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A DISCUSSION ON PENSION PLANS

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A DISCUSSION
ON PENSION PLANS

Due to the increasingly numerous requests on the part of labor unions for pensions, the attention of Canadians has been focused on this important problem. Both the Governments of Canada and the United States have recently started to revise their existing laws. However, before undertaking such a complicated programme, it is necessary to consider the problem in the light of statistical data, social principles and the economic situation of Canada.

In 1951, Canada will have 1,101,400 persons above 65. Statistics show that a man, once he has reached the age of 65, may still live approximately 12 years and a woman 14. Therefore, an annuity of $50. a month would call for savings of $7,150. during the earning period of the worker until he reaches the age of 65 and an annuity of $100. per month would call for $14,300. (Labor Gazette, April 1950, p. 473); these figures, however, do not take into consideration the number of dependants. Actually with the increase of prices and the higher cost of living, very few people would be able to save such an amount. Therefore, we must help them. Since they cannot help themselves, the community should come to their aid. In the past, a few employers have established pensions plans for their employees, but these initiatives were extended to a very small part of the labor force. Labor unions, also, have attempted, in 1948, to get pension plans through collective agreements; thus, in the United States, the United Mine Workers asked for a pension plan of $100. per month. In April 1948, the National Labor Relations Board sanctioned the inclusion of pension plans in the collective bargaining agreement and, in September 1949, a Fact-Finding Board approved a pension plan for the Steel Industry. Very recently, in Canada, the Ford workers, in Windsor, were granted a compulsory pension plan of $55. per month. At last, following the example given by the Congress of the United States and under the pressure of labor unions, our federal government has established, on March 30th, 1950, a Committee of the Senate and of the House of Commons, to study the problem of old age pension and to direct legislators in the improvement of Canadian social security. This is how, in Canada, the discussion started.

I.—*Facts and basic principles.*

If we add all the men and women of 65 years, we will have, in 1951, 1,101,400, in 1961, 1,372,500 and in 1971, 1,630,000. So much for data.

Christian principles demand that we find a solution consistent with the dignity of the individual. Even if we must help old age, the means must not be arbitrary; direct relief, public assistance and public institutions should be the last resort. The ideal would be to arrange that the individual protects himself. Therefore, between assistance, insurance and differed wages, the choice will be easy. We have to decide in favor of that formula which will develop the personal responsibility and will consider the dignity of man.

Furthermore, from the economic point of view, the solution must not harm the common welfare if that is possible. The large sums which are required to insure security for the old employees should not diminish production and increase unemployment. One cost estimate of an old age pension plan shows what heavy charges on the economy may be involved:

70 years	*$60*	*$100*
1951	$ 485,640,000	$ 809,400,000
1961	625,896,000	1,043,160,000
1971	750,312,000	1,250,520,000
65 years		
1951	793,008,000	1,321,680,000
1961	988,200,000	1,647,000,000
1971	1,173,600,000	1,956,000,000

It is therefore important a) to provide for the taxation to finance such a plan; b) to keep industry at full production; c) and to maintain the level of employment.

Finally, the consumers' ability to support a social security tax must be appraised carefully. In several countries, as in Belgium, for instance, a tax amounting to 30% of the total payrolls goes to finance social security; in France, 35.5%; in Australia and New-Zealand, the social security taxes, when added to the income tax, are nearly prohibitive. Canada however does not have a social security tax. Would it be necessary to impose one? Obviously, the Canadian government must not tax industry so heavily as to discourage investments. For if investments are discouraged seriously, industrial activity and the level of employment would decline proportionally.

II.—*Which plan to adopt?*

In order to solve this social and economic problem, one must resort to one of the following solutions:

1) An independent pension plan financed by the employer.
2) A pension plan negotiated through the union.

3) An old-age pension system such as the one actually enforced by law in Canada and which is in fact old-age assistance.

4) A pension plan under the form of an insurance.

1.—*An independent pension plan.*

A statistical report of the Dominion Bureau of Labor Statistics, made in 1947, tells us that from 1900 to 1939, 350 pension plans were in force in financial institutions, 300 in industry, 175 in wholesale and retail trade, and 75 in other industries. Since 1940, the number of pension plans has increased to nearly 3,000. In the manufacturing industry, there were, in 1947, 3419 plans covering 629,233 employees. In 1950, in Canada, one million workers, which means practically one worker on four, had the benefit of a pension plan.

The tremendous increase in the number of pension plans is due, of course, to World War II, to the necessity of bettering labor conditions, to the ceiling on wages, to the difficulty of getting good labor and, mostly, to the fact that sums ear-marked for pension plans were deductible from the income tax. Moreover, a few industries were looking for a systematic way of putting their workers on the pension roll at the age of 65.

