ): Thank you, Mr. Chair.

I would like to welcome you all. I have to say, after listening to you, that there seems to be a broad consensus. We will be facing a major problem in terms of retirement, and more specifically women's retirement. Mr. Pierlot and Mr. Bonnar stressed this point. The Canadian Labour Congress has made an interesting proposal, that the average earnings to be replaced by the CPP be gradually doubled, which would mean that the pension plan would pay about \$1,700 per month.

Do you think this kind of proposal could be put into effect?

[English]

Mr. James Pierlot: If I understand the question correctly—

[Translation]

Ms. Beverley Smith: May I answer the question?

Mr. Luc Desnoyers: Mr. Pierlot could answer first, and then Ms. Smith.

Ms. Beverley Smith: I can answer, if you like.

Mr. Luc Desnoyers: Go ahead, Ms. Smith.

Ms. Beverley Smith: I am not quite sure of what you are saying, but I recently read in the press that thought is being given to providing employment insurance benefits to self-employed persons. We might consider women at home as self-employed persons. That way, we could force the government to pay premiums for women, as is going to be done for self-employed persons. We do the same thing for the military. So it would be double, for the government.

Mr. Luc Desnoyers: You have answered my question in part.

Last week, Ms. Demers said that in future, we had to take into account unpaid work in the home. In the appendix provided to us, I don't know the author's name, it says we will not have a choice about changing our approach, in terms of analysis, when we talk about gender in the family and for pensions. We will have to take all these connections into account.

The committee is looking for solutions for women. How could these problems be solved? The Canadian Labour Congress says there will not be many high premiums, when we talk about doubling the proportion of average earnings replaced by the CPP; that is the \$1,600 or \$1,700 per month I was talking about before. The CLC says the cost would not be very high, given the present state of the Canada Pension Plan.

All three of you seem to agree about the OECD countries where women are disadvantaged. What solutions could be incorporated into the recommendations we will eventually have to make to remedy the situation women are in?

My question is for all three of you.

•(1615)

Mr. Edward Whitehouse: I can answer about the OECD.

[English]

We have just completed a study of the impact on women's retirement incomes of periods out of paid work while caring for children. We've looked at a range of different periods, from one year out of paid work right up to 10 or 15 years. These are for very long periods.

We find that countries have very different policies. In some countries—France, for example—if you take, say, up to five years out of paid work caring for children, your pension is almost fully made up to what it would have been had you continued working; however, once you go beyond five years out of paid work, it diminishes quite rapidly.

In some other countries the pension diminishes straightaway. Every year out of the labour market diminishes the pension. In somewhere like the United Kingdom, you get credits under the basic

pension for all the time your children are still of school age, so it's until your children are 16. You could have perhaps 18 or 20 years out of paid work and have that period covered.

We have to come to a much more concrete policy discussion about whether we want to insure people for short periods and make up their full pension, or whether we want to try to somehow spread the money over longer periods out of paid work.

I would also add at this point that many other things can help carers, whether they are carers of children, disabled relatives, older relatives, or others. All these things cost money. If we are working within a given budget constraint, do we want to spend the money on giving people credits in the pension system, which can be quite an expensive thing to do, or do we want to somehow provide respite care, child care services, and so on to help women to combine caring for children, or other caring responsibilities, with paid work?

I'm leaving that as an open question. It is a policy question on which voters and their elected representatives can come to a conclusion, but I think there has to be a trade-off between the pension credits and other services.

[Translation]

Mr. Luc Desnoyers: That is for women without earnings. Given the current economic crisis, women are often in the least well-paid jobs. I think it was you, Mr. Pierlot, who said that access to employer-based pension plans has been declining for a number of years, according to Statistics Canada. You all talked about registered retirement savings plans, RRSPs.

If women are in the lowest earnings ranges, what can they do, if they have no access to a pension plan, to have an RRSP and an acceptable pension plan? Are there solutions?

•(1620)

[English]

The Acting Chair (Mr. Dave Van Kesteren): Mr. Pierlot.

Mr. James Pierlot: The solutions that we think respond to your question would be to get more people into pension plans. Generally, the Canadian public is very badly served by the RRSP pension system: most people can't use it; they pay very high fees; when they get into later career after they've gone through a period of doing child care or what have you, they often can't save enough; if they've lost money in the markets, they can't contribute more to catch up.

There are things we can do to our retirement savings system to make pension plan membership or at least membership in a plan where you get better management of the money and more opportunity to contribute. There's a lot that can be done there, and it doesn't just apply to women; it applies to almost everybody in the private sector workforce.

The Acting Chair (Mr. Dave Van Kesteren): Thank you, Mr. Pierlot.

Madam McLeod.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you.

I'd like to thank the guests for being here.

To start, I will ask some technical questions to which I should perhaps have the answers, but it would help me to know.

First of all, I want to talk about poverty. We talked about something that was a glimmer of good hope: the difference between seniors in Canada versus seniors in some other OECD nations. My first question is, since there must be some comparable way that you're measuring the poverty level across those countries, could you explain it?

The second question is, although you would never think it's a lot of money, does the maximum of GIS and, let's say, CPP actually nudge someone just above the poverty line?

Perhaps Mr. Whitehouse could talk to me about how they measure poverty and how we compare.

Mr. Edward Whitehouse: There's nothing I like more than a technical question.

