CANADIAN PRIVATE PENSION PLANS:

A STUDY OF THEIR HISTORY, TRENDS, TAXATION,

AND INVESTMENTS

In Two Volumes

VOLUME I

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* * * * * *

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CHAPTER I

INTRODUCTION

I. PURPOSE OF THE STUDY

This dissertation is aimed at providing a comprehensive record of the private pension system of Canada.

Considering the dearth of historical information on the growth of private pension plans in Canada, the many changes in the Canadian pension spectrum over the last two decades, the tremendous growth in the number and coverage of private pension plans in Canada over that period, the increasing role of the Federal and Provincial Governments in the area of employee welfare plans, and the growing importance of pension plan investments in Canada's capital market, it would add considerably to the current store of knowledge on the Canadian private pension system if a thorough study were undertaken of historical development of the system along with an analysis of the recent trends in pension plan design, and a review of the investment policies and practices of private pension plans which have been making a considerable imprint on the Canadian capital market. ¹

¹ An indication of the rapid growth of private pension plans in Canada can be drawn from the fact that the estimated number of such plans in operation in 1939 was 900. Labor Gazette, "Pension Plans in Canadian Industry," April, 1954, p. 444. It has been estimated by the Dominion Bureau of Statistics that there were between 15,000 and 16,000 private pension plans in operation in Canada on January 1, 1966.
From a financial viewpoint, an analysis of the tax implications affecting employees, employers, trustees, insurance companies, and other administrators of private pension plans would show the imprint which the Canadian Federal Government has had on the development of the private pension system in Canada. Likewise, financial implications sometimes arise in international business combinations between firms in Canada and the United States. These implications will be considered to some extent in this study.

From an investment viewpoint, the changes in investment regulations over the last two decades would seem to encourage a gradual transition from emphasis on fixed-income securities to the variable-income type. Whether this has, in fact, become a reality is extremely important in view of the continuing rise in the general price level since the end of World War II. In addition, in view of the many changes in the design of private pension plans in Canada, an analysis of the changing investment patterns would complement the study of the overall growth and development of the private pension system.

The public and private pension systems in Canada have undergone a thorough regeneration in the two decades which have followed World War II. Featured during this period have been four factors which have stood out as having influenced very distinctly the future direction of the private pension system in Canada.

First came the introduction of the Old Age Security Program in 1952, a flat-benefit public pension scheme providing benefits to all Canadians over seventy years of age who could meet a residency test.
Next came the adjustments by regulatory bodies, in 1956 and 1961 to many of the investment restrictions affecting pension funds.² Most materially affected here was the authority of pension plan administrators to invest such funds in equity securities. This had previously been a major problem area for the most effective administration of pension plan investments, especially in view of the rising trend in the general price levels since the end of World War II. The easing of these restrictions affected trust companies in 1956, prompting the subsequent establishment of pooled pension plans and life insurance companies in 1961, prompting the establishment of segregated account plans. The principal effects of the changes was the provision to pension fund investors of an opportunity to attempt to protect retirees under pension programs against losses in purchasing power due to increases in price levels after they had ceased employment and were receiving their benefit payments.

These investment patterns are extremely important in view of the tremendous growth in the number of private pension plans in Canada. From less than 7000 plans in 1957, pension business expanded very rapidly till there had amassed between 15,000 and 16,000 by

January 1, 1966. With this increase in plan numbers has come the consequent increase in the funds which have been flowing into the various financial institutions administering private pension plans in Canada.

The third innovation, and one which should have an extremely marked influence on private pension systems in the Western World, was the entrance into the private pension area, in the early 1960's, of various provincial pension bodies. These commissions passed revolutionary measures affecting registration, annual disclosure, compulsory vesting, improved solvency and similar matters for all private pension plans within their provincial boundaries.

The influence of the Provincial Governments of Ontario, Quebec, Saskatchewan in the private pension area was quite marked during the latter portion of this period. In 1963 the Province of Ontario enacted the Ontario Pension Benefits Act in an effort to establish pension plans in that province. The Province of Quebec entered the pension field at both the public and the private levels during the

3 Estimate of Dominion Bureau of Statistics (Assistant to Head of Pension Statistics, Harry V. Weitz, during an interview on November 24, 1965) was 15,000. The Ontario Pension Commission, on the other hand, reported that there were approximately 8100 private plans in operation in Ontario as of September 1, 1963. Pension Plans in Ontario, Statistics, 1963 (Toronto, Ontario: Pension Commission of Ontario, 1965), p. 3. Since it is stated by most pension authorities that Ontario possesses about fifty per cent of all private plans in Canada, the 8100 figure of 1963 indicates that there should be at least 16,000 private plans by December 31, 1965.

1960's. When it was confirmed that the Federal Government of Canada was committed towards the introduction of a universal pension plan patterned after the Old Age, Survivors and Disability Insurance (Social Security) Program in the United States, Quebec decided to introduce its own program. Thus, in January, 1966, Quebec introduced a public pension arrangement similar to the Canada Pension Plan, which would take the place of that latter plan in Quebec. In addition, private pension legislation along the lines of that of Ontario was introduced in Quebec at this time. Several years earlier, in 1961, the Province of Saskatchewan introduced its Employee Pension Plans Registration and Disclosure Act. This Act provided that the administrators of private plans within that province furnish certain information relative to the administered plans to the employees concerned, to unions, and to the Saskatchewan Pension Commission. The Act was thought to be a forerunner of a system of regulation similar to that of Ontario which many other provinces indicated would serve as a guideline for their future pension legislation.

The fourth major event was the passage, on January 1, 1966, of the Canada Pension Plan. This was a compulsory, wage-related, pension program constructed closely along the lines of the Old Age Security Program in the United States.

Of the four major innovations in the pension area during this post-World War II period, the most revolutionary was the introduction of this Canadian equivalent of the United States Social Security Program.

\[5\textit{Ibid.}, \text{p. 456.}\]
System. The Canada Pension Plan, along with its Quebec counterpart, is expected to have a much more marked effect on the operation of private pension plans in Canada than did the Social Security Program have on private pension plans in the United States. This is due primarily to the latter program's being introduced in the United States at a time prior to the extraordinary growth of private pensions during and subsequent to World War II. In Canada, on the other hand, it is estimated that there were between fifteen thousand and sixteen thousand private plans in operation on January 1, 1966. This placed a monumental task on unions, employers, employees, trustees, actuaries, and other interested parties of deciding if, and in what manner, the compulsory employee and employer contributions under the new public plans would be coordinated with the contributions already required from both of these parties in the majority of presently existing private plans. Consideration will be given to how these problems have been approached in these, the formative years, of the plan's existence. In addition, expert views will be garnered on the effect of the public plans on the future direction of the private pension system in Canada.

II. SCOPE OF THE STUDY

This dissertation is a detailed study of the private pension system of Canada with emphasis on the history, trends, tax implications, and the investment policies and practices of private pension plans.
In such an extensive study, it will be necessary to limit somewhat the area of concentration. An attempt will be made to include only those plans which are composed basically of employer-employee relationships wherein the funds collected by the employer are placed with an administrator who is either a trust company or an insurance company. Whatever statistics are available on the number and composition of unfunded, pay-as-you-go pension plans will also be provided in the text of this dissertation, but for informational purposes, only in order to provide some indication of this prevalence in Canada.

The analysis will include also a consideration of the operations of Canada's public pension plans because of their close relationship with and influence on the private pension plans. Probably the most important influence here will be the interrelationship between private pension plans and the Canada and Quebec Pension Plans.

The study will not seek to analyze comprehensively the special arrangements of the self-employed for a number of reasons. First, it is felt that such pension arrangements are only a recent phenomenon and are not directly related to the corporate pension plans; and, secondly, any figures which might be secured on the present status of such benefit plans would be minimal at best and would not add materially to the overall analysis of private pensions as presently planned. Moreover, an investigation of the many ramifications and implications arising from the introduction of private pension arrangements for the self-employed would probably represent a special area of research in itself.
The history of private plans in Canada will be traced from their earliest appearance in the 1800's up to 1960. This will be followed by an analysis of the most material trends in evidence during the period since World War II, in general, and since 1955, in particular. These periods were selected for a number of reasons, of which the most important are as follows:

1) Private plans existed in Canada since 1874 and have undergone several transitions with World War I, the Depression, and World War II. It appears that the historical era ended with the 1950's.

2) The period since 1955 has been marked by many political developments in the area of private pensions by way of Provincial and Federal Government passage of various rules and regulations relative to private pensions.

3) Since 1955, many new innovations have made their appearance in the private pension area. Such innovations include the introduction of segregated accounts by insurance companies, the increased popularity of the variable annuity concept as a hedge against continuing inflation, the increased popularity of mutual funds as investment outlets for pension funds, and the maturity of pooled funds as provided by trust companies.

It will be necessary to pay considerable attention to the Canada Pension Plan and also to the Ontario Pension Benefits Act because of their immense influence and importance in the area of private pensions in the years to come.

An analysis will also be made of the tax policies of the Federal and Provincial Governments in pension matters because Canada is quite unique in her treatment of most phases of the tax position of private
pension plans as relating to employers' contributions, employees' contributions, and income of the invested funds themselves.

Finally, an analysis of the financial aspects of private pension plans inevitably leads to a consideration of the asset portfolios of the funds with emphasis on their overall investment policies in view of the objectives sought in the investment of funds from retirement plans. Likewise, the many legislative changes over the last several decades should have made equity investments much more accessible for investment purposes.

In studying the investment policies of pension administrators, most emphasis will be placed on trust companies and insurance companies as trustees of the funds. The other class of trustee, the individual trustee, does not usually provide such information nor is it easy to unfold a reasonably comprehensive list of such administrators. Unlike the situation in the United States, Canadian banking law prohibits banks from serving as trustees in pension matters.

III. HYPOTHESES OF THE STUDY

In addition to preparing a history of private pensions in Canada, and of investigating the recent financial and non-financial trends in this area, the writer will attempt, through the various analyses, to test a number of hypotheses which should be either confirmed or negated following the study planned. These hypotheses include the following:
1) Federal Government influence has aided and encouraged the growth of private plans in Canada rather than restricted such growth.

2) Pension plan establishment while formerly influenced very much by innovations in Great Britain and patterned accordingly after these British plans is now and will continue to be influenced more and more from new developments on the United States private pension scene.

3) The passage of the Ontario Pension Benefits Act in 1963 was the logical outcome of the lack of private initiative and direction in providing private pension plans with stronger portability and solvency provisions.

4) The tax advantages accruing from employee contributions to registered pension plans have served and will continue to serve as a major incentive towards contributory plans. Such tax incentives will continue to override labor unions' attempts to increase the number of non-contributory plans in Canada.

5) The presence of a pension plan in a Canadian corporation looms as one of the deciding factors in determining whether a United States corporation decides to invest in the Canadian company on a "direct" rather than on a "portfolio" basis.

6) The regulations on investment of pension funds by Canadian trustees are especially restrictive in view of the proximity of the United States investment market and the need for development of Canada's resources. Such regulations thus serve to hinder the most efficient investment of Canada's private pension plans.

IV. METHODOLOGY OF THE STUDY

The approach to this study of private pension plans in Canada and of the entire pension system itself will be comprised of both primary and secondary research.

The primary research will consist of the use of questionnaires and interviews and will be divided into three segments as follows:

1) A questionnaire to be circulated among all the insurance companies and trust companies in Canada from which the writer will attempt to secure such information
as investment policies of administered pension plans, number and dollar value of plans administered, number and dollar value of pooled funds held, segregated accounts held, and variable annuity contracts issues. In addition, information will be requested on the yields on pension investments for the period 1960-1965 as well as the method utilized to compute such yields. Finally, each administrator will be asked to give an evaluation of the effect which he believes the Canada Pension Plan will have on the subsequent growth of private plans in Canada. A total of 158 questionnaires will be sent. Of these, 100 will go to insurance and 58 to trust companies.

2) A questionnaire to the financial managers of those United States corporations involved in business combinations with Canadian companies within the period 1959-1965 as indicated by Moody's Investors Services. The purpose of this questionnaire is to discover whether the pension plan in the Canadian firm materially affected the accomplishment of the combination. In addition, information will be requested on the nature of adjustments to the pension plans of either party and whether international labor contracts covering pension plans played any role in the negotiations affecting the combinations. A total of 115 questionnaires will be sent. These will cover 163 of these combinations.

3) Interviews with a number of pension plan administrators, pension consultants, actuaries, and other pension plan experts in Canada at both the Government and private levels in order to gain an insight into the events leading up to the various legislative activities over the years relating to private plans in Canada. Information will be requested on reasons for trends relative to contribution and benefit formulae in recent years, the probability of additional government action at both the Federal and Provincial Government levels, the immediate and long-run implications of the Canada Pension Plan, the different factors involved in determining the direction which private pension growth has taken over the last several decades and the possibility of keener competition on a yield basis for pension business in the future due to the relaxing of various investment regulations over the last ten years.

The secondary research will consist, for the most part, of an investigation of currently published books and periodicals, studies and pamphlets, and financial newspapers dealing with private pension plans in Canada.
For an overall index of articles from periodicals relating to private pensions in Canada, the services of the National Library of Canada located in Ottawa, Ontario will be utilized.

For the historical aspects of private plan growth in Canada, the facilities of the Parliamentary Library in Ottawa, the Ottawa Public Library, the Dominion Bureau of Statistics and the Department of Labor Library in Ottawa will be used. In addition, the facilities of the University of Windsor will be used to examine the periodicals noted in the index check made at the National Library. The latter university also will serve as a source of the most current literature in the field for Canada.

For published texts in the area of the Canadian financial system in general and the private pension sector in particular, the services of the Queen's Printer in Ottawa, the Dominion Bureau of Statistics, the Commerce Clearing House (Canadian Division), the Canadian Life Insurance Officers Association, the Institute of Chartered Life Underwriters for Canada, the Pension Commission of Ontario and other miscellaneous publishers will be availed upon.

The sources named will be utilized to provide the necessary information on tax regulations, investment objectives in general, historical information, and analyses of the general and specific features of the Ontario Pension Benefits Act, the Quebec Pension Plan, and the Canada Pension Plan.

It is felt that the results from the primary and secondary research as explained in this section will provide the results necessary for the successful accomplishment of this study.
V. COMPLETED STUDIES IN THE AREA

The task of conducting research in the area of private pension plans in Canada in the past has fallen almost primarily on Federal Government departments or agencies. Within this framework, the most active departments have been the Department of Economic Research of the Department of Labor, and the Pension Division of the Dominion Bureau of Statistics. The former conducted studies in the early 1950's on the adequacy of various facets of private plans in Canada as they appeared in slightly over seven hundred plans. This study examined such areas as vesting, contribution formulas, benefit formulas and the experiences in normal and actual retirement ages in the plans in question. The Dominion Bureau of Statistics conducted studies on private pension plans in 1947 and 1953, but their objective in each case seemed to be informational rather than investigation of specific features of private plans. Since 1956, however, this agency has annually compiled statistics of a financial nature on trusteeed pension plans. In addition, in 1960, it

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compiled a booklet of non-financial statistics as related to trusteed pension plans. The results of a similar up-dated study are expected to be made public in 1968.

Two studies on private plans in the 1930's were conducted by the Industrial Relations Department of Queen's University and by the National Employment Commission. The former dealt with trends in private pensions for the decade of the 1930's while the latter dealt primarily with the matter of whether private pensions were in operation in various companies. This aspect was but a minor facet of a much more comprehensive study on employer-employee relations.

The National Trust Company in 1959 and 1960 conducted studies in the area of private pensions with special emphasis on the consideration of the various characteristics of plans as they exist in various industries.

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9 Industrial Relations Section, Queen's University, Industrial Retirement Plans in Canada—Queen's University Survey of 1938 (Kingston, Ontario: Queen's University, 1938).

10 National Employment Commission, Report on Phases of Employment Conditions in Canadian Industry (Ottawa, Ontario: National Employment Commission, 1937). A summary of this study is found in the publication entitled Report on Social Security in Canada prepared by a Special Committee on Social Security chaired by Dr. L. C. Marsh for the Advisory Committee on Reconstruction. This latter report was published by the Dominion Bureau of Statistics in 1943.

In 1958 and 1959, Dr. Robert M. Clark, Professor of Economics at the University of British Columbia, conducted a comprehensive research project on the degree of economic security available to the older segment of the population in the United States and Canada but he concentrated on public plans with only limited consideration of private plans. In 1960 Dr. Clark followed up his previous study with a research paper on which emphasis was placed on the economic security available for the older segment of the Canadian population exclusively.

It can be seen then that there has been considerable activity in the area of research relative to Canadian private pension plans. Most studies, however, have been undertaken prior to 1960. Inasmuch as this was probably the beginning of the current trend towards more public influence in the private pension field at both the Federal and Provincial Government levels and considering the many other innovations already mentioned, there remains a vast research area in the field of private pensions in Canada.

VI. DEFINITION OF TERMS

In Appendix A of this dissertation, a fairly comprehensive glossary of terms used in pension circles, and which will come up

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from time to time in this study, will be presented. The definitions will be derived from a number of authoritative sources and an attempt will be made to seek uniformity among the terms used. At this particular time, however, it seems desirable to note, at least, the most important definitions which, of necessity, will have to be understood to avoid constant reference to the aforesaid appendix. Among the most important of these definitions are the following:

1) **Annuity**—A contract for the payment of money, made annually or at more frequent intervals, either during the continuance of a given life or a combination of lives, or for a specified term of years. An annuity for life or for two lives, acquired through an employer's retirement plan, is commonly called a pension.\(^{14}\)

2) **Beneficiary**—A person who may become eligible to receive, or is receiving, benefits under the plan, other than the participant.\(^{15}\)

3) **Career Average Benefit Formula**—A unit benefit formula in which one of the components is an employee's average earnings of his whole period of employment under the plan.\(^{16}\)

4) **Deposit Administration**—A pension plan under which the contributions are paid into an insurance company for investment, which funds will be used to purchase immediate individual annuities on some specified rate basis for employees who become entitled to pensions.\(^{17}\)

5) **Final Average Benefit Formula**—A pension formula one factor of which is the average level of earnings in the last few years before retirement, the number of years being ten, five, or as few as three years. Sometimes


\(^{16}\)Pension Commission of Ontario, p. 107.

the pension is computed on the basis of the higher paid years rather than on the last years of employment.18

6) Funding—An approach to the financing of pension benefits whereby the employer, or the employer and employees, sets aside funds with a trustee or insurance company in advance of the date on which the benefits become payable. 19

7) Future Service Benefits—That portion of a participant's retirement benefit that relates to his period of credited service after the effective date of the plan.20

8) Flat Benefit Formula—A pension formula one factor of which is a fixed or flat payment for each month's or year's service, irrespective of the worker's level of earnings. The remaining factor is the number of months or years of pensionable service.21

9) Insured Plan—A pension plan under which the contributions are paid into an insurance company which normally guarantees to pay a pension in accordance with the annuity rates contained in the group annuity contract. Plans underwritten by the Annuities Branch of the Department of Labor are sometimes regarded as insured plans.22

10) Money Purchase Plan—A pension plan under which the employee pay specified contributions which are applied to purchase deferred annuities from the issuer at rates that are guaranteed.23

18Pension Commission of Ontario, p. 108.


20Committee on Pension and Profit Sharing Terminology, May, 1965, p. 5.


23Ibid.
11) **Past Service Benefits**—That portion of a participant's retirement benefit that relates to his period of credited service before the effective date of the plan.\(^{24}\)

12) **Pay-As-You-Go Pension**—When pension payments are made from ordinary revenues or other sources external to the plan ordinarily discharged by payments into a fund over a period of years.\(^{25}\)

13) **Segregated Account**—An arrangement between an insurance company and a client through which a portion of the amount paid to the insurance company for a pension is allocated differently for investment purposes than general insurance funds.\(^{26}\)

14) **Trusted Pension Plan**—A pension plan under which the contributions (those from the employer and those, if any, from the employee) are paid to a trustee for investment until the accumulated funds are required to pay the promised pension benefits.\(^{27}\)

15) **Unit Benefit Formula**—A pension that provides a benefit whose amount is determined in part by the earnings over the whole period of employment (i.e. career earnings). This is equivalent to determining a pension on the basis of average career earnings multiplied by the years of accredited service.\(^{28}\)

16) **Vesting**—The attainment by a pension plan participant of a benefit right, attributable to employer contributions, that is not contingent upon the participant's continuation in a specified employment.\(^{29}\)

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\(^{24}\) Committee on Pension and Profit Sharing Terminology, May, 1965, p. 5.


\(^{28}\) Pension Commission of Ontario, p. 110.

\(^{29}\) Committee on Pension and Profit Sharing Terminology, October, 1965, p. 2.
VII. LIMITATIONS TO THIS STUDY

The study which is envisaged covers a very comprehensive area of the private pension system in Canada. As such, it is not surprising that a number of limitations present themselves as obstacles towards an overall examination of private pensions per se.

Foremost among these difficulties is the necessity of including in the study a considerable amount of information on public plans such as Old Age Security Program and the Canada Pension Plan. This is necessary because of the effect which these programs have, or will have, on private pensions in Canada. The former, for example, serves as a base level for pensions and has been a complement to private pensions since the inception of the Program in 1952. The latter plan, introduced January 1, 1966, is patterned along the lines of the United States Old Age Survivors and Disability Program. It is directly related to private pensions in that it requires compulsory employee membership through contributions within certain wage levels. Any comprehensive study of private pensions must, therefore, include information on both public plans.

A limitation exists in the presentation of asset portfolios of insured pension plans. Before segregated pension plans were introduced in Canada in 1961, all insurance company premium income, regardless of the source, was commingled and investments were made from this fund. Hence, insured pension plan investments tended to become absorbed in the general investment program of the company. For this reason, the total asset portfolios of insurance companies will be presented to give the total investment picture. When stated on a
percentage basis, this limitation will be considerably lessened. As with these Canadian insured pension plans, the analysis of asset portfolio trends of United States insured pension plans bear this limitation.

Another limitation will be encountered relative to the determination of the total number of insured plans in Canada. Typically, insured plans are divided into individual and group annuities. However, the figures released annually by life insurance companies are not treated on a consistent basis by all companies concerned. For example, many companies administering group annuity contracts count each group contract as a plan. On the other hand, a group contract is comprised in many cases of a number of individual contracts in which respect some insurance companies consider each individual contract as a separate pension plan. This would indicate that if one wanted to uncover the total number of insured pensions in Canada, the addition of the total number of individual contracts to the number of group annuity contracts would be misleading due to the definitions of what constitutes an insured pension plan. On the other hand, many individual policyholders are not covered under group annuity contracts.

In approaching this problem, all the available information will be utilized, with the emphasis on deferred group annuities, in order to derive the most reasonable estimate of the number of insured pensions in Canada.

In the United States, this latter limitation is no longer evident since the passage of the Federal Welfare and Pension Plans Disclosure Act in 1959. This Act, amended in 1962, set forth certain
standards which had to be met in the reporting of pension programs to the Federal Government's Labor Department. The insured plan would have to be disclosed in terms of the number of employees included in each plan, the type and basis of funding, and the actuarial assumptions used in determining payments under the pension contract. Likewise, trustee plans are also subject to rules of this type for disclosure purposes. There are no such Federal disclosure regulations in Canada. To a degree, private plans have to meet certain standards of retirement age, costs, and maximum benefit levels, in order to qualify for special tax concessions. Where disclosure of the plan's characteristics is concerned, however, only a few provinces have set down definite standards. There is still considerable leeway relative to the manner in which pension information is made public. For this reason, care should be taken in attempting to determine, for example, the total number of pension plans in Canada along with the coverage of such plans. Reporting differences, alone, will account for discrepancies.

As already noted, this study will not include any major consideration of private plans for the self-employed. This may detract from the idea of a comprehensive survey of the private pension system. However, after due consideration, it was felt that, except for specific reference to their tax aspects, this particular aspect of private plans was too broad to be considered in the context of the area of private pensions envisaged in this research study.

