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p. 95, line 4: "present patterns"

p. 97, fn. 10: op. cit.

p. 99, fn.: underline Ibid

p. 101, fn. 1: underline title

p. 105, line 3: "many workers"

p. 105, fn. 2: I believe this footnote should probably be written: B.M. Stewart, "What Should Canada Do About Pensions?", Financial Post, ...

p. 107, fn. 4: underline op. cit.

p. 108, line 10 from bottom: "essentially"

p. 113, line 3 from bottom: should this read "trade cycle in which wages, ... "

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p. 1, line 9: should read "On the other hand to <u>the</u> fifty-five"

p. 2, line 3: "manag<u>e</u>rial"

p. 5, line 11 "population_"

p. 6, fn. 5, underline <u>The Labour Gazette</u>

p. 7, line 4: should read "compiled"

p. 7, line 19 should read "in <u>e</u>ffect"

p. 8, fn. 8: underline "<u>op. cit.</u>"

p. 9, footnotes: underline <u>Ibid</u>, <u>The Labour Bulletin</u>.

P. 10: underline <u>The Canadian Unionist</u>, <u>ibid</u>.

p. 11: fns.: underline <u>ibid</u>.

p. 16, line 2: should this not read "pension is <u>more</u> than $1080.00"

p. 16, fn.4: underline <u>Canada Year Book</u>.

p. 20, fn.7: underline <u>op. cit</u>.

p. 20, line 15: should read"meag<u>er</u>ly"

p. 19, 5 lines up: "jud<u>g</u>ments"

p. 23, fn. 10, underline <u>op. cit</u>.

p. 25, 5 lines up: should read "estate_"

p.26, fns. 14, 15: underline <u>Ibid</u>, <u>Canada Report...</u>

p. 31: underline <u>op. cit</u>. in footnote

p. 33, line 12, should read "actuar<u>i</u>al"

p. 33, line 17: should this read "the employ<u>ee</u> has similar legal rights"?

p. 33, fn. 4: underline <u>Ibid</u>.

p. 34, fn. 5: underline <u>Ibid</u>.

p. 34, line 12: should read "th<u>ese</u> data"

p. 38, fn. 8: underline <u>Labour Force Bulletin #9</u>

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p. 46, line 7: "install"

p. 47, line 16: "of such losses can be traced" also, "and the amount of the losses measured"

p. 48, line 5: "retirement"

p. 54, fn. 3: this footnote should be set up as follows: Labour Gazette, February 1950. "Types of Pension and Retirement Plans in Canadian Industry", ...

p. 57, fn. 4: op. cit.

p. 59, line 7 from bottom: "insurance"

p. 62, line 15: "company's"

p. 64, line 9 from bottom: "Eligibility -- One year's"

p. 65, 5 lines from bottom: "who have one year's"; similarly for bottom line.

p. 71, fn. 3: op. cit.

p. 73, line 16: "pertaining"

fn. 4: Ibid

p. 74, fn. 6: op. cit.

p. 75, 8 lines from bottom. Should this read "by the same token, responsibility for"..

p. 77, line 14: "Board of Trustees"

fn. 7: op. cit.

p. 81, line 12: should this not read "and in their assumptions"

fn. 10: underline title

p. 82, line 13: "always"

p. 83, fn. 12: underline Labour Gazette

p. 85, fn. 1, 2: underline title

p. 86 , fn. 3,4: underline ibid, Labour Gazette

p. 89, 4 lines from bottom "or" should not be capitalized

p. 91, fn. 7: underline Ibid

p. 92, fn. 9: " "

A STUDY OF CANADIAN OLD AGE PENSION PLANNING

A Thesis

submitted to the Faculty

of the

Department of Political Economy

in partial fulfilment of the

requirements for the degree Bachelor of Arts

by

Richard K. Hamilton

McMaster University
Hamilton, Ontario
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CHAPTER I

THE PROBLEM

Old Age Dependency

"Economic dependency because of advancing age is one of the most serious economic and social problems of the present day." Such a statement appearing editorially in a Canadian newspaper occasions a wide variety of reactions, varying from diffidence to immediate anxiety. The fifty-five year old business man, for example, who is just nicely settled into an aura of professional respectability, with his years of successful practice and experience assuring him of sufficient income until he decides to retire, and his insurance and annuities assuring him of an economically carefree old-age, may fail to see the need. On the other hand, to be a fifty-five year old unskilled labourer, who has lived a life marked by hardship, subsistence wages, lay-offs and relief, who has been unable to make provisions for old age, who that day has been refused employment by several industrial plants because of his age, the problem is a very real one.

These two cases are extreme ones, it is true, but if we analyse the population on an occupational basis we find that the norm of economic status in advanced years is closer to the latter than the former. In the case of the farmers, speed and strength are subordinate to skill and experience, and if not disabled the farmer may well continue working at his own speed all his life. Those in the professional and mangerial classes find that experience and judgment are at a premium in their work, and that responsible jobs are seldom reached until late in life. Moreover, besides fulfilling a longer working life, they arein a better position to provide for their own retirement. Those who own their own businesses may likewise continue working as long as they are willing and able.

When we examine the remainder of the labour force, however, we find that an entirely different set of circumstances prevails. The wage-earning class of skilled, semi-skilled and unskilled workers constitutes the nucleus of the advancing-age dependency problem, and unfortunately composes the majority of the working force.

When the civilized economy was primarily an agricultural one, the manufacturers were a minority group, banded together in guilds for their mutual protection. The artisans of that period were in favourable positions, comparable to that of the private business owners of today, in that skill and fine workmanship were requisites of the trade, and thus the craftsman could continue at his own pace throughout his lifetime. Today, industrial wage earners are the majority group and are employed on the basis of wage contracts, which may not be renewed when their short-run usefulness has expired. Today, wage-earners are obliged to compete for jobs, and age, far from being an added qualification, is often a detriment to job-gaining and holding. In the modern industrial structure of mass production, where the machine sets the pace, the worker is obliged to keep up or forego his job. It is at this point that the worker who is advancing in years, whose nervous reactions and speed of adjustment and adaptability are deteriorating, is at greatest disadvantage, because the relentless conveyor belt is geared to the agility and nervous resiliency of youth. "It is because of these apparently inevitable conditions of modern industry in a competitive world with profit as the pacemaker, that old age becomes a serious economic and social problem".[1]

The Demographic Trend

Now at the same time as the technological organization of modern industry is setting production records by stressing youth as a pre-requisite to machine tending, the population of this industrial nation is tending in opposite direction, that is toward old age.

In a study undertaken in 1946, the Dominion Bureau of Statistics analyses Canada's future population and estimated population trends until 1971.[2] This study concludes that on the basis of estimates, the number of persons 65 years of age and over nearly doubles between 1941 and 1971, the number rising from about 765,000 in 1941 to about 1,500,000 by 1971. (See Table I) It is significant that this numerical increase is proportionally larger than the increase of the total population over the same period, the percentage of old people in the population rising from 6.7% to 10.4%.

What is more important, however, (in terms of this study) is the internal shifting of the labour force and in Table II it may be seen that the percentage of workers aged between 15 and 34 decline from 52.5% in 1941 to 45% in 1971. At the same time it is estimated that the percentage of those

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[1]I.M. Rubinow, The Quest for Security. New York: Henry Holt & Co., 1934, p. 223.

[2]Dominion Bureau of Statistics - Bulletin No. F4. The Future Population of Canada, Ottawa, 1946.

aged 45 - 64 rises from 28.4% to 34.8%. It is evident that the prejudicial attitude of industry toward the older worker is in direct opposition to the trend of population, in which the advanced age groups are steadily growing. It is also obvious that if such attitudes are not modified, and if plans to employ older workers are not concieved, a great deal of premature dependency will occur in the future.

A glance at Table I shows that in all except the 0 - 14 groups, the proportion of persons in each age group increases by 1971. Moreover, it should be noted that this increase is relatively higher as the groups get older, until the 75 and over group more than doubles.

We cannot accept the statistics here quoted without some reservations because they are based upon two underlying assumptions, which have , since the time of this estimate, been shown to be of limited applicability: that is, first, a fertility ratio based upon Canadian experience from 1931-1939, and second, the assumption of no migration. Notwithstanding the tendency to increased birth rates in the post-war period, and the migrations which have characterized the past few years, the trend shown by this projected analysis of population is significant. That there is a faster reltive increase of old people as compared with the Canadian population as a whole cannot be denied.

Warren Thompson in his book Population Problems, outlines the implications of the older population to society as a whole. It is certain that the older group will make greater demands upon the community, necessitating a greater future expenditure on social services and old age homes, to say nothing of the heavier pension load to be borne. Moreover, in the 45 - 64 age group, presently discouraged by lack of job opportunities, the problem will inevitably become increasingly acute as the size of the group expands. The need for adequate vocational counselling service will increase, and employment agencies will require specialized departments to deal with the older applicants. Consumption patterns will change, and industry will be forced to re-adjust to new demand schedules. The demand for education at the adult level will grow, as middle-aged workers require re-training to keep pace with rapid technological change. Thompson further claims that as the proportion of older people increases, economic and political conservatism will characterize the nation to a greater degree.[3]

We must conclude from this analysis that instead of mitigating against the older workers problem, populations trends will cause it to be greatly magnified and intensified in the future, an unhappy prospect which we must bear in mind as we attempt to determine and assess the difficulties now faced by the aging person.

The Causes

Old age dependency is not a condition into which people just slip through lack of sufficient initiative to prevent it; it is a condition forced upon certain groups by the same active factors which produce all indigence. The state has long been obliged to maintain a certain percentage of the population, which, through physical or mental disability, illness, instability, or unwillingness to work has been unable to maintain itself. With this irremediable problem we are not concerned, and we must focus our attention upon the wage-earner who in advanced years finds himself in adverse circumstances through no particular fault of his own except his age.

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[3] W.S. Thompson, Population Problems. New York: McGraw-Hill & Co., 1942, pp. 299-309.

The most important single cause of old age dependency is unemployment. As previously mentioned, youth has a competitive advantage in securing employment in modern industry, and there is evidence of the fact that job opportunities suitable for the older worker are declining. To lose one's job at middle life means permanent or semi-permanent unemployment to many workers, yet at that time there is little decline in their financial obligations. For example, the school-leaving age has been steadily rising, and children are now dependent upon parental support for longer periods than in the past.[4] Especially among unskilled workers is employment difficult to secure after 45; the National Employment Service Survey reports for Hamilton on October 31, that 1878 were collecting unemployment insurance benefits of which number, 992 were unskilled labourers. It further reports that about one half of the job applicants were over 45 years of age. Three months after V.J. Day, 26,000 of the 172,000 unemployed in Canada, or 15% of the total were over 45. This group has since grown rapidly in proportion to the total and although total unemployment had fallen to 91,000 by June 1,1947, those over 45 had fallen only to 21,000 or 23% of the total.[5]

Why do those over 45 have difficulty in finding work? Few employers admit that maximum hiring-age limits exist in their industries, and yet unemployment statistics suggest that older workers seem to be discriminated against. Although there is no Canadian study available in this field, a survey made by the National Association of Manufacturers in the United States in 1938 produces some relevant conclusions. Of the companies who returned the questionnaires,

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[4]A. Epstein, Facing Old Age. New York: Knopf and Co., 1922, pp.67-70.

[5]The Labour Gazette, September, 1947.

45% admittedly preferred new employees to be under 40; less than 8% admitted the use of maximum hiring-age limits.[6]

There are many reasons for the use of hiring-age limits by industry in the screening of job applicants. Yoder has complied a comprehensive list of managerial justifications for refusing employment to older men, some of which are general and others which pertain only to certain industries. In summary form, the reasons run as follows:

1. Physical and mental condition - Older workers are unable to keep pace physically on production lines and their frequent absenteeism because of sickness impairs plant efficiency. They are unable to perform heavy work. Their skills have often become obsolescent through technological changes, and many are unemployable because of poor work attitudes due to long periods of idleness or relief work.

2. Older employees are economic liabilities. In plants where industrial pension schemes are in effect, it is considered ill-advised to hire workers who will be of only short-run value to the company before retirement. It is often maintained that higher workmen's compensation premiums will have to be paid to cover an older working force allegedly more liable to serious accidents. In addition, if group life-insurance schemes are in affect, the addition of older workers will cause the rates to rise.

3. Older employees are less adaptable. The fixed habits of the middle aged are a handicap in learning a new job, besides the fact that pure ability to learn declines with age. Moreover educational requirements have risen in many plants, placing the older worker at further disadvantage.

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[6] R.A. Lester, Economics of Labour. New York: The MacMillan Co., 1948, p. 468.

4. Older workers are more expensive in terms of wages.

5. In customer-contact lines, younger workers are essential in order to satisfy public tastes.[7]

When these arguments are closely scrutinized, many of them may be shown to be less valid than they appear at first glance. For instance, during the war when many industries were compelled to hire older workers, they were found to be quite adaptable and in many cases proved as effective as their younger predecessors. Lester[8] concludes that a strong manifestation of public opinion or decisive action by trade unions could produce a new climate of opinion among employers, when they were convinced that efficiency would be unimpaired by the older workers.

Furthermore, a New York Committee working on employment discrimination found the rates for workmen's compensation are set without regard for the age of the working force. It was found that while younger workers are more frequently involved in accidents, accidents to older workers are often of a more serious nature, and because these facts tend to offset each other, the cost of workmen's compensation runs a middle course between them. In arguing in favuur of older workers, it may be countered that they are generally more stable and reliable than young men, and these qualities make for less unnecessary absenteeism and a lower labour turnover, thus cutting down two of the largest expenses of industry. Although in many instances the older worker is unjustly discriminated against, and banned from the working force because of the employer's anachronistic prejudices, he is nonetheless unemployed and de-

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[7]D. Yoder, Labour Economics and Labour Problems. New York: McGraw-Hill & Co., 1936, pp. 306-7.

[8]R.A. Lester, op. cit., p. 472.

pendent upon his fellow man for subsistence.[9]

Ranking high among the additional causes of old age dependency is the factor of decreasing earning power. Those who are fortunate enough to be re-hired after being released from their original life work, usually find themselves in employment considered suitable to their age, e.g. janitors, watchmen, etc., which invariably means reduced wages. Physical incapacity due to previous accidents is a further cause of dependency. In Canada during the year 1946, there were 375,804 accidents reported to the Workmen's Compensation Board, of which 1010 were fatal. These accidents cost the Board $48,000,000 in compensation and medical claims.[10] Such data tend to show that great numbers of the wage-earning force become accident victims; many suffer disabilities which will detract from their efficiency in later life. It is too frequently assumed that lack of individual savings for old age is an indication of thriftlessness and lack of foresight on the part of the wage-earner. In actual fact, the prevailing wage standard among industrial workers with dependants is seldom more than sufficient to cover day-to-day existence. Moreover, for those not covered by health and hospitalization insurance, a serious illness in the family will quickly consume any savings which might have accumulated.

The unemployment which scars the working life of many wage earners during periods of depression forces them to use their savings for current consumption needs, and if prolonged, forces them into debt to make ends meet. Even in "good" years, unemployment cuts down the annual earnings of workers. In 1946 there were 488,667 claims for unemployment insurance in Canada, in 1947, 464,450, in

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[9] Ibid, pp. 468 - 472.

[10] The Labour Bulletin, February, 1947.

1948, 794,994 and the trend has not yet reached its peak in view of the figures to date in 1950.[11] A further loss of income during the worker's lifetime may be attributed to strikes and lockouts, the inevitable last resorts in the collective bargaining structure. During 1946, in Canada, there were 228 strikes or lockouts involving 139,474 workers whose time lost was 4,516,393 man working days. In 1947 there were 219 such cases in which 77,995 men lost 2,422,332 man working days.[12] Such enforced idleness causes serious reductions in the worker's annual income, and the total effect is even more serious when we consider shut-downs forced upon secondary industries due to cessation of material flows from strike-bound or locked-up primary industries.

These many and varied causes, many of them interdependent, bring about the majority of old age dependency in Canada today. The causes we know, but how is the old-age security of the average worker to be provided? What will be his economic position in the future when his age group constitutes a greater proportion of the population than today? Should industry readjust its attitudes as well as its physical processes, in order to accommodate a greater percentage of older workers? Will provisions for human depreciation be made analogous to provisions for capital depreciation in the accounting systems of industry? Will the government be forced to carry a greater burden in terms of old age pension payments in the future?

The Social Trend

Insistence upon social security has been steadily growing in North America since the depression years of the thirties. Two points of view seem to demonstrate the extent to which that insistence has reached at the present

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[11]The Canadian Unionist, September, 1949.

[12]Ibid, February, 1948.

time in Canada. The following resolution received wide support at the Annual Convention of the Canadian Congress of Labour in 1948. "Be it resolved that this convention of the C.C.L. go on record as instructing the Executive Committee of the Congress to include the establishment of an adequate system of industrial pensions in the next wage drive, and that the committee lend all possible assistance to the affiliated unions in their efforts to have such pensions included in their next contracts; ...Be it further resolved that the C.C. of S. urge the Federal Government to take the necessary steps to have an adequate industrial pension scheme established that will cover all industrial workers in Canada."[13] An address given by Hon. Paul Martin, K.C., the Minister of National Health and Welfare in 1948 shows the extent to which the government is financially interested in social security. He points out that all governments in Canada spent over $2,000,000 per day in the social security area during the fiscal year 1947-48, a total of $34,000,000,000. Furthermore the government has long sensed the need, and since 1927, has been working steadily "Towards a complete and well-integrated programme of social security for Canadians".[14]

In October, 1949, there were over 1,000,000 miners and steelworkers on strike in the United States over the question of company-sponsored old age pension plans. Canadian labour history follows in general the pattern set by its American counterpart after a short time lag. United States labour has been successful in its demands for industry-sponsored old-age pensions, and now similar demands are forthcoming from Canadians unions. This being the case, a study of the existing pattern of Canadian pension schemes is of particular moment.

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[13] Ibid, November, 1948.

[14] Ibid, April, 1948.

It is the aim of this thesis to analyse current provisions for old age in Canada, both in and out of industry, and to attempt to determine which schemes will provide the best coverage for Canadians, both from the point of view of adequacy to beneficiary and cost to the nation as a whole.