The OECD follows an international norm, which is that to calculate the relative incomes of older people and the poverty rate we look at equivalized household disposable income. Equivalized means we take account of differences in household sizes. We don't think two people can live as cheaply as one, as the old adage goes, but we don't think two people need as much money as two single people living alone. I think the number comes out to about 1.4.

So we adjust for household size and take off the direct taxes and contributions that people pay. That brings it to disposable income. Then the poverty threshold we use is a relative threshold; it is half of the median of this equivalized household income.

The OAS plus GIS would bring you to about 90% of the poverty thresholds we have for Canada on this basis that we apply to all of the 30 OECD countries. So if you didn't have any CPP or private pension on top of that, then you would be below the poverty line.

In terms of poverty gaps—the distance that people are away from the poverty line—I think most people have incomes in Canada that take them quite a bit above. You are correct in your feeling that in some countries people are either a smidgen above or a smidgen below the poverty threshold because of the level of the safety net retirement incomes.

Mrs. Cathy McLeod: In terms of the differential between Canada and.... You mentioned 4% and 14%. Is that because of our OAS and GIS system?

Mr. Edward Whitehouse: Canada is an outlier in two ways, firstly in that the poverty rate is very low. Luxembourg, the Netherlands, and New Zealand are the only countries that have a lower old age poverty rate than Canada. In Canada, I mentioned, the number is about 4%; for the U.S., it's about 25%; for Australia and Ireland, it's 30%. So there's a very huge difference.

It is largely explained by the level of OAS and GIS, but also, Canada has the highest proportion of retirement incomes coming from private pensions. Around 50% of retirement incomes come from private sources, mainly from private pensions but also from other private sources. That is a bit above countries such as the United Kingdom, the Netherlands, Australia, Denmark, which are all in the

40% to 50% range. But the OECD average is that only 20% of incomes in retirement come from private pensions, and the vast majority come from the state.

So Canada is in a very different position from many of the OECD countries.

• (1625)

Mrs. Cathy McLeod: I presume the pension splitting has been helpful for couples, of course. For single women, it then becomes a problem. I'm really curious, and I don't know, whether there are any statistics on what is happening with divorce, because it's so common.

I don't know who would commence with that.

Ms. Beverley Smith: This is Beverley Smith. I could comment.

Mrs. Cathy McLeod: Thank you.

Ms. Beverley Smith: We have noticed in divorce laws an oddity. After divorce, when you're calculating the benefits, the role of the woman to contribute to raising the children is counted as her share, and that is why she is given equal benefits on divorce. It's during marriage that she's not counted as an equal partner. It's during marriage that we look at her as a dependant worth something like a used car and less than a.... It's rather like child status.

Divorce actually legally gives women a few more equality rights than marriage does—which is a very bad incentive for divorce, but some people take advantage of it.

The Acting Chair (Mr. Dave Van Kesteren): You have about fifteen seconds. We're just about out of time.

Go ahead, sir.

Mr. James Pierlot: I would add briefly that on divorce, most provincial jurisdictions provide upon marriage breakdowns for a roughly equivalent division of pension benefits earned during the marriage. How much each party actually gets varies according to the jurisdiction, but pension benefits are split on marriage breakdown.

The Acting Chair (Mr. Dave Van Kesteren): Thank you, Mr. Pierlot.

Mr. Whitehouse, you spoke about Ireland. Did you say 13% or 30%? It was hard to hear on this side.

Mr. Edward Whitehouse: I said more than 30% for Ireland's old age poverty rate.

The Acting Chair (Mr. Dave Van Kesteren): Mr. Dewar.

Mr. Paul Dewar (Ottawa Centre, NDP): Thank you, Mr. Chair. Thank you to our guests.

There have been a lot of numbers thrown around. One of the concerns people also have is the amount of debt load that people are carrying. In fact, the average for Canadians in 1984, or the mid-1980s, was about 70¢ on every dollar. Now we're clocking in at \$1.25 or \$1.27 or somewhere around that amount for every dollar.

Of course, if they're in that kind of debt, it has a profound effect on people's ability to save. I don't know which guests—maybe Mr. Pierlot—want to try this question, but have you looked at how the personal debt ratio affect people's ability to save? Does it disproportionately affect women more than men? I think we need to look not just at real wages, though that's important, but also at debt. I'm just wondering whether you've looked at this.

Do you have an opinion on the personal debt load of Canadians?

Mr. James Pierlot: I have not looked at the personal debt load or how it impacts saving.

Mr. Paul Dewar: I think it's probably worth taking a look at, for obvious reasons. Debt load of Canadians has skyrocketed, according to the stats I've seen.

Is it something you've looked at or have an opinion on, Mr. Whitehouse, how to look at debt load in terms of people's abilities to save or in terms of the pension income?

Mr. Edward Whitehouse: I don't think Canada has as major a debt load as other countries in the OECD. I would point out the U.K., the U.S., Spain, and probably Ireland as well as countries where personal debt loads are much higher than they are in Canada. As to the impact of them on people's savings behaviour, I'm not aware of any studies that have particularly looked at that question.

Clearly there's an awful of people who are heavily in mortgage debt but who at the same time are still saving in the form of private pensions, in all of the countries I've mentioned. So it clearly is a constraint. I think the major debt effect is going to be, really, on the housing market rather than on pensions.