The many tax implications of self-employed pensions will be considered in conjunction with the separate treatment given the tax
area within the confines of this paper. A brief explanation of such self-employed pension arrangements will be given, but this will be primarily for informational purposes. Any further investigation deemed necessary by the reader may be facilitated by referring to the references quoted at the conclusion of this dissertation.
CHAPTER II

HISTORY OF PRIVATE PENSION PLANS IN CANADA TO 1960

I. EARLY GROWTH OF PENSION PLANS IN CANADA

A. PERIOD UP TO 1900

Retirement benefit programs are by no means recent phenomena in the area of employer-employee relations in Canada. Evidence has shown, for example, that as far back as the late seventeenth century the Hudson's Bay Company had a policy of rewarding employees of long and faithful service with retirement gratuities.¹ In addition, in the early nineteenth century, another type of retirement arrangement became evident in Canada with the appearance of military pension benefit programs. These were limited, however, to ex-soldiers of British regiments based in Canada. Britain was also known to have rewarded civil servants of high rank and lengthy service with retirement benefits.² These were not the type of employer-employee pension plans as defined in this dissertation, however, so that in actuality, there was no systematic private pension plan for the bulk of the


British military or civil servants till the passage of the British Government Superannuation Act in 1834.³

For the most part, it appears that the historical development of employee benefit programs in Canada covered a relatively slow process with retirees usually being supported at the pleasure of their former employers and with a small minority receiving benefit payments from the British Government. In considering the situation in Canada in the early and mid-nineteenth century, several factors may have combined to account for the slow growth of pensions. The more important of these factors seem to revolve around the following: the average duration of life was shorter, hence the need to make allowances for old age was not as great as in later periods; and, the great influx of immigrants into Canada coupled with the continuing effect of the Industrial Revolution offering encouragement for workers to leave the rural areas for urban centers combined to keep down the percentage of older workers in the labor force.⁴ Those plans that were in effect generally followed informal arrangements whereby, as mentioned earlier, retirees were supported at the pleasure of the company; workers at advanced ages were given less taxing employment; disabled employees were kept on the payroll; and some informal-type plans were sometimes established for "deserving" employees.⁵


⁵Ibid., p. 19.
Formalized plans were thus in existence in Canada well into the nineteenth century. However, there appeared on the business scene more and more of these informal-type arrangements which could only have shown at the time that eventually a pension system of a more substantial and formal nature was not too far beyond the horizon. Whether the reasons could be traced to the employer's moral responsibility to provide for an employee's welfare when the latter would no longer be associated with the company because of advanced years, or whether the benefits were to be considered "deferred wages," the groundwork was being laid for the establishment in the late nineteenth century of a Canadian pension system at both the public and the private levels.

The first fruits of this framework were borne out in 1870 when Canada saw the formulation of its first systematic pension program with the passage by Parliament of the first Civil Service Superannuation Act, a contributory plan covering most civil servants. Four years later, the first major private pension plan made its appearance in Canada with the implementation by the Grand Trunk Railway of a retirement benefit program. The plan, referred to as the Grand Trunk Railway of Canada Superannuation and Provident Fund was established on October 1, 1874, and was a contributory plan for the company's clerical and indoor staff who were thirty-seven years of age.

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or younger at the time of entering employment. The company's outdoor employees were not directly covered for retirement benefits but they were insured against accident, sickness and death. The pension plan was compulsory for all eligible employees whose annual salaries were four hundred dollars or more. Contributions amounted to two and one-half per cent of employees' salaries and these were matched equally by the company. Voluntary retirement was permitted at age fifty-five and earlier in the case of permanent disability. Annual benefits, available at age fifty-five and later, amounted to one-sixtieth of the employee's regular pay at the time of his retirement multiplied by the number of years of membership in the plan. In addition, special arrangements were made for the widows of employees. The benefit payments in this case were a function of the length of membership in the plan by the deceased employee. Likewise, disability benefits were based on years of plan membership.

The first bona fide private pension plan in Canada was fairly simple and though not as comprehensive as today's plans, it did represent a revolutionary step in the field of employer-employee relations. It also preceded by one year the introduction of the first private pension plan in the United States. This latter was a non-contributory private plan established by the American Express Company in 1876. The first contributory plan in the United States was established in 1880 by the Baltimore and Ohio Railroad.

8 Ibid., p. 21.
The decade of the 1880's saw considerable activity in the pension sphere in Canada at both the private and the public areas. In the latter sector, the principal innovation related to amendments to the Civil Servants Superannuation Act of 1870. The Act, as originally established, covered all persons on the monthly payroll of the Canadian Civil Service. The benefits which accrued were either in the form of gratuities for long and faithful service or a combination gratuity-pension for those contributors retiring after the Act had commenced operation. Retirement was compulsory before either benefit payment was made to the retiree. An amendment in 1882 called for an investigation by the Treasury Board of the Federal Government before any of the aforementioned benefit payments could commence. Amendments to the Act were also made in 1883 to cover deductions of officers, clerks and employees paid on a yearly basis and contributing to the Superannuation Fund. Three years later, an amendment to the Act provided for coverage of retired naval marine pilots along with the provision of certain benefits for the widows and orphans of such pilots.

The principal activity in the private area during this decade appears to have come in the latter half. Of the plans introduced, the most important ones were those introduced by two chartered banks. In 1886, the Bank of Nova Scotia introduced a contributory plan for

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9Canada, House of Commons, *Committee on Old Age Pensions* (Ottawa, Ontario: Government Printing Bureau, 1913), p. 3.

10Ibid.
its employees and a year later, the Dominion Bank implemented a similar contributory-type benefit program.

The year 1887, saw also the introduction of another very important innovation in the private pension area. This was the establishment of the Pension Fund Societies Act which thereafter allowed federally-incorporated companies to establish so-called pension fund societies. These latter organizations operated much the same as trust companies in the pension field and some still function today. Briefly, they were able to formulate and maintain pension funds, manage the portfolio of assets of the funds, make required distributions from the funds, enforce penalties and/or forfeitures of benefits in various circumstances, and in general, to govern all the pension activities of the pension fund entrusted to the society.

On January 1, 1893, an amendment was made to the Civil Superannuation Act of 1870, whereby the Act was suspended in Quebec as far as future participation was concerned. This Act was later reinstated, in 1909, and Quebec employees had the option of making up past payments between 1893 and 1909, thereby counting those years as service years or of forfeiting the service by electing not to make up back payments.

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13Labor Gazette, October, 1909, p. 495.
Major legislation in the private pension sector was forthcoming in 1896 with amendments to the Railway Act. These amendments enabled the directors of railway companies to make bylaws or pass resolutions from time to time "for the retirement of such said officers and servants, on such terms as to an annual allowance or otherwise, as in each case the directors, in the interest of the company's service, and under the circumstances, consider just and reasonable."\(^{14}\)

The net effect of this amendment was that railways would now be better able to handle private pensions because they could establish retirement plans without having to seek legislative approval whenever such plans were to be given consideration for possible establishment.

Thus concluded the official birth and initial development of the Canadian pension system. As to the exact number of plans in existence at the end of the nineteenth century, best estimates show that there were less than fifteen formal retirement plans in operation. A study by the Department of Health and Welfare of the Canadian Federal Government in 1947 indicated that, not including railroad plans, there were seven private plans established in Canada prior to 1900.\(^{15}\)

Of these, six were the plans in financial institutions and one in the manufacturing industry.


\(^{15}\)Ibid., p. 29.
B. PERIOD 1900 - 1927

This period marked the official entry of the Federal Government into the private pension area and also by the introduction of the Old-Age Assistance Program. In addition, private pensions and pseudo-public plans continued their growth.

In 1902, Canada saw the enactment of the Mounted Police Officers Pension Act—an act still in force today and still separate from the Civil Service Superannuation Acts per se and also outside the confines of the newly-established Canada Pension Plans. An amendment to the Act, added some four years later, provided for additional coverage to officers and constables in the force and also provided for limited benefits to their widows and orphans.

The year 1902 saw also the introduction of a very substantial private plan by the Canadian Pacific Railway. This plan, a non-contributory one, was considered to have been the most important private pension plan up to that date. In explaining its plan, which was established on December 10, 1902, to go into effect on January 1, 1903, the company made the following statement:

> The system calls for no contributions by employees. The company hopes by thus voluntarily establishing a system under which a continued income will be assured to those who, after years of continuous service, are by age or infirmity no longer fitted to perform their duties and without which they might be left entirely without means of support; to build up amongst them a feeling of permanency in their employment, an enlarged interest in the company's welfare and a desire to remain in and to devote their best efforts and attention to the company's service.17

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16. Canada, House of Commons, Committee on Old Age Pensions, 1911-1913.

The plan's regulations, in general, included the following:

1) Administration, interpretation and operation of the plan shall be completely in the hands of the Pension Department set up by the company.

2) Only those persons who had given their entire time to the company, or to the company or some other railroad company or companies jointly would be eligible under the plan.

3) The allowance to be paid by the Canadian Pacific Railroad in joint employment would be estimated upon the proportion of salary or wages received during the beneficiary's term of service with the company.

4) Retirement was automatic for all officers and employees at age sixty-five, although the Pension Department could grant exceptions where it deemed that extenuating circumstances were present.

5) The retirement benefits would be one per cent of the average annual monthly pay received during the ten-year period immediately preceding retirement.

6) Each pension could be cancellable upon misconduct.

7) A retiree would be allowed to work elsewhere after retirement, but he would have to forfeit his retirement allowance during this reemployment period unless otherwise permitted by the pension department.

8) Since it is a voluntary system on the part of the company and as the employees are not contributors to it, the plan's inauguration and operation gives no employee a legal right to be retained in the company's service or a legal claim to any allowance.18

This was a landmark plan and served as an indication of the type of retirement plan to be introduced in the following years. Within the next six years, three more railroad plans were introduced along similar lines. These were the plans of the Intercolonial and Prince Edward Island Railway (1907), a non-contributory Grand Trunk Railway Plan (1908), and a slight revision of the Canadian Pacific Railway Plan (1908). The activity in the pension area by railroads was

18 Ibid.
intense during this period and by late 1908 it was estimated that approximately 74 per cent of Canadian railroad workers were in the service of companies which afforded pension plans for their employees.\(^{19}\) Canadian railroads thus had been more active in the area of retirement plans at this time than were United States railroads where less than 40 per cent of railroad workers were employed by companies offering pension plans for their employees.

It should be noted, however, that the railroad industry was not the only industry active in pensions during the early years of the twentieth century. To bear out this contention, a sample of the more important pension plans as reported by the Labor Gazette to have been established during this period indicates that the following plans were implemented during the period 1904-1908: Bank of Toronto (1904), Royal Bank of Canada (1904), Quebec Firemen's Benefit and Pension Association (1905), International Typographical Union (1907), Montreal Light and Power (1907), the Nova Scotia Colliery Workers Provident Society (1908), and International Harvester Corporation (1908).\(^{20}\)

Activity in the Civil Service area of retirement plans was confined primarily to the year 1906 when legislation was passed which established the Judges Pension Act and the Militia Pension Act. The former provided for a formal superannuation plan to cover the retirement of judges. The latter applied to commissioned

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\(^{20}\)Various Labor Gazettes over the period 1904-1908.
officers, non-commissioned officers, and men in the permanent Militia Corps and also provided for benefit payments to the widows and orphans of the officers covered.\textsuperscript{21}

Probably the most important occurrence in the private pension area at this time, however, was the entrance of the Federal Government directly into the field. This was accomplished in 1908 with the establishment of the Federal Government Annuities Act. This was an Act whose objective was the provision of a system of old age annuities under the terms of which an opportunity would be given to everyone to purchase at an easy rate, a reasonable annuity for his support at an advanced age. Such were the requirements as laid down in the first draft of the Act by Sir Richard Cartwright, Minister of Trade and Commerce, on March 6, 1907.\textsuperscript{22} In addition, the program had to possess safety of principal, freedom from forfeiture of an individual's payments, and the absence of any power to anticipate payments.

As passed in 1908, the Government Annuities Act authorized the sale to any person domiciled in Canada of an immediate or deferred annuity which would provide for the annuitant a minimum yearly pension of at least fifty dollars or a maximum of six hundred dollars. The annuity would be payable in monthly installments (unless otherwise stipulated) for the life of the annuitant upon retirement or for the lives of joint annuitants with continuation to the survivor and it might alternatively be paid for a period of years certain not to exceed twenty years or for life whichever period be the longer.

\textsuperscript{21}Canada, House of Commons, Committee on Old Age Pensions (Ottawa, Ontario: Government Printing Bureau, 1913), p. 4.

\textsuperscript{22}Labor Gazette, April, 1907, p. 1061.
annuity might also be immediate or deferred depending upon the age of the purchaser. The immediate annuity would, of course, be more in line with the requirements of an older individual no longer employed who was seeking an immediate income in return for an investment of his accumulated savings. The deferred annuity, on the other hand, would be more adaptable to the needs of a younger individual who wished to provide for his old age through periodic or a lump-sum payment for an annuity to be received upon retirement. The specific features of the program were as follows:

1) The maximum annuity available under the plan was to be $600 a year; the minimum annuity available was to be $50 a year.

2) Corporations could purchase these annuities for their members and employers of labor could purchase them for their employees.

3) All annuities were to be issued in the name of the annuitant.

4) If contributions were not sufficient to finance an annuity of at least $50, they would be returned in full and would be credited with interest at the rate of 3 per cent per annum.

5) All contributions were to be made through the Minister of Trade and Commerce or a Post Office Savings Bank in the name of the employer or the employee.

6) Annuities could begin at age fifty-five (beforehand if the annuitant became disabled) but had to begin by age eighty.

7) Upon the death of the annuitant before the annuity is payable, all payments were to be returned to the heirs with interest at the rate of 3 per cent per annum.23

23Labor Gazette, September, 1908, p. 301.
The Federal Government had thus officially made its appearance in the area of private pension plans in Canada. While not a pension plan in itself, this annuity program was to serve as an extremely economical approach towards assuring at least a minimal income for Canadians after retirement. At the time of its inception, the annual rate of return on the contributions, 3 per cent, was quite favorable. The low cost, high yielding annuity thus offered considerable promise. However, it must be noted that the program never has fulfilled the early potential inasmuch as the maximum benefit level has been adjusted only three times since the program's inception and the last adjustment was in 1931. The benefit level stood at $600 a year maximum from 1908 to 1913; from 1913 to 1920, the level was $1,000 a year maximum; and from 1920 to 1931, it was $5,000 a year. In 1931, the maximum was adjusted to $1,200 a year and has remained at that level since that time. On the other hand, the minimum annuity available was decreased in 1925 to $10 a year and has remained permanently at that level.

The most notable features of the private plans introduced by non-government interests during this period of increased Federal Government activity in the pension area could be found in the plans of the Grand Trunk Railway (1908), the Canadian Pacific Railway (1908), the Provincial Association of Protestant Teachers of Quebec (1908), the International Typographers Union (1908), the Michigan Central

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Railway (1910), and the Nova Scotia School Inspectors and School Teachers' Pension Fund (1910).

The Grand Trunk Plan of 1908 is most noteworthy because it was this organization which had originally provided Canada with its first private pension scheme. However, where the original plan in 1874 was a contributory one and available only to the indoor and clerical staff, the new plan, which was to exist alongside the older one, was to be a non-contributory one, and coverage was to be much more extensive since it was to include those employees in the service of the Grand Trunk Western, the Detroit-New Haven-Milwaukee, and any other railroads controlled by the Grand Trunk Railway. In addition, the benefit scale was much more inviting to the recipients because it was based on the percentage of the highest average annual income for any consecutive ten year period of employment with the company multiplied by the number of years of continuous service under the plan. The former plan (1874) provided for an annuity of one-sixtieth of the employee's regular pay at the time of retirement multiplied by the number of years of membership in the plan. Being a contributory plan, the earlier one also required that the employee contribute 2½ per cent of his salary (with the company paying a similar amount) in order to qualify for the proposed benefits.

The Canadian Pacific Railway Plan of 1908 amended the company's plan of 1902 and affected primarily the benefit structure of the company's pension setup. Experience had shown that the formula designed

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in the earlier year, providing benefits equal to 1 per cent of the average monthly pay received during the ten year period immediately preceding retirement, was in some cases insufficient to protect the recipient from want during his retirement years, as had been intended. It was, therefore, decided that, among other stipulations, the minimum amount of pension to be paid after January 1, 1908, and until further notice, would be $20 a month.

The annual convention of the Provincial Association of Protestant Teachers of Quebec in 1908 passed a resolution amending the Quebec Teachers Pension Plan. Of particular note here was the amendment allowing those teachers who failed to pay their back contributions for years prior to 1880, under certain circumstances, to count those years of service for their pension purposes.\footnote{Labor Gazette, November, 1908, p. 466.}

The unique feature about the International Typographers Union—Plan was not in the makeup of the plan itself but rather in the fact that the plan, after being passed by the union members in a referendum vote, was placed in cold storage until an adequate settlement could be made to other labor problems confronting the company.\footnote{Labor Gazette, May, 1909, p. 1248.}

Probably the most pressing area of disagreement between labor and management at this time was the matter of labor's insistence on an eight-hour day. Thus, while the feasibility of the plan was studied in 1905, 1906, and 1907, and the plan approved by the union membership in 1907, it was not until 1908 that it was finally implemented.
Once in operation, however, it immediately began to amass a surplus of receipts over disbursements to such an extent that management's estimate of a surplus of $64,000 after the first ten years of the plan was underestimated by $52,000, or 81 per cent.29

The International Harvester plan, established September 1, 1908, was set up for employees of the company in both the United States and Canada. This comprehensive program was composed of an employee benefit association and a pension fund.30 The former was to protect an employee from loss in wages should he become unable to work either on account of accident or sickness. The latter would provide a fund from which a pension allowance might be paid to retired employees.

The plan, a non-contributory one, was unique in that the company reserved the right to adjust the benefit level if total pension payments to retirees exceeded a certain amount in any year. Specifically, if the total pension payments to all retirees exceeded $100,000 in any year, a new rate could be established to reduce allowances unless more funds were to be made available for pension purposes. The plan called for benefits on the basis of a percentage of the average annual pay during the last ten years immediately preceding retirement. It was voluntary at age sixty-five, but compulsory at age seventy. It provided for a maximum and minimum level of benefits and contained a provision allowing benefits for widows and orphans at the discretion of the pension board which was to administer the plan.

29Ibid.
30Labor Gazette, April, 1909, p. 744.
An indication of the integrity of the plan can be noted by reference to a case considered shortly after the plan's inception. An employee in Hamilton, Ontario, was killed on the job with only eleven days service under the pension plan. At the board's decision, the employee's widow was immediately granted a pension allowance equal to two year's salary of her husband. 31

The pension plan implemented by the Michigan Central Railroad in January, 1910, like the International Harvester plan, gave discretion to its pension committee to adjust benefit allowances where a certain maximum level of benefits had been reached. With this company, the level was set at $56,000. 32 Otherwise, the plan, a compulsory one with the company and employees bearing the costs on a fifty-fifty basis, was quite similar in content to other railroad plans put into effect during this period.

Another plan with a unique benefit plan was introduced in 1910 by the Nova Scotia School Inspectors and School Teachers' Association. The portion of the plan applicable to inspectors required that upon completion of thirty years service and the payment of $50 into a fund, they would be entitled to a pension at age sixty-five or over. 33 This pension would be worth one seventy-fifth of salary

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31 Labor Gazette, April, 1908, p. 745.
32 Labor Gazette, February, 1910, pp. 914-915.
33 Labor Gazette, November, 1910, p. 558.
at time of retirement for each year of service. In addition, an inspector would receive $5 a month for each year of service as a public school teacher before appointment to rank of inspector. Benefits were also made available to those inspectors under age sixty-five who retired due to sickness or permanent disability. In this case, however, the annual benefit payable could not exceed $600.

Subsequent important plans introduced in the next few years were those by Armour and Company, a contributory plan in November, 1911; by T. Eaton and Company, a non-contributory plan in 1912; and a contributory plan for employees of the Montreal Tramways Company in 1913. As noted earlier, a change was made in the Government Annuities Act in 1912, increasing the maximum level to $1,000 a year in an effort to entice more companies to place pension accumulations with this particular medium.

The next plan of major significance to be introduced during this period appears to have been that of Swift and Company for its Canadian employees in August, 1916. A non-contributory plan, it was originally established with the creation of a fund of $2,000,000 by the company. It provided for a pension of one half the annual salary for the five year period immediately preceding retirement but with a maximum annual benefit level of $5,000 and a minimum annual benefit level of $240. It also provided for disability payments and widows and orphans benefits. Most important, however, was a provision relating to the status of the company's plan in a province wherein a public plan of any type was in operation. In such a case,
the company stated that the pension payable under its plan would be
the excess of its benefits over those provided by the province in
question.34

The Federal Government made another step into the pension field
in 1916 when, upon the issuance of an Order in Council by the British
Parliament, a Board of Pension Commissioners was set up to view appli­
cations and to make direct pension and disability payments to veterans
of wars or conflicts in which Canada was a party.35

The Canadian Federal Government had thus for the first time in­
stituted a program of direct monetary distributions for pension pur­
poses. While it may not directly have had a major effect on private
plans in the country, it nevertheless did alert the private sector
that the future would undoubtedly find increased activity in pension
circles by the Federal Government.

During the remaining years of World War I, there was little in
the area of extraordinary activity in the private pension field. A
feature noticeable at the end of the war was the number of non-contri­
butory plans introduced by the larger firms entering the field for the
first time or through amendments to previous plans. A list of such
firms shows an impressive array of establishments. These include the
following: Canadian Power and Paper Corporation (1917); Bell Telephone
(1917); Sun Life Assurance Company (1917); Cumberland Pipeline Corpora­
tion (1918); Canadian Pacific Railway (1919); Ontario Paper Corporation

35Canadian Tax Foundation, The National Finances (Toronto,
Plans which were either entirely contributory or combination contributory-non-contributory plans during this period were established by Imperial Oil Corporation (1919), Canadian Life Assurance Company of Toronto (1919), Ottawa Electric Railway (1919) and Canadian Industries Limited (1919).

The year 1919 proved a most important one in the area of private pensions in Canada. In that year the Federal Government through an amendment to the Income War Tax Act provided that thereafter any contributions which were withheld from an employee's wages and paid into a pension fund on the employee's behalf could be deducted by the employee in computing taxable income. Thus, a tax deduction became available at the time of contribution to the plan though a deferred tax would be levied upon the benefits when received by the employee at his retirement.

The second decade thus ended for the twentieth century—a decade which saw the initial results from the Government Annuities Act; the implementation of a government pension program for military men; and the emergence of tax legislation which thereafter would serve to place private plans in an excellent position to provide added incentive for the so-called "deferred compensation" approach to pension planning. As a result of such activities, an estimate by the Dominion Bureau of Statistics in 1949 showed that private plans, exclusive of

36 An account of such plans may be found in various editions of Labor Gazette covering the period 1917 through 1919.

37 Canada, Income War Tax Act, Revised Statutes of Canada, 1919, Chapter 55, Section 7.
railway plans, increased in number by almost 300 per cent from fifty-nine in 1909 to 172 in 1919.\footnote{38} The 1920's began with an adjustment in the maximum level of government annuities available upon retirement. The maximum was increased from $1,000 to $5,000. This factor may have been the instrumental one in the continued importance of non-contributory plans during the early 1920's. Despite the tax advantages of a year earlier allowing tax deductions for pension plan contributions, some large industrial firms in Canada still assumed the non-contributory route in setting up their plans. These included the Dominion Rubber Company, the Steel Company of Canada, Canadian Westinghouse Corporation, Ogilvie Flour Mills Limited, and the Mutual Life Assurance Company of Canada. Then, too, the post-World War I Depression had run its course by 1920 and employers were once again willing to bear the brunt of pension costs.

The first contributory insurance company pension plan made an appearance in 1922 with the establishment of a plan by the London Life Assurance Company. A year later, the insurance industry embarked on a major innovation in the private pension area by introducing its group annuity contracts for pension purposes.