TABLE I

POPULATION PROJECTION - 1941-1971

Canada - (N.W.T. and Yukon excluded)

AGE GROUP	POPULATION (000's omitted) 1941	1951	1961	1971
1. All ages	11,490	12,943	13,963	14,606
2. 0 - 4 years	1,050	1,191	1,051	960
3. 5 - 9 "	1,044	1,246	1,125	991
4. 10 - 14 "	1,101	1,070	1,175	1,040
5. 15 - 19 "	1,118	1,043	1,234	1,114
6. 20 - 24	1,030	1,075	1,058	1,166
7. 25 - 29	965	1,101	1,025	1,217
8. 30- 34	842	1,015	1,054	1,041
9. 35 - 39	758	918	1,078	1,009
10. 40 - 45	676	823	992	1,032
11. 45 - 49	635	720	888	1,949
12. 50 - 55	591	636	780	946
13. 55 - 59	508	575	662	824
14. 60 - 64	407	513	560	694
15. 65 - 69	306	407	472	550
16. 70 - 74	217	291	373	415
17. 75 - 79	137	180	246	292
18. 80 - 84	71	92	127	170
19. 85 - 89	27	38	48	72
20. 90 - 94	6	10	14	22
21. 95 years and over	1	-	1	2

Source: Dominion Bureau of Statistics, "Future Population of Canada", 1946.

CHAPTER II

CANADIAN GOVERNMENT PROVISIONS

Social legislation first removed old age dependency from the general category of poor relief in 1891, when Denmark inaugurated the first government non-contributory old age pension plan. In 1927, Canada followed suit, after such measures had been incorporated into the laws of many other forward-looking nations.[1] It is notable that Canada, which ranks among the first five of the world's great powers, was not only slow to follow the example set by other nations, but has also lagged in ameliorating the provisions of its statutory old age assistance to keep abreast of the growing universal insistence upon social security.

Canadian Legislation

The Canadian Old Age Pensions Act of 1927 provided that: "Provision shall be made for the payment of a pension to every person who at the date of the proposed commencement of the pension:

(a) Is a British subject, or being a widow who is not a British subject, was such before her marriage;

(b) has attained the age of seventy years;

(c) has resided in Canada for the twenty years immediately preceding the date aforesaid;

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[1] New Zealand 1898; France 1905; Eire, Australia, U.K. 1908; Iceland 1909; Newfoundland 1911; Uruguay 1919; Greenland 1926.

(d) has resided in the province in which the application for pension is made for the five years immediately preceding the said date;

(e) is not an Indian as defined by the Indian Act;

(f) is not in receipt of an income as much as $365.00 a year, and

(g) has not made any voluntary assignment or transfer of property for the purpose of qualifying for a pension."[2]

All persons thus qualified could apply for a pension up to $240.00 per annum, depending upon their particular needs. The burden of these payments was apportioned to the Dominion and Provincial governments on an equal basis, and coverage was provided to Canadian citizens only after their provinces had subscribed to the Dominion plan. The provinces severally responded during the next few years and by 1936 all Canadians were covered by the Act.[3]

In 1931 the Act was amended and from that time the government paid 75% of the total pension. In 1943, by Order-in-Council, the maximum pension was increased to $300.00 and in 1944 the maximum income allowed was increased to $425.00. The Act was further amended in 1947 when means and residence tests were made less stringent, and those other than British subjects were allowed to qualify. This most recent amendment to the statute has succeeded in liberalizing it to a limited extent. The residence requirement remains at twenty years, but any absences during that period do not disqualify an individual for pension, provided he has lived in Canada for a period twice the period of absences. The age limit remains at seventy years, and pensions are paid to all those single persons whose annual income inclusive of pension does not exceed $600.00; to all those married

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[2]Acts of the Sixteenth Parliament of the Dominion of Canada, Chapter 35,1927.

[3]The provinces joined in the following order: B.C. 1927; Saskatchewan and Manitoba, 1928; Ontario, Alberta and North West Territories, 1929; P.E.I., 1933; Nova Scotia, 1934; New Brunswick and Quebec, 1936.

persons who otherwise qualify, the pension is provided until total income including pension is less than \$1080.00 per annum. The Dominion government's contribution is now limited to a sum not exceeding 75% of \$30.00 monthly, or of the provinces' monthly contribution, whichever is lower. Since 1942, in recognition of the fact that cost of living has been rising, certain provinces have provided allowances supplementary to pension, varying from \$5.00 to \$10.00 monthly.[4]

Comparative Government Pension Plans

With this outline of the Canadian Old Age Pensions Act in mind, let us look at the features of the non-contributory pension schemes obtaining in certain other countries, in order to ascertain the theory behind such plans, and the several ways of committing it to practice. All such projects require that certain qualifications be met before eligibility for pension is established, and both the quantitative and qualitative comprehensiveness of the individual scheme vary directly with the strictness of these regulations. The requirements vary from one country to another in accord with various factors, such as political pressures, the level of national income, the direction of social attitudes, etc., but in general they include age, economic status, character, citizenship and residence.

At the annual Conference of the International Labour Organization in 1932, it was recommended that the qualifying age for old age assistance be set at not more than 65.[5] Experience indicates that this is a reasonable proposal, but in practice the setting of age limits remains an arbitrary procedure, which depends upon the expenditure the community is willing and able to allocate. In

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[4]Canada Year Book, 1948-49. pp. 258 - 260

[5]M. Grant, Old Age Security. Washington: Social Science Research Council, 1939, p. 21.

1891 Denmark's age limit was 60, and in 1922 it was raised to 65, with the proviso that those in urgent circumstances could qualify over 60. During the depression of the 1930's in Denmark, trade unions agitated for a lowering of the age limit in order to make available more jobs for the young, and 60 was again made the minimum age in 1937. The New Zealand Act of 1898 set the qualifying age at 65, but amended it in 1911 in order to differentiate between the requirements for the sexes, setting the limit at 60 for males and 55 for females. In Australia and U.S. the age limit under the non-contributory plans is 65. In France, U.K. and Eire, the age limit is 70, but the aged in these countries are not dependent solely upon non-contributory pensions. Since age is a principal determinant of the number of beneficiaries, it is evident from this review that a smaller proportion of the aged is covered in Canada than in these nations.

With the minimum cost of maintaining subsistence in mind, the government authorities specify which economic stratum of the aged population is to qualify for pension, and means tests are devised. The original severity of these tests has been modified in most instances, and destitution is no longer a requisite to receipt of pension. When means tests were stringent, the thrifty and industrious citizen was often at a disadvantage as opposed to the spendthrift, but modification of this requirement has in most countries allowed a certain amount of income and property to be disregarded in calculating income. The theory behind the exemptions presumably aims to free the worker that amount assumed to be what the average man could hope to accumulate during his lifetime. The liberalization of the means criterion has considerably increased the number of pensioners under all non-contributory plans. In Canada, after receiving permission to review the assets of the applicant, the department proceeds to verify his financial position as reported in his application. When the Board reaches its decision, his income including pension must not exceed $600 per annum. Income, as defined by the pensions administration, includes not only cash receipts but certain virtual income. For example, 10% of the assessed value of real property is imputed annually as income; the amount of income calculated to accrue to personal property owned by the applicant in the form of bank deposits or securities is nowhere explicitly established. Each application is reviewed on its own merits, and the annual increment imputed to personal property is left to the discretion of the district pensions commissioner.[6]

The requirement of citizenship is found to be an almost universal qualification for inclusion on old age pension rolls. A period of residence must also be established, under the theory that to draw subsistence from the state, the recipient must have contributed to the national income throughout part of his lifetime by working, paying taxes, etc. From a practical standpoint this regulation is essential to prevent mass migrations of aged people. This requirement has also been modified during the evolution of old age assistance schemes. New Zealand originally required a minimum residence of twenty-five years but this has now been scaled down to ten. Denmark's has declined from ten to five years, and U.K.'s is now twelve years. New Zealand is comparatively liberal in this regard, an absence of one year or less not being considered an interruption of continuous residence, nor is a longer period, if the applicant can prove an aggregate residence of more than the minimum ten years. The Canadian residence stipulation of twenty years can thus be seen to be relatively severe.

Good character is not a requirement under the pension laws of France,

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[6]This information was obtained through the courtesy of the Administrative Branch, Ontario Department of Pensions.

South Africa and Canada, but in the U.K. a person is disqualified if an habitual drunkard or having a criminal record. In Denmark, New Zealand and Australia the moral requisites are set forth with even more preciseness. The underlying theory is that only those who have contributed constructively to the state are deserving of assistance.

It is difficult to compare pension rates under the various plans because of variance in cost of living and living standards, as well as the variability between the several currencies involved, but it may generally be said that there is no underlying apparent logic in the selection of rates. In most countries they are noticeably lower than the wages of unskilled labour. Although few nations are vocal on this point, their schemes imply family responsibility which, if unavailable, is replaced by local poor relief. It is interesting to note that the Danish scheme allows that higher rates may be paid to those in urban areas, a recognition of the differences in cost of living between geographical areas. In all cases, payments vary inversely with the means of the recipient, and are so scaled either by arithmetical formula or at the discretion of the administrator. The latter procedure may have the advantage of more closely approximating case needs, but usually the personal investigation required is repugnant to the applicant. Australia and South Africa thus leave it to the administrator to dole out a reasonable and sufficient amount. When rates are calculated on an impersonal basis by means of a set arithmetical scale, the chance of arbitrary judgements is considerably reduced. Investigation, however, is not eliminated by this method, and it has the further disadvantage of rigidity, and inability to conform to actual need. In U.K., New Zealand and Eire, as well as Canada, the whole value of other income, less exemptions, is deducted from maximum pension, while in Denmark and France only prescribed fractions are deducted.[7]

The Trend To Contributory Plans

From this brief discussion it can be seen that Canada's only provision for the aged compares rather unfavourably with those of the above-mentioned nations. Yet certain of these nations have adjudged their own schemes inadequate and have seen fit to implement non-contributory old age assistance with contributory insurance plans. The recent history of provisions for the aged in Great Britain is illustrative of such development.

In 1908 the British Old Age Pensions Act was passed, with the principal aim of removing old age indigence from the overburdened poor-relief structure. Its adequacy may be questioned. All those British subjects of seventy years and over who could meet the morality qualifications, who could prove twenty years residence and whose means amounted to less than 8s weekly were eligible for a /5/- s weekly pension. Notwithstanding these requirements the number of pensioners grew steadily, to the discomfiture of the government which had budgeted meagrely for this expenditure. Unable to withdraw the scheme at this point, the government extended the plan by amendments to the Act in 1919 and 1924 at which time the British people were taking the benefits for granted. It is significant that at this time only 3% of the pensioners were receiving less than the maximum rate provided by the Act.

Between 1914 and 1924 the cost of the old age pension provision nearly doubled. The government, alarmed at the trend, decided to enact a second scheme to complement the first. In 1925 The Widows, Orphans and Old Age Pensioners Act was passed. This Act was essentially an old age insurance plan to which the in-

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[7]M. Grant, op. cit., pp. 20 - 37.

sured individual contributed. Under this plan a flat rate pension of -/10/- s a week was to be paid to every insured citizen as a contractual right. He would receive this pension at 65, but when he reached age 70 he would be transferred to the non-contributory plan, with means test waived. The chief reason for the introduction of this additional provision was financial. The British population was aging, more people were living to qualify, and their increasing longevity made longer support necessary. For this reason alone it became inevitable that the individual be called upon to share part of the burden. Supporting reasons for the new integrated social security structure were cheaper administration, the desire to eliminate criticism of the disreputable means test, and the fact that it was politically and socially undesirable to carry such a large percentage of the population on the dole.[8]

American legislation in the field of old age security provides a further example of the principle that non-contributory old age pensions alone are insufficient. The Social Security Act of 1935 in one comprehensive measure covered Unemployment, Insurance, Old Age and Survivor's Insurance, Old Age Assistance, and aid to dependent children and the needy blind. To cover specifically those who work for salaries and wages, the Old Age Insurance section was devised. Contributions to this fund are obtained through taxes on employers and on employees' salaries, and benefits are paid as a right from age 65 upwards. There are now more than 40 million American insured under this plan and the present beneficiaries are receiving an average of $25 monthly.

Since the insurance plan is not universal in coverage, the Old Age Assistance section of the Act was instituted to cover the otherwise unprotected

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[8]Kulp, C.A., Social Insurance Co-ordination. Washington: Social Research Council, 1938, pp. 145-155.

element in the population. This was a joint Federal - State plan of non-contributory old age assistance, with benefits to be paid to all those 65 and over on the basis of need, the judgment of which was left to the discretion of the several states. The Federal Government was to pay a portion of the pension up to a maximum of $50.00 monthly, on the basis of three-quarters of the first $20.00 and fifty percent of the amount between $20.00 and $50.00. The Federal government stipulates that states' systems must be state-wide and meet the standards of the Social Security Administration, but in consideration of this, the government pays an additional 5% of the principal to help defray the states' administration costs. One person in five over sixty-five is now receiving old age assistance ranging between $15.00 and $65.00 monthly (depending upon the state of residence) a nationwide average of $30.00.[9]

To recapitulate, let us summarize the case between non-contributory pensions and contributory old age insurance. It is claimed that the flexibility of the non-contributory type, which is advantageous in adjusting payments to meet cost of living changes, constitutes a disadvantage in that it may be used in electioneering. A strong argument for contributory insurance is that payments accrue regardless of income, and distasteful investigation of means is abolished. With regard to adequacy, some contend that contributory insurance falls short in that it covers only one segment of the population, the employed. Yet in Sweden it has been extended to cover the whole population. Few will deny that non-contributory pension rates are invariably insufficient to provide a comfortable standard of living.

Whatever the organizational structure, the cost of old age security is

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[9]H.W. Spiegel, Current Economic Problems. Philadelphia: Blakiston Co., 1949. pp. 280 - 288.

everywhere increasing by virtue of two facts: (1) Nations are liberalizing their provisions, and (2) population is aging. In addition, maximum rates are steadily rising with the cost of living, and more nations are attempting to close the gap between the rates and the amount necessary to maintain a decent standard of living. Familiarity with pension schemes and agitation for further coverage, as well as the political popularity of expanding pension benefits, have also played roles of indefinable importance in raising costs.[10]

The Canadian Government provides a commendable plan for the encouragement of individual thrift, under the Government Annuities Act. Annuities are purchaseable by any citizen between the ages of five and eighty-five, and they are of two main types, deferred, and immediate. Under the former plan, payments may be made over an extended period, with monthly benefits being paid from the age stipulated in each individual contract. Immediate annuities, on the other hand, are purchased by a lump sum payment, and benefit payments begin the month after the contract is signed. Under either plan, the purchaser may buy an annuity guaranteeing a certain number of payments, regardless of his length of life; or one which will be paid to the survivors in the case of married persons; or one which dies with him, depending upon his financial resources. This government provision, designed to promote individual saving for retirement, furnishes high benefits at low cost, being operated on a non-profit basis.[11]

Attitude of Canadian Government

Where does Canada fit into the current picture? Are we to deduce from British experience that with our similar population structure our costs of old

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[10] M. Grant, op. cit., pp. 53 - 54.

[11] Information through the courtesy of the Department of Labour, Canadian Government Annuities Branch.

age dependency will also get out of hand? Are we to take advantage of American practice and institute a federally-administered plan to ensure equity on a nation-wide scale? If we go back to July 1921, we find that Mr. Bennett in an address stated that "the government plans to set up a commission, which eventually will have complete charge of the administration of both old age pensions and unemployment insurance".[12] Later in 1945, we find the government submitting certain proposals at the Dominion-Provincial Conference on Reconstruction. These submissions reveal the trend of the government's thought in the matter, although they have yet to attain the status of legislation.

In 1945 the Dominion Government's attitude toward social security was similar to that held by the U.K. in the early twenties. Canada's population was also aging, the government estimating a 20% overall increase in population by 1971, by which date the population over 70 would have increased by 112%.[13] The government indicated that it realized the importance of providing adequately for the older citizens in its broad social security plan, and that it took cognizance of the fact that the cost of pensions would rise sharply during the next quarter century. It then admitted that the legislation in force was deficient in several respects, namely: (a) that the means test was undesirable after a certain age, (in 1945, only 40% of the over 70 group were drawing pensions) (b) that the minimum age of 70 was too high in many cases, (c) that any broad extension of the current Act would add a serious burden to the budgets in several provinces, (d) that even without extension of coverage, the cost of pensions would rise considerably by virtue of the aging population alone.

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[12] H. Wolfendon, The Real Meaning of Social Insurance. Toronto: MacMillan Co., 1932, p. 33.

[13] Dominion and Provincial Submissions and Plenary Conference Discussions-Dominion-Provincial Conference, 1945. P. 95.
NOTE: The statistical source of this data is not provided.

In the light of these factors, the government felt that a nation-wide scheme capable of immediate implementation was in order, incorporating more generous payments on a flat-rate basis, a lower age of eligibilty, and a modification of means-testing administration (where means tests were necessary) to make it a provincial responsibility. The government proposed a twofold scheme:

1. National Old Age Pensions - to be entirely financed and administered by the Dominion Government, which would pay a uniform rate of $30.00 per month to all men and women in Canada over seventy years of age regardless of means. The only eligibility requirement to be twenty years residence in Canada after the age of eighteen, including three years residence immediately before application.

2. Dominion-Provincial Old Age Assistance - to provide pensions to the needy aged between 65 - 69 in accordance with local conditions and individual circumstances. The residence requirement to be the same as that obtaining under the National Old Age Pensions scheme. The program to be instituted along lines similar to the amended Act of 1927, with the Provinces administering, and the Dominion Government contributing 50% up to the maximum of $30.00 per month. This maximum pension to be reduced by the amount of the applicant's personal income in excess of $125.99 per annum, with means test similar to that provided under the Act of 1927, with the exception that recovery of old age payments from the estated of the deceased would be abolished. The provinces would have to agree to provide pensions to all applicants meeting the above requirements regardless of their province of previous residence.