You've raised the issue of whether this affects women more than men. Again, I am not aware of any study that has looked at it. It is an extremely interesting question, which I think should be studied.

•(1630)

Ms. Beverley Smith: May I comment? We have lost the family allowance in Canada and lost the child dependant deduction and kept the spousal allowance quite low, so most people who stay home to take care of a child discover quite quickly that it costs more than they thought it would. The estimate is usually around \$180,000 to raise a child to age 18.

We found that people start taking from their own savings, so it stops being unpaid labour and starts being reverse-paid labour: we are paying for the privilege of going unpaid. Of course we cannot save, and the household debt is a direct result of reducing all the social benefits for the care role.

Mr. Paul Dewar: Thank you for that.

I would like to see someone look at this question. Possibly these numbers are a lot worse in other jurisdictions, but we're here in Canada. These kinds of debt ratios are not sustainable, and I think they would obviously affect people's ability to save. They should also be factored in if you are looking at trying to lift people out of poverty. To look at their long-term horizons, at least, you need to put that into effect.

By the way, Ms. Smith, I disagree on one or two of your points, but your point about ensuring that there is a benefit for children

beyond the first couple of years is absolutely correct, and it's something we support and agree with.

I want to get a couple of comments on the best way to support Canadians as we watch private systems and private pensions melt. We need to look at other models. Is looking at the infrastructure we already have the best way to deal with this?

We've already mentioned a bit of this, but as a party we proposed that CPP is one way to go. Increasing or doubling the CPP in terms of what it is now, from \$908.75 to \$1,817.50, would have the net effect of doubling the potential income from \$11,000 to \$22,000. We've also put forward the idea of increasing the guaranteed income supplement by \$700 million to push that money out to people who need it. Finally, having a national pension insurance plan, as they do in other countries, would provide an insurance plan to backstop pension plans when they are in trouble.

Could I get feedback on those ideas and how they could help women who are having problems when they see their pensions melt away?

Ms. Beverley Smith: I just read a study by the head of the Canadian actuaries that was recommending very much what you were saying, or so it sounded to me, and I'm very pleased to hear you say that.

I think we need a pension summit. There are a lot of seniors, and I know of two million of them who would like to have a pension summit to discuss these issues. Thank goodness you're noticing them; they very much matter.

The Acting Chair (Mr. Dave Van Kesteren): Is there anyone else?

Mr. Edward Whitehouse: The Department of Finance in Canada has set up a retirement research working group chaired by the Parliamentary Secretary to the Minister of Finance, Ted Menzies, who is a member of this House. That working group had an experts day meeting on October 27. There is a group of Canadian experts chaired by Jack Mintz, a distinguished professor of public finance, which had deliberations, and there will be a conference call involving federal-provincial-territorial finance ministers next Friday.

The OECD is providing input into that discussion about pension reform in Canada to bring an international perspective and to show what other countries have been doing and the policy lessons that have been learned. I'm currently drafting a report on the international experience that I hope will be made public within the next couple of months. I believe this process will culminate in a meeting in Whitehorse on December 15 with the federal, provincial, and territorial finance ministers. I can also tell you that I've had meetings with Human Resources and Skills Development Canada today about that process.

As Ms. Smith mentioned, there is the concept of a pension summit, of a discussion or diagnosis of the issues with pensions policy in Canada. I know some people are very keen to push forward to reform proposals very rapidly, but at the moment the work is very much at the diagnosis stage, and the prescription stage, I'm sure, can begin in earnest next year.

• (1635)

The Acting Chair (Mr. Dave Van Kesteren): Thank you, Mr. Whitehouse.

Our next round is for five minutes, and we will start with the Liberals.

Madam Zarac.

[*Translation*]

Mrs. Lise Zarac (LaSalle—Émard, Lib.): Thank you, Mr. Chair.

Thank you for being here.

You have painted a very negative picture of the situation women are in, particularly widows and women who are divorced, seniors and women with children. However, I think it is interesting that after painting that picture, you still have solutions to suggest. I think there will not be one single solution, there will be several, and you have suggested some.

Now, we have to know how to put them into practice. I have taken notes and I said to myself that if we raised government pensions, if we were able to get people to invest and save more, and if we made sure that people enrolled in more private pension plans, we would eventually see better results.

In terms of government pensions, has a study been done? You talked about poverty. Given the pensions that women draw, it is obvious that there will be women living in poverty. When we talk about poverty, we are talking about quality of life. When we talk about quality of life, we are talking about health being affected. As well, it is expensive for governments to support people who are sick and poor, because support programs and health programs have to be provided for them. Have you done a study to find out what the cost is of this poverty, which is caused by a underfunding?

[*English*]

Ms. Beverley Smith: We've seen studies of what the cost of homelessness is...

Mr. Edward Whitehouse: In our research at the OECD, which was published last year...

Oh, I'm sorry.

Ladies first.

The Acting Chair (Mr. Dave Van Kesteren): You're going to be the gentleman? Thank you.

Go ahead, Madam Smith.

Ms. Beverley Smith: Thank you.