The year 1922 saw also the formation of the Canadian Government Railroad System which in essence was a merger of all the principal private railroad systems in Eastern Canada. This system--now commonly

known as the Canadian National Railway—adopted the pension plan then in effect within the Grand Trunk Railway System and all railroads in Eastern Canada with the exception of the Prince Edward Island and Intercolonial Railways were thereafter members of the Grand Trunk plan. Two other railroads, the Canadian Northern and the Grand Trunk Pacific, were taken into the plan in 1923 on a temporary basis and permanently in 1929. The final conversion of all the various railroad pension schemes involved in the merger with the Canadian National Railway System into the single plan of the Grand Trunk Railway was accomplished in 1925. This latter plan through the rules and regulations of the Canadian National Railway Pension Act in 1929 became part of the pension package of the then established Canadian National Railway.

All was not well in the area of pension benefits, however, because much dissatisfaction was being voiced over the highly inadequate public pension scheme open to Canadians. While some advances had been made through the Government Annuities Act and the Adjustments to militia pensions and amendments to the Civil Servants Superannuation Act, there remained a wholly inadequate system for those pensioners not fortunate enough to qualify for the aforementioned programs. In 1922 much support was forthcoming for an improved public program from such organizations as the British Columbia Legislature, the Brotherhood of Railway Trainmen and the Canadian national affiliates of the

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American Federation of Labor. Having garnered additional backing in 1923, the supporters of a much more rewarding public pension plan saw fruits of their labor when in the Speech from the Throne in opening Parliament in March, 1924, Governor-General McQuarrie declared that he was appalled by the miserably poor pension system in Canada. No longer, he said, could the time-honored excuse of lack of comparative programs in other countries or the lack of experience in pension programs for Canadians. Accordingly, a committee was set up to study the type of program best suited to Canada's needs and financial resources. This committee, chaired by the former Minister of Trade and Commerce, W. G. Raymond, studied the problem thoroughly. It made its first report two months later and its final report and recommendations on July 1, 1924. Due to pressure of other matters in the Canadian Parliament it was not immediately acted upon so that it lingered for a year before serious consideration was given for enactment of the new government welfare plan.

In 1926, considerable pressure was put forth by many organizations for action of some type on the proposed plan. These organizations, to name just a few, were as follows: Railway Brotherhoods; Ottawa Welfare Bureau; Alberta Federation of Labor; British Columbia Executive of the Trades and Labor Congress; New Brunswick Federation of Labor; Ontario Carpenters and Joiners Association; Catholic Workers

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the recommendation of the Special Committee on Old Age Pensions was introduced for passage in the Fall Session of Parliament in 1926. The recommendations were finally accepted at that time and the benefit plan which resulted was known as the Old Age Assistance Program designed to provide at least a minimum pension to all retirees over the age of seventy who could meet various "means-test" requirements.

The second major era of Canadian pension history concluded with the passage of the Old Age Assistance Program which marked the definite entry of the Federal Government into the pension area. Whereas the Government Annuities Act of 1908 had resulted in direct competition for private administrators, this public plan was to supplement the private plans already in existence and to provide some measure of pension benefits in those areas and for persons not otherwise protected financially in their retirement years.

C. PERIOD 1928 - 1939

The third segment in the historical development of the private pension system in Canada was marked by the Depression of 1929-1932, and its after effects for the latter part of the 1930's up to the outbreak of hostilities of World War II.

In 1928, trust companies were given a limited incentive towards pursuing private pension business through a special income tax ruling.

41 Various Labor Gazettes for the year 1926.
In that year an amendment to the Income War Tax Act permitted trust companies to decide whether the income of the pension fund should be taxed and the members' contributions should be tax exempt, or vice versa. If the latter circumstance prevailed, the members' benefits would be tax exempt upon receipt. Since it was generally expected that the former course would be availed upon, more activity in the field could logically be deemed to be forthcoming from trust companies. This still left the trust companies in the pension area in a less advantageous position than insurance companies because the income from the investment of insured pensions was tax exempt to both the life insurance companies and to the plan members themselves. The retirees under insured plans paid taxes only after the receipt of their benefits.

During 1929, the Province of Ontario conducted a study of the characteristics of private plans within the bounds of that province. Of the 300 companies surveyed, sixty-one plans representing 185,187 employees indicated that they had some type of pension plan in operation. As to the particular features of the plans, the following appeared to be most prominent:

1) The majority of the plans were non-contributory.

2) They usually required service of twenty to twenty-five years for eligibility for benefits.

3) Disability benefits were available after service of ten to fifteen years.

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4) Normal retirement age appeared to be sixty-five for men and fifty-five for women.

5) Early retirements appeared to have been available where the years of service exceeded the required time period by five years (i.e. age sixty to sixty-four with thirty years service or more) at the discretion of the administrators.

6) The most prevalent form of benefit program was one based on final earnings of one to two per cent over the last five to ten years service for each year of employment with a maximum and a minimum benefit level.

It can easily be seen that in this particular province, private plans were becoming entrenched even if on a rigorous basis for qualification by members. One thing is noticeable, however, and that is the similarity of the terms of those plans with those which were reported earlier in this dissertation. The long service requirement for eligibility, the limited benefits available for disability, the discretionary power of the administrators regarding early retirements and the prevalence of benefits based on average earnings over the final ten year period of employment all appear characteristic of the earlier plans reported and tend to illustrate once again the restrictive nature of the private pension plans in Canada during this period.

The ominous cloak of depression showed itself in the area of private pension plans by 1930. In an effort to curtail the resulting derogatory effect on plan liquidations, the Canadian Manufacturers Association urged the Federal Government to give consideration to

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regarding private pension benefits as non-taxable to recipients. This stand, no doubt, was precipitated by the Department of National Revenue's treatment of Old Age Assistance benefits as non-taxable and because the latter benefits were decreased depending on the size of the private benefits resulting. At a minimum, the Association argued, the difference between the maximum public pension and the actual public pension awarded should be non-taxable to recipients. Such an action would be deemed highly beneficial for the continued growth of the private pension movement.

While these suggestions were not immediately accepted by the Federal Government, they did alert the government to the inequities in the tax structure relative to benefits from public pension plans as against those from private plans. Consequently, favorable legislation in this regard was eventually passed in the late 1930's.

The Canadian National Railway made a further amendment to its pension plans in 1930 by completing its task of enmeshing all the pension programs of the various railroads merged with the Canadian National System in the mid and late 1920's. This latter operation resulted in the inclusion of the Canadian Northern, the Grand Trunk Pacific and a number of smaller lines under the major plan of the Canadian National Railway.

In that year, also, the General Electric Corporation devised a very unique pension setup which essentially gave the employees the

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option of choosing membership in either of two available pension programs. One was a completely non-contributory plan wherein the firm paid the full cost of the pension. The other was a completely contributory plan in which the employee paid the entire cost involved. The former contained a flexible benefit structure wherein the maximum amount of benefit under each policy was decreased as the ages increased for those employees making initial application to the plan. The latter had an inflexible benefit structure wherein premiums were adjusted according to the age of the applicants.  

During 1930 a trend was appearing in the makeup of private plans in Canada. That was the requirement that employees thereafter share in the financing of private plans to help alleviate the mounting costs of plans and also because of the financial burden to employers of non-contributory plans as magnified by the presence of the depression. Two such plans which were adversely affected because of economic conditions and which were thereafter discontinued were the Laurentide Division of the Canadian Power and Paper Company and the plan of the Cumberland Pipeline Company. In the former case, the plan was discontinued for new activity though current pensions would be continued and current service and contributions would be actuarially adjusted for present workers upon their retirement.

45Labor Gazette, July, 1930, p. 31.
In 1931, two events featured the private pension activity while the number of contributory funds continued to increase. The first occurrence of note to the private pension sector was the announcement that thereafter, the Government Annuities Program would provide for a maximum benefit of twelve hundred dollars a year rather than the five thousand dollar maximum in force since 1920. The second important happening was the entrance of the Canada Life Insurance Company into the private pension picture as administrator with the adoption of a group annuity plan.  

Activity over the next few years in private pension development appeared quite limited with only the plans of Imperial Oil (1932) and General Foods (1934), both contributory ones, being introduced by the larger industrial organizations. In the Civil Service area, adjustments in 1934 were made to the Royal Canadian Mounted Police Pension Act covering contributions of constables to a fund for pensions for their widows and orphans.  

Amendments to the Canadian National Railway Pension Act providing for a contributory feature to result in greater benefits to retirees was the major occurrence in the private pension area in 1935. The following year, however, proved a very notable one for private plans in that new tax legislation was effected relative to employee contributions to "approved" plans. In addition, Canadian Industries

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48 Labor Gazette, July, 1934, p. 635.
Limited amended its plan which had been originally established in 1919. The resultant amended plan was considered at that time to have been one of the most comprehensive programs for employee welfare in Canada.49

The tax legislation placed a limitation on the deductibility of employee contributions to pension funds. Whereas no limit was in evidence in the past relative to this area, now each employee could deduct only a maximum of three hundred dollars of pension contributions for tax purposes.

The Canadian Industries Limited Plan of 1936 was actually the culmination of constant improvement, expansion, experimentation, and adjustment to the earlier plan of 1919. As a result, the new plan included provisions for employee representation on the company's welfare committee, annual vacations with pay, stock investment privileges, service awards and bonuses for outstanding service. Among other provisions were eligibility for full benefits after fifteen years service along with very liberal widows' and dependants' allowances.

In 1937, the two foremost plans introduced were those of Goodyear Tire and Rubber Company,50 and the National Grocers Company.51 The former was a contributory plan which essentially amended the company's plan of 1929 which had both contributory and non-contributory options for members. Under the new program, under which contributions would

49 Labor Gazette, August, 1936, p. 705.
50 Labor Gazette, April, 1937, p. 525.
51 Labor Gazette, January, 1937, p. 29.
be governed by salary levels, both the company and the covered employees would contribute towards retirement annuities for a period of twenty years. After that period, the company would bear the entire cost of the benefits. The National Grocers plan placed increasing emphasis on the element of past service benefits. This organization, which was a major wholesale grocer operation, with in excess of thirty branches, elected to provide credits for past services equal to half the rate effective on future service credits. For such past service the company would bear the entire cost, while the future service credits, the company and the covered employees would bear the cost on a fifty-fifty basis.

The year 1938 proved extremely noteworthy from a private pension standpoint. In that year, the results of two studies of Canadian welfare plans were announced and special tax legislation was once again introduced relative to employer contributions to pension funds.

Two major pension studies during this year were those of the National Employment Commission and the Industrial Relations Section of Queen's University, Kingston, Ontario. The former, a part of a very comprehensive study of many welfare areas sought to uncover the presence of superannuation plans in the different organizations in its survey.\footnote{Canada, National Employment Commission, \textit{Report of Phases of Employment Conditions in Canadian Industry}, Ottawa, 1937.} Altogether, a total of 7,725 firms were contacted and of these, only 722, or just over 9 per cent reported the presence of any type of pension benefit plan for employees. Six thousand, nine
hundred sixty companies, or almost 88 per cent of the firms contacted, reported having no type of employee benefit plan in operation at that time. Three per cent of the respondents had benefit plans other than for pension purposes. The plans in operation covered 386,677 employees and included 107 plans which were basically of an informal nature.

The Queen's University Survey covered 120 firms with plans in operation in Canadian industry involving 265,000 employees. Its principal objective was to analyze the trends evident in private industrial pension plans for the period covering the 1920's and the 1930's up to 1936. The results of the Study were quite informative and included the following:

1) More and more package welfare plans seemed to have made their appearance. Thus, a typical welfare plan contained a life insurance feature along with health and sickness provisions in addition to the retirement benefits.

2) The plans of the immediate decade usually contained compulsory membership provisions for all eligible employees in order to assure success of the plan.

3) Minimum waiting periods were usually required before employees became eligible for membership in the plan.

4) In view of the effect of the Depression on business in general, and also because of the drain on the employer's financial resources of non-contributory plans, the period since 1929 had been featured by more and more contributory plans among the newly established ones.

5) Retirement was usually compulsory at a certain age; no additional benefits were available for late

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53 Industrial Relations Section, Queen's University, Industrial Retirement Plans in Canada, Kingston, 1938, p. 10.
retirement; and under certain circumstances, early retirement at an adjusted benefit scale were permitted.

6) Employer-employee contributions were generally on a fifty-fifty basis in order to provide a reasonable benefit scale.

7) The administration of the plans, similar salary groups (office employees, clerks, maintenance) were usually required to contribute at the same rate to the plan.

8) An increasing number of the more recently established private plans allowed for past service pension credits, maximum benefit levels, various options at maturity as to the form of the benefits and for the availability of death and disability benefits.

9) More sophisticated funding media were being made available in the newer plans due to the insistence of labor and employees in general that a guaranteed type of plan protection be made available in place of the former situation where employees simply promised to set aside the required funds for the plan.

10) In view of the presence in Canada of the Old Age Assistance program, many plans were revised somewhat in order to supplement the public plan.

11) A gradual lessening in the limits of company discretion as to the various activities and policies of the plan.

In seeking its information, the study concentrated on the answers to such questions as the following: the motives for setting up the plan; the provisions of those plans; what trends were evident relative to adjustments over the past decade; and the general makeup of the more recent plans instituted in Canada. The results tend to bear out the trends evident in private plans as already noted in this presentation. In terms of its importance, the study represented one of the most thorough analyses of private pension arrangements in Canada and served to provide a firm foundation for the subsequent pension studies
which have been forthcoming from various levels of the Canadian Federal Government.

The third phase in the growth and development of private pension plans in Canada thus concluded with the end of the 1930's. This period was marked by the transition from non-contributory plans to contributory plans due to the financial setbacks caused by the depression and also was the first decade in which the Old Age Assistance had been in operation. Tax legislation, while favoring trust companies in the pension area in 1928, limited employee benefits in 1936, but favored employer lump-sum contributions in 1938.

Having survived the depression, the pension movement entered the period of World War II, and plans were now estimated to number in excess of seven hundred. In addition, the trend towards more and more contributory plans, along with an insistence on the funding of contributions, gave evidence that the private pension movement would continue to grow at a rapid rate and that subsequent plans would be more soundly financed than at any time in their history in Canada.

D. PERIOD 1940 - 1945

The World War II period saw a dramatic impact on the further development of private pensions. Among the many incentives for such growth were the implementation of Excess Profits Taxes, Wage Stabilization directives, and further tax concessions for pension plans. Many employers sought out pensions as a measure of deferred compensation in order to retain competent employees in a period when the labor shortage was acute.
The larger corporations remained active in the establishment of plans in the first years of the war, with Canada Packers Corporation and International Harvester Corporation effecting adjustments in their plans in 1940. In that year also the Federal Government introduced its first excess profits tax since the Business Profits War Tax of 1915-1920. At that time, Canada had no corporate income tax and any profits in excess of a seven per cent return on investment were taxed on a graduated basis according to the specific rate of return on investment. Now, as World War II progressed, the Federal Government once again sought corporations' excess profits as a source of income and also as an indirect measure of keeping prices in line.

This newer tax, known as the Excess Profits Tax, was enacted in 1940, and provided that companies whose earnings increased less than one-sixth over the pre-war base-period earnings would be subject to an additional tax of ten per cent on all corporate income as a supplement to the regular corporate tax rather than to a tax on their excess profits as such. Those companies whose income had increased by more than one-sixth over the base period were subject either to an additional tax of ten per cent on all corporate income or to a one hundred per cent tax on the excess profits over the base period, whichever amount was greater. In terms of coverage, the tax imposed on all corporations, partnerships, and proprietorship income exclusive of farming and the professions.54

In 1941, with World War II now firmly entrenched, a special committee known as the War Prices and Trade Board was set up in Canada in accordance with the powers invested in the Federal Government through the War Measures Act of 1917. This latter act allowed Parliament to vest authority in a Governor-in-Council to undertake what he deemed those emergency measures necessary to protect the Canadian economy and to assure that the defense effort would not be adversely hindered by operations in the private sector.

The Act opened the door to wide discretionary powers by the Governor and these were brought to a front through the passage of wage stabilization legislation with the ultimate responsibility for the administration coming under the aforementioned War Prices and Trade Board. An agency of that Board, the National War Labor Board, was established in November, 1941 to operate the wage-freezing order in council and was given complete control over all wage adjustments. Essentially, what this meant was an emphasis on "deferred wages" by employers who found it more and more difficult to increase present wages under the close supervision of the War Labor Board. In terms of private pension development, however, this may have been a boon because funds could easily be channeled into pension plans without incurring the wrath of the Board.


In line with the Wage Stabilization policy, the Canadian Government adopted an automatic cost-of-living adjustment during World War II. According to this legislation, workers would automatically receive a wage bonus if the cost-of-living index rose above the level prevailing in October, 1941. Thus, wage stabilization and price stabilization were essentially tied together because it became necessary for the private sector to hold prices relatively firm. A rise in such prices would almost automatically have meant an immediate payment of a wage bonus.\footnote{57}{Jules Backman, \textit{Wage Determination} (New York: Van Nostrand, 1959), p. 143.}

That same year, tax concessions were again granted to private pension plans. At this time, an amendment to the Income War Tax Act provided that an employer would thereafter be permitted to deduct from his income those contributions to a pension plan not exceeding three hundred dollars a year for each employee and not exceeding, in total, five per cent of the payroll for the year.\footnote{58}{Clark, \textit{loc. cit.}, Vol. II, p. 46.}

A year later, in 1942, the Income Tax Act was again amended to the effect that employers could claim exemptions on amounts paid by them into a pension fund with respect to the current year for the current service of employees, with the total exemptions not to exceed five per cent of the payroll of the contributors or a maximum of three hundred dollars per employee. An additional consideration in line with this amendment was the requirement that the lump-sum
payment for such services be recommended by a qualified actuary and approved by the Minister of National Revenue with the advice of the Superintendent of Insurance. This procedure was suggested to assure that the lump-sum payment paid was actually required for past service.

The following two years saw tax legislation once again as the principal activity in the private pension area. In 1944, the amendments to the Income War Tax Act referred to employee contributions and in effect allowed employees to deduct as much as three hundred dollars a year as contributions to a pension plan in respect to services rendered in that year; and a further three hundred dollars a year paid by the employee for services rendered prior to the taxation year for past service years in which he was not a contributor.  

A boon to the private pension picture occurred in 1945 with the presentation of the report of the Royal Commission on the Taxation of Annuities and Family Corporations. This commission made three principal recommendations to the Federal Government. Two of these were accepted by the government, while the third, though not entirely approved, led to favorable legislation in the area.

The first recommendation which was accepted suggested that only the interest element in individual life annuities, rather than both the interest and capital elements, should be subject to income tax assessments.

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59 Ibid., p. 46.

The second recommendation, which also was approved, suggested that the income of pension funds should be deemed non-taxable in the hands of trustees and in the hands of employees. This recommendation thus allowed trust companies to compete much more favorably in the pension area with other media especially insurance companies. As a result, the activity in pension circles by trust companies has been much more aggressive even to the present day.

The third recommendation evolved from the commission's critical evaluation of the three hundred dollar maximum limit on the amount of employer and employee contributions to approved pension plans that could be deducted from income for tax purposes. The commission suggested that the existing limits be completely removed. While the recommendation was not accepted in full, the Minister of Finance did legislate some favorable action in this area by raising the maximum deductible limit from three hundred dollars to nine hundred dollars a year on amounts deductible by an employee for current service and a similar amount of nine hundred dollars was allowable as a deduction by employees for contributions covering past services.\(^6\) In addition, the maximum tax deduction of not more than five per cent of payroll for current employee service which had been in effect since 1942 was removed by the Minister of Finance.

E. PERIOD 1946 - 1960

This era in Canadian private pension plan development seems by far to have been the most notable and served to construct the foundation

\(^6\) Clark, Vol. II, p. 49.
for many of the innovations which have been introduced in the field in the last five years.

In 1946, further implementation of the recommendations of the Ives Commission relative to the supervision of private pensions was effected. The Department of the National Revenue in that year issued a booklet entitled "Statement of Principles and Rules Respecting Pension Plans" which in effect stated that private pension plans would continue to come under the supervision of his department. While not a directive, the booklet served to spell out in general terms the conditions under which the Minister of National Revenue would put his approval on private plans thus qualifying them for favorable tax treatment. Including a revision in 1950, this statement served as a guideline for pension planning until its permanent withdrawal in 1959.

With the emergency conditions of World War II no longer in evidence in 1947, the Canadian Government repealed the Excess Profits Tax which had been passed in 1940 to keep profits in line during the hostilities.

That year also proved to be quite notable from the fact that government studies of industrial pension plans began in earnest. The Department of Health and Welfare undertook a comprehensive study of private plans and determined that there were 3,545 private plans exclusive of railway plans in operation in Canada at the end of 1947. 62 This study, later published as "Dominion Bureau of Statistics Reference

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Papers of 1950 also sought to find out reasons for the increased activity in retirement security in Canada and also the industrial breakdown and trends relative to pension plan implementation over the first half of the twentieth century.

In view of the increased activity in the area of private plans with the end of World War II and the favorable tax legislation over that decade, there was increased pressure from various sectors for an improved Government Annuities program. Specifically, an effort was made to raise to fifteen hundred dollars the maximum annuity available under the plan which was now limited to twelve hundred dollars. This recommendation was put forth in Bill 343 before the House of Commons in May, 1948, but received little support. It thus failed to secure passage though some minor changes were effected in the Annuities Program.

Among the more important private plans instituted by corporations immediately after World War II and up to 1948 were those of George Weston Limited in 1946, Great Lakes Paper Corporation in 1947, and the Montreal Star Publishing Company in 1948.

A very significant private plan was introduced by Coca-Cola Limited in December, 1948. Under this arrangement, a trust fund was established into which the contributions of both the company and its employees were made. The fund was to be administered by an "Employees Retirement Plan Committee" appointed by the board of directors of the company. The investment of the fund was to be controlled by the Royal

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63 Clark, Vol. II, p. 49.
Trust Company. The unique aspect about this particular plan was the presence of three separate benefit alternatives or options available to retirees. These included monthly checks for the remainder of their lifetimes, monthly payments of a smaller amount than the first alternative, but payable for the remainder of their lifetimes and continued after their deaths to their beneficiaries for the remainder of their lives, or monthly checks of an amount somewhere between that allowed under the first two options payable for the lives of the recipients and thereafter continued one-half that amount to their beneficiaries for the remainder of their lives. 64

A famous legal decision in the United States in 1949 was to have a very important bearing on the direction of private plans during the 1950's and 1960's. This was the Inland Steel case which saw the Supreme Court and the National Labor Relations Board of the United States declare that the term "wages" as used in the Taft-Hartley Act was intended to include more than rates of pay and that pension plans were to be considered as covered under this area. These bodies decreed that thereafter in any collective bargaining sessions between labor unions and management, the latter would be required to bargain over the matter of private pension plans for employees if the unions requested this privilege. 65 This issue was quickly tested in 1950 when the United

64 *Labor Gazette*, April, 1949, p. 402.

Automobile Workers International Union negotiated its new labor contract with Ford of Canada, Limited.

In this latter case, under the agreement reached by the union and the company, the pension issue was part of the collective bargaining procedure and the settlement resulted in the Canadian employees of Ford receiving, in effect, the same coverage under the company plan as the United States employees. The latter did, however, receive some additional benefits through their coverage under the Social Security Program in that country. Following its success with Ford in the pension area, the United Automobile Workers Union sought parallel settlements with other companies covered under international contracts with the UAW.66

The year 1950 saw also the appointment by the Canadian Parliament of a Committee on Old Age Pensions which was to study Canada's progress in this area of public pensions. The committee was to report back to the government on the feasibility of a universal public pension program to supplement the "means-test" Old Age Assistance Program of 1927. After a year of intensive research, this committee returned its recommendations in 1951 and favored the establishment of a flat-benefit, universal, old-age pension program subject only to age and residency requirements. These recommendations were studied by the government and a plan was devised and put into operation on January 1, 1952, as the Old Age Pension Program.