The government contended that Part I of this plan was justified inasmuch as payment as a right provided the best economic security, and a minimum subsistence would be assured those unable to work. Those fortunate enough to have' savings or other provision for old age would be enabled to retire sooner and/or in more comfort. A further advantage would accrue in that more job opportunities would become available for the younger men. It was felt that with removal of means testing, a centralized administration in Ottawa would provide national uniformity. The government stated that means tests after seventy were undesirable because, of that group "over 80%...are not in fact capable of supporting themselves in useful remunerative work." The provisions under Part II of this plan were less liberal, because the government felt that of the age group 65-69 a minority only would require aid.[14]

This plan, which it was estimated would cost the Dominion Government $217,000,000 in 1948, has never become law. In fact, the government in 1948 spent only $64,232,210.92 on old age pensions. In that year 251,865 pensioners received payments on a nationwide monthly average of $29.21.[15] According to the Dominion Bureau of Statistics[16] in 1948 the population over 70 years of age aggregated approximately 581,900. It can be seen from these figures that only 43% of those over 70 years were on the pension rolls in the year in question. Yet in 1945 the government admitted that over 80% of this group was incapable of providing for themselves. Does this not indicate that the means test, which still exists, is working a hardship on a large proportion of the population in the over 70 group? When we consider that those fortunate enough to receive pensions are existing on $600.00 per annum, can we assume that they are maintaining a standard

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[14]Ibid., pp. 95-98.

[15]Department of National Health and Welfare, Canada Report on the Administration of Old Age Pensions and Pensions for Blind Persons in Canada - Fiscal year ended March 31, 1949.

[16]Census and Estimated Populations of Canada and the Provinces by sex and age group, 1931-48.

of living compatible with Canadian social ideals, on an income far below that received by unskilled labour? It cannot be presumed by the government that the status of the 65-69 group has altered appreciably since 1945. Is it not true then that the "needy" element in this age group constitutes a burden on relatives and local poor-relief under the existing Act?

Sir William Beveridge states that "the problem for the future is how persons who are past work can be given a guarantee against want, in a form which gives the maximum encouragement to voluntary saving for maintenance of standards above the subsistence minimum, and at the same time avoids spending money which is urgently needed elsewhere, or money on a scale throwing an intolerable financial burden on the community." [17] In the light of the foregoing discussion, how closely do Canada's provisions for the aged approximate Beveridges' theoretical ideal?

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[17]Sir William Beveridge, Report on Social Insurance and Allied Services, London: His Majesty's Stationery Office, 1942, p. 92.

CHAPTER III

CANADIAN INDUSTRIAL PROVISIONS

Three times as many industrial pension plans have been established in Canada between 1938 and 1947 as were established in the previous history of the industrial pension movement, which began in this country before 1900. This tremendous expansion in private provision for the old age security of employees must certainly be based upon sound economic reasoning, which seems to have only comparatively recently found wide acceptance among the pragmatic entrepreneurial element of the population. The advantages of providing for employees' retirement have long been known by industry, but experience and the test of time have been required to prove beyond question the efficacy of such measures.

Reasons for Industrial Plans

There is a great number of reasons why employers see fit to provide for the sustenance of their workers after their usefulness in the productive process has begun to decline. These may be classified into two broad groups, the social and the economic. From the social standpoint, a pension may be regarded as a tribute to a loyal and faithful worker whose long-service deserves a reward over and above the wages of his labour. A pension may be looked upon as a contribution to cover the everyday needs of the aged and disabled worker. Some employers are inclined toward pensions (especially the contributory type) in order to encourage thrift on the part of employees. There is an unmistakeable trend on the part of industry to emerge from the phase in which labour is regarded as a commodity; industry is beset on all sides by pressure from unions and an enlightened public to accept its social responsibility to employees who become worn out in its service.

Of greater importance however, are the economic reasons for introducing pension plans. Retiring workers at a certain age is a sound economic program, in view of the fact that workers may be let out of the productive force as they become incapable of keeping the pace. In this way productive efficiency may be maintained at a high level as older workers may be conveniently replaced by young personnel, as the former become unprofitable. It has been proved that the most contented worker is the most efficient producer. Those covered by pension plans have a high morale, being free from the worry of providing for their own retirement; the young and ambitious are encouraged by the knowledge that the road to promotion will not be blocked by ancient hangers-on. A company which provides for its employees' retirement achieves a higher standing in the community, and in recruiting will attract more workers from which a more competent group of employees may be chosen. An established pension scheme aids in lowering labour turnover, obviating a great deal of training and expense which accompanies a high turnover. Another factor in favour of pensions, but whose validity is debatable, is that employees are to a certain extent inhibited with respect to strikes and other demonstrations against the company. Eligibility for pension in some companies is thus conditional on continued good behaviour. A further immeasurable asset is gained in the form of advertising, for favourable public opinion and increased goodwill accrue to the company which places its employees' welfare first.[1]

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[1]Industrial Retirement Plans in Canada -Bulletin # 1, Kingston: Industrial Relations Section, Queens University, 1938. pp. 4 - 7.

Another authority points out that a good pension scheme operates as a special incentive to hold men between the ages of forty and fifty, when they have acquired the experience and skills which make them particularly valuable, and prevents their being lured away by a slightly higher wage offer. With regard to public and community relations, any company without a pension scheme is subjected to severe moral criticism when it discharges an old employee who has no means. The community is further prejudiced against the company for adding to local charity or relief rolls, an individual who, it is argued, is justifiably a ward of industry. The strongest argument in this connection is that sound pension plans make for an income stability in the community, since retirement benefits are not affected by changes in economic conditions. From industry's viewpoint, it is further advantageous to establish pension plans since methods have been devised whereby the future beneficiaries can contribute to the cost of their retirement annuities during their working lifetime. Progressive governments also provide an incentive in the form of tax concessions both to employer and employee participants in such schemes.[2]

From this brief analysis it may be seen, that while the sentimental and humanitarian considerations of employers in instituting pension plans cannot be overlooked, their chief interest lies in promoting efficiency of operation and progressively increasing profits. The Queen's report concludes that if employers contribute to employee pensions with this attitude in mind, their contributions cannot be construed as rewards for faithful services, or as poor relief on the need basis. They can only be regarded as outlays necessary to secure a certain level of efficiency, and may therefore be classed as a legitimate cost of pro-

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[2]Erickson, An Analysis of Pension Fundamentals for the Employer, U.S.: 1948, pp. 1 - 5.

duction analogous to wage payments. In the future an employee will have a contractual right to pension benefits, which will have the status of deferred wages. Since industrial pensions would appear from this to be beneficial to both the hirer and the hired, it is not surprising that further plans are being inaugurated every year.[3]

Types of Industrial Plans

Chronologically, the oldest method of providing for retired workers is by means of an informal pension plan, the administration and provisions of which vary at the company's discretion. No standards are set up, and grants are made as rewards for long and loyal performance of duties, with need establishing the financial requirements of the individual case. Against this method, it may be said that seldom are funds set aside specifically to make such payments, and that since the employer is not legally obligated, the plans are liable to cancellation at any time, an occurrence which may take place when ownership is transferred.

At the same time as family businesses declined in number with the result that management became generally less personal, there was a great increase in the size of industrial units. These two factors led to the necessity of establishing formal retirement plans, which would provide a standard and equitable procedure under which all employees could be retired on a definite, pre-determined basis. First concerned in the formal group was the non-contributory type, little more than an outgrowth of the informal variety. Payments are on the reward-for-service basis, and are only to be made to exemplary employees of high standing in the company. Non-contributory plans are financed and controlled by the employer who often depends upon current income being sufficiently high to cover payments. Since

[3]Industrial Retirement Plans in Canada, op.cit., p.7

payments are non-contractual, the employer is not legally obligated and benefits are not a right of the employee; financial crises may force the company to abandon the scheme. More security is achieved if a fund is specifically provided to cover payments, but this method is not infallible as the fund may be dissipated by the company in meeting contractual liabilities during periods of financial stress. A further disadvantage of a non-contributory pension plan of this type is that payments may be cancelled at any time the beneficiary is adjudged unworthy by the administrator.

In the period following 1929 it was generally realized that the only sound way of making definite retirement provisions was on an actuarial basis, as many companies found themselves in financial difficulties due to increased costs and inadequate reserves. At the same time it was believed that plans financed by joint contributions would ease the financial burden on industry. The movemant toward contributory pensions during this period was accelerated for two reasons:

(a) A number of companies utilizing non-contributory pension schemes converted these to the contributory arrangement.

(b) In offering to underwrite the risk, large insurance companies facilitated the introduction of pension schemes in the smaller industries.

This type of joint employer-employee plan allows the employer to provide for his workers' retirement, while at the same time the worker is induced to save to the same end. Employees' co-operation is assured, a more generous scale of payments can be made without injury to the company's cost structure, and the company can no longer be accused of paternalism. Furthermore the benefits are contractual, and there is little risk of their not being paid as reserves are regulary accumulated over time to provide for the expected liability.

Contibutory plans may be subdivided into two main classes according to type of administration:

(a) those which are self-administered,

(b) those which are re-insured.

Where the company assumes responsibility for the plan, it controls the reserve fund, directs the investment policy, and takes charge of all administration from collecting employees' contributions to mailing the payments. Some of these are set up on an actuarial basis, and in any event the employee is legally entitled to at least his contributions. When the plan is underwritten by a commercial insurance company, it is generally of the group annuity type. The scale of contributions is determined by the underwriter after an actuarual survey has been made. This method allows the employer to avoid a great deal of administration, his only responsibility being to the insurance company for premium payments. The underwriter assumes responsibility for permanency andadequacy of reserves, the rate of interest allowed and all benefit payments. Under this method the employer has similar legal rights to those under the self-administered plan. The latter is advantageous to the large firm, whereas commercial underwriting allows schemes to be instituted by small firms which would be unable to undertake pension plans on their own.[4]

Quantitative Coverage

This bare outline of the broad types of industrial pension plans having provided us with an acquaintance with the phenomena with which we are dealing, let us now attempt to assess the quantitative trend of this old age welfare in Canada. The National Employment Commission in 1937 reported that 722 firms

[4]Ibid., pp. 10 - 14.

employing 386,677 persons had plans to provide for the retirement of their employees. In 1938 a study undertaken by the Industrial Relations Section of Queen's University revealed 120 plans maintained by companies employing 264,000 workers. The discrepancy in the number of plans in operation is accounted for by the fact that in the more recent survey all schemes of subsidiaries were included under the parent company. The difference in the number of employees arises because the Queen's data excludes government operated industries, and includes only a sample of informal plans. This report concludes that of 2,570,097 wage and salary earners in Canada, 15% were employed in industries which were operating formal retirement plans.[5] It must be noted at this point that no reckoning of the number of employees actually covered by the pension plans in operation is rendered by this data, and further that a sample of 22 informal plans is included.

The preliminary report of the Survey of Industrial Pension and Welfare Plans, 1947, prepared by the Department of Labour in Ottawa, is the most comprehensive survey of the question undertaken to that date. For the purpose of collecting the required information in October and November of 1947, 17,040 questionnaires were sent out, covering all industrial firms in Canada whose normal staffs consist of fifteen or more employees. Of these, 15,437 questionnaires were completed and returned, representing 96.5% of the total employment in firms under the survey, or about 1,960,000 employees. Public administrative employees and institutional employees were not covered by this survey. Pension Plans include only formal and standardized arrangements, omitting all plans where the program of benefit payments is subject to the discretion of the employer. Trade union-owned and operated schemes are likewise excluded.

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[5] Ibid, pp. 7 - 10

In this survey, because of mechanical difficulties in differentiating between "firms" and "establishments", the final report was compiled in terms of "units". It was impossible to solve this problem with regard to railways, and data on this segment of industry have been excluded from the unit reports. Aggregative results in the railways and railway operated industries show an extremely high percentage of employees covered. There were 193,908 persons employed in these industries, and 193,392 were in divisions, which reported pension plans. Of the latter 181,788 of these workers, or 92.7%, were actually covered by pension plans.

In reviewing the conclusions with regard to the industrial units reported, we find that 14,551 units are reported covering a total of 1,764,251 Canadian employees (Table II). Of these, 3,419 units, employing 879,114 persons have pension plans, while the number of employees covered by the plans is 447,445. (Table III) We may conclude that about 25% of the workers employed by all the reporting companies are covered by retirement provisions. To complete the picture of industrial coverage the railway figures should be added. The final result of the survey shows that of 1,958,159 employees on the payroll of reporting units, 1,073,321 are employed by firms having pension plans and 629,233 are covered by these plans. For industry as a whole then 32.1% of the number on the payroll of reporting units are covered. It must be noted here that 214 units employing 60,755 employees did not state the extent of coverage.

In Table IV is summarized the number of units reporting pension plans by size of reporting unit, the number of employees on payroll, and the number covered by the plans, excluding railway companies. While 3,248 or 95% of reporting units making pension provisions are in the 1000-and-under employees category, they have only 39.3% of the total number of employees actually covered by plans. The units with 1,000 or more employees which amount to only 4.9% of the units surveyed, account for the majority of employees covered. Table V is of historical value showing the periods in which the plans were instituted. Three plans were in force before 1900, 162 by the end of 1918 and 873 by 1937. Of the 3,539 pension plans reported in 1947, 2,533 or 71.6% have been established since 1938.

A report on plans according to method of administration is provided by TableVI which indicates the number of schemes administered solely by the employer, the number in which control is shared by both employer and employees and those administered by commercial insurance companies. This table also shows that 3,499 or 98.6% of the plans reported are financed either partially by employers' contributions, or in the case of one-third of the plans by the employer alone. Of the covered employees, 50,000 are under 800 plans administered by the Government Annuities Branch of the Department of Labour. Government annuities and commercial schemes generally share the responsibility for those plans listed under the heading "other and not stated". It should be noted that although no plans are listed as employee administered this may be because the questionnaires were answered by employers, whose employees may have plans of which they have no knowledge.

It is reported by this survey that the government,which favours the establishment of such protection against old-age insecurity, has modified income tax law in order to encourage the inception of retirement plans. When a plan has been approved by the Income Tax Division, subsequent employer contributions may be classed as an expense of doing business, while employee computation of income for tax purposes may exclude any contributions of this nature. Currently however, the employers' contribution which is deductible, is a set sum, allowing only a uniform amount to be set aside during both prosperous and lean years. The Income Tax Authorities are considering a modification of this rule in order to allow deductible contributions to vary to a certain extent with profits.[6]

Conclusion

To sum up, we have noted that informal plans have decreased sufficiently in importance to warrant their exclusion from the current survey. While contributory plans are gaining more favour than non-contributory, the latter still maintain a quantitative lead, covering 244,609 employees as opposed to contributors' coverage of 201,950. (Table VI) Almost one-half of the covered employees are employed by manufacturing industries (Table II) and over one-half are employed by industries employing over 500 workers. It would seem that manufacturing is more prominent because it is less disturbed by seasonal fluctuations, and that pension plans are more economically practical in the larger industries, despite the inducements offered industry by insurance companies.

We have noted certain humanitarian and economic reasons underlying the pensions movement, and it is to certain aspects of the latter which we must turn for the reason for the rapid acceleration after 1938. The excess profits tax of the war years may be regarded as one factor. As employers sought ways of avoiding this tax, attention was focused on employee-benefit schemes which accomplished the added advantages of improved public relations, raised worker morale, etc. The fact that corporation and individual income taxes are still high is another factor. With the blessing of the government, the best way to escape the tax, from the individual standpoint, is by providing for one's own future, and from the corporation point of view, by improving its relative position both in the

[6] Dominion Bureau of Statistics - Health and Welfare Division Preliminary Report - Survey of Industrial Pension and Welfare Plans, Ottawa, 1947.

the labour and consumers' market by contributing to its employees' future welfare.[7]

In the late 1930's between 250,000 and 300,000 workers were employed in industries having pension plans. No figures are available for the number of these covered at this time, and informal plans are included. In 1947, excluding informal provisions, 1,958,159 employees were in industries making provision for employees' retirement, and 629,233 workers were actually covered. This marked increase in the rate of growth of this movement is unquestionably a socially encouraging trend. Nevertheless the absolute number covered remains small, being only 629,233 of a national labour force of 5,081,000,[8] or 8% of the workers in this country.

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[7]Samuel Eckler, What Sparked Union Interest in New Pension Systems? Saturday Night, December 6, 1949.

[8]Labour Force Bulletin #9, 1949.

TABLE II

NUMBER OF REPORTING UNITS AND EMPLOYMENT COVERED BY THE SURVEY BY INDUSTRIAL GROUPS

(excluding establishments operated by Railway Companies)

INDUSTRIAL GROUP	No. of Reporting Units	No. of Employees on Payroll
All Industries	14,551	1,764,251
Manufacturing	7,412	1,043,624
Logging	425	70,639
Mining	424	69,911
Communication	52	36,905
Transportation	581	78,630
Construction	1,325	130,663
Services	819	53,073
Trade	2,692	243,951
Finance	821	36,855

Source: Survey of Industrial Health and Welfare Plans, 1947.

TABLE III - DISTRIBUTION OF PENSION PLANS AND EMPLOYMENT INVOLVED, BY MAIN INDUSTRIAL GROUPS

ndustrial Group	Number of units reporting plans	Employees on payroll	Employees covered by plans	Number of employees covered, not stated	
				Number of reporting units	Employees on payroll
ll Industries					
Railways	-	194,207	181,788	-	-
Other Industries	3,419	879,114	447,445	214	60,755
Total		1,073,321	629,233	214	60,755
anufacturing					
Railways	-	46,051	44,474	-	-
Other Industries	1,456	503,606	262,617	68	30, 918
Total		549,657	307,091	68	30, 918
ogging					
Railways	-	29	27	-	-
Other industries	62	40,618	2,862	3	1,642
Total		40,647	2,889	3	1,642
ining					
Railways	-	117	108	-	-
Other industries	71	31,136	20,120	-	-
Total		31,253	20,228	-	-
ommunication					
Railways	-	7,830	7,538	-	-
Other industries	40	35,917	31,417	1	54
Total		43,747	38,955	1	54
ransportation					
Railways	-	96,323	87,456	-	-
Other industries	203	48,062	28,762	9	854
Total		144,385	116,218	9	854
nstruction					
Railways	-	37,503	36,173	-	-
Other Industries	108	39,530	3,091	13	18,317
Total		77,033	39,264	13	18,317
ervices					
Railways	-	6,259	5,917	-	-
Other industries	52	8,968	2,028	4	213
Total		15,227	7,945	4	213
rade					
Railways	-	95	95	-	-
Other Industries	821	139,514	78,125	51	4,460
Total		139,609	78,220	51	4.460
nance					
Railways		-	-	-	-
Other Industries	606	31,763	18,423	65	4,297
Total		31,763	18,423	65	4,297

ource: Survey of Industrial Health and Welfare Plans, 1947.