But, in spite of their merits and of their importance, these pension plans are only a partial answer to the problem of old age.

a) Their application is necessarily limited. Of the total labor force of 5,100,000, 950,000 are self-employed including 250,000 employers and 300,000 working in their families without remuneration. (Labor Gazette, April 1950, p. 473.) These workers need a pension plan as well as the rest. Besides, we must remember that individual pension plans are costly both for the employer and for the employee. In certain plans, the worker's contribution amounts to as much as 4% of his basic wage and that of the employer covers an equal sum plus the cost of the establishment and administration of the plan. Certain plans cost as much as 6%, 8% or 10% of the payroll. Only large companies can pay such a rate. These plans, then, are necessarily applied to a limited number of industries. Moreover, even where there are plans, the eligibility conditions exclude a great number of employees. For example, they set an age limit, conditions of service, etc. One has only to analyze the eligibility conditions of certain pension plans in industry to discover the difficulty that certain employees have in getting any help from them.

b) Their application is uncertain and arbitrary. When the cost of the pensions exceeds the cash reserves, the employer might be forced to give up the plan; in which case, the employee is no longer protected and must find his own solution.

c) These plans reduce normal labor turn-over; they tie the worker to a plant. In order not to lose their pension rights, the employees sometimes put up with bad labor conditions and may even refuse a promotion in another plant. Such a state of affairs hinders increases in productivity.

d) Since a worker does not carry his pension rights with him, he will find it difficult to find a job elsewhere. The employer does not want to hire an old person because the new employee would soon become a charge on the pension plan. Besides, the contributions of a newly-hired old worker would necessarily be smaller than those of a younger one. These complications may endanger employees morale and intensify the employers' tendency to reject older workers.

To sum up: independent pension plans are incomplete, uncertain and inadequate. They cannot solve the problem of old age. In spite of their rapid expansion, they do not cover 25% of the Canadian workers.

2.—*Plans negotiated through the unions.*

Some people might think that the best possible solution would be for the unions to settle the problem through collective bargaining agreements. This is already done in U.S.A. and could, perhaps, be applied here.

There seems to be a certain advantage in this solution. When an employer agrees upon a pension plan with the union, he cannot easily give it up. Consequently, the workers are protected against an arbitrary decision of the employer.

But, as a matter of fact, union negotiated plans have almost the same defects as company plans. They can be applied only to unionized industries; so they exclude the non-unionized workers. Moreover, the example of pension plans, in the United States, cannot be applied here and get the same results. Their pension plans have been restricted largely to three types of industries; coal, steel and automobile. As we know, these industries are highly unionized and represent a very high number of employees of a few employers. But, in Canada, a general application of the same plan would risk hurting the smaller or marginal companies, which could not compete on the markets if their costs were raised significantly. There will be the danger of increasing the number of unemployed. And the danger is so much the greater as the contribution to these plans is exclusively paid by the employer. How, for instance, could the small printer survive when he has to compete with the large printing firm? How could a small steel mill be able to compete with the larger plants whose gross sales come to several millions dollars a year?

Depreciation of labor is more important than that of the machine. But in order to avoid unemployment of thousands of workers, would it not be more suitable to find a solution which would be more equitable both to the employee and to the consumer? Moreover, since our labor unions are not like the unions in the United States and since our political structures are different, the Canadian system of pension plans should not be copied from the United States.

Moreover, as the great majority of these pension plans are non-contributory, the labor unions, in order to keep their members and because they do not have the same reserves to assure the employees reasonable pension plans, will try to decrease the amount of the annuity in order to get higher take-home pay. Consequently, it could be extremely dangerous to make pension plans subject to collective bargaining.

3.—*The Canadian legislation on pensions.*

Is our present system of old age pensions a better solution?

The interest that Canadian legislators have shown in pension plans goes back to 1906. In 1924, a special committee of the House of Commons formulated the following resolutions:

> "that a regime of old age pensions should be established as quickly as possible for the protection of persons of 70 years;
>
> "that the people insured should be British subjects, having lived in Canada at least 20 years . . . ;
>
> "that the maximum amount of the pension should be established at $20 per month;

"that the federal government would pay half of the cost and that the provincial governments which, by the adoption of a law, manifest the wish to put the programme in action, would pay the other 50%; and that the cost of administration would be paid by the provincial government ....

On March 31, 1927, Canada enacted a law on old age pensions, providing that:

a) after the means test, the pension would be paid to every person of 70 years, or more, who had lived in Canada for the last 20 years.

b) the pension would be $20 a month.

c) the programme would be administered by the Provinces by virtue of Federal and Provincial Agreements, the Federal Government having a right of control and verification.

d) before the law would be applied in the provinces, the provinces should conclude an agreement with the federal authorities.

e) it would be the duty of the provinces to carry on the means tests.

From 1927 to 1950, certain changes were made. Though the eligibility age remained fixed at 70, the pension has been increased to $25 per month in 1943, to $30 per month in 1947 and $40 per month in 1949. The federal grant to the old age pension scheme has been increased from 50% to 75%. In 1927, the total income of an unmarried person aged 70, including pension and income from other sources, was not to exceed $365 per year. Today this amount has been increased to $600, and in the case of married persons, the amount of $730 has been increased to $1,080 a year. In short, our legislation on old age pensions is a type of public assistance, because it gives direct relief to our old people. It is an enabling law which respects the autonomy of the provinces in this field of social security.