Activity was also quite pronounced in the government annuity field at this time. Despite the failure to raise the maximum annuity

limit from twelve hundred dollars to fifteen hundred dollars in 1948, the Department of Labor sought a one hundred per cent increase in 1951—from twelve hundred dollars to twenty-four hundred dollars, and an increase in the minimum annuity from ten dollars a year to sixty dollars a year. Once again, however, these measures failed to pass the House of Commons and the only adjustment of major importance to the Annuity Program was an increase in the interest rate, to be paid on an annuity, from three per cent to three and one-half per cent in April, 1952. 67

A new method of pension funding made its appearance during 1952 with the emergence of "terminal funding" as a separate medium. Under this method, which was deemed by the Department of National Revenue as acceptable for tax purposes, no systematic fund would be built up during the employee's period of service. Instead, the employer would undertake to purchase, from an insurance company, an annuity of a certain defined amount at the time of each worker's retirement. This medium arose primarily from the increased number of negotiated plans covered under labor agreements. Since employers did not relish the idea of renegotiating pension plans with each contract negotiation, the system seemed very practical from their viewpoint.

Of course, the method would tend to distort pension costs from contract to contract as the workers became older and older, but it would also prove quite beneficial to employers. It would enable a company to forecast its costs more accurately for the term of the

labor contract and thus to bargain with these costs in mind. The absence of a fund belonging to current employees also helps the employer's bargaining position and in addition, means that he has no fund diverting his contributions from other aspects of the business where they might be more profitably invested. 68

The Government Annuities Program again received considerable attention in 1953 with adjustments initiated by the Department of Labor. Prior to that year, the regulations of the Government Annuities Act prevented the Annuities Branch of the Department of Labor from allowing the withdrawal of an employee's contributions under a group contract if he terminated service with his employer and no longer participated in the plan. He received, instead, a paid-up pension contract for the amount of the annuity purchased by his contributions. This was rectified somewhat in 1953 with the Annuities Branch being permitted to allow an employee, subject to employer approval, to receive the cash surrender value of his credited contributions at the time of his termination provided the value of the annuity purchased by the contributions did not exceed one hundred twenty dollars a year beginning at the normal age of retirement stated in the plan. 69 Thus, some increased use of this pension media was foreseen from those individuals or companies who would otherwise

69 Clark, Vol. II, p. 11.
have sought another type plan where early termination of employment would see the return of some or all of the employee's contributions at the time of termination rather than at retirement as had been the situation formerly with the Government Annuities Program.

The following year, the Department of National Revenue once again adjusted the tax deduction allowable where pension contributions were concerned. The maximum annual amounts deductible by an employee for current service and for past service would thereafter be fifteen hundred dollars on each count per year.\(^7^0\)

The private pension plan saw another notable innovation in 1955 with the establishment of "pooled" pension funds by trust companies. This was an attempt to aid the smaller plans by enabling them to qualify for greater diversification in their investment portfolios. This method of investment enabled the employer (or administrator) of a pension fund to purchase units, similar to mutual fund units, in pooled funds which were classified as to equity, fixed income securities or mortgages. In this way, an employer, though he operated only a small pension, received the advantage of being able to invest his funds in any or all of the different pooled funds available as his particular investment objectives would seem to dictate.\(^7^1\)

A year later, in 1956, Canadian trust companies were given a considerable boost in their attempt towards making a foothold in the

\(^7^0^\text{Clark, Vol. II, p. 53.}\)

pension area. This came with a statement by the Minister of Finance in the Budget Address for that year. The Minister announced that the investment restrictions, which previously had hampered the trust companies' attempts to compete with other administrators, would be lifted. These restrictions, in the past, meant that the Income Tax Division of the Department of National Revenue in approving trusteed pension plans for registration, had applied the investment regulations of the Canadian and British Insurance Companies Act. Included in such regulations was a limitation on a fund's ability to purchase common stocks to a maximum of fifteen per cent of the fund's assets. With the removal of such regulations, however, the firm's investments in common stock would thereafter be governed primarily by the terms of the particular trust agreement between the employer and the administrator of the fund.

The year 1957 saw an end to several years of controversy over the use of the "Rules and Regulations" booklet or "Blue Books" as they were also known. It appeared that the original objective of these booklets providing in general terms the rules and regulations regarding the acceptability of private pension plans for tax purposes was somewhat contradictory with the manner in which plans were actually approved. In fact, the formulas for the computation of employee and employer tax deductions according to the Rules and Regulations saw a smaller tax break than that allowable under the Income Tax Act.  

Due in part to problems of this nature, the Rules were withdrawn in 1957 pending the publication of a revised booklet which would attempt to coordinate the features and conditions of the Income Tax Act with the Rules and Regulations which would be deemed acceptable by the Minister of Finance. Until such time as the new regulations would take effect, however, the Minister of Finance announced that private pension plans should follow the directives of the Income Tax Act with reference to pension plan tax concessions before submitting their plans for registration with the Department of National Revenue.  

Activity in 1957 was also quite pronounced in the Old Age Pension Program. Whether a political measure or due to an analysis of the financial success of the Program, the Liberal Government in April, shortly before the national election, raised the level of benefits from forty dollars a month to forty-eight dollars a month. The same year, following an upset in the election, where the Progressive Conservative Government won the majority of seats in Parliament, the amount was further raised to sixty dollars a month.

Following increased competition from other government pension programs, and the rapidly increasing number and increasing yield of private pension plans, the Department of Labor announced that it would increase the yield on its Government Annuities contracts from three and one-half per cent to four per cent. In this way, that department,

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though not specifically intending to compete directly with the other groups in the pension area, did hope to instill more interest in their limited-coverage contracts. In nearly fifty years of operation, this program had attracted only slightly in excess of one hundred eighty-three thousand five hundred contracts of both the individual and group categories.\textsuperscript{75}

The lot of the self-employed individual relative to retirement provisions was given a considerable boost during 1957 with the establishment and acceptance for income tax purposes of the Registered Retirement Savings Plan.\textsuperscript{76} It was established as an amendment to the Income Tax Act and was meant to provide individual annuities for self-employed persons who could not otherwise take part in a retirement plan. There were three basic requirements for qualification of such a plan. The contract must involve a covenant between an individual and a person or company licensed to carry on an annuities business in Canada; the arrangement must be one under which payment is made by an individual to a corporation resident in Canada; and the arrangement may be one whereby payment is made to purchase a guaranteed investment certificate from a corporation which has been approved by regulation.

In 1958, the income tax issue once again caused the most interest in the private pension area. This referred primarily to an amendment to the conditions for employer deductions for their contributions to registered pension plans for past services and for employee

\textsuperscript{75} Clark, Vol. II, pp. 9-11.

contributions to cover past services during which an employee might or might not have been a contributor to the pension plan of his firm. In that year also, a form of the "Rules and Regulations" ("Blue Books") affecting the registration of private pension plans was released by the Department of National Revenue under the title of "Information Bulletin Number Fourteen." While intended to serve as a substitution for the "Blue Books," it essentially was a restatement of policy on behalf of the Minister of National Revenue. Principally, it removed many of the discretionary powers of the Minister and also removed some of the restrictions affecting investment of pension funds in the securities of an employer firm. It also relaxed previous vesting requirements of registered plans and made special provisions for the plans for different classes of employees, thus giving incentive to more executive-type plans.

This bulletin was short lived, however. It was withdrawn in 1959 and was not immediately replaced. Thus, Canada entered the 1960's with no official publication of rules which the Minister of National Revenue would follow in his approach towards accepting private plans for registration. It was assumed, however, that the general approach taken would be in line with the suggested requirements set down by the bulletin.

As the 1950's came to a close, Canada possessed a universal, flat-benefit public pension program and a rapidly growing private system. This latter system was aided considerably by favorable tax legislation and a continuation of the efforts during World War II to defer wages in favor of providing future retirement benefits for
employees. In addition, new innovations in terms of pooled pension plans, terminal funding, and deposit administration funding had made their appearance. The insurance industry was also advocating a type of special pension account plan along the lines of the trusteed pooled plans. Were such a plan made permissable for insurance companies, they would be in a much more competitive position with trust companies for those pension programs whose objectives were to avail liberally of equity investments as inflation hedges.

Various provinces were becoming disenchanted in the early 1960's, however, with the increasing role which the Federal Government was playing in the private pension field. Consequently, they were engaged in studies deemed to make this decade one of decentralized control of the private pension system by provincial rather than Federal Government authorities. These studies culminated in the passage of private pension legislation by the provinces of Ontario, Quebec, Alberta, and Saskatchewan. Several other provinces are also continuing studies in the area. The legislation, already in effect, will be explained in detail in a subsequent chapter.

Before proceeding into a consideration of the role played by different external elements in the growth of the private pension system, it seems appropriate here to briefly summarize the principal features or events which featured each decade in the growth process of the system.

F. SUMMARY OF HISTORICAL DEVELOPMENT OF THE PRIVATE PENSION SYSTEM

In reviewing the historical development of private pension plans in Canada, a number of definite stages of growth became evident.
For the latter quarter of the nineteenth century, private pension plans were primarily of the contributory type. This was due to the influence of the British pension system and because many of the earliest administrators of private pension plans in Canada were located in Britain. Financial institutions were the principal advocates of private pension plans during this period.

The first decade of the 1900's saw the institution of many non-contributory pension plans with railways and Canadian subsidiaries of United States companies providing most of the activity. This decade also marked the entrance of the Federal Government into the private pension sphere through the introduction of the Government Annuities Act of 1908.

The second decade of the 1900's saw a continuation in the introduction of non-contributory plans by Canadian corporations. It also marked the period when employers, having noted the progress of pension plans which had been in operation for a number of years, saw fit to make adjustments to the extent of coverage and benefit levels in their plans. Trust companies entered into the pension field as administrators in 1915.

The 1920's saw a radical change in the design of private pension plans in Canada. As mentioned earlier, tax legislation was introduced in 1919 which made employee contributions to private pension plans tax deductible to contributors. This decade also saw the amalgamation of all railroad plans in Eastern Canada under one comprehensive plan of the Canadian National Railway System, the entrance of the life insurance industry into the field of underwriting private pension plans,
and also a further imprint of the Federal Government in the pension area through the implementation of the Old Age Assistance Act—1927.

The Depression of 1929-1932 saw financial failure hit many Canadian corporations. With this failure, several pension programs were also dissipated. As a result, there was a further push towards contributory plans in Canada as employers sought to gain more participation from employees as far as the financial arrangements of private pension plans was concerned. This decade also saw amendments made in the features of many plans as other sources of retirement savings had been liquidated with the Depression. The Federal Government greatly aided the subsequent development of private pension plans in the late 1930's through tax concessions for lump-sum payments made by employers to private pension plans on behalf of employees' past service, where no pension plan had been in effect.

World War II, with its consequent economic sanctions on excess profits, wages and prices in Canada, served as yet another incentive for the continued growth of the Canadian private pension system. Compensation in many cases was "paid" in the form of increased pension benefits schedules for employees.

For the two decades following World War II, the private pension system has grown by leaps and bounds. Newer, more flexible, programs have been introduced by trust companies and insurance companies. Investment restrictions facing administrators of pension plans have been liberalized. The tax deductible maximum limits for employer and employee contributions to private plans were increased to cover both past service credits and future service credits of employees.
Finally, there has been increased governmental activity in the pension area. The Federal Government introduced a universal, flat-benefit pension program in 1952 and a universal variable-benefit pension program was to be forthcoming by 1966. Provincial Governments entered the private pension field in the present decade with emphasis primarily on adequate disclosure of pension information, minimum vesting provisions and evidence of solvency of private plans within their provinces. By 1966, Saskatchewan, Ontario, Quebec, and Alberta would implement such legislation.

II. INFLUENCE OF FOREIGN COUNTRIES' PENSION SYSTEMS ON THE GROWTH OF PENSIONS IN CANADA

While it has generally been accepted that Canada introduced the first private plan in North America, it by no means lays claim to having offered the first bona fide pension plan world wide. Gratuitous payments had been made to retirees in many countries dating back to the Roman times, but claim for the introduction of regulated retirement pensions is generally assumed by France and Belgium, both of whom introduced public plans in 1850. In addition, eleven other countries introduced public plans before Canada established its Government Annuities Program in 1908. Twenty-eight others introduced one or more plans before Canada had its Old Age Assistance Program in 1928. Inasmuch as the subject of this study is private pensions, a comprehensive analysis of the subject would of necessity have to include consideration of such public plans.

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The first type of pension arrangement available in Canada was that paid to retired members of the British militia who had fought under the British flag and who later decided to live in retirement in Canada. Since the plan was administered in England, Canada's first experience with pensions was thus through British plans. On the other hand, the United States had already instituted military pensions to cover veterans of the Revolutionary War, the War of 1812, the various Indian Wars, the War with Mexico, and the Civil War. Canada could not claim its first Superannuation Plan for Civil Servants till 1870 nor its own Militia Act till 1886.  

It is not surprising then when Canada's first private plan, the Grand Trunk Railway Plan in 1874, was established, it would be patterned largely after that instituted in a foreign country. Since the United States was not to establish its first private plan until 1875, the Grand Trunk Plan was designed along the lines of British plans in operation at the time and administration of the plan even took place in London, England.

It may also be noted that many of Canada's early plans were formed by financial institutions. As such, they may have followed the example of both British and United States plans in that these countries saw financial institutions show considerable interest in the earlier pension arrangements and as in Canada later on, these plans were of a contributory nature. In addition to the above,

78 Ibid., p. 91
Canada appears also to have been influenced very much in its pension thinking by the social reform philosophy of the United States where it was felt that with the great strides in industrialization coupled with such frequency of upswings and downswings in the business cycle that there was no real danger of individual savings upon retirement being eaten away by a prolonged depression. Likewise, it followed the same general line of thinking as the United States in that each man should prudently make allowances through savings for his retirement days. However, these theories were sternly put to the test during the Depression following World War I and the Great Depression of 1929-1932. Thereafter, a more security-minded populace appeared on the United States and Canadian industrial scene.

The development of Canadian pension plans was influenced also by pension arrangements in other parts of the Commonwealth. In a dissertation entitled "Social Security in the British Commonwealth," written in 1948 by Ronald Mendelsohn for the London School of Economics, it was noted that Canada's approach to public pensions was quite similar to New Zealand's approach. Both countries provided universal coverage over a certain age and both had "means test" sections providing pensions at earlier than normal ages if various requirements were met.

The advent of World War II saw Canada adopt similar emergency regulations as those of the United States particularly in the area of

wage and price stabilization. In this way, pension growth in the United States and then in Canada was stimulated as corporations in each country saw different methods in which to channel fringe benefits to employees without adversely affecting government regulations in wage areas.

Following World War II, the passage of favorable labor legislation in the United States relative to collective bargaining areas and also the rulings of the Supreme Court and the National Labor Relations Board in the now famous Inland Steel Case meant that unions in the United States could pursue pension negotiations with increased vigor. It would naturally follow that the proximity of Canada and the presence of international unions in North America would see union efforts increased in the pension area in Canada.

While the tax situation relative to employee contributions in Canada favors the contributory-type plan, there is evidence to show that the negotiated, non-contributory pension plan has made an imprint since the drive began by labor unions in the late 1940's. Ford of Canada was involved in such an agreement in its wage negotiations in 1950. The Amalgamated Clothing Workers Retirement Fund (Ontario) was set up in 1952 and stemmed from a collective bargaining session between the Union and the Associated Clothing Manufacturers of Ontario.

A milestone agreement relative to this aspect of union activity is the multi-employer plan developed through collective bargaining between various locals of the United Steelworkers of American and

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twenty employers in the Vancouver steel industry. Each agreement had a common provision spelling out the organization of a pension plan for the employees covered by the agreements.

Evidence also shows that many of the recent innovations in Canadian private pension plan design and administration may have been initiated by similar situations in other countries. For example, the Ontario Pension Benefits Act of 1962-1963 seems to have secured some of its mechanics from similar legislation in Norway providing for the transfer of pension credits of white collar workers from job to job. Likewise, the use of variable annuities for pension purposes, long a legal issue in the United States, was employed first by British life insurance companies operating in Canada. Canadian life insurance companies followed this leadership and Canadian subsidiaries of United States companies in the insurance field are awaiting the adoption of variable annuity programs by head offices in the United States before they enter the field though legally such programs are permissible in Canada regardless of the location of the particular company's head office.

It is thus plain to see that the development of private pensions in Canada has in large measure been precipitated by the growth of pensions in other nations particularly the United States and Great Britain. The public pension growth in the Commonwealth, the experiences under the Great Depression, the New Deal in the United States, and a more rational approach towards economic security during retirement

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81 Ibid., p. 24.
years have all served in some way to enhance the development and the direction taken by this private pension system in Canada.

III. ROLE OF THE CANADIAN GOVERNMENT IN THE GROWTH OF PENSION PLANS IN CANADA

The Canadian Government has proven to be a very influential agent in the growth and development of private pension plans in Canada. Because this area will be explained more fully in later chapters, only the highlights of Federal Government activity on the private pension system will be considered at this stage.

The areas where the Government has been most active include the following: Federal income tax legislation, investment regulations for pension funds and encouragement for increased attention towards employee welfare through the introduction of various public pension programs.

Federal income tax legislation in the private pension field has seen very favorable treatment given the contributions to private plans by both employers and employees. In addition, the income earned on the investment of pension funds has been deemed tax exempt until the plan member begins to receive his retirement benefits. This situation exists whether a trust company or an insurance company is administering the fund.

The Federal Government has, for many years, regulated the areas wherein private pension plans could invest their funds. This regulation came by way of setting up various standards which had to be attained if special income tax concessions were to be given to employer and employee contributions to private pension plans. Among the standards was the requirement that all administrators of private pension
funds restrict investments to those investments allowed the investors of life insurance funds.

Within the last decade, however, these regulations have been eased considerably and that much more liberal investment programs are permissible for both trust companies and for insurance companies. These investment changes allow much more adherence to the prudent man rule for trust companies. In addition, they have allowed insurance companies since 1961 to set up separate funds for pension business such that these companies are better able to compete for specific types of pension business not easily attained in the past.

Another approach where the Federal Government has been very active and also very instrumental in private pension growth has been in the area of providing public pension programs for Canadians. Such public plans tend to make the private sector more aware of the importance of looking to their retirement years and planning for their finances during that period.

The Federal Government has introduced few major pension programs. These include the Government Annuities Program of 1908, the Old Age Assistance Program of 1927, the Old Age Security Program of 1952, and the Canada Pension Plan of 1966.

From this brief summary, it may be noted that the Federal Government's influence in the private pension area has centered primarily around enactments and amendments to the Income Tax Act. This is due, primarily, to a clause in the British North America Act of 1864 which stated that where matters involving employee welfare plans are concerned, authority and responsibility for appropriate legislation rests with the
individual provinces of Canada rather than with the Federal Government. Only an amendment to this Act in 1961 allowed the Federal Government the right to implement the Canada Pension Plan.

Even with such legislative limitations, the Canadian Government has still shown itself as a prime force in the development and the direction of the growth of private pension plans in Canada. In its tax treatment of contributions to private pension plans, it has provided an outstanding incentive for employees to develop reasonable retirement estates. In its liberal tax allowances for special lump-sum payments to private plans, it has helped many plans to assume a much sounder financial status.

In its easing of the investment restrictions facing the administrators and underwriters of pension plans, it has recognized the problems facing retirees whose fixed-benefit pension benefits suffer a loss in purchasing power through rising price levels.

Finally, its introduction of the Canada Pension Plan, the Canadian Federal Government has taken yet another step in its quest to assure Canadians of an adequate income for their retirement years.

IV. TRUST COMPANY INFLUENCE ON THE GROWTH OF PRIVATE PENSIONS IN CANADA

The trust industry in Canada, which got its start with the establishment of the Toronto General Trust Company in 1882, was not a major

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82 Canada, Department of Justice, A Consolidation of the British North America Acts—1867 to 1960 (Ottawa, Ontario: Queen's Printer, 1961), Section 94, p. 31.
factor in the early growth of Canadian private pension plans. This may be brought out somewhat by noting that between 1882 and 1915 more than a dozen trust companies, including the Canada Trust Company (1894), and the Royal Trust (1899) were formed. Yet, it was not till 1915 that trust companies decided to enter the pension field despite the fact that neither insurance companies nor banks were involved in underwriting or administering private pension funds. 83

Trust companies did not actively pursue pension business at this time, because of what they considered inequitable tax treatment relative to their investments of trust funds. As already noted, the income on trust investments was taxable to the company up to 1928. At that time, the companies were given the option of passing the tax along to pension plan members by having the funds income tax exempt, but having fund contributions not tax deductible to the plan members.

This situation lasted till the Ives Commission recommendations of 1945 when trust companies were given similar tax treatment as life insurance companies possessed relative to tax exempt status of the investment income of the funds and also the tax deductibility of plan contributions. These adjustments to the tax status of trusteed pension plan contributions were welcomed considerably because of the extremely high personal income tax then in evidence in Canada. The minimum rate of income taxes payable by a married man was thirty-seven per cent. In addition, marital and dependent exemptions were also quite limited. 84


Following World War II, the trust industry commenced in earnest to make its imprint in the private pension area. Faced with keen competition from the insurance industry and cognizant of the fact that the growth trend for private pensions was dramatically upwards, trust companies actively sought a share of the pension business.\textsuperscript{85} Many trust companies established pension divisions; many appointed specially trained pension-trust officers; and, in general, many trust companies entered a previously somewhat neglected area of employee pension plans.

Among the innovations introduced as by-products of this increased interest by trust companies in pension matters was the introduction in 1955 of the Canadian version of "pooled pension funds." These were designed to provide greater diversification of investments for the plans of smaller companies and basically worked in the following manner: each pension plan could hold units in a special central pool or pools from which the funds might be invested either in equities, fixed income securities, or mortgages.\textsuperscript{86} Through the selected purchase of units of different funds, a small employer could directly control the proportion of his pension fund which would be invested in the broad categories of investments.

In its promotion of pooled pension plans, the Trust Companies Association of Canada indicated that the method could also be easily utilized by companies operating registered retirement savings plans. There would be no minimum or maximum restrictions as to total employees or dollars. In addition, the plans were arranged so that when any

\textsuperscript{85}Coward, Transactions X, p. 105.

company's interest in the fund became large enough to assume individual administration, it could be withdrawn in favor of separate trusteeship or it might elect to remain a member of the pool in order to share indefinitely in the benefits of the diversification of investments offered by the pool.\footnote{87}

In the first years of their existence, these pooled pension plans have proven very popular with the employees of smaller plans. By 1963, it was estimated by a noted Canadian pension consultant, Laurence Coward, that over 10 per cent of the total pension assets held by corporate trustees in Canada were of this pooled fund arrangement.\footnote{88}

In 1956, another legislative measure was passed which once again proved very beneficial to the trust companies' cause in the area of pension fund investment regulations. This measure related to the removal of a number of restrictions which previously limited the investment outlets of trusteeed pension plans. Before 1956, the Department of National Revenue (Income Tax Division) applied the regulations of the Canadian and British Insurance Companies Act even to the extent of limiting the investment in common stocks by registered pension plans to not more than 15 per cent of the plan's assets. This latter restriction was greatly relaxed so that trust companies would thereafter no longer be limited to the investments available to insurance companies.\footnote{89} As a result, the only restriction apart from the particular requirements of the trust agreement directly affecting trust

\footnote{87}Ibid., p. 4.
\footnote{89}Clark, loc. cit., Vol. II, p. 53.
company investment of pension accumulations is that which refers to the investment of funds in the employer's own securities.

In 1961, trust company investment of pension plan accumulation was once more affected by legislation. The Income Tax Amending Act implementing the Supplementary Federal Budget Resolutions of December 20, 1960 received Royal Assent on March 26, 1961.\(^9^0\) Thereafter, the investments by trustees for pension plan purposes would be limited by the provision that the income of the fund would be exempt from income taxes under Section 62 (1) (q) of the Income Tax Act, provided that the income derived from sources in Canada is not less than ninety per cent of its total income; as well as by the limitations imposed by the provincial pension laws which confine pension investment and loans to those outlets permitted under the Canadian and British Insurance Companies Act.\(^9^1\) This amendment sought primarily to assure that the majority of the huge supply of investment funds made available through pension contributions should be channeled into the development of Canadian resources or the purchase of securities covering Canadian assets.