TABLE IV

NUMBER OF UNITS REPORTING PENSION PLANS AND NUMBER OF EMPLOYEES COVERED, BY PROVINCES

(excluding establishments operated by the railway companies.)

Province	Number of units reporting plans	Number of employees on payroll	Number of employees covered (1)
Canada	3,419	879,114	447,445
Prince Edward Island	16	409	101
Nova Scotia	128	34,704	35,437
New Brunswick	107	16,567	7,417
Quebec	673	280,041	128,566
Ontario	1,351	378,940	200,119
Manitoba	283	45,693	29,400
Saskatchewan	209	21,524	9,737
Alberta	286	33,433	17,807
British Columbia	366	67,803	28,861

Source: Survey of Industrial Health and Welfare Plans, 1947.

TABLE V

DISTRIBUTION OF PENSION PLANS BY SIZE OF REPORTING UNIT.

(exclusive of railways)

Size of unit	Number of units	Number of employees covered	Percentage of employees covered
1 - 19	693	3,604	.8%
20 - 49	759	11,403	2.5%
50 - 99	658	20,320	4.5%
100 - 499	935	82,020	18.1%
500 - 999	200	58,242	12.9%
1,000 - 4,999	146	120,966	27.1%
5,000 and over	23	150,753	33.8%
Totals	3,419	447,445	100.0%

Source: Survey Of Industrial Pension and Welfare Plans, 1947.

TABLE VI

NUMBER OF PENSION PLANS BY YEAR PLAN BECAME EFFECTIVE,BY INDUSTRIAL GROUPS

(excluding railways)

Industrial Group	Before 1900	1900 to 1918	1919 to 1937	1938 to 1947	not stated	Total
All industries	3	159	711	2533	133	3539
Manufacturing	1	23	258	1177	38	1497
Logging	-	-	1	61	-	62
Mining	-	-	25	45	1	71
Communication	-	7	8	20	5	40
Transportation	-	3	35	160	8	206
Construction	-	-	12	89	8	109
Services	-	-	10	42	2	54
Trade	-	42	112	669	31	854
Finance	2	84	250	270	40	646

Source: Survey of Industrial Pension and Welfare Plans, 1947.

TABLE VII

ADMINISTRATION OF PENSION PLANS BY SOURCE OF FUNDS

(excluding railways)

Source of Funds	Administered by Indicates percentages of employees covered				
	Employer	Employees	Employer and Employees	Commercial Companies	Government annuities
Employer	89.8%	-	5.7%	1.6%	2.4%
Employees	8.8%	-	5.0%	12.0%	26.2%
Employer and employees	12.0%	-	14.0%	32.5%	22.0%

Note: Percentages do not equal 100% as column "other and not stated" in the original survey table has been omitted.

Source: The Survey of Industrial Pension and Welfare Plans, Department of Labour, 1947.

CHAPTER IV

ELEMENTS OF INDUSTRIAL PENSION PLANS

As pointed out in the foregoing chapter, there is a distinct trend toward providing for the retirement of industrial workers by means of pension plans administered by the employers of labour. As management becomes ever more socially enlightened, it becomes increasingly reluctant to dismiss summarily long service employees who have not adequate means of sustenance. At the same time management finds it impossible to maintain plant efficiency if its working force includes large numbers of old workers whose productivity has declined. Management seems to have discovered that the solution to this dilemma is the inauguration of sound and adequate pension plans, and that procrastination in this field means rising costs both in terms of lost efficiency and higher pension costs once the scheme is installed. We shall now consider the functional framework which with slight variations is common to all industrial retirement plans.

That a standardized industrial pension scheme which would be universally applicable is impossible, becomes apparent when we consider several of the implications of such provisions. Employers have different objectives, and the aims of each plan must be clearly postulated before it can be drawn up. Then several possible benefit formulae must be considered in relation to expected cost computed on different bases. All these financial possibilities must then be reviewed in the light of the industry's ability to absorb the proposed costs over an extended period of time. Each case is thus analysed separately and the plan drawn up to suit the merchandiser may not be applicable to the problems of the manufacturer, or the mining concern. Industries differ as to size, distribution of employees by age, sex and degree of skill, geographical location, rate of labour turnover, ratio of capital to labour, etc. These factors make it imperative that each plan be designed to suit the particular needs and requirements of the firm which intends to instal it.

Eligibility

Each plan, however, will embody certain essential features and the first which we consider is eligibility. This clause defines the conditions under which employees may become participants, and in nature it varies directly with the company's financial condition, objectives and the character of its working force. There are certain fundamental aims in establishing eligibility requirements. An attempt is generally made to limit participation to employees who will remain in service until retirement, providing economy of administration by reducing the cost of setting up and cutting out of accounts for "temporary" employees. Of major importance is the number of older employees on the payroll at the time the scheme is inaugurated, high costs in the plan's early years being a function of the proportional concentration in this group. If it is the company's intention to pay the full cost of past-service benefits, the initial outlay may be excessive. Often eligibility requirements must be fashioned ingeniously to allow initial costs to be restricted within the employer's ability to pay.

In general, to be eligible to join the pension plan the employee must have attained the set minimum of age and must be less than the set maximum age, as well as having fulfilled the waiting period of continuous service. In some cases, participation may be restricted to certain classes of employees, for example, those on salary, while other plans exclude those over, or perhaps those under, a certain income. Often employees in the firm at the time the plan is installed receive preferred treatment as against all employees hired in the future, and many plans make special provision for former employees returning to the company. In some cases, all eligible employees are compelled to participate, while in others participation is on a purely voluntary basis. Regardless of this latter consideration, the plan generally provides a specific date in the year at which new entrants will be written into the scheme, in order to keep administrative costs at a minimum.

Retirement Age

After having decided who shall participate, the employer must now decide at what age the participants shall be retired. The first question which arises in this connection is, "Shall retirement age be fixed or flexible?" From the employers' point of view it is to his advantage to retire an employee as soon as possible after the company begins to lose money from his services. The source os such losses can be traced, and the amount of the lossed measured by checking the difference between the value of the employe e's reduced output and the cost of this output to the employer. Certain incommensurable ill-effects also occur to sap the company's well-being: a low standard of production may inspire a low standard among younger workers, who will be further discouraged by the lack of promotional opportunities. The employer's problem arises when he attempts to determine at what age such losses generally begin, for he may arrive at as many ages as he has employees. What is the optimum retirement age? From a theoretical accounting standpoint, retirement is ill-advised until the pension paid to an employee becomes less than the loss resulting from his being retained in service.

In practice the employer is guided in setting retirement age by the custom in the industry as a whole, and for good industrial and public relations his decision must at least be the equivalent of the industry-wide norm. In countries such as U.S. where the government has established a nationwide scheme, it is considered good practice to co-ordinate retirment age under private plans with that obtaining for the nation. The norm today is age 65, except in the case of hazardous jobs or those which make extreme physical demands on the worker. To leave retirement age up to the employer's discretion would have certain economic justifications but it would instigate knotty problems in industrial relations. Every retirement would be an individual problem, and the workers could have no feeling of security with regard to their old age. While flexibility in retirement age has certain theoretical advantages, a mandatory age is the only feasible procedure from a practical standpoint.

In certain instances companies have seen fit to insert clauses in the plan to enable them to make certain exceptions to the arbitrary age limit, allowing an employee to be retired either before or after the stipulated age. Here the consent of both the company and the individual worker concerned are necessary, and benefits to be paid at other than the mandatory age are computed actuarially. In the case of a company which has a high percentage of older workers at the time it is considering establishing a retirement plan, a sliding scale has been found expedient and acceptable. Here age at entry would determine retirement age. For example:

Age at Entry	Retirement Age
55 and under	65
56	66
57	67
58	68
59	69
60 - 67	70
68 and over	3 years of participation

The principle followed is that retirement age will be based upon a mandatory number of years of participation in the plan, subject to a maximum retirement age regardless of period of participation.

Benefit Scale

Having determined who will participate and the age at which they will be retired, the employer must now consider what scale of benefits will be most acceptable, with respect to adequacy and ability to pay. The provision of an adequate retirement income to the employee must be reconciled with the employer's ability to support the cost over an extended period of time. It is held in theory that the combined income of all sources to a particular rank of employee should be sufficient to allow him to maintain the standard of living which will maintain his dignity and self-respect in retirement. If this were possible in practice all industrial and public relations problems of retiring employees would be solved. In practice, adequacy may only be decided when the case is viewed in its larger context, and the standard will vary between industries and geographic localities, leaning heavily upon contemporary custom for substantiation. The future expectations of the employer will in most cases outline the limits of his long-run ability to maintain a plan for old age security. Delicate industrial relations situations are engendered if circumstances ever force the administrator to reduce the benefits or discontinue the plan, and for this reason it has been found wise to gear the plan financially to a conservative estimate of the company's ability to pay, forecast for at least a full trade cycle.

General experience has shown that in practice annual benefits which approximate 30% to 50% of the employee's average annual compensation over the few years prior to retirement are adequate, but this is a very loose principle and is subject to wide variance. Many mechanical benefit scales have been derived, each designed to fit a certain type of case in the light of the considerations enumerated above. The following scales, and certain combinations of them are among the most popular:

1. A constant % of average salary; salary average may be computed for the employee's total record of service, or over a set five or ten year period.

2. Use of the number of years of service as the multiple to arrive at the % of average salary.

3. A flat rate payment for each year of service regardless of salary.

4. A flat amount for each employee, regardless of salary and service period.

5. The amount of retirement income purchased by the sum accumulated through contributions by both the employer and the employee.

In all cases where the state has a retirement plan it is considered advisable to establish the private scheme along complementary lines.

Termination Benefits

The fourth significant element of an industrial pension plan lies in the clauses which deal with termination benefits. "Should the act of leaving on the part of the employee terminate the employer's obligation?" Three distinct cases arise here, that in which the employee dies before retirement, that in which he voluntarily leaves the company, and that in which he is dismissed by the company. The general consensus on vesting seems to indicate that if such provision is not made, the fundamental objective of the plan (i.e. the establishment of sound industrial relations) is destroyed. Employees are bound to become suspicious of methods which seem to threaten them with the penalty of loss of benefits for misbehaviour.

Vesting provisions have long been the subject of controversy among employers who have established schemes of retirement benefits for their employees. The proponents of vesting argue the employee will be willing to contribute on a higher level to costs of maintaining the plan if his interest is secured legally. They contend that the employee will feel he is receiving a real benefit each year, thus promoting more favourable industrial relations. The employee will get a feeling of security and will lose the suspicion that he may be discharged just prior to retirement age. In addition when benefits are vested the employer has an incentive to sever connection with employees whose capabilities become impaired before retirement age. There are some who are opposed to vesting on the grounds that non-vesting is an extremely efficacious measure in reducing labour turnover and that following this principle reduces the cost of a pension plan considerably. Out of this controversy has evolved a course which combines the merits of both approaches. It is termed deferred vesting and maintains the good will of the employees while reducing costs and labour turnover. Several specific methods of deferred vesting are possible. Benefits may be vested: after the employee has completed a certain number of years of service; or after a certain number of years of participation in the plan (5 or 10 for example); or when the employee reaches a specified age (example 50); or upon satisfying a combination of age and service conditions; or in combination with any of the above, the condition that the employee must not withdraw his contributions to the plan. Another possibility is graduated vesting, 25% after 5 years service and 25% for each additional 5 year period as they accrue.

Contributory versus Non-Contributory

At this point in his thinking about a retirement plan, the employer must choose between a contributory and a non-contributory type of scheme, or simply, whether he wants to bear or share the cost. His decision in this matter, as past events have showed, depends to a great extent on the overall state of economic conditions. In general, however, certain groups favour the contributory scheme as a matter of principle. Their initial argument advocates employee-participation for the sake of safety, on the grounds that if conditions improve the employer may increase the benefits or decrease the scale at which employees are asked to contribute. This argument is based on the maxim of industrial relations which asserts that benefit increases are always easy to implement, but benefit decreases may be extremely difficult to bring about. This group insists that the employee will take more interest in a plan of the joint participation variety, and that family interest in it will help to stabilize employment. Furthermore, this type of plan enhances the employees' self-respect and removes all suspicion of paternalism from the employer. Those who advocate non-contributory industrial pension plans stress that these plans leave the employer's prerogative unimpaired, allowing him to complete freedom both in selecting and administering the scheme. They see dangers in the inflexibility of the contributory scheme especially in times of financial stringency where it might be expedient to reduce the scale of the plan quickly. They claim also that the 100% participation required by non-contributory plans better achieves the objects of such measures.

If a contributory plan is chosen, the rate of employee contribution must be a compromise between the employee's ability and his desire to make provision for his future security. It is customary to relate contributions to income, and experience has shown that a moderate rate only is necessary to accomplish objectives. Custom in the locality and in the industry as a whole are once again consequential determinants. In practice, contributions vary from 1% to 6% of salary; they may be graduated, for example 2% of the first $3,000 and 4% of any income thereafter; or the plan may be set up in such a way that employees pay approximately 25% of the cost of the plan.

Little need be said about the administration of the plan. Its aim is strictly economic: to maximize the utility of the plan to all concerned at a minimum cost. From the industrial realtions point of view, it must be emphasized that for full acceptance and success the plan must be thoroughly explained to all employees at the time of its inauguration. It is further recommended that an administration manual be printed and distributed among all participants, so that they may gain complete confidence that the plan is being run constitutionally.[1]

Conclusion

We have analysed eight plans below[2] which illustrate two major characteristics of industrial pensions:

(a) The wide variance found between different industries which results directly from each providing according to its particular needs and financial ability.

(b) The broad limits within which the various stipulations are established. The eligibility requirement can be seen to vary from six months service to five years, and in the latter case a minimum age must be attained. Less variance is evident in retirement age, the majority setting 65 for males and 60 for females. Yet under one plan benefits may be drawn anytime after five years service. The contribution scale varies from 3% to 6% of annual earnings, with one company placing contributions on a dollar basis of $2, $4 or $6 monthly, payed over a

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[1]E.R. Erickson, op. cit. American Management Association, New York: Trends in Retirement Planning, 1948.

[2]See Appendix to this chapter.

stipulated period, excluding those plans under which government annuities are purchased by the fund. In the latter case, the beneficiary receives a benefit proportionate to the sums at his credit in the fund, on account of his own plus the company's contributions. In all contributory cases, individual contributions at a set rate of interest are payable as a termination benefit. In this brief survey only one non-contributory plan was reviewed.

A recent government survey[3] which covered the pension plans of twenty-nine Canadian companies, indicates a similar general uniformity. Of the twenty-nine random schemes, ten are non-contributory, one financed entirely by the employees, and the remainder included several variations of the general contributory type. To be eligible for benefits under the non-contributory schemes, a period of service ranging from fifteen to twenty-five years is required, plus attainment of the age required. Certain of these plans provide similar benefits to all employees who become disabled after fifteen years service regardless of age. Eligibility for participation in the contributory schemes surveyed requires from three months to five years continuous service, with some plans requiring entrants to be under a maximum age, and others over a certain minimum age. In general, part-time, temporary and those working on a commission basis are excluded from participating. Participation is optional to all those employed by the firm at the time of the plan's inauguration, but is generally made compulsory for new employees.

This survey found that the normal retirement age is 65, although in a many cases women are superannuated at 55 or 60. Under one plan age 70 is set for males retiring, but provision is made for voluntary retirement at 65 on a

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[3]Labour Gazette, February 1950. Types of Pension and Retirement Plans in Canadian Industry, pp. 191 - 192.

lower benefit scale. In general it appears that under the heading of contributions, the employers' share is unstated, although some firms indicated that they will contribute "not less than" a certain percent, which ranged from 1% to 5%. In all cases, employee contributions which are deducted from wages are a fixed percent of earnings. In one case percent contribution varies with age, younger employees paying a lower percentage. The most frequent benefit formula according to this study is 1% for each year of accredited service based upon the last ten years, or highest paid ten years of service. The maximum payment is 1½%. Under some plans a smaller percent is paid on account of past service. One plan scales down the benefits paid to women by 13% because of their superior life expectancy. Other plans remit benefits of a fixed amount for each year of service, or by means of an annuity which equals 1/60th of total earnings during participation in the plan, or an annual benefit equal to 45% of the employees' total contributions. Termination benefits generally consist of the individual's own contributions plus interest, although one plan shows that a percent of the employee's contributions are forthcoming if employee leaves after at least five years service. This survey also finds that in most cases the company bears the entire cost of past service benefits, although under one plan the employees undertook to cover this cost alone.

In evaluating industrial retirement plans we must assume that industry's aim is to equate the costs to the benefit it receives under the scheme. Are welfare benefits part of the wage bill? It is evident to the worker today that any benefit he receives in the form of accident compensation, holidays with pay, free medical care, group insurance, recreation or retirement allowances will consequently lower his annual money wages. Certainly employees could receive higher wages in monetary terms if such welfare plans were foregone. Since industry is driven by the motive of maximizing gross income, its desire is to pay the wages of labour in that way which will promote optimum efficiency. Workers are continually pressing for increased security, and it follows that employers will accede to their demands if productivity may be increased thereby. It must be noted here that the company may grant increased welfare benefits by reducing present money wages, by allotting to labour a larger share in the company's gross income, or by increasing gross income and giving labour a share of that increase. The first alternative would undoubtedly be unacceptable to labour; but a plan by which labours' share in the gross income might be increased only if accepted in this form might satisfy management's aims.

What is the significance of the private retirement plan movement? Neither the economic advantage derived from such plans, nor the organized demand for mandatory retirement income are likely to have much effect in industries characterized by financial instability, or those in which only small-scale operation is feasible. Nor will pension plans be established by industries depending primarily on migratory workers, or those which seldom retain employees to old age, or those in which female workers predominate. It is also unlikely that there will be any great demand for pensions in those industries where a relatively low wage-scale obtains, in which employees will attempt to improve their current position rather than bargaining for uncertain future benefits. We may conclude that the majority of the Canadian labour force will probably never come under private pension provision for the above reasons, and because a great number are self-employed, or in other extra-industrial pursuits. Industrial pension plans, then are not an alternative to a state plan which would provide a blanket national coverage; they are, as current experience in the U.S. has shown, a socially palatable supplement to a broad state plan.[4]

[4]Industrial Retirement Plans in Canada, op. cit. 20-25.