You have asked about solutions, and I'm so glad we have the OECD looking at international solutions. I say this because Czechoslovakia, for instance, extends its family allowance to

adulthood; and Singapore, China, and Australia have birth bonuses right now. Italy tried a homemakers' pension years ago, and Russia even has a birth bonus now. There's a little town in Quebec that not only has a birth bonus but also gives you more money and perks, and whatever, if you have a large family.

I think we have forgotten the stimulus this has and that most people would like, or dream of having, a child. But your government has done nothing to help them with this desire. I think other nations haven't lost sight of that goal. We need babies. Who's going to have babies? Help people with the cost of babies.

That would be solution number one, which isn't about pensions; it's about giving the people the money upfront, right now, when they have the need—and they can save for their pensions.

[*Translation*]

Mrs. Lise Zarac: Ms. Smith, I would add that since these programs were established in Quebec, the birth rate has risen. So that is a good sign.

My next question is for Mr. Whitehouse. When you talked about divorce laws, you said there are changes needed because that affects women's pensions.

[*English*]

Mr. Edward Whitehouse: I was about to mention the big report we had last year from OECD, called "Growing Unequal? Income Distribution and Poverty in OECD Countries". I'm not sure of the title in French.

In that report we went into much more detail than the standard measures of incomes that are used normally in the poverty and income statistics. In particular, we looked at measures of what is called material deprivation, meaning bad housing, bad environment, and those sorts of measures. We found that in most OECD countries, older people were less likely to suffer material deprivation than people of working age. They were less likely to have bad heating, bad housing, and a bad local environment in most OECD countries. The exceptions tended to be countries in eastern Europe, where older people in particular tended to live in bad housing. They tended to be stuck in very old and very bad housing.

In general, that put a rather more positive light on the situation. If we look at the incomes and poverty of older people over time, which is a concern you raised, we see that if you were old in a period like the 1950s, essentially you were almost certainly going to be poor. Nowadays if you are old, in OECD countries you are slightly more likely to be poorer than the population as a whole, but only very slightly. I think this is something we should celebrate: as a society we really did have an old age poverty problem, and over the past 40 or 50 years or so, we have defeated that problem.

The concern is that as populations age and as public pensions are having to be scaled back in many countries because of the pressures of the aging population, are we going to have a resurgence of old age poverty in the future? That to me is the key policy issue going forward, but of course it is very difficult to predict what is likely to happen.

•(1640)

The Acting Chair (Mr. Dave Van Kesteren): Thank you, Mr. Whitehouse.

To avoid confusion, perhaps I can suggest that if we have a question for Madam Smith, we should ask her so that she knows it's being directed towards her. It's pretty hard for her, as there's no eye contact here, obviously.

Go ahead, Madam Boucher.

[Translation]

Mrs. Sylvie Boucher (Beauport—Limoilou, CPC): Good afternoon, gentlemen.

I myself am part of the statistics: I am divorced, and because I was poor at that time, I never had the chance to earn enough money to put any aside for retirement. We talk a lot about retirement savings. That is very important in Canada. We are entitled to a tax break.

Mr. Whitehouse, when the OECD did its analysis, did it take particular factors into account? Did it include RRSPs and group RRSPs in its comparisons?

[English]

Mr. Edward Whitehouse: In some of our calculations we do, but not in all of them.

We have not directly looked at the question of divorce in terms of having concrete empirical numbers on pension rights after divorce, because divorce law in different countries is very complex. I'm not a lawyer, and I find it very difficult to understand what happens in different countries.

In our recent review, we essentially collected information on what the rules are in different countries. An example would be whether there is some rule about the splitting of private pensions on divorce, and we found that somewhere around half of the OECD countries have a law requiring some sort of splitting of assets on divorce. In other countries it's often a negotiation in front of a court, and we therefore cannot really say what actually happened.

I am originally from the U.K. When you got divorced in the U.K., traditionally the husband kept the pension and the car, and the wife kept the house. That was essentially what used to happen before the divorce courts. Now the pension has to be split, so probably the other things are now all split as well.

Often there were trade-offs happening with other assets of the couple, rather than any set rule about the pensions. In the past it certainly looked as though women tended not to end up with much in the way of pension rights, but they had other assets in compensation.

•(1645)

[Translation]

Mrs. Sylvie Boucher: Thank you.

[English]

Mr. James Pierlot: I actually work in the area of pension division on marriage breakdown. The way it is in Canada is that all provinces permit the division of pension benefits on marriage breakdown; Manitoba requires it. Usually there's a limit, such that only 50% of the pension benefits can be transferred from the plan of the spouse to the other spouse.

The difficulty many spouses run into is that if the money is transferred from the pension plan, it usually goes into a personal RRSP. Typically that means, especially if it's coming from a defined benefit plan, that it goes into the personal RRSP and then the non-member spouse has to manage it. That's where value is often lost, because if people don't manage their investments very well, it's not surprising: investing is very difficult. There's a lot of loss of value there, when this happens.

[Translation]

Mrs. Sylvie Boucher: There is a new factor that has existed for a short time. That is tax-free savings accounts. TFSA's, as they're called, are they now included in your retirement savings calculation?

[English]

Mr. James Pierlot: The tax-free savings accounts you are referring to are not taken into account for purposes of the pension division rules. They would, under provincial property law, be taken into account for purposes of determining the family assets subject to division.