It can thus be seen that the influence of Canadian trust companies upon the pension scene though rather belated has been much more pronounced since World War II. Once again it was primarily the passage


of favorable tax legislation which provided a direct incentive for these companies to enter this highly competitive field of pensions. That they will be a major factor in the future of private pensions can easily be seen through the early successes of the pooled pension concept where assets reached almost one hundred million dollars by the end of the 1950's. On December 31, 1964, the book value of such assets reached close to three hundred fifty million dollars. 92

By December 31, 1960, trusteed pension plans accounted for over twelve per cent of the total number of private plans in Canada but possessed over two-thirds of the dollar value of assets of private pension plans. By the end of 1964, trusteed plans accounted for almost sixteen per cent of the total number of private pension plans in Canada, and sixty-nine per cent of the book value of assets of private plans in Canada. 93

The Canadian trust industry has thus been a prime force in the growth of private pension plans in Canada. It operated at a competitive disadvantage with life insurance companies up to 1945. With the tax amendments recommended by the Ives Commission in 1945, and which were subsequently passed through Federal legislation, this restriction was removed and trust companies applied much more fervour in their quest for pension business.


93Ibid., p. 8.
As a result, newer programs were introduced by trust companies such as pooled funds, for example, to the extent that the total number of trusteed plans have increased from 260 in 1951,94 to 1,140 in 1960, and to 2,119 by the end of 1964. They have thus had a most important influence on the growth of private pension plans in Canada and have been a prime reason for the increased importance of pension plans in the securities markets through their utilization of pooled funds and mutual funds over the last decade.

V. INSURANCE COMPANY INFLUENCE ON THE GROWTH OF PENSION PLANS IN CANADA

The life insurance industry in Canada received its initiation with the establishment of a branch of the Standard Life Assurance Company of London, England, in 1833. The first Canadian-owned Aetna Life Insurance Company opened its Canadian operation in 1850. By 1900, no less than 35 of the 140 life insurance companies transacting business in Canada at September, 1965 had been established and were in operation.95

Despite the fact that private pension plans were in operation in Canada since 1874 and considering that there were about two hundred private pension plans in operation in Canada by the early 1920's, it was not until 1923 that life insurance companies entered the pension


field as underwriters of plans for Canadian employers. In 1923, Sun Life Assurance Company introduced the first Canadian group annuity plan for a client. Within a decade, Confederation Life Assurance Company offered similar plans as did Canada Life Assurance Company. For the latter company, this entrance into the private pension field as an underwriter of plans did not occur until the eighty-fourth year of its existence.

The early activity of insurance companies in the private pension area seems to have paralleled the operations of the Government Annuities Program in that the principal markets seemed to have been centered around the smaller institutions and among individuals. A 1947 study of private pension plans in Canada indicated that most of the larger corporations and financial institutions, exclusive of insurance companies, looked towards the trusteed type of administration for their plans. This was due, no doubt, to the earlier entrance of trust companies into the pension field and also to the better control of the individual accounts administered by trust companies.

Though insurance company progress in the pension field was rather limited at its outset, it should be noted that as early as 1930, one insurance company indicated it might offer a new type of pension contract guaranteeing a three and one-half per cent interest return on

\[\text{96} \text{Ibid.}\]

an annuity while expecting to earn as much as five and one-half per cent on the plan. 98

Throughout this period of adjustment in the particular features of underwriting pension contracts, insurance companies possessed definite tax advantages over trust companies relative to the tax deductibility of employee contributions to pension plans. This was brought out somewhat in the report "Industrial Pension Plans in Canada," published by Queen's University in 1938. High among the improvements in private plans was the provision of package plans by insurance companies. These included life insurance, health and sickness insurance, and pension plans under the same package. In addition, it was noted that life insurance companies guaranteed the benefit payments and were providing an increased number of options for the retiree relative to the form of his benefit payments. Finally, as an outgrowth of the Depression more private plans assumed a contributory nature and tended to seek out the guaranteed service of insurance companies relative to the coverage of pension liabilities. 99

The advent of World War II, with the corporate excess profits tax and the wage freezing policy of the Canadian Federal Government, through the War Labor Board, proved a boon to the continued growth of private pensions with life insurance companies competing favorably with


99 Industrial Relations Section, Queen's University, Industrial Pensions in Canada (Kingston, Ontario: Queen's University, 1938), p. 15.
other administrators. An indication of life insurance success during this 1940-1946 period can be seen from the increase in the number of group annuity contracts sold by insurance companies. The number of insured pension contracts outstanding in Canada rose from 42,000 in 1940 to 81,000 in 1946. Likewise, the number of insured plans themselves increased from 334 in 1940 to 586 by 1946.\(^{100}\)

Following the Report of the Ives Commission on Taxation of Annuities in 1945, the preferred tax position of life insurance companies in the pension area was removed. Competition between the many pension administrators increased and more and more funds flowed into private pension plans as employees, who had lost valuable pension credits through participation in World War II, within such a short period of the Depression sought to quickly build up an adequate estate for their retirement years. In addition, the increased activity and influence of labor unions, both on an international and a national basis, saw an increased emphasis placed on fringe benefits as an attempt to add both to the security of employees and to the over-all package offered to employees in terms of the tax-sheltered future receipts.

The total number of insured plans increased during the 1946-1950 period from 170 per cent, from 586 to 1,580. The number of certificates outstanding increased from 81,000 to 159,000 over the

\(^{100}\)Canadian Life Insurance Officers Association, *Memorandum on Old Age Security*, p. 110.
same period. These statistics are quite impressive when one con­siders that the total number of trusteeed pension plans in Canada was only 260 in 1951. \textsuperscript{101}

When Canadian trust companies were given similar tax concessions on investment income as were life insurance companies, the insurance industry undertook a different kind of competition in that it concen­trated on designing guaranteed, insured-type plans. It then determined to market them effectively and to provide a rate structure that was compatible with other funding media.

An excellent example of the innovations constantly introduced to the pension field during the period was the deposit administration type of annuity plan established in 1950. \textsuperscript{102} This plan allowed an insurance company to accept deposits on behalf of pension plans, credit a guaranteed rate of interest thereon, but not apply the funds to the purchase of annuities until an employee retired or the contract was discontinued. The employer would not be required to contribute to the plan on any specified basis and, in turn, the insurance company would not guarantee the adequacy of the plan to provide the benefits promised the employees. This responsibility would rest with the employer or his pension actuary.


In 1952, in an effort to guarantee effectiveness of the collective bargaining procedure relative to pension plans, a new type of funding was introduced at the suggesting of labor unions. This was the so-called "terminal funding" process which enabled an employer to utilize a pension plan wherein he could delay making payments to a fund until the employee retired or otherwise terminated membership in the plan. At that time, the employer could purchase an annuity for the amount to which an employee was entitled on the basis of his contributions to the plan. It, at first, met with considerable opposition on the basis that only those workers who retired during the life of the labor agreement, under which the funding method operated, would receive protection while those workers would theoretically receive no coverage. From a practical viewpoint, however, this type of plan did result in securing a legal commitment from the employer to live up to the plan's requirements.

To compete with this terminal funding arrangement, life insurance companies continued to promote the deposit administration plan wherein all workers covered under a plan would be guaranteed the receipt of insured benefits at the time they retired. In addition, the industry expressed concern for the effect which inflation might have on the purchasing power of the annuities to be received by pensioners on retirement. In the United States and likewise in Canada attention was focused on a new type of pension payment called a "variable annuity" by which the benefits offered would be tied to the performance of the equity investments into which the pension contributions would be channeled.
The basic idea behind the variable annuity is that the market value for a diversified list of equity securities, especially common stocks, and the income from such investments, will tend to increase with increases in the general price level. The purpose of such a fund would thus be to provide retirement income that would be expected to vary in amount in current dollars approximately in line with changes in the cost of living.

These programs were first introduced in the United States in 1952. Their growth, however, has not been as encouraging as originally expected due to certain legal problems. The most important of these problems were the lack of state legislation authorizing the sale of variable annuities by insurance companies and the existence of federal regulatory legislation prohibiting the public offering of these contracts unless the annuities were registered with the Securities Exchange Commission under the Securities Act of 1933. In addition, companies selling such annuities were required to register as investment companies under the Investment Companies Act of 1940.

While these problems were delaying the development of variable annuity programs in the United States, growth was also slow in Canada. British life insurance companies operating in Canada offered such plans in the early 1960's. The first full-fledged Canadian variable annuity program was not introduced until 1959.


104 Ibid., p. 335.

In 1961, the insurance industry and the variable annuity program received a tremendous boost with the amendments to the Canadian and British Life Insurance Companies Act. These amendments provided for the operation by life insurance companies of segregated funds separate from the general assets of an insurer and permitted the latter to operate common stock funds for pension purposes. In this capacity, the assets of such funds would not be held subject to the 15 per cent quantitative limitation on stocks nor the new 10 per cent limitation on real estate investments though the same qualitative features of the Act would remain in force. Thus, employers now have at their disposal for pension purposes separate funds under insurance company administrators which could be invested solely in common stocks.

Life insurance companies have thus made a very formidable impact on the Canadian private pension scene. Since World War II, these companies have introduced many timely programs to meet the changing needs of present and future recipients of pension benefits. As a result of these efforts, success can be seen and easily understood by noting that the number of insured group annuity plans alone increased from 586 in 1946 to 6,564 in 1960, and to 10,048 plans by the end of 1964. Likewise, for the decade of the 1950's while the number of trusteed plans increased by approximately 1,100 from approximately 260 in 1951 to 1,363 in 1960, the number of insured plans

increased by 4,766, from 1,798 in 1951, to 6,564 in 1960.\textsuperscript{107}

A final indication of the effectiveness of life insurance companies in securing pension business is garnered from the realization that by December 31, 1960, these companies accounted for 70 per cent of the private plans then under the administration of either insurance companies, trust companies, or the Government Annuities Branch of the Federal Department of Labor.\textsuperscript{108}

VI. SUMMARY

Activity in the area of employee pension plans in Canada was quite limited up to the end of the nineteenth century. For the most part, the majority of those receiving any type of pension benefit received it under the auspices of one of the military or civil service plans then in existence. These included the Civil Servants Superannuation Act passed in 1870 and the various military plans of British vintage. What private plans there were in existence were provided primarily by railways and financial institutions.

With the turn of the century, interest in private pensions increased considerably as many of the major railroads took advantage of


the stipulations of the Railway Companies Act of 1896 to form private plans for their employees. In 1908, the Federal Government entered the area of private pensions with the introduction of the Government Annuities Act. This was an act designed to provide at least a minimum level of economic security for Canada's aged population in the future.

During the second decade of the twentieth century, the primary activity in the private area was in the adjustments in terms of coverage and benefits in plans which had been established earlier. In 1915, the trust industry entered the pension area as it noted the vast possibilities of the field. Four years later, the first in a long list of tax concessions relative to the deductibility of employer and employee contributions to pension plans was implemented by the Federal Government.

In the early Twenties, the major railroads (except the Canadian Pacific) amalgamated to form the Canadian Government Railroad System. By virtue of this accomplishment, all members of the new System were thereafter covered by the terms of the then-existing Grand Trunk Railway pension plan until such time as the passage of a newer, more comprehensive plan could be implemented. This latter event eventually took place in 1929 with the establishment of the Canadian National Railway Pension Plan.

The first strictly governmental public pension plan was introduced in 1927 when the Old Age Assistance Act was passed. This provided for a "means test" pension program for Canadians over the age of seventy years of age.
The life insurance industry made its appearance in the private pension sphere during this decade with the Sun Life Insurance writing the first group annuity plan in 1923.

With the decade of the Thirties came the Depression which caused the liquidation of many non-contributory private plans. Once the economy was in its recovery stage a few years later, with many plans in the resurrection stage, the tendency was to have more involvement on the part of employees. Thus, one of the factors causing a trend in favor of contributory plans in Canada was the Depression. The principal activity in private plans apart from the trend towards more contributory plans appears to have been centered around the adjustments made from time to time to the features of earlier plans.

The latter half of the 1930's marked the commencement of independent surveys as to the extent and adequacy of private plans in Canada. Studies of most importance were those conducted by the National Employment Commission in 1936 and by Queen's University in 1937.

The World War II period proved a boon to the private pension system in Canada. With the implementation of the Excess Profits Tax and Wage Stabilization policies by the Federal Government, the principal outlet where employers could bid for employee services was in the area of additional fringe benefits which at that time lay primarily in the area of employee insurance and pension plans.

The recommendations of a Royal Commission in 1945 did much to improve the competitive position of trust companies in the private pension field. The recommendations resulted in legislation which stated that trust companies would not be taxed on the income earned
on the investment of pensions plans. All contributions to pension plans, up to maximum allowable amounts, would likewise be tax deductible. Upon retirement, a tax would be levied on the pension payments to retirees.

This was the same situation enjoyed by life insurance companies since the 1920's. The legislation thus served to greatly improve competition in the private pension field in Canada.

Since World War II, both trust companies and insurance companies have been very active in the pension field and each has introduced newer and more comprehensive programs for their clients. In addition, the lifting of various investment restrictions by regulatory bodies involved have resulted in the introduction of pension programs which are much more in line with the levels of economic activity which in the past marked harsh burdens on those retirees in receipt of fixed retirement benefits.

This latter period was also marked by the introduction of a universal, old age pension program, the Old Age Security Act, in 1952, and by increased activity by unions in the pension area. These unions were spurred on by the passage of favorable court decisions in the United States making pension plans a bargainable area in labor negotiations.

As Canada entered the 1960's, union influence was still in a period of upswing due primarily to the efforts of those Canadian affiliates of large international unions based in the United States. Strong local unions in Canada, however, along with a continuing program of
tax benefits for employer and employee contributions to registered pension plans combined to limit the growth of negotiated non-contributory pension plans which were quite popular in the United States.

Early pension plans in Canada were influenced primarily by those in existence in Great Britain and the United States. The former appears to have had the earliest influence through the payment of military pensions to retired British citizens living in Canada and through the provision of private plans to employees of British subsidiaries in Canada. Likewise, many of Canada's earliest plans, including the Grand Trunk Railway Plan, were administered in Britain. British tax treatment also appears to have been followed somewhat in the Canadian Government's tax treatment of private plans.

In most recent history, British insurance companies have been quite active in the administration of plans in Canada and were the first to introduce the "variable annuity" pension concept to Canada.

The proximity of the United States has also had considerable influence on the development of plans in Canada. And, as previously stated, the payment of military pensions to retired personnel helped Canada towards the provision of such programs for its military. In addition, many of Canada's pension plans were started with Canadian subsidiaries of United States corporations, in the early 1900's.

With World War II, Canada adopted similar war emergency measures as did the United States, and, just as in the latter nation, a multitude of funds flowed into the pension area.

Following World War II, the increased growth of union activity in the United States spilled over into Canada with the result that
many labor contracts of large United States corporations encompassed all the Canadian subsidiaries even to the point of designing similar pension plans in Canada as existed in the parent corporations in the United States.

Two nations, Great Britain and the United States, appear to have been the most instrumental in influencing the development of private pension plans in Canada. Others, such as New Zealand and Sweden, have influenced Canada's public plans. Even Norway had a portable pension program before Canada introduced its own type in Ontario in 1963.

The chief influence of the Federal Government of Canada in the private pension area has been in the field of income tax legislation. In this capacity, it has proved a very vital influence in the development of private plans because at various times, the Government has introduced legislation such that, by 1957, both employees and employers received tax benefits for contributions covering both past service and for future service of the employees involved. In addition, the Government made administration of such plans more competitive through the passage of legislation affecting the tax status of the income earned on the investment of the funds. Both trust companies and insurance companies would be viewed in a similar light by the Department of National Revenue in that neither would be taxed directly on the income earned on pension fund investments.

From an administration point of view, the earliest plans in Canada were handled by individual trustees selected by the board of directors of the companies involved or were directed by pension
societies or pension committees established by those companies. In 1908, the Federal Government elected to administer the Government Annuities program; in 1915, trust companies first entered the field of private pensions. One decade later saw the introduction of insured group annuity plans and the entrance of life insurance companies into the private pension arena.

As already noted, Federal Government and investment tax legislation has helped competition between trust companies and insurance companies especially since World War II. On the other hand, the Government Annuities Program has not been actively promoted nor made competitive with the private trustees and administrators. An indication of the results of the competition for pension moneys since World War II can easily be drawn from noting that in the fifteen year period since 1950, the private pension field has seen the introduction of insured deposit administration plans, terminal funding plans, variable annuity plans, and pooled pension plans for the smaller corporations. Finally, as the country entered the decade of the 1960's, indications were that portable pensions might become a reality and segregated funds and variable annuities would be pursued with much more vigor by Canadian life insurance companies.
CHAPTER III

RECENT TRENDS IN PRIVATE PENSION PLANS IN CANADA

1955 - 1965

I. TYPES OF PRIVATE PENSION PLANS IN CANADA

The pension movement in Canada, as noted in the previous chapter, has been fostered considerably by factions in both the public and private areas of the country. While making for an increased rate of growth of plans in general, it is only natural to realize that there has been some assumption of private rights by the Federal Government in some areas, while in other sectors activity has resulted from the failure of either Provincial Governments or the private sector to provide for mounting pension needs in particular areas of the country.

The influence of the Federal Government, previously limited to the taxation area, expanded considerably after World War II with the publication of various rules and regulations concerning the construction of pension plans if they were to qualify for special tax treatment by the Department of National Revenue. The interpretation of the different features of the so-called "Blue Book," however, was quite subjective and very often the Minister of National Revenue exerted highly discretionary judgement in his decision-making in the private pension area. In 1959, as opposition to this power was on the increase, the
"Blue Book" was withdrawn so that Federal Government activity was again limited solely to the taxation area. Provincial activity in the private area is usually performed within the bounds of the rights granted by the British North America Act.¹

The net effect of the Governmental pension activity at both the Federal and the Provincial levels has been an increase in the benefit levels of private plans as employers sought to incorporate the benefits payable under public plans with those provided under private plans. The improved features of plans, outside the vesting and contribution areas, appear to have been incorporated into private plans as a means of keeping abreast of changing times. Such features would include availability of more options at retirement, widows' benefits, improved funding media, more investment outlets, and the like. As a result, there are now four basic types of private pension plans in Canada which for the most part have been in existence in one form or another since 1925. Some have been in operation much earlier. These basic plans include the following: insured plans, trusteed plans, combination-type plans, and unfunded, pay-as-you-go plans. A brief explanation can help clarify each type.

A. INSURED PENSION PLANS

An insured pension plan is one in which the contributions are paid into an insurance company which in turn will normally guarantee

to pay a pension in accordance with the annuity rates contained in the pension contract. While such contracts may assume many different characteristics, there appear to be four principal programs: Individual annuities, pension trusts, group annuities, and deposit administration.

The individual annuity type of insured policy is designed for the self-employed individual who wishes to provide himself with a retirement pension or for the employed individual who wishes to augment the pension supplied by his company plan. This type of policy has been designed for that purpose and affords the maximum tax relief available under income tax laws.

Under the pension trust type of insured policy, a small employer, through the purchase of individually insured policies, can provide his employees with pensions on a fully guaranteed basis with a minimum of administrative detail and with no investment or actuarial risk.

The group annuity type of insured plan, designed primarily for the larger employers, labor unions, and the like can provide benefits under almost any type of pension formula available. It is a plan under which the annuity accruing to the participant is purchased and guaranteed. A covered employee under such a plan is assured of receiving the benefits purchased under his own contributions and the vested portion of the pensions purchased by the contributions of his employer.

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The deposit administration type of plan covers funds where the contributions are paid into an insurance company for investment. The contributions are accumulated in a fund at interest until the employee retires, at which time a lifetime annuity is purchased by withdrawing the necessary premiums from the fund.

At December 31, 1965, it was estimated by a Dominion Bureau of Statistics study, there were 10,866 insured group annuity plans in operation as employee pension plans in Canada. Included in such plans are the pension trusts and the deposit administration plans. Because of the many individual policy plans in existence as part of group plans, it is difficult to estimate the exact number of insured plans per se in Canada.

B. TRUSTEED PENSION PLANS

Trusteed pension plans are of the corporate and the individual types. Essentially, such a pension plan is administered by an independent party (or in some instances by the employer himself) under which contributions are accumulated, invested, and held in trust against disbursement of future benefits. The plan operates from two documents, the plan and the trust agreement. The plan describes the benefits to be provided and the contributions to be paid. The trust agreement describes how the contributions are to be invested and how the benefits are to be paid.

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There is considerable leeway as to the design of trusteed plans with the result that plans may be designed to suit the individual requirements of the users. Plans can be easily amended because of the nature of the particular trust agreement. This also lends towards greater control of specific accounts of the trust company. In addition, within the last decade, the available investment outlets for such trusteed plans have been considerably improved as more and more of traditional investment restrictions have been removed.

In an effort to expand their many services, trust companies in the last ten years have heavily promoted the use of pooled pensions by smaller users. The trust agreement in such cases allows for the investment of pension monies in a wide variety of investments of either the debt or equity type. Probably as a result of this type of promotion and because of the availability of better investment alternatives, trusteed plans increased from just over 200 in the early 1950's to 3,000 by December 31, 1965, covering over 1.5 million employees.6

The impact of pooled pension plans has been very significant since their inception and by December 31, 1965, there were 912 such plans. The dollar value of such plans was $480,000,000 compared with a volume of $120,000,000 just seven years earlier.7

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7 Ibid., p. 32.
C. COMBINATION-TYPE PENSION PLANS

In addition to the strict insured and the trusteed types of private plans, there is a variety of other plans available in the private sector. For example, the Federal Government has had its Annuities Program in operation since 1908. The National Trust Company in a pension study published in 1961, indicated that there were at least fifteen different varieties of private pension plans which involved combinations of insured, trusteed and/or government annuity approaches. Such combinations accounted for 44 of the 157 plans covered under the Study.

Indications are that the trend towards more and more combination-type plans will continue on the upswing, especially with the advent of the Canada Pension Plan and the Quebec Pension Plan.

D. UNFUNDED, PAY-AS-YOU-GO PENSION PLANS

This type of pension plan is quite different from either the insured plan or the trusteed plan. Essentially it is a method wherein there is no fund set up to provide benefits for the workers but rather the plan is operated on a pay-as-you-go basis wherein the payments to retirees are treated as payroll items, where benefits depend on employer willingness and ability to fulfill terms and where whatever tax benefits accrue to the employer through the pension funds are deferred till the actual payments are made to the pensioners. It tends to have some advantages in that the employer

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8National Trust Company, A Study of Canadian Pension Plans, 2nd ed., p. 35.
does not have to set up a special fund for the plan and thus has more working capital at his disposal. He likewise would not have to become encumbered with the details required for reporting the status and financial standing of his pension plan as is required in several provinces. However, from an employee's viewpoint, there is a distinct lack of security associated with this type of plan and for this reason, it is most likely to be a non-contributory plan. The employer, in such cases, would bear the entire cost of such a plan.

While precise figures on the total number of unfunded plans in Canada would be difficult to secure, there were in Ontario, at September 1, 1963, a total of ninety-eight such plans covering approximately 46,000 employees (including 30,000 female employees).^9

II. RECENT TRENDS IN THE GROWTH AND DEVELOPMENT OF CANADIAN PENSION PLANS

To show the trends which have become evident in the growth of private pension plans in Canada over the last decade, the first approach will be to briefly review Tables 1 through 4.