APPENDIX to CHAPTER IV

The following plans illustrate the applications of the fundamental principles outlined above, with reference to several industries.

RAILWAYS

Canadian Pacific Railway

Retirement Plan, 1937.

This plan was inaugurated in 1937 to replace the company's original non-contributory plan established in 1903, which was beginning to weigh heavily upon the company's financial structure.

Eligibility - 1 year's continuous service.

Retirement Age - 65

Contributions - Employees to contribute 3% of their earning. These to be deposited in a trust fund of which the company is trustee. This fund not to be included in the revenue or assets of the company.

Retirement Benefits - Contributing employees to receive 1% of the average monthly pay received for the ten years service preceding retirement. For example, a man with 40 years service who averaged $100 per month during his last ten years service would receive 40% of $100 or $40 a month.

Termination Benefits - on death or separation from the company prior to retirement the employee shall receive an amount equal to the amount of his contributions. In the case of the non-contributing employees, the company is to pay to the fund an amount equal to 25% of any allowances made in respect of eligible employees in the service on December 31, 1936 who do not agree to contribute to the new scheme. These workers will receive a pension as calculated under the old scheme. Their benefit is 4/5 of 1% of the average monthly pay received for the ten years immediately preceding January 1, 1937. Minimum - $25.00 per month.

Source: Labour Gazette Annual - 1936, p. 910.

OIL

Standard Oil Company of British Columbia Limited

Annuity Plan, 1938.

Eligibility - 1 year of continuous service

Retirement Age - 60 for women, 65 for men.

Contributions - The employees contribute according to their ages under this plan. Under 30 an employee contributes 4% of his earnings, 30-39, 5%, 40 years or more, 6%.. The employees' contributions are used to purchase government annuities. The company is obligated to buy from a private unsurance company an amount of pension calculated to approximate the amount of annuity being purchased by the employees' contributions.

Retirement Benefits - The company's intantion is to contribute sufficient to increase the employee's monthly annuity to not less than a minimum of 1½% of the employee's average monthly earnings on which he has contributed multiplied by the number of years of contributory service.

Death Benefits - If employee dies after retirement a ten year minimum is guaranteed to his estate in respect of the government annuitie which his contributions have purchased. The pension paid for by the company dies with him.

Under this plan should the employee retire before his normal retirement date, the two annuities shall be payable on a reduced basis, subject to the proviso that in cases where the employee retires before ten years prior to normal retirement and before fifteen years of continuous service, he loses claim to any annuities purchased by the company for him. The government annuities are payable regardless of his reason for leaving.

Source: Labour Gazette Annual, 1938, p. 1232.

MINING

Noranda Mines Limited

Insurance, Savings and Pension Plan, 1937. This plan was established on the condition that 75% of the eligible workers joined it.

Eligibility - six months continuous service.

Retirement Age - pensions are payable on leaving the company anytime after five years continuous service.

Contributions - Employees have the option of contributing $1, $2, or $3 semi-monthly, and any employee can change his scale of contributions on March 1 of any year. Each month the company will contribute an amount equal to the employee's contribution. All contributions are remitted montly to an insurance company.

Retirement Benefits - This plan sets up four methods of receiving pension benefits.

1. In monthly instalments guaranteed for life or for a ten year minimum.

2. In the form of a cash payment of ½ his credit, the remainder in monthly payments for life or for a ten year minimum.

3. In sixty equal monthly payments or ½ cash and the remainder in sixty equal monthly payments.

4. In some form which pays a portion of the payment to a dependent on the death of the pensioner. These are not unconditioned choices. Age and total credit are determinants of what choices are open to the pensioner, e.g. if sixty or over, with $3,000 or more to one's credit, benefits may be received only under (1) above.

Termination Benefits - If the employee dies while in service an amount equal to the total accumulated to his credit will be paid to his beneficiary in 120 monthly payments. If the employee leaves the service before five years have elapsed, he receives his own contributions plus interest and the company's contributions are refunded to it.

Benefits under this plan may be shown by the following: If $1,000 has accumulated in the fund the pensioner would receive $4.28 a month at 40, $5.01 a month at 50, or $6.82 a month at 60.

Source: Labour Annual Gazette, 1937. p. 1208.

STEEL

Dominion Foundries and Steel Company Limited

Employees Savings and Profit Sharing Plan, 1938. Modelled on the Jocelyn Plan which was earlier formulated in Chicago.

Eligibility - on a voluntary basis after three years continuous service.

Retirement Age - 65: conditional - anyone entering after 46 is given an opportunity of participating at least twenty years, or until age 70. The directors of the plan may lower the retirement age to 60 where they feel circumstances warrant such action.

Contributions - on employee's part may be either 3% or 5% of their normal income up to a maximum of $150 annually. In practice the majority remit 5%. The total of these contributions is remitted to the Government Annuities Department by the trustee. Once a year the company contributes to the profit-sharing fund an amount equal to 10% of its total net earnings available for dividends as determined by the comapny's auditors. This contribution may not exceed four times the total of the employees' contributions during the year. The company is not obliged to contribute if a loss is sustained, or in any subsequent year until such loss has been made up out of net operating earnings. These contributions are slated to be invested by the trustee in bonds, mortgages or income bearing stocks,and accrued income is to be retained in the fund.

Retirement Benefits - Government annuities scale as per employee contributions. Plus further pension purchased by the trustee with the employee's pro rata share of the profit-sharing fund. Pension to be paid for life, or a minimum of ten years.

Termination Benefits - on voluntary resignation or dismissal the employee will receive one half of his pro rata share in the profit-sharing fund, plus his own contributions compounded at 4% annually. If the employee dies while in the service his estate gets $2,000 from the profit-sharing fund, or all his contributions at 4% plus his pro rata share of the fund, whichever is greater.

Source: Labour Gazette Annual, 1938, p. 1231.

MERCHANDISING

T. Eaton Company Limited

Contributory Retirement Income Plan, 1948.

It is proposed that this scheme will eventually include the company's 38,000 employees. It supersedes the company's original non-contributory plan under which about 1,000 former employees are receiving benefits.

Eligibility - an employee must be over thirty years of age and have five years continuous full time service.

Retirement Age - for women 60, for men 65.

Contributions - the company is undertaking to finance the entire cost of past service benefits. Future service benefits will be financed on a co-operative basis, the employees contributing approximately 5% of their annual wages, and the company's contribution to exceed that of the employees.

Retirement benefits - employees to receive on retirement 1 3/4 % of their "total adjusted earnings" during the period in which they contributed to the plan. For example, an employee who averaged $2,600 per annum for 35 years will receive a monthly pension of $132.70.

Termination benefits - If the employee dies before retirement, his estate gets his contributions plus interest. If he dies shortly after retirement his beneficiary is guaranteed payment up to a five year maximum. The only purpose of this plan is to establish old age incomes. An employee cannot withdraw from the plan while employed by the company. The company anticipates that the plan will cost over $50 million during the early years of its operation, in order to provide for past service benefits.

Source: Labour Gazette Annual, 1948. P. 1348.

FOOD

Consolidated Bakeries of Canada Limited.

Retirement Income Plan, 1946.

This plan to be established on the condition that 75% of the eligible employees indicate their willingness to participate.

Eligibility - One years continuous service and the entrant must be under 49½ years of age.

Retirement age - For men 65, for women 60.

Contributions - With respect to future service the employee contributes according to his salary grade, approximately 5%. The balance of the cost of future service retirement income is borne by the company.

Retirement Benefits - 1½% of average annual earnings multiplied by the number of years of contributory service determines the employees pension. For example, if average earnings had been between \$2,100 to 2,500 per annum and service was 30 years, the employee would receive \$1,035 per annum pension, or \$86.25 per month.

Termination Benefits - in the event of an employee's death his estate will receive all his contributions plus 2½% interest. This also applies if he withdraws from service. In respect of the company's contributions, an employee withdrawing after more than ten years contributory service will receive at retirement age such income as has been purchased on his behalf according to the following scale: 50% after ten years service, rising by 10% each year until fifteen years, when 100% is payable.

This plan also makes provision for earlier or later retirement on mutual agreement of company and employee.

Source: Through the courtesy of Consolidated Bakeries Limited.

BREWING

John Labatt Limited

Retirement Plan, 1938.

This plan illustrates those administered by the Dominion Government Annuities Branch.

Eligibility - Participation is open to all employees who have one years service and who are under 65 in the case of males, under 60 in the case of females. The scheme is not compulsory for present employees, but is for all new employees after one years service.

Retirement Age - males 65, females 60.

Contributions - re future service the company matches the employee's contribution up to a maximum of 3% of earnings. On a voluntary basis the employee may contribute more in order to get a higher pension, but the company's maximum contribution with respect to any employee is $200 per week. Re past service the company contributed 3% of present yearly rate of earnings for each completed year of employment with the company.

Retirement benefits - amount of pension is a function of the rate of earnings of the employee, his number of years of future service and in most cases also additional contributions made on his behalf by the company for past service. A minimum of ten years is guaranteed. For example, a man earning $25 per week and making 35 years of payments of 80¢ per week, matched by 80¢ by the company will receive a pension of $547.07 per annum from age 65. Moreover he will receive whatever the company has been able to purchase for him at 3% of his annual wage for each year of past service.

Termination benefits - in case of death after retirement, the ten year minimum is guaranteed to his estate. If he dies in the service his estate gets both his and the company's contributions, plus 4%. If he leaves the company prior to retirement, of his free will after ten years service, all contributions on his behalf will go to his credit with the Government. If he leaves before ten years, or is dismissed the contributions made by the company on his behalf will be applied by the company to the cost of pensions for other employees. Regardless of time in the plan or reason for leaving, all contributions made by the employee remain at his credit at the Dominion Government Annuities Branch.

Source: Labour Gazette Annual, 1938, p. 1229.

<u>PUBLIC UTILITY</u>

<u>The Bell Telephone Company of Canada.</u>

Plan for Employees' Pensions, Disability Benefits, and Death Benefits, 1939.

Eligibility - three classes;

A - employees whose age is 60 years or more (females 55 or more) and whose term of employment has been 20 years or more.

B - employees whose age is 55-59 years (females 50- 54) and whose term of employment has been twenty-five years or more.

C - employees whose age is less than 55 years (females less than 50) and whose term of employment has been 30 years or more.

Retirement Age - employees in Class A may be retired on a service pension either at their own request, or with the approval of the committee. Employees in classes Band C may be retired on a service pension only with the approval of the committee.

Contributions - Solely on the company's part. Established a trust fund in order to be able to meet obligations. Fund is maintained by periodic charges to operating expenses.

Retirement benefits - the amount of the annual pensions, whether in Class A, B or C is 1% of the average annual pay for ten years, multiplied by the number of years in the employee's term of of employment. The minimum pension will be $40 per month.

Death benefits - while in service are made according to set schedules if the Benefits Committee decides that the surviving beneficiary is deserving.

If the pensioner dies, payments may be made to any dependents at the discretion of the Committee.

Source: Courtesy of the Bell Telephone Company of Canada Limited.

CHAPTER V

PENSIONS AND TRADE UNION POLICY

To recapitulate our findings we have seen so far in this study that the industrial pensions movement is widening with ever-increasing significance to the nation's labour force. In the preceding chapter we have presented the status of industrial pensions primarily from the standpoint of the employer of labour. Now we must consider the worker, the recipient of the pension benefits. What are his attitudes? There is no physical means of surveying the opinions of the nation's workers as individuals, hence we must seek the answer to our question in an analysis of the policies of organized labour. What are the reactions of the nation's powerful trade unions to the current trends in pension planning? What are the union's intentions with respect to the social security of their members?

Union Plans

It is interesting to note at this juncture that certain unions administer retirement plans as part of their overall function of expressing the broad desires of their members. A glance into the past reveals that several unions affiliated with the Trades and Labour Congress and the American Federation of Labour have long been interested in providing for the secure retirement of members of the rank and file. Members of these unions contribute to the pension fund throughout their working lifetime, their contributions being remitted monthly as an integral part of their union dues. These plans are completely independent of the employer, being initiated by the union and operated entirely by the executive of the unions in question.

To illustrate what is being done by these craft unions, let us consider several specific cases. In the retirement scheme of the International Typographical Union which was established in 1908, all members are eligible and contribute 2% of their annual earnings to the pension fund. After attaining the retirement age of 60 years and completing 25 years union membership in good standing a member is retired on a pension of $16.00 weekly. This plan also makes allowance for periods of unemployment or sickness, at which times a flat rate payment maintains the member in the pension plan. The International Printing Pressmen and Assistants Union of North America (A.F.of L.) has a plan by which members become eligible to join after one year's service. Payment of $1.71 per month over a period of 20 years entitles a member to retire at age sixty on a pension of $10.00 weekly. Under the provisions established by the International Carpenters' Union (A.F. of L.) all members are eligible and are assessed at the rate of $.55 per month. After 30 year's service when a member reaches 65 he is retired on a pension of $15.00 monthly. The plan of the International Brotherhood of Electrical Workers has been in operation for more than twenty years and covers the union's total membership, currently estimated at over 250,000. A premium of $.60 per month for a 20 year period permits the member to retire at age 65 on an income of $50.00 per month.[1]

There is a noticeable variance between the benefit scales of these illustrative plans. Perhaps this is to be explained by the fact that certain of

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[1] This information was obtained through the courtesy of H.J. Sedgwick, Hamilton Secretary of the Trades and Labour Congress.

these unions have attempted to keep their members' wages at a level which would permit individual saving for retirement. It should also be remarked that all of the unions reviewed above have "Homes for Aged Workers" situated in the United States and in which members may spend their declining years in lieu of receiving cash retirement benefits. The most advantageous feature of these journeyman's plans, however, is the fact that the worker's mobility is in no way impeded by fear of losing his pension benefits. Under any of these schemes the worker may move (for example from a local in Vancouver to one in Toronto) without interrupting the continuity of his pension premiums and without altering his status in the plan.

The Industrial Union Approach

The retirement provisions outlined above are applicable solely to that segment of workers who are skilled craftsmen, the "aristocrats" of the trade union movement. When we turn to the industrial wing of organized labour whose membership has never been rich enough to allow for provision for pension benefits from their dues, we find a different approach to the social security problem. In a statement of his union's policy for 1950, Walter P. Reuther, president of the U.A.W.-C.I.O., states: "This year we can and must bring into the lives of our members a substantial measure of security against the hazards of old age, illness and disability."[2] A review of the flow of events which have preceded this attitude may aid in understanding current labour demands.

A study undertaken in 1932 revealed that those companies in Canada and U.S. operating pension programs were doing so on their own initiative and not on the instigation of organized labour.[3] In fact, the A.F. of L. which was the pre-

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[2]U.A.W.-C.I.O. Collective Bargaining Handbook for Workers' Security Programs, U.A.W.-CI.O. Social Security Department, Detroit. (Preface)

[3]S. Eckler, op. cit., p. 57.

eminent national body of organized labour during that era had traditionally denounced employer-sponsored schemes as paternalistic. Organized labour's policy was exemplified in the speeches of Samuel Gompers who contended that his men should receive a wage rate high enough to permit them to save individually for pensions. There are several factors which have contributed to the radically opposite union attitude which currently prevails on this matter. Of major importance has been the changing status of employee bargaining power as a result of the phenomenal expansion of the industrial unions, especially among the employees of the sted, rubber, auto and electrical industries. A large proportion of the membership in these unions does not receive incomes which will make possible saving against future disability. Another factor to be taken into account is the pension-awareness which was aroused on this continent at the inception of the American Social Security Act of 1935. A further stimulus occurred during the war when high wartime income and excess profits taxes provided incentives to employers to earmark funds for retirement schemes. It was inevitable that the public would become pension-conscious.

From the unions' point of view alone another important factor must be considered. Since 1945 labour had been demanding wage increases on the grounds of the rising costs of living. In 1949 living costs levelled and began to decline slightly in the United States. The unions could not at that time demand wage raises which might have halted the downward movement of prices. The time seemed ripe to demand employer-financed pensions which need not affect the price level, and which would be favourably received by their members of whom the proportion nearing retirement age was slowly growing relative to the membership as a whole.

Recent history of the industrial pensions movement in North America is highlighted by two major precedents. The prolonged coal strike which arose out of a demand for employer pension contribution in U.S. in 1947 introduced new pension patterns. When agreement was reached, the union had gained two objectives:

1. The right to be equally represented with the employer in the administration of the pension fund.

2. The total cost of employee pensions be borne entirely by the company.

This latter achievement caused a reveral in the trend toward contributory pensions through alleging that not only were workers financially unable to contribute but further that pensions should be included as a cost of doing business. With respect to administration of the plans, general experience prior to this agreement indicates that although employees were often represented among the pension trustees, the employer retained ultimate control. It is especially important to notice that out of this strike arose the American judicial pronouncement that employee pension plans constituted a part of collective bargaining. Unions in that country may now insist that they be consulted on all matters peraining to pension planning.[4]

<u>Union Pension Goals</u>

That these American precedents are becoming Canadian targets is evidenced by a perusal of the present situation in this country. It seems certain that Canadian labour will increasingly include pension demands in collective bargaining negotiations. In the words of the Assistant Research Director of the Canadian Congress of Labour:

> "Frustrated for the time being in their hopes of getting social security through government action, they (unions) are turning to methods with which they are most familiar, and which are in fact the very essence of their existence: economic action and collective bargaining. This is in effect a re-emphasis of the economic function of trade unionism."[5]

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[4]Ibid.

[5]A. Andras, <u>Union Men Want Security</u>, 1949. Article received through the courtesy of C.C.L.

Canadian union leaders point to the expansion of industrial pensions in this country and contend that they are doing no more than hastening and expanding an already well-defined process. They contend, however, that their demands are inspired by differant motives than those which lead the employer to make pension provisions. Naturally their first concern is to insure the well-being of their members. Pension and welfare schemes are calculated to increase the workers' current real income by obviating the necessity of individual provision for such exigencies. The unions are also driven by a determination to broaden the area of collective bargaining until it covers every condition of employment which may affect their members. Thus the inclusion of pensions in this area is considered another important advance toward the unions' long-run aim of industrial democracy, in which labour and management will share the responsibility of the economic well-being of the nation. The fear of institutional extinction is also a motive behind unions' policy; they must get credit for having initiated and achieved the pension benefits which accrue to their membership.