What's interesting about the tax-free savings accounts is that they can be helpful for lower-income people saving. It's not a really good idea for very low-income people or people who don't have a taxable income to be contributing to an RRSP, because RRSPs become effective only if your income is, say, above \$40,000 or \$50,000. The TFSA can provide a helpful retirement savings vehicle for people who have lower income if they have money to save—which is, of course, a big “if”.

The Acting Chair (Mr. Dave Van Kesteren): That's right on five minutes.

Madam Faille.

[Translation]

Ms. Meili Faille (Vaudreuil-Soulanges, BQ): Thank you, Mr. Chair. I am replacing my colleague Ms. Demers. As well, I have worked for quite a long time with the immigrant population. I also sat on the Standing Committee on Citizenship and Immigration.

Recently, the Auditor General voiced a criticism of certain choices the government has made regarding immigration policy. I think one aspect of the study should be about the government's choices regarding immigration policy, about immigrant women's earnings and the way they contribute to pension plans. The residence criterion does have an impact on women's pension incomes. Do you share that view?

Does someone want to answer my question?

[English]

Mr. Edward Whitehouse: One of us should talk.

James, do you want to say something?

Mr. James Pierlot: Sure.

I think your question raises a couple of issues. First of all, if you're an immigrant, you have to be in Canada for a certain period of time to qualify for old age security benefits. Those are the government income support benefits.

On the other part of the question, it is certainly the case that retirement saving for immigrants is more difficult than for people who are born in Canada. There was a Statistics Canada study done on that. It revealed that immigrants are retiring later; they're significantly more concerned about their retirement income security than the Canadian-born; they have saved less.

The retirement income system we have in Canada actually penalizes immigrants, because if you come to Canada mid-career, you don't have any built-up RRSP savings room from before you came to Canada. So it's actually impossible to catch up. Even if an immigrant worker saves to the maximum permitted, most typically will not be able to achieve an adequate retirement income at the same age as other Canadians.

• (1650)

[Translation]

Ms. Meili Faille: There is a statistic I don't have at hand, but it seems that women are having children later and staying out of the workforce for a shorter period of time. I am a Quebecker and I have had the benefit of the family policy system. Should measures like implementing Quebec's family policy be encouraged everywhere in Canada? Should the government fund an initiative like that to provide better support for women, who will be able to choose to stay out of the workforce for as short a time as possible, and thus increase their retirement income and their immediate income?

[English]

Mr. Edward Whitehouse: As a general point, our research at OECD, where we have looked in great detail at fertility rates and the numbers of babies women are having, has clearly shown that it is the countries that most easily enable women to combine a career with having children that have the highest birth rates. Within Europe the birth rates are higher in Sweden, France, and the U.K. than they are in Italy, Spain, and Germany, for example. In those countries it is very difficult, for various reasons; in some cases the reasons are social. In the case of Germany, it is for the physical reason that the school day ends at lunchtime, which makes it much more difficult to work than in other countries. We also see Japan as another country where it is very, very difficult for women to have a career and have children.

If you draw a graph, it gives a very clear picture that across OECD countries, the higher the participation of women in paid work, the higher the number of children they have. For some people, that sounds rather the wrong way round; you would expect that women would have more children in countries where they didn't work so much, but in fact that is not the case. There's a very clear pattern.

[Translation]

Ms. Meili Faille: Thank you.

[English]

Ms. Beverley Smith: It's Beverley Smith here.

[Translation]

Ms. Meili Faille: Thank you, Ms. Smith.

[English]

Ms. Beverley Smith: I was just going to say that the highest birth rates in the world are in sub-Saharan Africa, and they don't do anything to help women do paid work, so there are other factors involved. I believe that you have to look at what Quebec is doing right, which is to value caregiving plus career.

What you're doing wrong is having national day care as your only option, because a lot of women do not want or cannot use day care. If you had a policy that supported paid work with pay equity and whatever, and also supported the care role with benefits that flow with the child, then you could purchase day home care, day care, nanny care, sitters, grandparents, dad or mom telecommuting, and whatever. Quebec had to delink its EI program from the federal one in order to get birth rates to bounce back at all; the day care alone did not do it.

The Acting Chair (Mr. Dave Van Kesteren): Thank you.

Mr. Dewar, you're up next, sir.

Mr. Paul Dewar: I just wanted to give our other guests a chance to respond to some of the points I made about possible changes to our system. I mentioned the income supplement, doubling of the CPP, and insurance for pensions.

Mr. Steve Bonnar: Let me take those in reverse order, actually, because I think it's a little easier that way around.

I would be very cautious about any form of pension insurance providing for additional security. I don't think the objective of additional pension security is a bad objective; I think it's a very good objective. However, in the jurisdictions in which pension insurance exists—Ontario, the U.S., the U.K.—it has not been financially effective. I think a more likely avenue for better security for employment pensions is through the priority and bankruptcy provisions. There are issues with respect to that approach as well, but I think it's a better route to go.

With respect to CPP doubling, however you do it—whether you double the wage base or whether you double the proportion applied to the current wage base—there are a couple of cautions I would give. One is that we currently have a contribution for CPP that's slightly under 10% for employee and employer combined. The caution I would have on doubling that is whether you would limit the creation or existence of jobs as a result. I don't know the answer, but that's one caution I would provide.