This law no longer answers to the needs of old age. The actual monthly pension grant is extremely small. How can an old man get his food, his clothing, pay his rents and assure himself against sickness with only $40 per month? Moreover, the law bears a character which demoralizes the individual. A relief which comes every month as a direct relief insults the dignity of the human individual. When a man has worked up to the age of 65 or 70, he has a right to a pension.

Moreover, our system relies on the means test. This is certainly a humiliating process which easily becomes a political "foot ball".

Furthermore, an assistance of $100 per month would cost our federal government $809,400,000 in 1951, and $1,043,160,000 in 1961 and $1,250,520,000 in 1971. These are tremendous sums. Consequently, it would be much better to create an independent insurance plan which could be supplied with the contributions of employers, employees and all insurable people in Canada. And even if the federal government should pay a great share, the expense increases the morale of old people. They would be happy and would guide the younger generation; and this investment of capital would furnish an interest of a 100%. The presence of old age people who are respected and admired is always an example for a young generation and an asset for a country.

4.—*Old age insurance plan.*

It seems, then, that a contributory old age insurance plan is the most realistic solution. Each individual would contribute his part (let us say 2/5) to a common reserve and, at the age of 65, would get a monthly annuity, which would permit him to finish his days in modest comfort. The employers would contribute 2/5, and the government 1/5.

First of all, this scheme would apply to every individual, no matter where he is employed; it would not be limited only to powerful employers or to industries with strong labor unions; it would not be at the mercy of an arbitrary decision by the employer. A worker could change his job; for as his unemployment insurance book follows him, his right to the pension would stick to him. Then, the employers would not be afraid to hire older men, because all the employees are depending on the same plan. Moreover, the employers would not be afraid of competition, because the tax would be the same for everyone. Instead of taxing the national budget, the Canadian people will create a special old age insurance fund which should be ear-marked for that purpose. The payment of the annuities would be calculated on a mathematical basis without any means test. The pension, therefore, would become a right for each citizen, because each citizen will have contributed his share to the fund. This is certainly a far superior system because it respects the personality of the individual and does not harm the common good.

What will be the cost of this system? If every person over 65 gets $100 a month, the cost would be, in 1951, $1,321,680,000; in 1961, $1,647,000,000; and in 1971, $1,956,000,000. As we know, the national income in 1951 will amount to nearly 15 billion dollars; this would mean that only 9% of the national income would be ear-marked for old age social insurance. If we are supposing that the share of the national income that comes from agricultural workers is nearly 3 billion dollars, the share paid by the workers and employers would be nearly 1 billion dollars. The government could, therefore, supply the balance from the general budget. This would not be a big addition to present outlay because the governments already contribute $300,000,-000 per year.

The realization of this plan could be made by steps: there might be a period from 3 to 5 years to establish the reserve; the monthly pension may be $60 at the start, increasing to $80 and then to $100 eventually.

Needless to say that these details can change; rates can be modified and adjusted according to the means and the times. In order to protect the autonomy of the provinces, we should propose an enabling legislation on the same principles as in the 1927 old age insurance law, which would require that the social services given to old age people should come from provincial institutions. This solution seems the best, because it answers to the social, economic and political conditions of Canada. What man can live in security and in christian democracy if misery in old age is always facing his life? The old people of a country should give the rest of their life not to fight for food, bread and butter, but to furnish an example of wisdom and prudence to the younger generation. And old age insurance will certainly contribute to that end.

INDUSTRIAL RELATIONS SECTION

UNIVERSITY OF MONTREAL

The social problems of the 20th century are becoming more and more complicated and difficult to solve. The communistic world aims to relieve the misery of the working class by totalitarian state control and relief. On the other hand, Christian democracy aims to solve social problems in creating social stability through closer co-operation between management and labour and the establishment of higher standards of living, full employment and sound programs of social security.

In order to cooperate in the fulfilment of this objective, the University of Montreal has created, in 1945, the Industrial Relations Section. This Section must prepare for labour and management specialists with a solid scientific training.

The training in Industrial Relations is based on five fundamental courses of which the social teaching of the Church and the ethics of labour and management come first.

Then, a sound training in economics will give to the student the economic incidence of public decisions on income and business expansion. In the field of industrial relations, he will study industrial organization and administration, personnel policies and programs. The structure and policies of present day unions are paramount in his training. The field of labour relations and labour legislation altogether with the negotiation and administration of the collective agreement will be seriously covered.

The professional careers opened to the graduates who are holding a Master's Degree in Industrial Relations are the following: Directors of Personnel, Directors of Industrial Relations, Technicians of Employers' Organizations or Labour Unions, Conciliation and Arbitration Officers, Technicians in the application of Social Security and Labour Laws, Labour Economists and Industrial Welfare Workers.

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