The Canadian director of the U.A.W. - C.I.O., Mr. George Burt, asserted on September 14, 1949, that "We are determined that we will not accept anything less than the results of negotiations in the United States."[6] Since the U.A.W. is a representative Canadian member of the C.I.O., two fundamental questions arise: What is the U.A.W. demanding? On what grounds are they basing these demands? An examination of these questions may suggest the direction the industrial pensions movement will take in the future if organized labour is in a superior bargaining position.

In its Collective Bargaining Handbook for Social Security, Chapter II,

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[6]S. Eckler, op. cit.

the U.A.W. outlines its reasons for bargaining for workers' security. Its contention is that it is generally impossible for individuals to make adequate provisions for such exigencies as old age because the cost, being unpredictable, does not lend itself to individual budgeting. It feels that old age insecurity can only be avoided by concerted group action, both on the part of labour and management. A further argument is that management must recognize that it has a worker "repair" and "replacement" cost analogous to those costs associated with its other physical productive processes, and that a fund for worker depreciation must be provided. The union stresses that gains made in social security provisions through the process of collective bargaining are not intended to be substitutes for governmental provisions but to provide a flexible supplement to the national minima provided by the state. It follows that labour demands the abolition of the means test from the Canadian Government plan, in order to make national minimum benefits an essential right of every citizen. The union stresses that retirement income from all sources must be sufficient to meet the essentials of a decent standard of living.

It is pointed out by the union that to have industry assume responsibility for financing employee security is not a new idea since many salaried employees have traditionally been protected. The argument is that by the same token, of responsibility for the security of the wage-earner is well established in principle. A further analogy is intended to support their argument. In depreciating physical equipment certain amounts so reserved are deductible from taxable income if computed by means of recognized depreciation formulae. These allowances are firmly established on sound economic principles as proper cost of doing business. The union argues that provision for worker retirement is likewise a legitimate business expense. Its particular concern lies in establishing the formulae by which this cost will be computed as a percentage of payroll, and thus instituting a definite standard for worker retirement. It emphasizes that this is a cost of production and that to subtract it from the workers' share of the product by means of a levy on wages is unfair discrimination against labour.

The cost of abolishing old age insecurity is inescapable and it is argued that dependence upon philanthropy and voluntary methods for finances cannot succeed in guaranteeing security. To delay in making sound economic arrangements for the allocation of security costs is to leave the burden chiefly with the individual who is least able to carry it. From the sociological standpoint it is argued that pensions are a social responsibility of industry essential to the maintenance of a stable society.

In opposing those plans under which the worker contributed to the cost, the U.A.W. alleges that the workers' current earnings are not sufficiently high to allow him to finance security benefits. It concludes that benefits which are currently being financed in this way will inevitably be inadequate. Company-controlled plans, according to the union, are unacceptable in principle because they are unilaterally established by the employer, with the worker having no voice in determining the conditions. For this reason, it is felt that these plans do not have as their primary emphasis maximum benefits at lowest net cost. To achieve an effective program which will consider the workers' needs primarily, labour must have an equal voice with management in the decision-making prior to establishing the program, as well as equal responsibility for its continuing administration. By this means management will be required to divulge details of all sums allocated to the pension fund, and their expenditure.

With the foregoing several arguments, the U.A.W. now makes the following explicit demands for "Old Age Retirement Income".

"We demand a pension program financed entirely by payments from the company to provide benefits as follows:

1. $100.00 minimum monthly pensions at age 60 for employees with 25 years of service.
2. Graduated monthly payments at age 60 for employees with less than 25 years of service. The pension program must make provisions for the protection of rights of workers in case of death or permanent severance from the payroll prior to retirement age.

The collective bargaining contract must contain specific provision for:

1. Establishment of a trust fund into which employer payments are made with provision that all such monies can be spent only for pensions and related benefits.
2. Establishment of a Board of Trustees on which the union has equal representation with management. This Board of Trusteed to be responsible for the setting up and operation of the pension program.

The pension program must cover all employees under the Collective Bargaining contract."[7]

A simultaneous demand which is outside our field of study is made for disability and death benefits, hospital and medical services to be included within the same overall program and to be administered by a common Board of Trustees.

<u>The Ford Agreement</u>

A cursory examination of the proposals outlined by the U.A.W. shows that its demands greatly exceed the average benefits which corporations have in the past seen fit to establish.[8] To many employers these demands seem unreasonable, and

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[7]U.A.W. - C.I.O. op. cit. pp. 23-24.

[8]See Chapter IV

impossible of fulfillment. In fact, however, a precedent was established in 1949 when the U.A.W. reached an agreement with the Ford Motor Company of the United States which provided for the inclusion of the U.A.W. pension program. Similar demands have since been placed before the Ford Motor Company of Canada. The "Retirement Income Program" advocated by the union in Canada is substantially the same as the program accepted by the company's American counterpart. An analysis of several of its details will serve to show how the scheme is to be worked out in practice.[9] In expanding the clause which insists upon universal coverage of all workers under the collective bargaining agreement, the U.A.W. demands that every eligible worker will be given service credits toward retirement benefits on the basis of his entire period of employment, irrespective of his age, pay classification or level of earnings. All must be covered to avoid the creation of an underprivileged class within the industry and to satisfy the principle of need and equity, as well as to simplify the plan's financial and administrative aspects. Thus no "waiting period" is required for eligibility, chiefly on the grounds that postponing the benefit fund accumulations means eventually an increase in cost. Since older workers constitute the primary retirement problems when a plan is inaugurated, they can only be excluded from participation at the risk of seriously impairing the effectiveness of the scheme.

In defining types and amount of benefits to be paid the union recognized four distinct classifications. The fund includes those retiring at 65 or over, and for this group it is provided that all those with at least 10 years of credited service shall receive a monthly benefit for life of $4.99 for each credited year of service up to a maximum of $100.00 for 25 years service. The age 65 is selected as a norm because it has been most frequently adopted and is therefore considered

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[9]The following information through the courtesy of George Burt, Director, Canadian Regional Office U.A.W.-C.I.O. Workers Security Program - Ford of Canada, U.A.W. - C.I.O.

the average point at which persons covered are expected to be ready for retirement. The proposal points out, however, that the most significant trend in retirement planning is the increased recognition of variation between individuals as to the age when superannuation occurs. Thus retirement is not made compulsory for 65 year old workers, but those who are willing and able to work may defer retirement. The union claims that many workers will in fact be in this category, which will tend to reduce costs.

Under the second classification provision is made for early age retirement. It is proposed that workers with at least 25 years of credited service may retire at age 60 and receive at their option, either a full deferred benefit at age 65, or an immediate benefit which is the actuarial equivalent of the deferred benefit to which they would be entitled at that age. This idea is likewise advocated in recognition of variation between individuals with respect to superannuation. It is designed primarily to provide for the needs of workers who become partially disabled and require immediate retirement income. The formulators of this plan predict that this provision will not be frequently used as the worker benefits greatly by working until age 65 or longer.

The third classification provides retirement benefit to those who are totally and permanently incapacitated before age 65. This group is to receive a disability retirement benefit of $100.00 per month after completing 25 years or more of credited service, or of $60.00 per month if 15 but less than 25 years of service have been completed. The union contends that incapacity as such is as great a fear in the minds of the worker as is old age, and is a misfortune for which provision must be made. As it is often a concomitant of old age, plans based on age alone often provide for this group of workers. This clause is designed to protect those stricken before retirement age, and is held to improve plant safety as well as efficiency by weeding out impaired workers from the productive process. To protect the company against abuses of this provision, a careful definition of incapacity within the standards set by the insurance companies is to be used.

The fourth category covers death benefits to be paid after retirement, and advocates payment of the monthly retirement benefits to the worker's designated beneficiary for a period of eighteen months. The union calls attention to the fact that provision is more adequate to the needs of the survivors than the type in which a minimum number of payments is guaranteed after retirement. Under the latter plan, if the worker dies after expiration of the minimum guarantee, his dependents are left to their own resources.

It is interesting to consider the union's conception of "years of credited service". To gear benefits to years of service is to be consistent with the established union procedure of defining job security and seniority. The worker understands and will accept this method without question. This method not only establishes the worker's right to a certain retirement income, but also simplifies the administration and record-keeping associated with the program. The problem of past service must now be solved. The union plan requires that past service be fully credited in recognition of the fact that retirement benefits are regarded as defined remuneration for service rendered; past service must be considered or retirement schemes are meaningless to the majority of present employees. It is the union's belief that the mechanics of crediting past-service would be facilitated by establishing the employee's record on the basis of company seniority. Future-service credit will be based on the worker's employment after the plan is begun and he will be credited with one year of service for each plan year in which he was paid for 1500 hours or more; 3/4 of a year of service for 1000 to 1499 hours; $\frac{1}{2}$ year of service for 600 to 999 hours. No credit will be given for less than 600 hours in a plan year. Military service is to be included in an employee's credit toward retirement benefits, as well as service performed after age 65. A long range proposal which will provide for a higher degree of labour mobility is envisaged by the U.A.W. A method consolidating service credits accumulated under U.A.W. - C.I.O. Retirement Income Programs by workers who serve several employers over a period of time is advocated; this measure will require reciprocal group arrangements between the Boards of Trustees involved.

The U.A.W. claims to have thoroughly investigated the cost of the pension plan which it proposes. Its Social Security Department has attempted to develop the program on an actuarially sound basis, and their assumptions, their choice of experience tables and the application of actuarial techniques , the research workers have sought to make allowance for possible unfavourable developments within the covered group. The overall aim is to maintain conservatism to the extent that reserves will not be jeopardized at some future date. The entire basis of their actuarial calculations including formulae used is presented in the brief under discussion on the principle that full knowledge is essential to unqualified acceptance of such a program by both management and union members.[10]

<u>Conclusion</u>

The above analysis shows that the C.I.O. is certainly in earnest in its demands for pension coverage for its membership. The extent to which this branch of organized labour is prepared to go in order to secure adequate pensions is evidenced by the thorough-going scheme which it has highlighted as

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[10]U.A.W. - C.I.O. Workers Security Program - Ford of Canada, pp. 1-17.

its principle demand for 1950. If such a program finds widespread acceptance in Canadian industry as organized labour grows in strength and becomes able to exert a greater economic pressure, what will be the implication for the national economy? It cannot be denied that a $100.00 a month retirement pension is certainly the most generous measure for meeting the superannuation problem. But is such a plan economically feasible?

The above proposals indicate the specific action which this industrial union is prepared to follow in its collective bargaining demands for the year 1950. It is now in order to consider labour's overall attitude toward social security for the nation's entire labour force which includes vast numbers of unorganized workers. The initial and traditional argument that this group will be encouraged to organize as a means of improving its position may be passed over quickly. There will always exist a residual element in the labour force which is precluded from organizing, either because of the extremely seasonal nature of its employment, or because it is self-employed, as is the case in farming and small unincorporated business.

One prominent labour official in Canada[11] reveals that the Canadian Congress of Labour would prefer to see an adequate national old age pension scheme established, rather than a patch work of private industrial schemes. The Canadian Congress of Labour's 1949 annual convention passed resolutions including a demand for a Social Security program patterned on the British principle, and covering health, invalidity and old age pensions. For the short run the Congress demands that present old age pensions payments be increased to $65.00 per month, and that eligibility be expanded so that all Canadians be included at age sixty without a means test. Similar demands were voiced at the 1949 convention of the

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[11] A. Andras - Assistant Research Director, C.C.L.

Trades and Labour Congress. This body favours a Dominion-wide contributory social security plan for all citizens regardless of their income. This group of unions would like to see the present Old Age Pensions Act amended to reduce the pensionable age to 65 and to allow participation to all fifteen year residents of the Dominion. They further demand that the monthly benefit payment be raised to $60.00 and that community homes be provided for aged married couples.[12] At this stage of our study we may conclude that organized labour's current demands have two major objectives:

(a) In the absence of decisive government action, to insure adequate retirement benefits to its membership regardless of the effect on the economy as a whole.

(b) To utilize its demands for private provision as a means to its long-run end, that of complete state coverage. It intends that by exerting pressure on the nation's powerful corporations, the latter will be induced to swell the ranks of the pressure group which now advocates a broad and adequate federal program.

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[12] Labour Gazette, November, 1949.

CHAPTER VI

PENSIONS and ECONOMICS

Part I

Costs and Financing

The pension question is one of the major problems facing the Canadian economy in 1950. The increased activities of trade unions in the social security field have served to raise many controversial issues. Individually, and collectively, through their trade associations, businesses have shown a widened interest in the social security problems of their employees. All the nation's main political parties have indicated their willingness to support the general principle of social welfare. The federal Government is now committed to investigate the problem thoroughly and to present its findings at the Dominion-Provincial Conference in September, 1950. These several attacks upon the problem make it reasonably certain that various solutions will be proposed as practical. But will the basic problem be approached in terms of the cost to the economy as a whole? A discussion of costs and means of financing superannuation benefits will clarify the issues, and aid us in defining the alternative allocations of the cost burden which may be considered with respect to both equity and ability to pay.

The Individual

Let us first consider the cost question from the point of view of the individual Canadian citizen. Several labour groups and consumer interests unceasingly declare that the worker's total income is consumed by day to day expenses, and that it is impossible for him to save for the future. Proponents of this point of view refer to the high taxes currently prevailing, and the extremely high cost of living which has characterized the post war period. A further contention is that past savings (e.g. compulsory savings of the war years) have depreciated, both in terms of reduced interest yields and in purchasing power.

These are general statements. Reference may be made however to one study in which concrete data is available, namely a study undertaken by the Welfare Council of Greater Toronto.[1] The study attempts to outline a family budget which is compatible with decent nutritional and general living standards. The authors caution that their findings are applicable only to the Toronto area, and that it is not intended as a general statement of what families should spend. The committee which undertook this study defines the standard of living which they postulated as "one which will maintain a minimum level of health and self-respect."[2] This committee has taken great pains to outline in detail the multitudinous cost components which such a living standard entails. It has analysed carefully every major aspect of the family budget including food requirements, new clothing needs and cost of maintenance of dress, shelter, transportation, education, religious programs, personal allowances, family entertainment and several miscellaneous items. It may be said of their study that it is amazingly comprehensive. On analysis, however, it can be seen that the budget it submits would in fact allow

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[1]Guide to Family Spending in Toronto, Canada, 1949.

[2]Welfare Council of Greater Toronto - A Guide to Family Spending in Toronto, Canada, 1949.

no more than a bare existence.minimum.

From the tables computed in this study as a summary of the Council's findings, we see that during 1949, it would cost their hypothetical family of four (2 young children) $167.69 to subsist for the month of June.[3] The Dominion Bureau of Statistics reports for the same month that average wage and salary earned in Toronto was $172.64.[4] These figures give us a rough basis for comparison, and the family in question is seen to have $4.95 at the end of the month to cover health, hospital, doctor and insurance expenses, the residue if any being savings. Such figures indeed afford ample proof that the average wage-earner finds that the problem of building up a competence for old age, or of assuring through his own efforts a continued income to his family after his retirement or death, is almost insoluble.

Difficult as the individual problem of providing for old age is today, it is only one aspect of the immense social problem which is developing. Advances in medicine, chemistry and related sciences give warning now that the number of old people will almost double within the next quarter century. As this group gains in numbers, it will exercise its extended political powers according to its economic needs and ambitions. Unlike past generations, tomorrow's aged will expect the government and corporate enterprise to provide them with greater means after superannuation than their ancestors could gain through private thrift in earlier decades. There is little consideration of the burden which will fall upon that diminishing proportion of the population in the productive ages, as this future demographic pattern comes into existence.

<u>The Firm</u>

Business enterprise now receives our attention as the body to which

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[3]Ibid. Tables I and II

[4]Labour Gazette September, 1949, pp. 1161 Table C.

the individual worker turns for a solution to his superannuation problem. Since the private enterprise segment of the economy has been traditionally reticent on the subject of its detailed costs and profits, it is impossible to present a statement of the costs and effects of an old age pension plan to the individual firm. It is possible, however, to state that plans which business inaugurates are efficiently administered on a low cost basis, and that the monies assigned to such funds purchase a maximum in benefit returns. Almost all company schemes are established on insurance principles and are calculated on sound actuarial assumptions. Taken into account are age, sex, years of service, as well as assumptions regarding mortality rates, total incapacity, numbers withdrawing from employment, age at retirement, rate of interest on invested funds and cost of administration. Some private plans were in the past financed on a pay-as-you-go basis, but as costs became prohibitive these were converted to the insurance type. The trend to contributory plans in which both employers and employees participate is noteworthy. Costs of old age benefits upon some companies which were bearing the entire burden, tended in periods of stringency to impair the companies' overall financial position; the switch to contributory plans seems in many cases to have been instrumental in removing the strain.

Industry's obligation to the worker in terms of social security has been pointed out, and is increasingly becoming a concern of enlightened management. Is industry able to bear the additional cost entailed and at the same time prevent a severe dislocation of the nation's economy in terms of cost structures? Past experience seems to indicate that those industries which have set the pace in providing retirement benefits for their employees have survived, and in many cases prospered. This may be attributed to the increased efficiencies which accrued, as well as the fact that often the costs of such benefits are shifted, either to the worker who receives a lower wage as a result, or to the consumers in the form of higher prices, or to stockholders who consequently receive lower dividends. A combination of these alternative shifting patterns is generally the case, with predominance upon one or other depending upon the state of competition in the markets in which the firm deals. The fact that pension plans are found in almost every conceivable type of industry would seem to endorse the general feasibility of such plans in private enterprise.

The Government

Let us consider now the Welfare State solution to the old age insecurity problem. Envisaged in this approach is a broad outlook on social security, in which old age pension provision is merely one aspect of a plan which covers every exigency in the individual's life from the cradle to the grave. Such a program is based on the supposition that individuals are willing to place themselves completely in the hands of the governing body, which will at once accept all earnings and all responsibility; the individual's free choice of action will also be curbed. Under a state plan based upon these premises, allocation of the nation's income becomes a state responsibility, and such sums as the state deems desirable are transferred to those reserves earmarked for payment of old age pensions. Such a plan would seem unlikely in the near future in Canada, but an extended plan of contributory old age insurance actuarially conceived and administered by the federal government is a practical possibility. On this score, cost considerations are particularly pertinent.