The other caution I would provide is that in the CPP right now, in essence current workers largely pay for current pensioners—not completely, but largely. As we age as a society, we're going to have fewer workers paying for more pensioners, so you have the potential for intergenerational inequity in a partially funded arrangement, which is what CPP is. Again, there are ways to deal with that, but not in a partially funded arrangement.

Your first question was the third that I wanted to answer. I probably put it that way because I don't have a very good answer to it, but could you repeat it?

•(1655)

Mr. Paul Dewar: It was the idea of seniors' poverty, such as it exists, and I was going to ask how recent the data are that people are providing. Notwithstanding that we have a smaller rate of seniors' poverty than other jurisdictions, if you're one of the 4%, it doesn't really matter to you; you're poor.

One of the ways of dealing with that poverty is by looking at increasing the guaranteed income supplement by approximately \$700 million, just to get more money into that system to help people. It is getting at income directly by looking at how much people have and then supplementing it.

I'm just wondering if you thought that was a good way to get at poverty and get at, obviously, when we're talking about seniors' poverty, women who are suffering in that category.

Mr. Steve Bonnar: There are a number of different elements in there. One is that by using GIS, you're targeting the money—

Mr. Paul Dewar: Absolutely.

Mr. Steve Bonnar: —and I think that's the better way to go. If what you're trying to do is focus on the 4%, you don't want to provide something that also goes to the 96%.

Mr. Paul Dewar: Correct.

Mr. Steve Bonnar: The question I have is whether that's the right target. I'm not saying that because I think a different target is appropriate, but as we heard, the definition of poverty is relatively arbitrary.

It may well be the best target, but that question should be asked and answered. I don't have the answer for that, unfortunately.

The Acting Chair (Mr. Dave Van Kesteren): Go ahead, Mr. Whitehouse.

Mr. Edward Whitehouse: I agree with you on the targeting issue.

I just looked at the international numbers. We have compared the GIS safety net retirement income level with average earnings across OECD countries, and Canada is the seventh-highest of the 30 OECD countries. According to the way that we measure average earnings, the GIS is currently worth 31% of average earnings and the OECD average is 27%, so the GIS, I think, is already at quite a good level.

However, I would fully agree with my fellow witness here that if you do want to put more money into the pension system, the GIS is the way to do it.

The Acting Chair (Mr. Dave Van Kesteren): Thank you, Mr. Whitehouse.

Go ahead, Mrs. Wong.

Mrs. Alice Wong (Richmond, CPC): Thank you, Mr. Chair.

My questions are related to the panel right here in front of me.

I would like to go back to the question of tax-free savings accounts. Just now we heard comments that immigrant women are at a disadvantage in many ways. Of course, when you look at immigration, it's very complex. People come in with different financial requirements. There's something called sponsorship. The whole idea of having some people being sponsored is that the sponsors have to be responsible for the well-being of these people, so that they would not take advantage of our social welfare benefits right away, because there's a reason for that.

In relation to immigrants who do not have a history of working and who therefore will not be able to contribute to an RRSP, a new product, the TFSA, has come out. People are making use of these things retroactive to January 2009. It includes the whole family. The parents of people who are 18 have already started putting money in.

This is probably a good way for immigrants to save money for the future. Am I right that it is a good way of saving, even for newcomers?

•(1700)

Mr. Steve Bonnar: Perhaps I can take that.

The tax-free savings account will help, but there is a key problem to think about.

The whole tax structure for retirement income in the country is based on this year's earnings. While there is limited carry-forward for RRSPs and defined benefit pension plans, if somebody comes here in mid-career after having had 20 years somewhere else, there's no tax-sheltered retirement savings room available with respect to those past 20 years, and as James was mentioning earlier, over the remaining 20 years of their career there isn't sufficient room to get to a level of income replacement. There needs to be some assumption that either folks are coming to this country with enough savings accumulated already to provide for that or else that the sponsor will be able to provide for it, but structurally there's nothing in the tax system that provides for it.

Mrs. Alice Wong: That's why I was saying that the TFSA fills the gap for those people. Every year they can continuously put money into that savings account. In other words, that might be a way to help these people. That's my question: will it be helpful to the newcomers? Now they don't have to be within a certain income bracket to be qualified to pay into it. That is actually a very good move to help those who don't have a history of employment in this country. Am I right to assume that?

Mr. Steve Bonnar: Again, it's a help, but it still doesn't replace the fact that for the individuals we're talking about, there was a significant period during their careers when they couldn't have contributed to a tax-free savings account because they weren't here, or when they couldn't have contributed to an RRSP because they weren't here.

Mrs. Alice Wong: Are you also aware that those who worked overseas might already have their own pensions elsewhere and be allowed to collect them over here? That's something some immigrants do bring into this country.

Mr. Edward Whitehouse: I'll add to that.

Most countries are part of a network of social security agreements that allow for the transfer of pension rights for migrant workers. What is very different is not only the starting point when people migrate into Canada, but how long they're going to stay. Are they going to stay and retire in Canada? I don't know what immigration patterns are in Canada. In the U.K. I think the pattern is of a strong inward migration, but people go off and retire in their countries of origin; therefore, there are rules within this network of social security agreements that allow people to transfer not only their rights, but also the years that they've contributed. These years can be used in another country as part of the qualifying conditions towards achieving those pension rights.