In terms of total number of plans in operation in Canada, there has been an increase of almost 250 per cent for the period 1953 through 1965. The increase has been over 100 per cent for the 1957 through 1965 period. Both the trusteed and the insured plans realized considerable growth during this period. The trus­teed plans increased from 260 plans in 1953 to 2,988 plans by the

TABLE 1

RECENT GROWTH OF PRIVATE PENSION PLANS IN CANADA, 1953-1964

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| No. of Employees (000's) |      |      |      |      |      |      |      |      |      |      |
| Trusteed Plans       | 1,472 | 1,336 | 1,257 | 1,131 | 1,081 | 1,005 | 994  | 945  | 818  | 391  |
| Insured Plans        | 581   | 571   | 561   | 539   | 501   | 469   | 423  | 393  | 338  | 227  |
| Gov't. Annuities     | 142   | 149   | 156   | 161   | 174   | 185   | 216  | 216  | 209  | 159  |
| Total Employees       | 2,195 | 2,056 | 1,974 | 1,851 | 1,755 | 1,659 | 1,633 | 1,554 | 1,365 | 777  |

Breakdown of Trusteed Plans:

| Type of Trustee: |      |      |      |      |      |      |      |      |      |      |
| Corporate        | 2,306 | 1,732 | 1,487 | 1,256 | 1,109 | 906  | 742  | 670  | 386  | 232  |
| Individual       | 626   | 321   | 251   | 230   | 211   | 195  | 205  | 171  | 124  |      |
| Combination      | 32    | 29    | 29    | 23    | 7     | 7    | 3    |      |      |      |
| Pen. Fund Soc.   | 34    | 37    | 38    | 38    | 36    | 36   | 39   | 39   | 39   | 28   |
| No. Pooled Funds | 1,846 | 1,318 | 1,110 | 883   | 714   | 553  | 380  | 312  |      |      |
| No. Mutual Funds | 133   | 90    | 58    | 58    | 14    | 14   | 11   |      |      |      |
| No. Contrib. Plans | 2,087 | 1,594 | 1,340 | 1,144 | 1,004 | 846  | 729  | 650  | 433  | 185  |
| No. Non-Contrib. Plans | 911 | 525 | 465 | 403 | 359 | 294 | 256 | 191 | 115 | 75 |

TABLE 2
RECENT GROWTH OF PRIVATE PENSION PLANS IN CANADA, (PERCENTAGE TERMS), 1953-1964

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Employee Breakdown

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Percent. of Contrib.

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| Percent. of Non-Con-
|                   | 30.4 | 24.8 | 25.8 | 26.1 | 26.3 | 25.8 | 26.1 | 22.7 | 21.0 | 28.9 |
| Contrib. to Total Plans | 100.0| 100.0| 100.0| 100.0| 100.0| 100.0| 100.0| 100.0| 100.0| 100.0|

Source: Table 1
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<td><strong>Total Employees Covered under Non-Contrib. Plans (000's)</strong></td>
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<td>321</td>
<td>312</td>
<td>282</td>
<td>285</td>
<td>280</td>
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### TABLE 4

**BREAKDOWN OF CONTRIBUTORY AND NON-CONTRIBUTORY TRUSTED PENSION PLANS (PERCENTAGE TERMS) 1958-1964**

<table>
<thead>
<tr>
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<td><strong>Contrib. Plans:</strong></td>
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<td></td>
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</tr>
<tr>
<td>Type of Trustee</td>
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<td></td>
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</tr>
<tr>
<td>Corporate</td>
<td>80.7</td>
<td>81.8</td>
<td>82.9</td>
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<td>77.0</td>
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<td>Individual</td>
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<td>1.7</td>
<td>0.6</td>
<td>0.5</td>
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<tr>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Society</td>
<td>1.4</td>
<td>2.1</td>
<td>2.5</td>
<td>2.9</td>
<td>3.0</td>
<td>3.5</td>
<td>4.4</td>
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<tr>
<td><strong>Percentage of Covered Employees who are Members of Contrib. Plans</strong></td>
<td>68.1</td>
<td>71.7</td>
<td>72.2</td>
<td>71.7</td>
<td>71.3</td>
<td>72.1</td>
<td>71.3</td>
<td>70.4</td>
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<td><strong>Non-Contrib. Plans:</strong></td>
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</tr>
<tr>
<td>Corporate</td>
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<td>83.3</td>
<td>84.3</td>
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<td>9.7</td>
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<tr>
<td>Combination</td>
<td>1.1</td>
<td>1.7</td>
<td>2.2</td>
<td>6.7</td>
<td>0.7</td>
<td></td>
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</tr>
<tr>
<td>Pen. Fund</td>
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<td></td>
</tr>
<tr>
<td>Society</td>
<td>0.4</td>
<td>0.8</td>
<td>1.1</td>
<td>1.2</td>
<td>1.7</td>
<td>2.1</td>
<td>2.7</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Percentage of Covered Employees who are Members of Non-Contrib. Plans</strong></td>
<td>31.9</td>
<td>28.3</td>
<td>27.8</td>
<td>28.3</td>
<td>28.7</td>
<td>27.9</td>
<td>28.7</td>
<td>29.6</td>
</tr>
</tbody>
</table>

**Source:** Table 3
end of 1965. Insured plans increased from 2,297 to 10,886 over the same period. The only adverse change occurred in the area of government annuity pensions which levelled off in the late 1950's, and have since been on the decrease due to a de-emphasization of the program by the Federal Government. This decrease has been picked up equally on a percentage basis by both trust companies and insurance companies.

The trend as far as coverage is concerned is also upward. From just over three-quarters of a million employees who were members of private pension plans in 1953, the number has risen to over 2,000,000 by the end of 1965. The coverage under government annuities has been decreasing since 1959 and has fallen from accounting for over 13 per cent of total covered employees to just over 7 per cent for the same period. This represents a considerable decrease from the 1953 coverage of over 20 per cent of all covered employees by this program.

The area of greatest increase in coverage has been with the trusteed arrangement. These rose from just over 50 per cent to 65 per cent of total covered employees over the period in question.

For the most part, outside of insured plans, the corporate-type trustee has been used more and more in Canadian plans. Such trustees administered approximately 77 per cent of all trusteed plans in 1965 as compared with 70 per cent in 1957.

Their greatest imprint has come in the area of contributory pension plans. Corporate trustees increased their administration of such
plans from seventy-two per cent of the total to eighty-one per cent of the total trusteeed contributory plans in Canada from 1958 to 1964.

Pension fund societies have remained constant in number since 1957 at between thirty-four and thirty-nine and, consequently, have decreased on a percentage basis as administrators of private plans, falling from just under seven per cent in 1957 to about one per cent at the end of 1965.

In further reviewing the trends evident in the development of the Canadian private pension system during the 1955-1965 period, consideration will now be given to the changes which have become evident in the design of private pensions in Canada. A number of studies in the pension area made during or just prior to the 1955-1965 period will be used to bring out these changes. These studies will include the following: (1) A survey by the Department of Labor of the Canadian Federal Government of those Canadian industrial firms who, in 1953, had five hundred or more employees. Of these firms two hundred fourteen had pension plans. (This survey will be referred to as the Department of Labor Survey of 1953.) (2) A survey by the Canadian Life Insurance Officers Association covering seven thousand two hundred insured pension plans in force in Canadian business firms on December 31, 1957. (This survey will be referred to as the Life Insurance Association Study of 1957.) (3) A survey by the Dominion Bureau of Statistics covering non-financial statistics of eight thousand nine hundred twenty private pension plans in operation in Canada as of November 1, 1960. (This survey will be referred to as the DBS Study of 1960.) (4) A survey by the National Trust Company covering
157 plans of companies covering sixty-six industries in late 1961. (This survey will be referred to as the National Trust Company Survey of 1961.) (5) A survey by the Pension Commission of Ontario in 1965 covering all non-governmental pension plans in effect in Ontario at September 1, 1963. This study included 7,476 plans covering 935,000 employees. (This survey will be referred to as the Pension Commission of Ontario Survey of 1963.)

In their construction, Canadian pension plans are somewhat similar to their United States counterparts. That is, apart from the features dictated in order to take advantage of special tax benefits, Canadian plans possess approximately the same characteristics as United States plans. The more important of these characteristics would include the following: methods of funding, requirements for eligibility, benefit formulas, contribution formulas, retirement age provisions, vesting requirements, and various settlement options available to employees at retirement.

Since it was already noted that the most rapid growth in Canadian pension plan formation has been in the post-World War II period, it might be added that considerable changes have also been effected in the area of these pension plan features. To fully understand the relevance of the trends evident in the private sector, it will be necessary to review the nature of the various features which are incorporated in pension plans. The following descriptions will, therefore, be given with the idea of providing a working knowledge of these characteristics.
A. FUNDING MEDIA AND METHODS

The choice of an administrator for private pension plans is usually made on the basis of the security of principal, cost, and the level of benefits promised under the plan. In pension terminology, the financial institution selected to provide the pension benefits is known as the funding agency. The contractual agreement that defines the obligation of the funding agency to provide benefits in return for certain contributions is designated as the funding instrument.\(^\text{10}\)

The media selected to handle pension plans is either insurance companies, trust companies, or individual trustees. Once the medium is selected, however, a choice is made as to the manner in which the contributions are to be funded with that agency.

In Canada, there are four methods commonly utilized for funding purposes: orthodox or advance funding, terminal funding, split funding, and pay-as-you-go funding.\(^\text{11}\)

Under advance funding, the primary purpose is to fund the plan in such a way that level premiums are paid to the financial institution throughout the working lives of the members of the plan. In this way, since the benefits paid to employees early in the plan's life would be quite limited, the excess contributions are able to draw sufficient interest to help considerably in reducing future contributions that will otherwise be required in later years to provide the desired level


of retirement annuity promised under the terms of the pension contract. Examples of advance funding approaches in Canada are the insured government annuity, the insured group annuity, and the individual insurance policy pension trust type plan. Trusteed plans also adopt this approach towards funding.

The terminal funding arrangement means that the pension contributions are provided by a lump-sum payment to the trustee or insurance company in the year in which the employee becomes eligible to retire, retires, or otherwise ceases to be employed. The method is an outgrowth of the continuing efforts on the part of labor unions to make pension plans a more important facet of the collective bargaining agreement. The method itself is used primarily for coverage under an insured deposit administration contract.

Under the split funding approach, a plan is funded partly by a trust fund and partly by a group annuity contract. Such a combination plan might have the annual contributions paid to a trust company and upon the retirement of an employee, the latter's share of the trust is withdrawn and an insured annuity is purchased for him to cover his retirement years. The plan might also be utilized with a contributory plan whereby the employee's contributions are paid to the insurance company and the employer's contributions are paid to the trust company. Upon the employee's retirement, an arrangement will already have been made as to whether both media will provide the benefit payments or whether the trust account will be transferred to the insurance company for the purchase of an annuity much the same as under terminal funding.12

This type of funding is utilized with both the insured group annuity plans, with insured deposit administration plans, and with most trustee plans.

Pay-as-you-go funding simply involves a system wherein the employer pays the pension benefits as they arise and out of current income. As such, it is the least desirable from an employee's viewpoint because of the lack of an organized plan which might promise some degree of security for the future. On the other hand, the employer avoids the problem of registering the pension plan with the Department of National Revenue requiring that certain regulations must be met if the plan is to qualify for special tax benefits. By taking the pay-as-you-go approach pension payments may be deducted as business expenses in the year the benefits are paid to the retiree. Due to the lack of formality of this method, however, it is not generally accepted by unions or employees alike. Hence, only a very small percentage of Canadian private plans are of this type. Canada's public plans, exclusive of the Canada Pension Plan, are of this type funding.

The DBS Survey of 1960 indicated that among the eight thousand nine hundred twenty plans studied, there were no less than thirteen distinct funding methods utilized. In addition, sixteen of the plans were included under a "miscellaneous" category. That particular survey did not indicate the number of unfunded plans noted during the research. A breakdown on the various funding methods in evidence in the above survey is found in Table 5.

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### TABLE 5
FUNDING INSTRUMENTS USED IN PENSION PLANS IN CANADA

<table>
<thead>
<tr>
<th></th>
<th>DBS SURVEY</th>
<th>NATIONAL TRUST SURVEY</th>
<th>PENSION COMMISSION OF ONTARIO SURVEY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>of Plans</td>
<td></td>
<td>of Plans</td>
</tr>
<tr>
<td>Government Annuities</td>
<td>734</td>
<td>8.2</td>
<td>359</td>
</tr>
<tr>
<td>Insurance Company</td>
<td>6,400</td>
<td>71.8</td>
<td>5,110</td>
</tr>
<tr>
<td>Trust Company</td>
<td>995</td>
<td>11.2</td>
<td>1,173</td>
</tr>
<tr>
<td>Individual Trustees</td>
<td>295</td>
<td>3.3</td>
<td>225</td>
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<tr>
<td>Miscellaneous</td>
<td>16</td>
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<td>609</td>
</tr>
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<td>Government Annuities and Insurance Companies</td>
<td>359</td>
<td>4.0</td>
<td>12</td>
</tr>
<tr>
<td>Government Annuities and Trust Companies</td>
<td>24</td>
<td>0.3</td>
<td>8</td>
</tr>
<tr>
<td>Government Annuities and Individual Trustees</td>
<td>8</td>
<td>0.1</td>
<td>2</td>
</tr>
<tr>
<td>Insurance Company and Trust Company</td>
<td>45</td>
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<td>7</td>
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<td>Insurance Company and Individual Trust</td>
<td>11</td>
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<td>1</td>
</tr>
<tr>
<td>Government Annuities, Insurance Companies and Trust Companies</td>
<td>21</td>
<td>0.2</td>
<td>3</td>
</tr>
<tr>
<td>Insurance Company, Trust Company, and Individual Trustees</td>
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<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Government Annuities, Insurance Companies, and Individual Trustees</td>
<td>7</td>
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<td></td>
</tr>
<tr>
<td>Insurance Company, Trust Company, and Individual Trustees</td>
<td>2</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>8,920</td>
<td>100.0</td>
<td>157</td>
</tr>
</tbody>
</table>

The National Trust Company Survey of 1961, indicated that fourteen different funding methods were employed among its plans. As was the situation with the DBS Survey of 1960, insurance companies were selected for the most part as the principal media for the funding of the plans involved. Table 5 shows also the classification of funding methods as noted by the National Trust Company.

As noted in Tables 1 and 2, the growth in insured plans since these studies has continued and on an increasing percentage basis.

The area of funding and underwriting for pension plans had been a highly competitive one since the end of World War II. As a result, insurance companies and trust companies have been very active in their introduction of new programs. Thus, in the decade of the 1950's, these agencies implemented such new underwriting methods as deposit administration, terminal funding, partial funding and split funding, as well as the so-called "notched" funding method.

Since 1960, however, the increase in Provincial Government activity in the private pension area has considerably influenced the specific media utilized. For example, the requirements of the Ontario Pension Benefits Act hold that future service contributions must be fully funded immediately and past service contributions fully funded within a specific number of years. The effect of this Act, which has served as a guideline by other Provincial Governments, is to limit severely the effectiveness of such approaches as terminal funding, partial funding and deposit administration. Since the latter approaches do not provide for the complete solvency of a pension plan, relative to the plan's ability to provide the promised or implied benefits to the
employee, they would be required to revise their funding methods to comply with provincial regulations. It may be noted that the terminal funding concept is disallowed in those provinces which have adopted the solvency regulations suggested by the Province of Ontario.

An indication of the funding employed in Ontario may be garnered from statistics released by the Pension Commission of Ontario relative to the status of private plans under their jurisdiction at September 1, 1963. Of the approximately 7,500 plans in operation in Ontario at that time, just under 7,300 used the advance funding approach. Where this advance funding was used, less than 300 hundred plans adopted the deposit administration form of underwriting.

While these figures are representative of the Province of Ontario only, this province accounts for approximately one-half the total number of private plans in Canada. Statistics available from other studies also tend to confirm that the deposit administration plans have not attained the degree of prominence that had been anticipated at the time of the establishment of this funding method. Both National Trust Company pension studies indicate that just over 5 per cent of the plans covered in their surveys were of this type.

Pension experts have tended to agree that one of the main reasons for the lack of popularity of deposit administration has been the

---


incidence of contributory plans in Canada. Deposit administration in the United States has been most successful in non-contributory plans.\textsuperscript{16}

Other experts\textsuperscript{17} suggest that this trend may reverse itself in the near future as deposit administration is very complementary with benefit plans based on final average earnings and since it does provide considerable flexibility for the employees involved.

Two funding approaches which appear to have increased in popularity over the late 1950's and the early 1960's are "notched" funding\textsuperscript{18} and "controlled" funding.\textsuperscript{19}

The former was an extremely important method of adjusting private pensions for the fixed benefit available under the Old Age Pension Program in Canada. Since the latter benefits would not be payable till age seventy, a retiree ceasing employment at age sixty-five could elect to receive a larger portion of his private benefits until he reached the age of seventy. At that time, his private benefits would be decreased considerably but the advent of the public pension benefits would enable the retiree to maintain a relatively steady benefit record during all of his retirement years. The importance of this method may dwindle somewhat in the future, however, with the recent implementation of the Canada Pension Plan in January, 1966. The benefits from this plan will

\begin{itemize}
\item\textsuperscript{16} James A. Hamilton and Dorrance Bronson, \textit{Pensions}, p. 374.
\item\textsuperscript{17} Lewis Hall and Basil Spurr, \textit{Elements of Insured Pensions}, p. 58.
\item\textsuperscript{18} Hall and Spurr, p. 41.
\end{itemize}
become payable at age seventy with the former Old Age Pension becoming available at age sixty-five. Hence, the necessity of adjusting private pension benefits to cover the period from age sixty-five to age seventy will be considerably lessened in the future.

Under the "controlled" funding approach, a slight variation of the conventional group annuity, an attempt is made to overcome the fluctuations of single premium approaches and at the same time to limit the costs incurred in withdrawals from pension programs. The employer simply defers the purchase of pension annuities till shortly before retirement age. The total cost of the pension benefits is estimated and then spread over a definite number of years till the employee's retirement. Only those employees nearest the retirement age, however, are included in the cost estimates so that the benefits purchased might reasonably be expected to be drawn by the employees upon retirement. Some adjustments are made for late entry into the plan and for early retirements. From an employee's viewpoint, though, the plan does not provide satisfactory vesting privileges nor provide for the transfer of pension benefits since the latter would not have been purchased until an advanced age.

Private pension plans exhibited definite trends in their funding methods over the 1955-1965 period. Both the insured and trustee-type plans showed exceptional growth. Between them, they increased from about 3,500 in 1955 to 13,864 by the beginning of 1966. Government annuities decreased in importance, however, and fell from 1,400 in 1955 to 1,267 in 1965.20

As to the funding of these plans, the deposit administration category performed rather unimpressively in Canada as the increasing number of contributory plans offset the advantages of this type of funding. Terminal funding, quite popular in the early 1950's due to the collective bargaining ability of large unions in their negotiated plans, met with similar difficulties in those provinces adhering to a so-called uniform pension law. This difficulty was principally seen in the form of tighter solvency and vesting regulations which overshadowed many of the advantages of both deposit administration and terminal funding. Split funding continues to serve as a method which gains the benefits from both the trustee and the insured approach towards pension underwriting, and while statistics on the exact number of pension experts in Canada indicate this method is quite popular with employers. 21

B. ELIGIBILITY REQUIREMENTS

From a strictly social viewpoint, it would seem highly desirable to have all the employees of a company covered under its pension plan.

21 These interviews were conducted with Laurence E. Coward, a former Chairman of the Pension Commission of Ontario and now a Vice-President of the pension consulting firm, William Mercer Limited, Toronto, Ontario; Frank Dimock, Secretary and former Research Analyst of the Canadian Life Insurance Officers Association; E. F. K. Nelson, Executive Director of the Trust Companies Association of Canada; and Harry V. Weitz, Pension Statistics expert at the Dominion Bureau of Statistics. The interviews were conducted on November 24, 25, and 26, 1965.
It is generally found necessary, however, to require that certain standards be met before employees can qualify for plan membership. For example, many young newly-hired employees and many other employees whose duties are subject to a high rate of turnover will be unlikely to remain with the same company till retirement. Employers argue, in such cases, though this has been questioned by different sources, that there are considerable administrative costs involved in enrolling such employees in a plan and then removing them within a short period of time. Thus, many plans are designed with a compulsory service requirement to be met before definite membership in the plan is attained.

Many plans also contain either or both a minimum or maximum age for membership. The minimum age requirement is meant to function in much the same way as the service requirement in that it excludes those younger employees who have a tendency to change jobs frequently before permanent attachment to a specific job or company. It seeks to exclude temporarily from the plan, younger employees who, for one reason or another, tend to affix little weight to the presence of a pension plan in a firm in which they are just commencing employment and, hence, are not thinking in terms of their retirement years. Where use is made of a maximum age stipulation above which an incoming employee is excluded from membership in a pension plan, the principal reason appears to be a financial one. It becomes very expensive to provide pension benefits for employees who at best would qualify for admission into a plan, on the basis of service requirements, only at an advanced age.

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This is especially true of insured plans where the premium is determined largely by the age of the participants. Likewise, many employers feel little responsibility for the old-age needs of a person who was in his service for only a short period of time prior to his retirement.

Eligibility requirements can thus be based on service, on the attainment of a certain age, or on the basis of years of service and the attainment of a certain age. Within plans containing any of the above requirements, there is also frequently found a maximum salary level above which membership in a plan is excluded. An illustration of various eligibility requirements in Canadian plans is shown in Table 6.

In the earliest plans developed in Canada, these requirements were sometimes considered quite onerous. For example, in the first private plan introduced in Canada, the Grand Trunk Railway Plan of 1874, coverage was limited to members of the indoor staff only, and among that group, only those who entered the company's service before age thirty-seven. In addition, employees were required to serve ten years continuous service in order to qualify for benefits under the plan.23 In 1910, the terms of the plan introduced by the Nova Scotia School Inspectors Association required that continuous service of thirty years be experienced to qualify for inclusion under that plan.24


TABLE 6

ELIGIBILITY REQUIREMENTS FOR MEMBERSHIP IN PRIVATE PENSION PLANS IN CANADA

<table>
<thead>
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<th>TYPE OF CLAUSE</th>
<th>MALES</th>
<th>FEMALES</th>
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<tbody>
<tr>
<td></td>
<td>Number of Plans</td>
<td>Percentage Male Members</td>
</tr>
<tr>
<td>No Restrictions</td>
<td>1,151</td>
<td>12.9</td>
</tr>
<tr>
<td>Years of Service</td>
<td>2,516</td>
<td>28.2</td>
</tr>
<tr>
<td>Minimum Age</td>
<td>211</td>
<td>2.4</td>
</tr>
<tr>
<td>Service and/or Minimum Age</td>
<td>1,866</td>
<td>20.9</td>
</tr>
<tr>
<td>Maximum Age</td>
<td>132</td>
<td>1.5</td>
</tr>
<tr>
<td>Service and/or Maximum Age</td>
<td>589</td>
<td>6.6</td>
</tr>
<tr>
<td>Minimum and Maximum Age</td>
<td>233</td>
<td>2.6</td>
</tr>
<tr>
<td>Service and/or Minimum and Maximum Age</td>
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<td>24.9</td>
</tr>
<tr>
<td>Totals</td>
<td>8,920</td>
<td>100.0</td>
</tr>
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</table>

Armour and Company in 1911 had a minimum age requirement, a service requirement, and a maximum salary requirement associated with membership in its plan.\textsuperscript{25}

Subsequent private plans were also featured by the presence of various restrictions on eligibility. A study of private plans in Ontario in 1929 indicated that of the three hundred companies surveyed, sixty-one had plans, the majority of which required employee service of from twenty to twenty-five years before eligibility for benefits under the plan would be granted.\textsuperscript{26} This was quite notable inasmuch as most of these plans covered were of the non-contributory classification where membership in a pension plan was usually considered automatic.

An analysis of the Canadian National Railway Plan of 1935 shows that two conditions for eligibility were set down by the company with each corresponding to a different benefit level. For full benefits, employees were required to enter the company's service before age forty-five. A supplemental plan providing lesser benefits was available for those employees entering service before age fifty-five.\textsuperscript{27}

A survey of one hundred twenty companies with pension plans conducted by the Industrial Relations Section of Queen's University in 1937 showed that many of the plans utilized a definite waiting period.