The government has now reached the stage of conducting an active investigation of the problem. It has established a Fact Finding Committee charged with four major tasks:

1. To study present legislation and consider how far Canada can go in ex-

panding its pension scheme.

2. To examine pension legislation in other countries.

3. To consider the practical problems involved in abolishing the means test, or of setting up a contributory plan.

4. To examine constitutional barriers to amending present legislation. This inquiry has been undertaken for several reasons. Pension costs are now high, the 265,000 beneficiaries under the Old Age Pensions Act constituting a financial drain of one hundred million dollars on the federal budget in 1949. This arises out of the Dominion's contract to pay three quarters of the cost up to a $30.00 maximum per month. If labour's clamor for removal of the means test were heeded, 670,000 persons would become eligible for pension benefits. If such a plan is implemented, the Federal Government fears that the provinces would be forced to reduce their proportionate share of the cost, leaving the federal government to carry the full pension load. This is estimated at $322 millions, or over three times the current federal outlay for pensions. This cost, plus the high costs of national defence which are running beyond the most liberal estimates for peacetime years, would place the government in an extremely unenviable position. Other possibilities which Ottawa views with alarm include the cost of a monthly pension of $40.00 with no means test in 1961, a sum amounting to $415 - $420 millions annually. The prospect of lowering the retirement age in 1951 to 65 would commit the government to an annual expenditure of $480 millions.[5] It is obvious that if an expansion of benefits and/Or coverage is going to occur, either a special social security tax will have to be levied, or tax rates in general subjected to a substantial boost.

This analysis would suggest that as social security expenditures are

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[5]Financial Post, The Canadian Pension Outlook, February 25, 1950.

continually rising, and in view of the demographic pattern envisaged for the next few decades, a pay-as-you-go policy of financing is undesirable. One noted American economist[6] has undertaken a detailed analysis of social security financing and it is to his study of cost theory which we will now look in an endeavour to clarify the issues involved in state financing. He is, of course, concerned with problems confronting the American Social Security Program but since it seems likely that Canada will shortly be faced by a similar problem, his discussion of the general principles are relevant to this study.

In Harris' estimation, there are three plans for financing state old age insurance which are worthy of consideration. The first is the reserve plan upon which the American Social Security Act of 1935 was founded. It will be recalled that this Act provides a scheme of contributory old age pensions, for which funds are drawn by levying pay roll taxes upon employer and employee alike. This tax was set on a sliding scale, beginning at 1½% and increasing steadily to 6% in 1949. By this method of financing it was intended that annual receipts for many years would be in excess of annual charges upon the government for benefits, allowing a substantial reserve to be accumulated to help to meet the estimated heavy drain on the plan over the following decades.

Under Harris' second alternative, the contributory principle is bypassed to some extent. He proposes that the government levy heavy progressive general taxes, and apply this revenue to paying off the federal debt. The long range plan is that when the debt is eliminated, the receipts from these taxes will be used directly to finance old-age benefits. Moreover by liquidating the debt, the large sums formerly required to service it may also be applied to social

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[6]Seymour E. Harris, Economics of Social Security. New York: McGraw-Hill Co., 1941.

security financing. As opposed to the first scheme, Harris calls this a "genuine" reserve plan, for under the first, reserves are piled up, and at the same time the government debt goes on rising. He submits that his second plan though theoretically sound, may have certain practical short-comings, since elimination of the public debt by means of heavy tax levies seems politically impossible.

The third proposal, the pay-as-you-go plan is designed so that payroll taxes may be reduced in the plan's early years, while later deficits would be financed by increasing general tax revenues. It is notable here that the additional funds required in later years will be higher than if they had been collected in the early stages, for interest on the reserve which would have been accumulated has been foregone. A two way shifting is thus involved. The workers will escape the burden to a certain degree if payroll taxes are reduced, while the general taxpayer will be called upon to assume a higher proportion of the cost. The allocation of funds is likewise shifted in time from the present to the future. The author concludes that the inherent weakness in pay-as-you-go financing is the element of instability introduced through dependence upon contemporary tax revenues to finance the benefits in future generations.

Harris concludes that the second plan is the most desirable, and although unfeasible at the present time in U.S. it serves to define the issues more clearly. He points out that any plan which calls for an accumulation of reserves, while at the same time public debt is rising, leaves much to be desired. His claim is that his second plan also points out the weakness of pay-as-you-go policy, which neither makes provision for future liabilities through debt liquidations nor for the accumulation of specific reserves as insurance against future liabilities.[7]

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[7] Ibid., pp. 172-180

Another American analyst of the Social Security Problem[8] offers a unique device as a possible cost stabilizer. He believes that a plan allowing universal total and permanent disability pensions at age 60 should be constructed. He then suggests that an alternative of deferred retirement be allowed those who would normally retire at the stipulated age of 65. Under his scheme an increase in pension for each year of deferment of benefits would provide sufficient incentive to many to continue working, ensuring themselves of more adequate pension benefits when they finally decided to retire. To ensure financial soundness, the increased benefits would be based on actuarial equivalents of mortality and interest factors, and would be computed on a simple basis, his suggestion being a 1% increase for each month of deferment. He feels that this proposal is a good compromise to demands for lowering the retirement age.

This same author brings up another point which cannot receive too much stress in a discussion of any type of fixed benefit payments. It must be made clear that the financial security of the old age beneficiaries depends primarily upon stable and conservative financing on the part of the government. Any government action which impairs the soundness of the currency, and induces inflationary price rises is severely felt by this fixed income group. Not only is the purchasing power of their state benefits reduced, but the purchasing power of any past savings is steadily diluted. Thus it is part of the government's obligation to maintain taxes and price levels within reasonable limits insofar as it has control in these fields, allowing the aged to reap the full benefits of past thrift.[9] Otherwise if the government resorts to a policy of inflationary financing, real

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[8] H.W. Steinhus, Financing Old Age. New York: National Industrial Conference Board, 1945, pp. 35-36.

[9] Ibid. p. 40.

benefits are reduced, as well as the real cost to the economy.

The issues facing the government are clear. If old age pensions are to be widened in scope and adequacy, the plan will have to be placed on an insurance basis, and funded. A contributory type plan has helped solve the cost problem which confronted many private industries, and so also it might prove a boon to the state in its search for a painless method of financing. The specific type of financing to be adopted will depend, of course, upon the government's decision as to which groups in the economy are best fitted to contribute to the costs. This decision will also be a function of the strategic political factors which are pertinent at the time the expansion of pension provisions takes place.

Part II

Some Economic Implications of Different Means of Financing

Alternative Financing Proposals

Professor Harris has added a notable work to the economic discussion of social security in general in his book, Economics of Social Security. He has approached the problem from the general equilibrium point of view and his treatise includes an outline of the effects of a social security program upon money, the rate of interest, savings, investment, employment and so on. It is beyond the scope of this thesis to undertake an incorporation of the comprehensive conclusions reached by this author. His treatment of the economic changes induced by various means of financing, with regard to demand, price, and output, however, is particularly enlightening and a brief review of his findings is worthy of consideration at this point in our study.

The problem with which the author is concerned is that of the effects upon the economic system of alternative proposals for social security financing. Reserve accumulation and pay-as-you-go are the two major alternatives, and under either plan the government has a variety of tax sources from which to choose. His analysis is undertaken to determine the effects of specific financing plans upon several economic variables, including demand for various types of goods, (which he classifies as "wage goods" or necessities; "intermediate consumption goods" or luxuries; and capital goods) upon the movement of factors of production, upon total consumption, prices, and output. To clarify the situation he distinguishes three distinct phases in state pension financing, namely accumulation, nonaccumulation, and decumulation, and in dealing with each separately, he attempts to answer such questions as "Who pays now?" and "Who pays ultimately?"

The financing plan which makes heavy demands upon the wage-earning classes (i.e. in the form of payroll taxes), in order that substantial reserves may be accumulated, will tend to cut this group's consumption of wage goods. Consequently prices and profits in these industries may fall off, and if full employment is assured, factors may be drawn off to more profitable endeavours. Unemployment or lowered rates of return to factors will be the result if the latter are specific or otherwise immobile. If substantial unemployment exists, there is unlikely to be any transfer of factors and an unfavourable decline in demand for capital goods may follow. Employers are also burdened by payroll taxes, and attempt to shift the load to either workers or consumers, by lowering wages or increasing prices. All classes of goods will rise in price as supply is restricted. If these attempts at shifting are only partially successful, profits must inevitably suffer. The author concludes generally that if payroll taxes are used to build up reserves, demand for wage goods will be relatively reduced, while the demand for intermediate consumption goods will decline absolutely.

It is intended that much of the revenue required by pay-as-you-go financing will be solicited through general tax sources, and if present patternsn are followed the main burden will be placed upon those in the high income brackets. The author considers the possibility of these taxes falling primarily upon surplus income. The effect would be reduced savings among the population affected, as well as a decline in consumption of intermediate goods, although demand for wage goods would remain relatively unaffected. During the period when reserves are being accumulated by this method then, a lowered demand will lead to reduced prices for intermediate and capital goods. If on the other hand, these taxes do not fall on surpluses, there will be attempts to shift them both forward and backward. The consequent raised prices of consumer goods and the lowered return to factors may reduce output, investment, and employment, and set a cumulative dowmward spiral in motion, unless definite action is taken to check such a movement.

So much for the effects of accumulation of reserves. Now let us consider what takes place in periods of non-accumulation. Non-accumulation is a phenomenon associated with pay-as-you-go policy which assumes that receipts will be equal to expenditures. Thus even if revenues are raised by the payroll tax method, the demand for wage goods will probably rise as the money is simulataneously being disbursed to needy beneficiaries whose demand for wage goods is relatively high. The author engages in a somewhat interesting speculation upon the effects of taxing surpluses exclusively, during a period of non-accumulation in the future when payments to pensioners will be of a large scale nature. In such a situation, he foresees consumers bidding up the prices of wage goods as the tax method has no adverse effect on that sphere of demand. His conjecture is that the pensioners may have difficulty in obtaining the wage goods essential to their livelihood. Actual results, however, depend upon the level of employment and the degree of mobility of productive factors. If unemployment exists, factors will be drawn into the wage goods industries; if employment is high, the pension beneficiaries may find that the purchasing power of their benefits has dwindled. Thus although it appears that the wealthy are paying, in fact the poor are forcing wage good prices up by competing with each other for the available supplies.

A real danger associated with pay-as-you-go financing is revealed when we consider the great increase in the number of beneficiaries which is likely to occur over the next several decades. The required revenue will have to increase several times during this period, and Harris feels that the extraordinary tax burdens, which will have to be levied, will have a depressing effect on the economy. His belief is that even if surpluses exclusively are assessed, incentives to invest may be seriously impaired resulting in a decline in investment and employment. Thus a decline in demand for all types of goods will promote low living costs for the pension recipients, to the detriment of the remainder of the population.

During a period of decumulation, similar results are experienced as during the time of non-accumulation. In this case, however, pensioners are also in receipt of monies which have been realized by the sale of government bonds (from the reserve fund) on the open market. As a result it is probable that net demand for goods will rise to an even greater extent than during a period of non-accumulation. Again if conditions approaching full employment exist, prices of wage goods will rise as competition for available supplies takes place, and the pensioners will find that their benefits purchase much less than was anticipated.

Professor Harris' general conclusions to this analysis indicate that a program which levies the bulk of the taxes upon the lower classes through payroll or consumption taxes, allows the necessary transfer of wage goods to pensioners to take place with a minimum disturbance of wage goods prices. To tax surpluses, especially when outlay is in excess of income, is to cause price rises in wage goods to occur, for the rich will not be forced to reduce their demand for necessities. His findings infer that their fellow workers will almost completely provide the wage goods which the insured will consume in a later generation. Transfers to the insured will come chiefly from the lower classes, although not entirely. To sum, up, choice of financial method is of utmost importance; the specific method used will be an important factor in determining the price level and the volume of output, as well as fixing the degree to which various segments of the community are called upon to curtail wage goods consumption in favour of the pensioners.[10]

Reserve Financing and the Trade Cycle

Another noted American economist[11] has taken up the problem of financing old age security, primarily with respect to its effects upon the business cycle. Since this analysis was conceived during the depression of the 1930's, his concern is logically with the effects of such government financing upon a depressed economy. Attention is concentrated upon the reserve method of financing, and data upon which the analysis is based are drawn from American experience and estimates. Will social security financing on the reserve principle accentuate depression underemployment or will it serve to stimulate a revival of business activity?

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[10] S. Harris, op. cit., pp. 119-131.

[11] A.H. Hansen, Full Recovery or Stagnation? London: Adam & Charles Black, 1938.

The argument presented here, as opposed to that of Professor Harris, advocates supplanting the reserve method of financing with a pay-as-you-go policy. This proposal stems from the general thesis that adding to the reserve fund is essentially a deflationary process, which, in conjunction with other deflationary tendencies in the economy, will intensify periods of depression. This approach emphasizes the initial effects on the economy of removing large amounts from current consumption expenditure, and also the resultant effects induced by the decline in demand, and hence in the expectations of producers. It was foreseen that if estimates proved correct, between 1937 and 1947, after the benefit liability had been met, the net tax collections in the United States would average $800,000,000 annually. The allegation is that effective consumption demand would be reduced by this amount. Generally speaking this primary effect may be of minor importance compared with the business contraction which it is likely to occasion. The lowered incomes in the industries first affected would intensify the deflation problem to an extent disproportionate to the initial decline in consumption, as multiplier effects spread throughout the entire economy.

Let us consider how these taxes actually reduce the monies available for private expenditure. If we assume that the government is operating a balanced budget, the funds being collected on account of the reserve will be employed in liquidating government debt held by banks and the investing public. As the bonds held by the banking system are retired, their assets against which deposits may be created are reduced and their function in creating credit will be curtailed. When the bonds held by the public are redeemed, the cash which the holders receive may be spent for consumption, re-invested, or hoarded. It is alleged that in a period of slow business activity the desire for liquidity is high, consequently much of these sums may be used to pay off old debts, or may be held idle. Hence whether it be bank or individual holdings of government debt which are reduced, a deflationary tendency is set in motion which will affect both investment and consumption industries.

In the instance in which the government is operating an unbalanced budget, if we assume that social security taxes exactly offset the deficit, this tax revenue will be used for current expenditures. It is argued here, however, that whether or not such special taxes had been forthcoming, the expenditures necessitating a government deficit would still have been undertaken. Thus deflation is accentuated during a recession if such taxes are imposed, and the downward spiral may only be halted by an even greater increase in expenditure on the part of the government. Also to be considered is the increase in hoards which will occur, as the reserve account displaces private holders by acquiring government securities in the open market. If alternative investment opportunities with equivalent risk and return cannot be found, the actions of such hoarders in sterilizing funds will intensify the deflation. This argument concludes that an increased volume of relief and public works expenditure will be required by the government if a persistent policy of taxation for reserve financing is carried on during a period of depression.[12]

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[12] Ibid, pp. 188-192.

CHAPTER VII

CONCLUSION

The Problem Restated

In the foregoing chapters we have undertaken an analysis of the general problem of old age insecurity in Canada, and a survey of individual and societal measures to alleviate current stresses and to work toward elimination of the future problem. As pointed out the problem is essentially one of individual inability to provide for this exigency and is especially prevalent among skilled and unskilled wage-earners. These comprise the crucial segment of the labour force which is caught in the inexorable pincers. They lose their wage-earning capacity relatively early in life because employer prejudices and the inevitable physical slowdown of old age preclude their continued employment; they are unable to insure themselves against this risk over their working period because living costs consume the small income which is theirs after strikes, unemployment, taxes, sickness and accidents have taken their toll. The result is inevitable: the average worker reaches superannuation with little means and no job.

At the present time the individual effects of this general situation are deeply felt among the aged. Yet the population experts predict a numerical increase among the aged over the next few decades which will double the proportions of the problem. Barring immigration (to which there is notable hostility at present) the group over 65 in the Canadian population will number 1,500,000 by 1971. At that time this aged element will make up 10% of the country's total population. In view of these demographic assumptions it is possible that by 1971 the problem will be doubly severe; it is also important that the percentage of voters in favour of liberal pensions may then have twice the political weight that they have today. On this ground alone immediate action is called for to guard against excessive future burdens occasioned by overgenerous provisions gained through political pressure.

Earlier in this analysis attention was drawn to the problem of unemployment among the group 45 and over, a phenomenon which is on the increase. This is another major factor which is accentuating the general state of old age dependency, for these people have even less chance of making provision. Although this question is beyond the scope of this thesis, a digression is warranted in order to point out that considerable research is being carried on at present in the hope that solutions may be found. In Ontario, for example, the National Employment Service has established a specialized counselling and placement service for the purpose of advising these workers, and re-educating employers. Dr. W.G. Scott who heads the project has published the results of the first year's activities[1], which provide a fine example of what can be accomplished in this field. Over 1,100 applicants were interviewed and after counselling the majority were recommended as suitable for three or four jobs; it is significant that only six were regarded as unemployable although thirty-eight were over age 75. As a result of the counselling and placement service over 600 of the applicants found employment during the same year. Undoubtedly this service deserves emulation in other parts of the Dominion.

To clarify the issues of our specific problem, we must consider it in its two distinct aspects, the social and the economic. The former is in the province of the sociologist, but it has such important significance as to warrant its rough

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[1]Report of the Counselling Service for Applicants for Employment, over 45, 1947-1948. National Employment Service, Toronto, 1949.

evaluation in an economic analysis. The root of the matter is here, and social goals must be established if any concrete steps are to be taken. Euthanasia in the case of the improvident aged is clearly out of the question. The aged are to be maintained, and in the language of the social scientist, in a manner which will preserve their dignity, self-respect, and which befits their physical and cultural standard of living. This conclusion is indisputable.