One loses count of the world's countries, but of the 180 or so, only about six do not have a national pension system. Most of them, through the International Labour Organization, are part of the network of arrangements, so in theory people should arrive with some pension rights from their country of origin.

The Acting Chair (Mr. Dave Van Kesteren): Thank you, Mr. Whitehouse.

We are at five o'clock. I have a section on the agenda that calls for committee business.

Is there any committee business, or shall we continue on?

Do you want to move this motion?

Then perhaps I can ask the guests if they are okay to stay until the end. I know we had mentioned, when we started the meeting, that there might....

We'll continue on to the next round, beginning with the Liberals.

Mr. McCallum, are you going to split your time, sir, with Madam Zarac?

• (1705)

Hon. John McCallum: How much time is it?

The Acting Chair (Mr. Dave Van Kesteren): It's five minutes.

Hon. John McCallum: Okay.

I'd like to ask Mr. Whitehouse a couple of questions in terms of international comparisons.

One of the issues in Canada is that people don't seem to want to save very much. We have the registered retirement savings plan, but only maybe 10% to 15% of the available room for tax deductions is taken up, which isn't very much.

Are we unlike other OECD countries? How do other OECD countries compare in that regard?

Mr. Edward Whitehouse: I don't have my notes from giving similar testimony yesterday, but I'll try to remember the numbers.

I think around one-third of the workforce has an occupational pension plan in Canada, which is a little bit below comparable countries. In the U.K., Ireland, and the United States that number would be around 40% to 45%. There's a smaller coverage of occupational plans.

On personal plans, Canada comes out rather better than somewhere like Ireland or the U.K. It's fairly similar to the United States in terms of coverage of RRSPs.

When it comes to contribution rates, it's very difficult to get data that would allow us to compare how much people are paying into these plans across countries, but our figures suggest that for people in defined contribution occupational plans, contribution rates are around 8% to 10% in the countries I mentioned—Canada, Ireland, the U.K., and the U.S. They are fairly similar.

The contributions to personal plans tend to be a lot lower. My feeling is that for Canada, on average, people with RRSPs are probably contributing something like 4% of their earnings to those plans, which is significantly less than people put into RPPs. I think that may well be similar to the average contribution rates for similar schemes in other countries.

Hon. John McCallum: My last question is on pension insurance. I think it was Ontario, the U.K., and the U.S. that we heard were in deficit, and it's a problem. Many people argue that there's a moral hazard issue with pension insurance.

First, do you agree with that? Second, are there examples of pension insurance operating successfully among OECD countries?

Mr. Edward Whitehouse: In this area I have to be very careful with my words. I got myself into very big trouble with the pension protection fund in the United Kingdom earlier this year.

The first of these insurance-type programs.... We're talking about insurance programs to cover the liabilities of defined benefit plans of companies that go bankrupt when the defined benefit plan is in deficit. My understanding is that Nortel is the one that is of most concern nationally here.

The United States set up the Pension Benefit Guaranty Corporation in the mid-1970s. At the time there was a bankruptcy of this sort, which forced the political action of setting up the PBGC. Many distinguished economists have written about the PBGC, and as far as I can see, this insurance fund was essentially in very large deficit from day one when it opened. It really acted as a very large subsidy to airlines, steelmakers, and carmakers over the ensuing years.

The pension protection fund in the United Kingdom tried to learn some of the lessons of what went wrong with the PBGC in the U.S. In particular they have tried to risk-rate the premiums that companies must pay to the protection fund so that riskier funds are paying a higher proportion of their assets, but there's only so far you can go in increasing those levies before companies simply begin closing those schemes down.

I'm afraid that I don't think there is a good international example of one of these types of insurance funds. In theory—I'm not referring to any of them in practice, but in theory—they have the danger of becoming something like a black hole. They can suck in a lot of money very quickly.

• (1710)

Hon. John McCallum: Thank you very much.

The Acting Chair (Mr. Dave Van Kesteren): Thank you, Mr. McCallum.

Go ahead, Ms. Hoepfner.

Ms. Candice Hoepfner (Portage—Lisgar, CPC): Thank you, Mr. Chair.

Our goal in this study is to look specifically at pensions, but I think that overall we want to look at how we can help women and seniors who are retiring and make sure they are in a better situation than they have been in past generations.

You commented that the problem of seniors in poverty has changed dramatically. We heard testimony a couple of days ago that even for women it's changing, and that in the last 10 years there's been a marked improvement for women. My background is financial planning, and when I hear a lot about insurance, different pension plans, and tax savings, I think this is all about financial planning, about bringing everything together and looking at an individual's or a couple's circumstances and planning by knowing what they have, what their risks are, what the future holds, and what expenses they have. It's a huge picture that we need to look at.

I'm wondering what role you think the government has in encouraging financial education. I'm not here to promote financial planners; at the same time, if we were talking about health issues, we would be informing individuals that one of the things they need to do is see a professional, a doctor.

What role do you think we have in encouraging that? Has that been missed? Are many people missing out by doing planning on their own, without looking at the totality of their circumstances? Can you comment on financial education, how it can benefit people, and what role it plays, as well as comment on financial planning?

Ms. Beverley Smith: That's possible; I'm a schoolteacher, and we're very concerned about math education. We have sometimes found that there is a problem with—sorry for saying it—even some teachers in understanding finances.