\textsuperscript{25}Labor Gazette, October, 1913, p. 488.

\textsuperscript{26}Ontario, Survey of Industrial Welfare Plans in Ontario, March, 1929, p. 10.

\textsuperscript{27}Labor Gazette, August, 1936, p. 705.
before admittance into a plan could be effected. This was quite unusual when one considers that most of these plans were compulsory for permanent employees in the different companies involved.28

With the close of World War II, however, the newer plans introduced showed a slightly more liberal approach towards employee eligibility. This, no doubt, was simply an outgrowth of the tremendous growth in private plans during the War as Government control of wages and prices saw more and more firms use pension plans as sources of deferred compensation for employees. In 1946, a plan was introduced by George Weston Limited which required two years service and entrance into employment with the firm before age fifty to qualify for eligibility.29 Several other private plans introduced at that time also provided for lower minimum age requirements for eligibility as well as higher maximum age requirements for admittance into company plans.

The decade of the 1950's was likewise featured by a relaxing in eligibility requirements which no doubt helped immeasurably to increase the coverage of employees under private plans from just under 777,000 in 1953 to approximately 1,700,000 in 1960 and to over 2,000,000 by December 31, 1965.30 During the same period, the number of plans increased from 4,000 to 13,500, but since many of the plans were of the pooled fund variety, with only a few employees in

28 Queen's University, Industrial Pension Plans in Canada, 1938, p. 15.


each, much of the increase in the coverage of workers can be accepted
as having resulted from a lessening in the restrictions towards eligi-
bility for membership under private pension plans.

Several of the surveys over the last decade confirm this trend
towards the relaxing of eligibility requirements for admittance to pri-
ivate pension programs. These are illustrated in Table 7.

The DBS Survey of 1960 indicated that of the 8,920 plans studied,
2,516 required a minimum period of service for membership under the
plan. Of these, 88 per cent required only three years or less before
admittance to membership in the plan.

The National Trust Survey of 1961 showed a similar situation in
that of 120 contributory plans, 102, or 85 per cent required only
three years of less service. With non-contributory plans, on the
other hand, only one of thirty-seven such plans required as few as
five years service for eligibility.

The Pension Commission of Ontario Survey of 1963 showed that
of 7,476 plans studied, close to 5,700 had a service requirement. Of
these, almost 90 per cent required three years or less service.

The service requirement which had been rather restrictive in
the past has become more and more liberal in the last few decades as
evidenced by these surveys.

Among those plans where a minimum age was the only restriction
towards membership, the DBS Survey showed that of 211 such plans,
182, or 86.3 per cent set this age at twenty-five years or less. The
companies included in the National Trust Survey of 1961 were somewhat
<table>
<thead>
<tr>
<th>Minimum Age</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Number of Plans</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Age 20 and lower</td>
<td>30</td>
<td>14.2</td>
<td>148</td>
<td>42.2</td>
<td>148</td>
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<tr>
<td>Age 21</td>
<td>103</td>
<td>48.8</td>
<td>185</td>
<td>5.4</td>
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<td>5.4</td>
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<td>Ages 22 to 24</td>
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<td>1,137</td>
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<td>33.5</td>
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<td>1.6</td>
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<tr>
<td>Ages 26 to 29</td>
<td>16</td>
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<td>349</td>
<td>10.3</td>
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<td>10.3</td>
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<tr>
<td>Age 30</td>
<td>16</td>
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<td>10</td>
<td>0.3</td>
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<tr>
<td>Ages 31 to 34</td>
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<td>51</td>
<td>1.5</td>
<td>51</td>
<td>1.5</td>
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<tr>
<td>Age 35</td>
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<td>0.5</td>
<td>19</td>
<td>0.6</td>
<td>19</td>
<td>0.6</td>
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<tr>
<td>Age 40</td>
<td>1</td>
<td>0.5</td>
<td>7</td>
<td>0.2</td>
<td>7</td>
<td>0.2</td>
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<tr>
<td>Age 45</td>
<td>3</td>
<td>1.4</td>
<td>3</td>
<td>0.7</td>
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<tr>
<td>Age 50</td>
<td>2</td>
<td>1.0</td>
<td>18</td>
<td>29.5</td>
<td>18</td>
<td>29.5</td>
</tr>
<tr>
<td>Age 55</td>
<td>1</td>
<td>0.5</td>
<td>18</td>
<td>29.5</td>
<td>18</td>
<td>29.5</td>
</tr>
<tr>
<td>Other Ages</td>
<td>21</td>
<td>100.0</td>
<td>61</td>
<td>100.0</td>
<td>3,396</td>
<td>100.0</td>
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<table>
<thead>
<tr>
<th>Maximum Age</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ages 40 to 49</td>
<td>31</td>
<td>23.5</td>
<td>2</td>
<td>4.0</td>
<td>2</td>
<td>4.0</td>
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<tr>
<td>Age 50</td>
<td>17</td>
<td>12.9</td>
<td>5</td>
<td>10.0</td>
<td>5</td>
<td>10.0</td>
</tr>
<tr>
<td>Ages 51 to 54</td>
<td>2</td>
<td>1.5</td>
<td>14</td>
<td>25.9</td>
<td>1,063</td>
<td>25.9</td>
</tr>
<tr>
<td>Age 55</td>
<td>51</td>
<td>38.6</td>
<td>1</td>
<td>0.2</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>Ages 56 to 59</td>
<td>7</td>
<td>5.3</td>
<td>11</td>
<td>22.9</td>
<td>11</td>
<td>22.9</td>
</tr>
<tr>
<td>Age 60</td>
<td>19</td>
<td>14.4</td>
<td>27</td>
<td>54.0</td>
<td>27</td>
<td>54.0</td>
</tr>
<tr>
<td>Ages 61 to 64</td>
<td>2</td>
<td>1.5</td>
<td>93</td>
<td>22.9</td>
<td>93</td>
<td>22.9</td>
</tr>
<tr>
<td>Age 65</td>
<td>2</td>
<td>1.5</td>
<td>978</td>
<td>23.8</td>
<td>978</td>
<td>23.8</td>
</tr>
<tr>
<td>Over Age 65</td>
<td>1</td>
<td>0.8</td>
<td>274</td>
<td>6.7</td>
<td>274</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Total Plans with Minimum Age 211 100.0 61 100.0 3,396 100.0

Total Plans with Maximum Age 132 50 100.0 4,108 100.2

more restrictive in that only 30 of 61, or 60.7 per cent of such plans set the age at twenty-five or less. The Pension Commission of Ontario Survey, in its analysis of minimum age requirements, did not state whether this was the only requirement, but did provide some interesting statistics relative to this aspect of private plans. Of 3,817 plans with a minimum age requirement, 53 per cent set the age at twenty-one or less and 74 per cent set the age at twenty-five or less. These relationships are illustrated in Table 8.

Where there was a requirement relative to the maximum age at which employees could enter a plan is concerned, the DBS Survey showed that of 132 plans with such requirements, 39 per cent favored fifty-five as that age. In addition, a total of 82 plans set the age at fifty-five or over. The figures from the National Trust Company were even more liberal as 43 of 50 plans with maximum eligibility standards set the age at fifty-five or above. The Ontario Pension Commission data, was the case with minimum above. The Ontario Pension Commission data, as was the case with minimum age requirements, do not differentiate between the maximum age requirements as the only requirements to entry into a plan or whether the maximum age requirements were used in conjunction with other requirements. In any case, 4,329 plans of 5,012 plans with a maximum age requirement for eligibility, set the age at fifty-five or over with 119 plans setting age seventy or over as the maximum.

Those plans having both service and maximum and minimum age requirements also appear to have become more and more liberal in the
### Table 8

**Eligibility Requirements for Membership in Private Pension Plans in Canada - Years of Service**

<table>
<thead>
<tr>
<th>Number of Years Service</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year or less</td>
<td>1,262</td>
<td>50.1</td>
<td>61</td>
<td>42.1</td>
<td>2,945</td>
<td>51.8</td>
</tr>
<tr>
<td>Two years</td>
<td>657</td>
<td>26.1</td>
<td>18</td>
<td>12.6</td>
<td>1,475</td>
<td>25.9</td>
</tr>
<tr>
<td>Three years</td>
<td>241</td>
<td>11.6</td>
<td>11</td>
<td>8.3</td>
<td>680</td>
<td>11.8</td>
</tr>
<tr>
<td>Four years</td>
<td>23</td>
<td>0.9</td>
<td></td>
<td></td>
<td>69</td>
<td>1.2</td>
</tr>
<tr>
<td>Five years</td>
<td>251</td>
<td>10.0</td>
<td>8</td>
<td>5.6</td>
<td>477</td>
<td>8.4</td>
</tr>
<tr>
<td>Six years</td>
<td>4</td>
<td>0.2</td>
<td></td>
<td></td>
<td>8</td>
<td>0.2</td>
</tr>
<tr>
<td>Seven years</td>
<td>5</td>
<td>0.2</td>
<td></td>
<td></td>
<td>6</td>
<td>0.1</td>
</tr>
<tr>
<td>Eight years</td>
<td>1</td>
<td>0.0</td>
<td></td>
<td></td>
<td>1</td>
<td>0.0</td>
</tr>
<tr>
<td>Ten years</td>
<td>17</td>
<td>0.7</td>
<td>11</td>
<td>8.3</td>
<td>25</td>
<td>0.5</td>
</tr>
<tr>
<td>Fifteen years</td>
<td>4</td>
<td>0.2</td>
<td>12</td>
<td>8.4</td>
<td>4</td>
<td>0.1</td>
</tr>
<tr>
<td>Twenty years</td>
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<td>0.0</td>
<td>5</td>
<td>2.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td>19</td>
<td>12.6</td>
</tr>
<tr>
<td><strong>Sub-Totals</strong></td>
<td><strong>2,516</strong></td>
<td><strong>100.0</strong></td>
<td><strong>145</strong></td>
<td><strong>100.0</strong></td>
<td><strong>5,690</strong></td>
<td><strong>100.0</strong></td>
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<tr>
<td>No Service Requirement</td>
<td>6,404</td>
<td></td>
<td></td>
<td></td>
<td>1,786</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>8,920</strong></td>
<td></td>
<td><strong>157</strong></td>
<td></td>
<td><strong>7,476</strong></td>
<td></td>
</tr>
</tbody>
</table>

last decade. The DBS Survey of 1960 indicates that there were 2,222 such plans in Canada at that time. Of these, the most common plans were set at either one or two years service, a minimum age of twenty-one, a maximum age between fifty and fifty-nine; and one or two years service, a minimum age of twenty-five, and maximum between ages fifty and fifty-nine. These two variations accounted for 74.3, or 33.5 per cent of the plans having age and service requirements. 31

As mentioned earlier, eligibility requirements have tended to become more and more liberal in recent decades as union efforts, government pressure, deferred compensation efforts and the like have forced management to re-evaluate their positions relative to the coverage under private pension plans. As a result, there has been a considerable increase in the coverage of employees under company pension plans. The Labor Section of the Dominion Bureau of Statistics in an analysis of pension plan coverage in Canada indicated that in 1947, no less than 40 per cent of the employees in firms with pension plans were either not eligible or chose not to join such plans. 32

The DBS Survey in 1960, however, indicated that coverage under private pensions had been considerably extended. In the 8,920 plans studied by that agency as of November 30, 1960, covering 2,622,000 employees,


a total of 1,815,000 were members of those plans and a further 383,000 were only temporarily ineligible for inclusion under their companies' plans. Thus, 68 per cent of the employees in firms having pension plans were members of those plans. A further 14 per cent were reasonably close to membership. Such an improvement over the comparative data available from the 1947 data of 50 per cent coverage indicates quite forcefully the impact of a liberalization in the requirements for eligibility under private plans.

The First Report of the Pension Commission of Ontario at December 31, 1964, reported that coverage of employees in Ontario firms with pension plans was similar to the figures shown by the Dominion Bureau of Statistics in 1960. The Report stated that of the 1,343,000 employees in those companies having pension plans, 935,000 were members of the plans. This represented approximately 70 per cent of all the workers in those firms, a figure less than 2 per cent off the national average given in the DBS Survey.

While other factors have undoubtedly accounted for some of the increased coverage under pension plans, it can be assumed with reasonable accuracy that the general lessening in eligibility requirements has added immeasurably to this trend.


Together with increased benefits through improved formula bases, better vesting provisions, more flexible retirement ages and the availability of more retirement options, this improved trend towards more liberal eligibility requirements has done much to improve the lot of the employee covered under a private pension plan.

C. BENEFIT STRUCTURE

The benefit formula is the foundation of the pension program. It is this area which offers the employer the best opportunity to present a more enticing plan to his employees.

The plan may contain a formula for determining the amount of pension to be paid to each employee, in which case it is referred to as a unit-benefit or defined-benefit plan. On the other hand, it may prescribe the contributions to be made to the plan where the pension payments become dependent on what the accumulated contributions of the employer and the employee or of the employer alone will purchase upon the employee's retirement. This type of plan is classed as a money purchase or defined-contribution type plan.\(^{35}\)

Under the unit benefit approach, the benefit formulas may be based on a certain percentage of earnings for each year of service. The earnings base used may be the final earnings, average of final

five or ten years' earnings, average career earnings, or the average of the best five or ten years' earnings, computed in each case for only those years during which the employee was a member of the plan. A variation of the unit benefit type plan is the flat-benefit type plan which provides for the payment of a benefit related to earnings or to service under the plan. Thus, the plan might call for the payment of $2.50 a month for each year of accredited service to the plan. The plan could, on the other hand, provide for the payment of a flat amount per month based on the performance of a required number of years service or the attainment of a certain salary level. Another form of the unit benefit plan is the level of compensation approach. This type of plan, although not too important in Canada, provides for the payment of benefits as some percentage of either the final earnings or the average career earnings. An employee, through his membership and contributions to a plan might qualify for benefits of from 10 to 60 per cent of the agreed-upon earnings base. 36

Under the defined contribution type plan, the employer may be committed to contribute to the plan according to a fixed formula which may be either a stated dollar amount of premium or a stated percentage of the member's earnings, though not necessarily the amount of percentage by each. 37 Upon retirement of the employee, the accumulated

37 Ibid., p. 60.
contributions in his name are used to purchase an annuity to cover his retirement. This is the common approach to the insured deposit administration plan and the money purchase plans which, especially in the latter case, are used considerably in the design of private plans in Canada.

The earliest plans in Canada were usually based on either final earnings or average final five to ten years' earnings of the plan members. The Grand Trunk Railway Plan of 1874, the Canadian Pacific Railway Plan of 1902, the Intercolonial Railway Plan of 1907, the International Harvester Plan of 1908, the Michigan Central Railway Plan of 1910, the Armour Company Plan of 1911, and the Ontario Hydro Electric Power Commission Plan of 1919, were some of the early major private plans in Canada which based their benefits on some average of final earnings. The survey of industrial pension plans in Ontario in 1929 indicated that the most popular type of benefit formula in that province during that period was the final earnings type over the last five or ten years of service and with a maximum and a minimum pension level.38

The Canadian National Railway Plan of 1935 may have indicated the beginning of a new era relative to the design of a benefit structure. This plan, which was a revision of an earlier one, based its benefit formula on one per cent of the highest salary for any ten consecutive years up to January 1, 1935. This figure was then multiplied by the numbers of years of continuous service under the plan.39


39 Labor Gazette, August, 1936, p. 705.
The increase in the importance of labor unions at this time as well as during and after World War II also attributed to another trend. This was the growing trend towards money purchase plans. By 1958, these latter plans accounted for about 24 per cent of all plans and another 5 per cent were part of combination plans made up of money purchase and unit benefit features.40

The DBS Survey of 1960 indicated that the most commonly used formulas for Canadian pension plans were the money purchase plans and the unit-benefit career average plans. Of the plans surveyed, the money purchase type accounted for 5,392 plans, and the career average category accounted for 2,370 plans, or 60.4 per cent and 26.6 per cent of the total plans included in the survey results. These plans, however, accounted for only 28 per cent of the total number of employees covered under private plans. On the other hand, those plans with benefits based on average final earnings or average best earnings accounted for only 4.3 per cent of the employees covered under the private plans noted in the survey. These relationships are illustrated in Table 9.

In the National Trust Survey in 1961, illustrated also in Table 9, money purchase plans were far less prevalent than under the DBS Survey. This could be accountable, however, to the fact that the Survey covered the plans of large corporations primarily where this form of benefit program is not too common. On the other hand,

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40 Canadian Life Insurance Officers Association, Memorandum on Old Age Security, June, 1958, p. 20.
<table>
<thead>
<tr>
<th>Type of Formula</th>
<th>DBS Survey</th>
<th>Percentage</th>
<th>National Trust Survey</th>
<th>Percentage</th>
<th>Pension Commission of Ontario Survey</th>
<th>Percentage</th>
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</thead>
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<tr>
<td></td>
<td>Number of Plans</td>
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<td>Number of Plans</td>
<td></td>
<td>Number of Plans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Percentage</td>
<td>Number</td>
<td>Percentage</td>
<td>Number</td>
<td>Percentage</td>
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<tr>
<td>Unit Benefit:</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Final Earnings</td>
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<td>22.3</td>
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<td>5.5</td>
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<tr>
<td>Average Final Earnings</td>
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<td>83</td>
<td>52.9</td>
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<td>Average Best Earnings</td>
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<td>Career Average Earnings</td>
<td>2,370</td>
<td>26.6</td>
<td>83</td>
<td>52.9</td>
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<td>8.9</td>
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<td>Money Purchase Plans</td>
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<td>9.6</td>
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<tr>
<td>Uniform or Flat Benefit</td>
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<td>4.6</td>
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<td>12.1</td>
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<td>3.1</td>
<td>227</td>
<td>3.0</td>
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<td>Totals</td>
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<td>100.0</td>
<td>157</td>
<td>100.0</td>
<td>7,476</td>
<td>100.0</td>
</tr>
</tbody>
</table>

average career earnings plans accounted for 52.9 per cent of the total number of plans in the survey. Over 90 per cent of such plans provided for benefits in excess of 1.5 per cent of average earnings for each year of credited service.41

In the study conducted by the Pension Commission of Ontario in 1963, of the 7,476 plans covered, 5,819 were of the career average or of the money purchase variety. This represented approximately 78 per cent of the plans in Ontario at that time. However, these plans, as was the case in the Dominion Bureau of Statistics 1960 Survey, did not account for a very high percentage of all workers covered under private plans. The money purchase plans, while accounting for 47.2 per cent of the total plans, covered only 6.4 per cent of the total number of Ontario employees who were members of private plans in that province. Together with the career average plans, the total coverage was only 35 per cent of all covered employees in Ontario. These figures are also shown on Table 9. The benefit level for the career average plans showed that 83 per cent of such plans provided monthly benefits of 1.5 per cent or greater for each year of accredited service.42

Within the last decade, various means have been attempted at reconciling benefit levels with changes in the purchasing power of the pension benefits. As a result, more and more emphasis has been placed

42 Pension Commission of Ontario, loc. cit., p. 15.
on such programs as variable annuity plans, cost of living clauses, segregated funds, mutual funds and pooled pension plan arrangements.

Variable annuity benefit plans were first instituted in Canada in the late 1950's and while there were some initial difficulties encountered in gaining acceptance of programs of this type, a number of large corporations have adopted such plans since 1960. The Industrial Life Insurance Company, for example, administers over $1.2 million in such variable annuity plans after only four years in providing such programs. 43

Cost-of-living pension adjustments have gained in acceptability principally in those areas where administrators or employees attempt to tie their benefit levels to variables of a more stable nature than securities markets where investor sentiment appears to have more and more influence on security values. As a result, a new benefit plan has emerged which combines a final-average pension with post-retirement adjustments. The adjustment is effected through changing benefit levels in accordance with changes in the Dominion Bureau of Statistics Cost of Living Index after the employee retires. 44

In summarizing the trends in benefit levels, it may be said that Canadian private pension plans are looking more and more towards ways and means of improving the employee's lot in view of the continuing rises in price levels which tend to diminish the purchasing power of

fixed retirement benefit plans. The earnings base has been moved more and more towards career average plans including those where the best five or ten consecutive years may be selected by the employee for purposes of computation of benefits. Money purchase plans still maintain their importance in terms of number of plans covered, although their coverage of employees has decreased considerably in the last two decades. In addition, variable annuities and segregated plans are used to good advantage by insurance companies. Trust companies have maintained their promotion of the pooled type plan to provide diversification for the smaller plans and are playing an increasingly larger part in the benefit structures of private plans in Canada.

D. CONTRIBUTION FORMULAS

Unlike private plans in the United States where only the employer can qualify for special tax concessions in years in which contributions are made, private plans in Canada provide an opportunity to both the employer and the employee to gain tax deductions through contributions to "registered" pension plans. Thus, it is not unusual to find that Canada has a majority of contributory plans whereas the United States continues to progress along the non-contributory route.

The extent to which contributory plans outnumber non-contributory plans has already been noted earlier in this chapter.

In determining the contribution formulas for private pensions, it should be remembered that the specific requirement will be determined to a large extent by the type of funding chosen to cover the specific plan. Should an insurance company be selected for this purpose, the
cost will represent the price of the premium necessary to provide the promised annuity at the retirement of the employee. If the plan is administered by a trust company, the contributions are determined by the recommendation of a qualified actuary or, if the plan is a negotiated one, by the terms of the labor contract. 45

Canadian plans will usually provide at least three different types of contribution formulas. These include the fixed rate of salary basis, a graded rate basis, and a system whereby either of the first two methods may be supplemented by extra contributions at the employee's option. 46

Under the fixed rate of salary basis, the contribution rates seem to adhere to certain levels depending on the specific industry involved. For example, industrial firms tend to require contributions different from other industries. Likewise, the Civil Service Superannuation Plan requires contributions much higher than private industry, although it might be added, the benefits are quite higher.

Under the graded approach, a special program is set up to compare with the fixed rate system but a graded rate scale is established to make allowances for the entrance age of the membership. Thus, a younger employee would be subject to a lower contribution rate than an older employee who joined the firm in the same year. Once they began their contributions, however, their rates would remain constant for their employment period with the firm.

The contribution plan which allows for extra payments by employees is designed for the older worker who, although entering the plan at a later age than the average employee, nevertheless attempts to build up his benefit level through the inclusion of contributions in excess of the required amounts. In addition, it is also utilized by employees who simply attempt to add to the level of benefits already promised on the basis of the contribution level already followed by the employees concerned.

If the plan is one wherein the benefits are on some defined, fixed basis, then the employee normally contributes at some percentage of his income. The employer, on the other hand, makes his contributions on the basis of the contributions in excess of the employee's which will be required to provide the necessary benefits. This arrangement is typical of the situation which arises in such plans as the Government Annuity, Insured Group Annuity, the Individual Insurance Policy Pension Trust and the Insured Deposit Administration. 47

In early contributory plans in Canada, employees' contributions were for the most part on a fifty-fifty basis with employer contributions. The Grand Trunk Plan (1874), the Intercolonial Railway Plan (1907), and Armour & Company Plan (1911) were in this category. The Federal Civil Service Plan of 1924, however, provided for employee contributions of six per cent of earnings with the Federal Government contributing the balance required to provide the necessary benefits. Subsequent major plans calling for contributions of this type up to

1940 included the Canadian National Railway Plan of 1935 and National Carbon Company of 1939. The previously mentioned Queen's University Study of 1937 indicated, however, that the trend still continued towards a fifty-fifty sharing of the contributions to private plans.

Since World War II and the introduction of such funding methods as deposit administration, terminal funding, and split funding and the introduction of the Old Age Pension Program, there has been a growing tendency away from the fifty-fifty split towards one where the employees pay a certain percentage either adjusted to account for the Old Age Pension payments or on some other agreed upon basis. The employer would pay the balance necessary to provide the desired benefits.