We have now a clear problem with which the economist may deal. The aged must be provided with goods and services in accordance with the above social postulate. The problem is therefore reduced to one of allocation. Either the superannuee will receive his share of the nation's productivity as a matter of vested right, or he will receive it as a form of charity. He may be asked to contribute toward his future well-being, or he may be awarded part of the fruits of his more assiduous, or his more fortunate brother's toil. He will either assume responsibility for his own retirement or such planning will be delegated to others better able to plan and to provide: the national government, or the enterprise which hires his services while he is considered employable. That there are many and varied ways of industrial and governmental fulfilment of these obligations has been elaborated in the main text of this thesis. Certain clear-cut conclusions emerge. Let us look at the effects of government and industrial planning with respect to old age dependency.

It is unnecessary to labour further the fact that the individual wage-earner is seldom able to undertake private measures to assure himself a secure old age retirement. Those few who are sufficiently fortunate and thrifty to be able to defer income until their working days are over are provided with an excellent medium for such savings in the form of Canadian Government Annuities.

It is however, the majority, the first group with which we are concerned. Some authoritative organization, superior to the individual in terms both of financial and organizational ability is obligated to devote its attention to this problem. And which body within the state is more susceptible to pressure for such obviously needed improvements than the federal government?

The Government's Role

In 1945, the Dominion Government admitted the shortcomings of the Old Age Pensions Act of 1927. To replace it, that body proposed a more liberal plan involving a broadened numerical coverage as well as a flat-rate benefit structure. A minimum subsistence benefit payable to every citizen over 70 as a right was envisaged, along with a plan of assisting those over 65 who found themselves in adverse circumstances. The cost of the vested benefit for those over 70 was to have been entirely a federal responsibility, while the provinces were asked to defray 50% of the cost of the assistance program. Had this plan been implemented it would certainly have ameliorated the social ill-effects of old age insecurity. Economically, however, it would have constituted a serious drain on the national coffers.

Experience in other countries has shown that generous expansion of non-contributory pension schemes is economically impractical. The government in the United Kingdom was found to limit the rapid increase in costs of government-sponsored non-contributory pensions in 1925, after several amendments had been passed broadening the Act. Such heavy-handed charity was found to be more than the economy could bear, and a plan tying benefits to contributions on the insurance principle was inaugurated. Similarly in the United States, non-contributory pensions were judged unsuitable as a sole means of meeting the need, and in 1935 were relegated to a minor position by the passage of the Social Security Act which provided a nationwide program of old age insurance. Contributions to this scheme were required of a large percentage of the population. France, Eire, Sweden and Denmark are among the other nations of the world who have long since discovered that the only economically sound means of attacking the problem is to place part of the responsibility directly upon the individual, and to relate his later benefits to his earlier contributions.

In Canada we are facing the same situation with which these other nations have successfully dealt. A thorough reform of national old age pension legislation is essential. The present Act is inadequate in terms of both benefit and coverage and finds little support in public opinion. On the other hand, if liberalized, this plan which permits political determination of benefits is open to the danger of overgenerosity which might arise because of pressure groups or as part of political strategy. If it is amended, and expanded in its present form an intolerable strain will be placed upon the federal budget. If its form remains unchanged it will continue to degrade the individual by the repugnant research which it necessitates into personal, financial affairs. To patch and amend this socially out-dated and economically perilous law would be to take a step backward. It must be abolished, and supplanted by a more enlightened program which will provide adequate benefits as a right, yet which will distribute the inevitable tax on the economy as as to minimize its effects on the incentives and rewards of the producers, in the interest of the nation's economic progress.

The Canadian situation calls for a twofold federally-administered program:

A - Contributory old age insurance.

B - Old age assistance to protect the group which will have insufficient time to accumulate credit under A before retirement.

Plan A.

The first question which must be dealt with is that of coverage. Universal coverage has several advantages to commend it. Under the American plan of partial coverage, may workers accumulate credit while employed in covered industries, but ultimately receive no benefits because of insufficient total participation. On the other hand many who have barely completed minimum requirements receive benefits out of proportion to their contributions. From the cost standpoint, actuarial estimates indicate that limited coverage is more expensive. From the social standpoint it is only equitable that all workers in the economy should receive the same protection. The opposing argument is that universal coverage necessitates protecting an upper income group which has no need for such insurance. Moreover, complete coverage poses some knotty administrative problems.

A compromise form of coverage which would include the bulk of skilled and unskilled workers which comprises the main core of the dependent age group, is contributory insurance for all those now covered by the Unemployment Insurance Act. This is a practical means of separating the needy from their more fortunate brethren, now that all those earning up to $4,800 per annum come under that Act. If this method were adopted over 85% of all non-farm workers would be included.[2] In order to include the farm workers and the self-employed the scheme would have to be made available on a voluntary participation basis, to those not obliged to join.

The contributory structure in the United States is a tri-partite arrangement under which the employer and the employee contribute equal amounts calculated as a percentage of payroll, while the state contributes an additional amount. The most commendable attribute of the plan is that individuals are forced to contri-

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[2]B.M. Stewart, What Should Canada Do About Pensions? Financial Post, January 7, 1950.

bute on their own behalf, while the state acts as a transfer agent, re-allocating income from the high to low-income groups by a deferment process.[3]
The wisdom of taxing the employer in a joint plan is open to some question. Such contributions immediately become classed with general production costs and are thus a contributory factor in price rises. If the taxes are shifted in this way the higher income groups succeed in avoiding them almost entirely. If on the other hand, producers are unable to shift the tax which is proportional to payroll and thus a levy on output, the charge will act as a deterrent to production. One possible measure to avoid these undesirable effects is to levy additional income taxes on the higher income groups, and to increase profit and inheritance taxes, appropriating the revenue from such sources to the old age fund in place of additional employer contributions. This move would minimize the effects of social insurance costs upon the productive process, as the revenue would be drawn in the main from surpluses.

The amount which the employee would be required to contribute under this insurance scheme can only be determined by actuarial analysis. The actual contribution would be based upon several factors including the age and sex of the participant, the general type and scale of benefits considered desirable and the contributions scheduled from the state and the upper income groups. Similarly the benefits will not be a fixed amount, but will vary according to the worker's rate of wages, the number of his dependents and the number of his contributions.

In estimating the total cost of a contributory plan for Canada, a former

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[3]It has been suggested (although not yet incorporated into the American scheme) that employers and the self-employed might participate by contributing on the same scale as employees and then adding 50% as the "employer's" contribution, the government to make up the balance necessary to finance the benefits.

Canadian Deputy Minister of Labour[4] concludes that at age 45 a $100 monthly pension payable at age 70 would cost $250 annually for the twenty-five year period. The total bill for the 4,000,000 in the non-agricultural labour force would amount to one billion dollars per annum, or about 14% of Canada's aggregate wage bill for 1949. These calculations are on the conservative side in that they exclude any return of employee contributions prior to retirement. If death benefits plus interest are to be paid in the event of decease before superannuation, an additional $70 per worker will be required annually. This expedient would boost the total cost to $1,280,000,000 per annum. The same authority is of the opinion that the benefit target figure under a national insurance scheme, for those who have contributed for the minimum period stipulated should not be less than $50 a month.

As far as administration of the new plan is concerned, all the necessary administrative machinery is already in existence to implement the Unemployment Insurance Act. Costly duplication could be avoided by bestowing a dual function on the present structure. Fewer difficulties would be encountered in expediting old age payments than those made to the unemployed since those placed on pension rolls remain beneficiaries permanently. A further saving would be effected by the introduction of the stamp-book idea to the old age insurance plan; this process has proved effective in the recording of unemployment insurance contributions and is familiar to, and accepted by the average citizen. A further suggestion is that the self-employed who participate voluntarily should remit their contributions to the fund annually in conjunction with their income tax returns.

The theoretical advantages of the contributory insurance plan have been outlined above. It is well to reiterate, however, that by this means definite standards are set up which no amount of political chicanery can disrupt. There

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[4]B.M. Stewart, op. cit.

is then no danger of the plan getting out of hand financially, once established on set principles. By this means also is the optimum equity in cost distribution achieved. Furthermore the future beneficiaries will complain less about the size of benefit paid in the realization that increased benefits mean increased personal contributions. Lord Beveridge's statement aptly describes the situation: "The insured persons should not feel that income for idleness, however caused, can come from a bottomless purse." One of the major arguments for the contributory plan is that it rewards the producer for his thrift in terms of deferred income which provides for a secure retirement.

Plan B.

In order to solve the state equivalent of the industrial 'past-service' problem a second plan would be necessary to complement the insurance program. This plan would be effected along non-contributory lines analogous to the Old Age Pensions Act of 1927. The assistance provided would be made available to those who could only gradually acquire credit in the national insurance plan, and to those who proved ineligible under plan A. It would then be essentiallly a transitory scheme which in a few decades would become of minor importance as the bulk of the population had accumulated an interest in the insurance fund. It is important to note at this juncture that any benefit paid under this assistance measure would have to be lower than benefits provided under Plan A, in order that the incentive to work and save in the future be unimpaired.

Regardless of the type of plan chosen by the government, the method and mechanics of financing deserve careful consideration. The contributory plan outlined above has implied that funding of contributions in order to accumulate reserves will be the financial policy. Economists who have studied this question have reached differing conclusions regarding the efficacy of reserve financing. We must agree with Professor Hansen that reserve accumulations exalted from the working classes by means of payroll taxes would tend to accentuate a recession by intensifying deflation. His argument is strengthened when we consider that compulsory savings schemes have been utilized to remove purchasing power from the masses in order to curb inflation. Nevertheless Professor Hansen, who emphasizes the gloomy, has overstressed the effects of such taxes in prolonging depression periods. When these accumulations are redistributed by the government in liquidating its outstanding debt, it is possible that the recipients will keep these funds circulating by expending them for consumption, or by investing them in securities almost as riskless as government bonds. There is no proven basis for his certainty that such funds will be sterilized by hoarding or idleness. Whether we agree with Professor Hansen or not, it is apparent that the ultimate effects of a pay-as-you-go financial policy would be even more unfavourable than those stemming from reserve financing. Pay-as-you-go would lead to intolerable tax-burdens upon the nation in a few decades because of the expected increased weight of the aged group in the demographic balance. As Professor Harris points out, serious depression tendencies would develop in the economy under this policy. It is impossible to compare the relative ill-effects of these alternate proposals, but it is presumed that the effect of having to support an increasing aged group from current revenues would have a more serious and far-reaching deflationary effect than would accrue to reserve financing of the program. For this reason reserve financing is to be preferred as the lesser evil.

Undoubtedly 1950 is pensions year in Canada. The general economic picture is not unfavourable, with price adjustments working themselves out as business activity appears to be levelling and the price level rising at a greatly reduced rate. The government at this time is faced by two conflicting demands. There is a great demand on the part of labour for an improved social security structure which would place upon the state a heavy fixed cost burden. Simultaneously there is a great demand on the part of the employing classes for tax relief from double taxation of dividends and for reduction of other taxes which impair investment incentives. These opposing pressures for increasing government expenditure and decreasing unwieldy taxation could both be placated if the social security expenditures demanded were tied to a scheme of individual contributions which would provide benefit adequacy and equity in cost distribution. It is unlikely that the government's decision this year will not be coloured by the requests of the numerically powerful working classes. More generous benefits will be provided. It will then be the government's duty to do everything in its fiscal and monetary power to insure that future inflation is prevented from diluting the benefit rewards.

Industry's Role.

Industry has taken a serious interest in its responsibility for worker retirement. The pension movement in Canada has received a substantial boost from business enterprise over the past two decades, a trend which seems likely to continue. A great variety of plans have been developed to meet the diverse industrial requirements. As pointed out, two main factors are responsible. First and foremost, industry has discovered that it is good business to provide secure retirement for employees, and that greater efficiency, improved public and labour relations, lowered labour turnover, and higher employee morale result. Social enlightenment in industry has acted as a minor acceleration to the movement. Secondly, strong pressure has been applied recently to business by organized labour which feels that its members deserve to be retired on somewhat the same principle as fixed capital is depreciated. In many cases, industry has approved of labour's proposals and pension costs have been added to the cost structure of the production process. From the firm point of view, the pension arrangements have been economically sound, costs having been added to business expenses, while returns accrue in the forms above-mentioned. The yield to the firm cannot easily be measured in monetary terms, but in terms of improved general efficiency and lowered labour turnover alone, it would seem to indicate that such plans are in the nature of an investment. The worker nontheless benefits greatly, as the majority of the plans provide benefits which will permit a respectable retirement. Only a small proportion of the working force is covered, however, and the benefit scales are by no means uniform between industries.

Because of the increased magnitude of the problem, and industry's evident intention of bearing a larger part of the responsibility, we must consider the implications of industrial plans for the economy as a whole. In a consideration of the economic effects of industrial pension plans, several questions arise. The first is one of distribution, and the economic conflicts which characterize exchanges in a free enterprise economy. Readily apparent is the group, or horizontal conflict which exists between labour and capital, highlighted as it is by periodic strikes and collective bargaining. Difficulties arise, not over whether or not a pension plan will be set up, but over how much will be provided. When non-contributory pensions are at issue and the company concedes, the bargaining victory obviously goes to the union. The victory is, however, subject to certain qualifications. If the company is able to pass the burden on to the consumer in the form of higher prices, which in turn indicate that future benefits will be paid in cheaper dollars, the victory is a hollow one. When we consider the employer-gains from providing pensions, it is difficult to conclude that the firm loses. A case in point is the 1949 agreement between the United Steelworkers of America and the United States Steel Corporation on a $100 non-contributory monthly pension at 65, after twenty-five years service. The price of steel, the most important basic industrial metal, was immediately raised. This action, in conjunction with current price trends, indicated that, in effect, the dollars in which the promise was made were beginning to deflate.

When we consider further the effects of industrial pension plans upon the economy, the less apparent but more important vertical conflict between specific industries and the rest of the economy can be seen. Allocation of the product as between vertical strata of the economy is likewise the result of a pressure process. If industry can succeed in shifting pension costs forward to consumers, the new pensioners are receiving benefits at the expense of their fellow-workers in industries where such provisions are absent, where such costs have not been included in the cost schedule of the enterprise. Thus where the effects of labour monopolies or price maintenance, or leadership arising out of industrial combination are rampant, in the final analysis the interest of the majority of the people is subverted. Thus if all organized labour in Canada was successful in pension demands, the benefits would be confined to this section of the working population. Benefits would be received by approximately 30% of the labour force, while the unorganized and unprotected majority were forced to share the cost. A broad national scheme along contributory lines would do much to reduce the inequities that might develop, for then the strong bargaining groups could seek only the relatively smaller gains necessary to supplement the state provisions. Of course, regulation of the monopoly bargaining power of trade unions would permit a freer process of distribution, but such action is not feasible, as politically it is generally regarded as in abrogation of certain traditional freedoms.

The second question which arises affects the production process, and as such is a more fundamental, and a more serious problem. One noted economist[5] has stressed the general conclusion of economic science that the stability of capitalism is a function of the mobility of productive factors. It is pointed out in this connection that such resource mobility must exist to the extent that transfers may be facilitated between industries in response to major changes in demand and technology. We are here concerned with only one factor of production, but one which is in many cases the predominant input in the production process. The mobility of labour has long been imperfect because specialization is a prerequisite of individual prosperity; the functional immobility which has resulted has caused unemployment during periods of major demand shifts. Mobility of labour is further restricted by family ties, a phenomenon which might be classed as domestic immobility. Now a further deterrent to labour mobility arises in the form of accumulated credits in an industrial old age insurance fund. This further inflexibility in the working force which may contribute to unemployment and under-capacity production, we may classify as vested-benefit immobility.

Another aspect of the production difficulties which may arise from industrial pension planning becomes apparent when we consider industry's long-run cost picture. Business activity is characterized by the inevitable trade cycle in wages, prices and profits vary periodically. Now, however, industry is undertaking to pay additional heavy "fixed" wages, deferred earnings which will be remitted

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[5]K.E. Boulding, Economic Analysis, Harper & Bros. N.Y., 1948, p. 211.

to the worker after superannuation. When wages and price adjustments are necessitated by cyclical swings, the only means of reducing this burden will be by reducing staffs, a measure which is hardly conducive to maintenance of high production levels. Wages are sticky when the downturn takes place but it will be even more difficult, if not impossible for enterprise to negotiate a reduction in benefit scales which have been written into union contracts on a more permanent basis. These pension cost rigidities in industry may prove an additional factor which will seriously undermine the pricing readjustment required as recession tendencies set in.

In summing up the effects of industrial pension plans it must be emphasized that they are a socially desirable supplement to any basic benefits which the government provides. The contributory plans are especially noteworthy, encouraging the employee to save for the future and finally providing him with a comfortable retirement. Socially the trend is encouraging, but its long run economic effects may produce a capitalist economy which is even more vulnerable to cyclical catastrophe. Establishment of a federal contributory plan is now more than ever required: in providing basic pensions it would reduce the extent to which enterprise can become saddled with greater "fixed" costs, to small-benefit pension plans of a supplementary nature.

Conclusion

Only the traditionally dogmatic and socially blind capitalist of the early twentieth century would deny that adequate provision for old age retirement is a social and economic necessity. It is desirable from the standpoint of the general national morale that the plan selected be favourably received by wage-earners and employers alike; in view of principle and experience the contributory type is most appropriate. A satisfied society is the best bulwark against the infiltrations of Communism. The state's responsibility is clear-cut. A federal plan must be instituted to provide national minima protection levels, to ensure benefit uniformity, to promote equity in cost allocation, to reduce the extent of labour immobility, to restrict the disproportionate gains which certain strong economic groups may exact from the weaker, and to limit the degree to which cost rigidities may disrupt the productive process.

Pensions are generally considered a distribution problem. In our haste to redistribute the national income we must not forget that the crux of the matter lies in production. The overall capacity of the economy is a most important limiting factor; redistribution cannot be the main criterion. There are only two ways of fulfilling pension promises: out of present or future income, or by inflation. In the long run the latter is no solution. Therefore, in considering welfare, it is the welfare of the economy which must be our prime concern. Accumulations from the current production stream must be prudently collected so that the inevitable cyclical fluctuations will not be accentuated. The fiscal forces of government must be directed toward the promotion of increased productivity, and a higher national income. Increased production alone will allow old age benefits to be paid without a reduction in living standards, or major disruptions of the nation's economic stability. If we are to redistribute the national income so that the pensioners benefit, in the last analysis, someone must suffer, unless the nation's product rises.

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