It is very important that we get young people to think of planning for the long term. Good luck with that, because kids tend to think short term, but that's the only window we have to actually get the general public to think about it.

I think we have to do a lot more to regulate our regulators and our advice-givers, because some of them have given us some very unscrupulous advice. We need something very stringent about that. However, I do believe the secret for it is in getting right into the schools and making math fun. Obviously I believe that kids can think this way.

Ms. Candice Hoepfner: Mr. Whitehouse.

Mr. Edward Whitehouse: I agree with Ms. Smith that what we want is for people to be numerate, first and foremost.

I will be going to Washington in 15 minutes, and we are having a conference this week on financial literacy and financial education. I'm something of a skeptic on this, in that the literature on behavioural economics, which has become very fashionable these days and deals with how people make decisions in that area, demonstrates that even people who are fully informed and fully financially educated actually make all the wrong choices. There's a whole long list of things with technical names like “myopic loss aversion”, and so on, that suggests people actually do not make rational financial choices.

I've been working on pensions for 20 years now, but I do not really want to make active investment decisions, and so on; I want someone else to deal with that for me.

I think a great deal of attention needs to be paid to the defaults, because most people are going to end up in whatever the default is. It may be the default contribution rate or the default investment strategy, and so on, and we need to make sure those are very sensible, because in many countries they are not. For example, in Australia two-thirds of the people go with the default investment option offered by their private pension provider. All of those are simply one-size-fits-all; it's the same investment strategy for everybody. It's about 60% in equities and 40% in bonds. Now 60% in equities, for me, is rather too risky for people who are close to retirement, but not risky enough for people who are younger, because you are sacrificing some of the return.

It seems to me that we should have a life cycle investment strategy as a default investment strategy, and that somehow people should be guided towards that. The idea that we can turn everyone into being their own financial planners is a bit of a—

• (1715)

Ms. Candice Hoepfner: No, and I'm sorry; that actually was not what I meant. I actually think that's where we need to have honest and scrupulous financial planners, because that's part of what they do. They look at the risk tolerance, they look at where individuals are, and they make decisions based on that. In Canada we have some good financial planning companies that are complying with regulations in making sure that the risk is tolerable, but I'm actually talking about financial education. Part of that is using a professional financial planner to look at the pension, look at insurance, and look at the tax situation.

That's more what I was referring to, rather than the idea of somebody being their own doctor.

The Acting Chair (Mr. Dave Van Kesteren): Thank you.

Ms. Candice Hoepfner: That's all?

The Acting Chair (Mr. Dave Van Kesteren): Oh, yes; your time has run out.

Go ahead, Monsieur Desnoyers.

[*Translation*]

Mr. Luc Desnoyers: That's fine. I don't have any other questions to ask.

[*English*]

The Acting Chair (Mr. Dave Van Kesteren): Madam Faille, do you have a question?

[*Translation*]

Ms. Meili Faille: No.

[*English*]

The Acting Chair (Mr. Dave Van Kesteren): Then we go back to the Liberal side.

Is there somebody who has a question?

Mrs. Lise Zarac: No, we're finished with the questions.

The Acting Chair (Mr. Dave Van Kesteren): Does anybody from the government side have a quick question?

Mrs. Lise Zarac: We have other business.

The Acting Chair (Mr. Dave Van Kesteren): Is that the last round?

Mrs. Lise Zarac: Yes, I think so.

The Acting Chair (Mr. Dave Van Kesteren): Hold that thought for a second.

Ms. Beverley Smith: I have a quick comment, Mr. Chair.

The Acting Chair (Mr. Dave Van Kesteren): We asked the question of whether we wanted to go to committee business. The answer was no.

So I guess we go to the third round.

Mrs. Lise Zarac: I didn't hear that question, I'm sorry, Chair.

The Acting Chair (Mr. Dave Van Kesteren): The question was asked, Madam. I asked the question of whether we wanted to go, and there was no response indicating that we wanted to.

I suggest we go to the third round—

Mrs. Lise Zarac: Yes, we do want to go to committee business.

I'm sorry, I didn't hear the question.

Ms. Raymonde Folco (Laval—Les Îles, Lib.): I have a point of order.

I'd like to apologize. I'm new to this committee, and I was speaking to the member; I think that's why she didn't hear the question.

I'd like to beg the indulgence of the committee and ask that we proceed as was requested by my colleague Madam Zarac.

The Acting Chair (Mr. Dave Van Kesteren): Is there any committee business?

Hon. John McCallum: Yes.

The Acting Chair (Mr. Dave Van Kesteren): Do you have a motion, sir?

I have to ask who the mover of the motion is.

Mrs. Lise Zarac: It's Mrs. McLeod's motion.

Mrs. Cathy McLeod: Because it did not have the 48 hours, it's not debatable today. As I understand it, we have to defer it until next week.

Mrs. Lise Zarac: Okay.

Is that the decision of the chair?

The Acting Chair (Mr. Dave Van Kesteren): The decision of the chair right now is to dispense.

First we're going to let our witnesses go. Mr. Whitehouse has to catch a plane.

Thank you all for coming. You offered us some excellent testimony.

Ms. Smith, thank you so much for indulging us and getting through all those bumps and grinds. We appreciate your input as well.

I'd like to dismiss our guests so that they can go on with their business.

[*Proceedings continue in camera*]

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