The transition has not been too effective to date, however, as the great majority of money purchase plans still provide for a matching of contributions on a fifty-fifty basis. The Ontario Pension Commission indicated in its 1963 Study of 3,155 money purchase plans containing a definite contribution clause in operation at that time in Ontario, 88.5 per cent either matched or came close to matching the contributions of each employee and employer.

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49 Queen's University, A Survey of Canadian Retirement Plans, 1938, p. 15.
The most popular rate of contribution for employers was 5 per cent to 5.99 per cent of income as 2,388 plans fell into this category. The most important employee contribution rate was likewise 5 per cent to 5.99 per cent as 2,599 plans came within this range. For all plans in Ontario at that time, the Commission indicated that 4,602, or 61.6 per cent called for contributions of between 5 per cent and 5.99 per cent.\textsuperscript{51}

The limited Study of the National Trust Company in 1961 indicated only fifteen money purchase plans, but of these, twelve called for the matching of contributions by employers and employees with 5 per cent the most popular rate.\textsuperscript{52}

Information on employer contributions to definite benefit plans is typically not made available. Employee contributions to these plans, however, adhered to the 5 per cent to 5.99 per cent level.

The Pension Commission of Ontario indicated that at the end of September, 1963, 133 of the 246 contributory final earnings or final average earnings plans in Ontario called for employee contributions of 5 per cent to 5.99 per cent of earnings. For contributory career-average earnings plans, 1,571, or 73.7 per cent called for equal employer-employee contributions.\textsuperscript{53}

\textsuperscript{51}\textit{Ibid.}, p. 23.


Figures from the National Trust Company 1961 Survey showed 10 of 23 (43.5 per cent) final earnings or final average earnings plans calling for employee contributions, of 5 per cent and 37 (48.5 per cent) of the career average earnings contributory plans calling for contributions at this 5 per cent level.\textsuperscript{54}

The trend towards contributory plans which started soon after the Depression appears to have continued into the decade of the 1960's. In addition, the contribution levels have risen in line with the increased benefit promises and although employee's are not generally publicized on most benefit plans, indications are that most employers match or come close to matching the employee contributions.

E. RETIREMENT AGE PROVISIONS

A most important condition in private pension plans is the one which dictates the time at which an employee may retire in order to qualify for retirement benefits. In most plans in Canada, as in the United States, various alternatives are available to employees relative to retirement dates. Of these, the most prominent involve a normal retirement date, an early retirement date, and a postponed retirement date.

The normal retirement age is that age level at which the employee actually becomes eligible to retire on a full pension. It

\textsuperscript{54}National Trust Company, \textit{A Study of Canadian Pension Plans}, 2nd ed., p. 39.
is ideally set at the stage in life beyond which the employee's efficiency becomes marginally uneconomical. However, this becomes difficult to pinpoint with any degree of accuracy so that many plans make allowances for retirement ages in advance of or after the normal age.

The early retirement provision is added to many plans to allow employees, because of disability or ill health or some other reason, to retire five to ten years before normal retirement age. This is usually at the consent of the employer although many plans allow the employee this option. It typically results in the employee being subject to a pension which is actuarially reduced to account for the years between his retirement and the normal retirement age when he would no longer be a contributor to the plan.

Where the postponed or deferred retirement age is in vogue in a plan, the employee, usually at his own option, is permitted to continue in the employ of his company for a certain number of years in excess of normal retirement age. After the definite period of years has expired, however, an automatic retirement age is attained at which time, the company has the option of further retaining the employee on the payroll. In any case, the employee's pension will not commence until his actual retirement date. Although some plans permit the employee to contribute towards his plan during these extra years of employment, the new benefit level will at best be only slightly increased for these extra payments and not on an actuarial basis. Most plans allow no extra benefits for postponed retirement.
Some variations of these methods are also provided in Canadian plans. For example, in many plans, an employee may apply for early retirement for disability at a younger age and with fewer years service than for the usual early retirement age stipulation. In such a case, where this special permission is received, the benefit level would be actuarially reduced to cover only the benefits which could be purchased with the contributions made up to the date of retirement.

Another method frequently utilized is to allow those employees who were required to seek disability retirement but who later survived to the normal retirement age to qualify for the full unreduced retirement benefit that had accrued for service up the date of the disability retirement.

There has been a tendency in Canadian private plans to set the normal retirement age at sixty-five years. Some plans, among which were the Grand Trunk Railway Plan (1874) and the plans under the Government Annuities Act of 1908, set the age at fifty-five years, but these were in the minority. The Province of Ontario Study of 1929 confirmed this age of sixty-five years as the normal one for males, but added that females typically retired ten years earlier at age fifty-five years.

In subsequent years, the age at which women were granted "normal" retirement was set at a more respectable age of sixty years. This was felt justified in view of the longer life span of females and the fact that there is no reason why a woman's efficiency level at her employment should diminish at an earlier age than that of men. Thus, in a


study by the Economics and Research Branch of the Department of Labor in early 1954, it was found that in 213 plans for male employees, 203 had normal retirement set at age sixty-five. For female employees, there were 196 plans included in this Study, and of this number, 130 called for retirement age sixty, while another 47 called for age sixty-five as the standard. Two of these plans called for normal retirement at seventy.57

The Canadian Life Insurance Officers Association indicated in 1958 that approximately 94 per cent of the insured pension plans in Canada at that time had a normal retirement age of sixty-five years. In addition, it noted that the trend over the years had been towards having the retirement age the same for both sexes.58 Furthermore, few, if any, of the plans called for compulsory retirement at the normal retirement age set forth in the pension contract. The National Trust Company Study of 1961 indicated that of the 157 plans covered in its analysis, 140 called for normal retirement for males at age sixty-five. For females, 71 plans set age sixty-five as the age, and another 66 plans assigned age sixty as the normal retirement date for females.59 The Ontario Pension Commission Report on pension plans in that province at September 30, 1963, showed a total of 6,919 of 7,476 plans set the normal retirement

57Labor Gazette, September, 1954, p. 1238.
58Canadian Life Insurance Officers Association, Memorandum on Old Age Security, p. 23.
age sixty-five and 4,603 plans set the age for females at the same level. This is shown in Table 10.

Most Canadian plans have made provisions for early retirement where this is necessitated by ill health or disability or has been merited through long and faithful service. Thus, the Grand Trunk Plan of 1874 allowed an early retirement provision for permanent disability. This could be accomplished between ages sixty and sixty-five providing continuous service of twenty years had been attained. It was also possible after ten years of continuous service to qualify for early retirement benefits for disability. Such benefits were to continue for the period of the disability. Subsequently, private plans introduced by Armour and Company (1911), Swift and Company (1916), Bell Telephone Company (1916), and the Canadian National Railway in 1929 provided for early retirement for disability or ill health with the basis being either the attainment of a certain age and years of service or simply the attainment of a certain number of years service. The Ontario Survey of Welfare Plans conducted in 1929 indicated that in those plans among the sample of 300 in its study which did provide for early or disability retirement, most provided for disability after an average of ten to fifteen years service, and for early retirement if the actual number of years of accredited

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61 Labor Gazette, February, 1908, p. 995.

<table>
<thead>
<tr>
<th>Age</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.9</td>
</tr>
<tr>
<td>Age 50 and under</td>
<td>3</td>
<td>0.0</td>
</tr>
<tr>
<td>Age 55</td>
<td>16</td>
<td>0.2</td>
</tr>
<tr>
<td>Ages 56-59</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Age 60</td>
<td>148</td>
<td>2.0</td>
</tr>
<tr>
<td>Ages 61-64</td>
<td>11</td>
<td>0.2</td>
</tr>
<tr>
<td>Age 65</td>
<td>6,919</td>
<td>92.5</td>
</tr>
<tr>
<td>Ages 66-69</td>
<td>114</td>
<td>1.5</td>
</tr>
<tr>
<td>Age 70</td>
<td>202</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Total Plans</strong></td>
<td><strong>7,476</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


among private plans in Canada, the National Trust Company Study of 1961 provided an insight into the typical requirements attached to plans relative to these retirement age stipulations. Where early retirement was allowed, the Study indicated that of the 157 plans covered, 53 provided for such retirement within ten years of normal retirement, 56 called for age and service requirements with the age between fifty years and sixty years and service

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requirements between ten and twenty years. Another twenty-one plans had no age and/or service requirement but were solely at the discretion of the company. Where disability retirement was allowed, forty plans called for only the attainment of a specified service period, usually fifteen years, nine required the reaching of a certain age which was usually fifty-five years. Eighteen plans called for both age and service requirements with ages between forty and fifty-five years and service between ten and twenty years. Another thirty-one plans had no specific requirements but were at the discretion of the company. In those plans allowing for postponed retirement privileges, the National Trust Study indicated that the most popular format for this arrangement was to allow the employee an additional five years of employment beyond the normal retirement age. For most plans, then, the postponed retirement age would be at, or close to, age seventy. Table 11 illustrates these provisions.

There are wide variances as to the benefit levels provided under early or disability retirement. In the aforementioned National Trust Study, however, there appear to be various accepted methods. The early retirement plans, for example, showed fifty-seven plans providing for an actuarially reduced pension, while another ten plans allowed the normal pension. The disability pension, on the other hand, saw thirty-four plans providing normal benefits and only nineteen giving an actuarially reduced pension.

This situation is not to be unexpected, however, for it is confirmed by pension authorities that plans which allow for early retirement usually provide that such benefits will be actuarially reduced
TABLE 11
RETIREMENT AGE PROVISIONS

<table>
<thead>
<tr>
<th>Normal Retirement</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
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<tr>
<td>Males - Age 70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 68</td>
<td>6</td>
<td>3.8</td>
</tr>
<tr>
<td>Age 65</td>
<td>140</td>
<td>89.2</td>
</tr>
<tr>
<td>Others or not specified</td>
<td>8</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>157</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Females - Age 70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 68</td>
<td>4</td>
<td>2.6</td>
</tr>
<tr>
<td>Age 65</td>
<td>71</td>
<td>45.2</td>
</tr>
<tr>
<td>Age 60</td>
<td>66</td>
<td>42.0</td>
</tr>
<tr>
<td>Age 55</td>
<td>6</td>
<td>3.8</td>
</tr>
<tr>
<td>Others or not specified</td>
<td>8</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>157</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Early Retirement**

| Within five years of normal retirement | 12 | 7.6 |
| Within ten years of normal retirement | 53 | 33.8 |
| Allowed with consent of company - no age or service requirement | 21 | 13.4 |
| Others                               | 6  | 3.8 |

Age and Service:

| (a) Age 60 and 10 years service       | 9  | 5.7 |
| (b) 60                                | 5  | 3.2 |
| (c) 60                                | 5  | 3.2 |
| (d) 60                                | 2  | 1.3 |
| (e) 55                                | 5  | 3.2 |
| (f) 55                                | 8  | 5.1 |
| (g) 55                                | 6  | 3.8 |
| (h) 50                                | 3  | 1.9 |
| (i) Others                            | 13 | 8.3 |
| Not Specified                         | 9  | 5.7 |

**Totals** | **157** | **100.0** |
TABLE 11 (Continued)

<table>
<thead>
<tr>
<th>Postponed Retirement</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 68</td>
<td>5</td>
<td>3.2</td>
</tr>
<tr>
<td>Age 69</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td>Allowed up to five years after normal retirement</td>
<td>19</td>
<td>12.1</td>
</tr>
<tr>
<td>Allowed on a year-to-year basis</td>
<td>10</td>
<td>6.4</td>
</tr>
<tr>
<td>Allowed on a year-to-year basis up to five years</td>
<td>5</td>
<td>3.2</td>
</tr>
<tr>
<td>Allowed with consent of company and/or employee</td>
<td>62</td>
<td>39.5</td>
</tr>
<tr>
<td>Other Arrangements</td>
<td>9</td>
<td>5.7</td>
</tr>
<tr>
<td>Not Specified</td>
<td>9</td>
<td>5.7</td>
</tr>
<tr>
<td>Totals</td>
<td>157</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disability Retirement</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent upon Service only:</td>
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<td></td>
</tr>
<tr>
<td>(a) After three years</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>(b) After ten years</td>
<td>10</td>
<td>6.0</td>
</tr>
<tr>
<td>(c) After fifteen years</td>
<td>24</td>
<td>14.4</td>
</tr>
<tr>
<td>(d) After nineteen years</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>(e) After twenty years</td>
<td>4</td>
<td>2.4</td>
</tr>
<tr>
<td>Dependent upon Age only:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Age sixty</td>
<td>2</td>
<td>1.2</td>
</tr>
<tr>
<td>(b) Age fifty-eight</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>(c) Age fifty-five</td>
<td>5</td>
<td>3.0</td>
</tr>
<tr>
<td>(d) Age fifty</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>Dependent on Age and Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Age 55 and 10 years service</td>
<td>2</td>
<td>1.2</td>
</tr>
<tr>
<td>(b) 55 20</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>(c) 50 15</td>
<td>2</td>
<td>1.2</td>
</tr>
<tr>
<td>(d) 50 20</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>(e) 40 15</td>
<td>2</td>
<td>1.2</td>
</tr>
<tr>
<td>(f) Others</td>
<td>10</td>
<td>6.0</td>
</tr>
<tr>
<td>No Age or Service Requirement</td>
<td>31</td>
<td>19.7</td>
</tr>
<tr>
<td>Not Specified</td>
<td>59</td>
<td>37.7</td>
</tr>
<tr>
<td>Totals</td>
<td>157</td>
<td>100.0</td>
</tr>
</tbody>
</table>

for the number of years in advance of sixty-five that retirement actually took place. For disability provisions, on the other hand, the disability clause usually stipulates that full credit should be given for the pension purchased up to the date of purchase with no actuarial reduction.

F. VESTING PRIVILEGES

Every pension plan is faced with the realization that many workers will not remain in the same employment until retirement. The problem thus arises as to the type of settlement to be made with an employee who terminates employment before retirement and seeks a pension settlement. Of utmost importance here is the disposition of the employer's contribution to the private plan on behalf of the employee. Where the plan calls for the gaining by the employee of a legal claim to a deferred annuity arising out of these employer contributions, the employee is said to have secured the privilege of having a vested interest in such contributions. Due to the wide variation in the conditions attached to private plans, this vesting privilege has naturally assumed a number of forms.

Historically, the privilege depended upon whether the plan was a contributory or a non-contributory one. In the former case, the employee simply received back from the fund his own contributions or part

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thereof with or without interest. The employer's portion in such cases was usually forfeited. Where the plan was a non-contributory one, however, there was usually no vested right in the employer's contributions to the plan.

Within the last half century, several adjustments were effected in this vesting feature of private plans so that various alternatives were made available to employees. With contributory plans, the employee was given the option of withdrawing his own paid-up contributions immediately, with or without interest. This would result in a forfeit of his employer's contributions. On the other hand, were the employee to elect to leave his pension accumulations with the employer, he could qualify for a deferred annuity beginning at age sixty-five (if this were the normal retirement age set out in the employer's plan) which would include part or all of the employer's contributions.

Non-contributory plans have also seen some adjustments. In 1956, for example, General Motors of Canada amended its plan during collective bargaining to allow any employees leaving the service of the company after age forty and ten years' service, regardless of the reason for leaving, to receive a deferred pension from the employer's contributions, beginning at age sixty-five for all service rendered after age thirty. 66

Some Canadian plans also possess immediate vesting provided the employment is with a group of related employers. Upon termination of

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employment with any one of the employers, workers under such a setup are frequently allowed to transfer their pension credits to the next employer. In such case, the plan's actuary simply transfers the employee's account to the new employer and an agreement is reached as to the extent to which the employee's former pension credits will count towards the new plan. The vesting problem has thus been a very important one over the last few decades especially with the presence of more and more professional people and skilled workers upon the labor scene. In the past, job changing for these parties invariably meant loss of vested pension rights.

In commenting on this important issue in the design of private pensions, Dan McGill, noted pension expert from the Wharton School of Finance and Commerce, University of Pennsylvania, states that there are four distinct areas of consideration in the design of the vesting feature in private pension plans. These areas relate to the time of vesting, the amount awarded through vesting, the form of the vesting and the finality of the vesting privilege.  

drawal, the vested portion of the plan. This might result in a lump-
sum payment available immediately, a periodic instalment payment be-
ginning immediately, or a deferred paid-up pension annuity available
only at normal retirement age. The finality of the vesting refers to
whether the vested interest is absolute or conditional. It would be
absolute where full title to the benefits accrues to the employee upon
his satisfaction of the various vesting requirements. Under this
arrangement, the pension benefits become available to the employee
whether his termination of employment before retirement is due to
death, disability, or assumption of other employment. Conditional
vesting, on the other hand, can provide full vesting of the employer's
contributions but its availability to a terminating employee is sub-
ject to certain conditions. Typically, such vesting would be payable
only on voluntary termination being unavailable for such events as
death or disability.

The vesting privilege first assumed major prominence in Canada
in the early 1940's, when, due to the wage freezing policies of the
Federal Government, employee pension plans became a "going concern."
Thus, the Department of Labor, through its Government Annuity group
contracts, declared that all plans underwritten by it must thereafter
provide that employer contributions must vest with the employees at
no later than twenty years service with the employer. 68

The Minister of Finance, acting on recommendations of the Ives
Commission in 1945, issued the Statement of Rules and Regulations

affecting pension plans. This, as noted earlier, was a booklet setting forth the requirements to be met thereafter by employers relative to the conditions attached to private pension plans. Such stipulations would have to be met if the plan was to qualify for special tax treatment afforded approved pension plans. One such condition was a requirement providing for vesting privileges for employees. Specifically, all employee pension plans, to qualify for tax deductions of employer contributions, must vest in the employee at no later than age fifty providing the employee had given twenty years accredited service to the employer. Should the employee reach the age limit before the satisfaction of the service requirement, then vesting would have to wait until the latter was satisfied. Thus, it can be seen that the vesting under the Government Annuity Plan, wherein only a service requirement in the employer's business is a stipulation for vesting, is much more liberal than that suggested by the Minister of Finance. Under this latter approach, it can be noted that accredited service, meaning only service in the employer's plan, can be much more restrictive from an employee viewpoint.

In the ensuing years, many problems arose relative to these Regulations since the Minister acted rather arbitrarily in his interpretation of the terms of the regulations. For example, the stipulations relative to employee vesting of employer contributions did not apply to negotiated plans so that some of the larger corporations, since they had negotiated non-contributory plans were not held to this rule for purposes of qualifying for income tax benefits.

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69 Ibid., p. 50.
An indication of the extent to which vesting was in force in Canada up to the early 1950's can be seen from a survey of 214 plans with 500 or more employees conducted in 1954 by the Economic Research Bureau of the Department of Labor. In its report, that agency stated that in 39, or 18 per cent of the plans covered in the survey, there was no vesting under any conditions. Of these, 14 were of the contributory type. These latter, however, represented less than 8 per cent of the total number of contributory plans covered under the Survey. In total, 62 plans called for full vesting within fifteen years, while another 62 plans called for at least a 50 per cent interest in the employer's contributions after fifteen years service. The most popular service record at which full vesting took place was twenty years with 102 plans, or 47.7 per cent falling within this category. This appeared to conform somewhat with the directive of the Minister of Finance relative to the vested interest of employees in employers' contributions to private plans on their behalf. A total of 78 per cent of the 214 plans provided full vesting after the twenty year service requirement. The complete breakdown of the plans by type of vesting may be noted in Tables 12 and 13.

A subsequent survey of the vesting situation relative to insured pension plans in Canada was conducted in late 1957 by the Canadian Life Insurance Officers Association. This survey covered 326,000 employees in 7,196 insured plans of all types. Of these, 168,400 workers (52 per cent) are covered under plans calling for
<table>
<thead>
<tr>
<th>Type of Vesting</th>
<th>Number of Plans</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Vesting</td>
<td>39</td>
<td>18.0</td>
</tr>
<tr>
<td>Immediate - Full Vesting</td>
<td>6</td>
<td>3.0</td>
</tr>
<tr>
<td>Deferred - Full Vesting</td>
<td>88</td>
<td>41.0</td>
</tr>
<tr>
<td>Immediate - Graded Vesting</td>
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<td>1.0</td>
</tr>
<tr>
<td>Deferred - Graded Vesting</td>
<td>79</td>
<td>37.0</td>
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<tr>
<td>Totals</td>
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<td>82.0</td>
</tr>
<tr>
<td></td>
<td>214</td>
<td>100.0</td>
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</table>


full vesting either of the immediate or deferred category. A further 152,000 (46 per cent) were included under plans calling for graded vesting. The remainder called for vesting only upon retirement. Approximately 55,000 of these 116,000 employees receiving the full deferred vesting privilege were required to meet both age and service stipulations. A summary of the plans where the service requirement is one if not the only requirement for vesting is as follows on Page 167.

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70Canadian Life Insurance Officers Association, Memorandum on Old Age Security, pp. 21-22.
<table>
<thead>
<tr>
<th>Plans which are</th>
<th>Full Vesting Only</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graded before Full Vesting is Attained</td>
<td>Number of Plans</td>
<td>Percentage</td>
</tr>
<tr>
<td>Immediate Full Vesting</td>
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<td>7</td>
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<tr>
<td>Full Vesting after:</td>
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</tr>
<tr>
<td>Less than 10 years service</td>
<td>2</td>
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<tr>
<td>10 years service</td>
<td>4</td>
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<td>11 - 14 years service</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>15 years service</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>19 years service</td>
<td>54</td>
<td>67</td>
</tr>
<tr>
<td>20 years service</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Over 20 years service</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee Service or Participation in Plan</th>
<th>Percentage of Persons Participating in Private Pension Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full</td>
</tr>
<tr>
<td>Immediate</td>
<td>12.4</td>
</tr>
<tr>
<td>After 10 years</td>
<td>24.9</td>
</tr>
<tr>
<td>After 19 years</td>
<td>49.0</td>
</tr>
<tr>
<td>After 20 years</td>
<td>96.7</td>
</tr>
<tr>
<td>Over 20 years</td>
<td>98.2</td>
</tr>
</tbody>
</table>

Just as in the case of the earlier study by the Economic Research Division of the Department of Labor, the figures from this study show that where vesting does occur, it typically adheres to the twentieth year of service. In this study of insured plans, 47.7 per cent of the employees covered receive full vesting rights in that year. It might be added that 97.4 per cent of all employees covered under insured plans in Canada receive vesting privileges by the twentieth year of either service or participation in the plan, although, of course, these do not necessarily have to coincide.

During this time period, the Minister of Finance, following considerable pressure from business circles and the House of Commons, decided to revise somewhat the "Blue Book" in which the vesting privilege was spelled out for employers. Consequently, in 1957, the "Blue Book" was withdrawn and was replaced in 1959 by a new booklet entitled "Information Bulletin Number Fourteen." This replacement, however, conspicuously omitted mention of requirements to be met by employers relative to the vesting right for employees. Thus, while the vesting privilege had made great advances over the decade that the regulations had been in force, there was now no binding requirement that employers
include such features in future pension plan design. The Information Bulletin did not really gain wide acceptance as a regulatory measure and was withdrawn permanently in 1960 to be replaced by a stepped-up program of Provincial Government activity in the area of private pensions.

By the end of 1960, the Dominion Bureau of Statistics in its survey on the non-financial aspects of private pension plans in Canada, indicated that of 8,920 plans surveyed, 96.3 per cent had some form of vesting of employer contributions in favor of employees. However, the uncovered area of 330 plans represented over 39 per cent of the male employees and 31 per cent of all employees enrolled under the various plans. Table 14 indicates the breakdown of the plans in this Study by type of vesting as of November 30, 1960.

From the Table, it may be noted that for those plans which do provide vesting, the most popular category appears to be the type which requires years of service only. This type accounted for almost one-third of the vested plans covering over 40 per cent of the total workers covered. Almost 50 per cent of the plans in this category carry a requirement of twenty years before vesting occurs. In those plans where years of participation in the pension was a requirement for vesting, the DBS Survey showed that 992, or 42.5 per cent, called for twenty years participation in the plan. Thus, plans requiring either service only or participation only accounted for 47.8 per cent of the 5,259 plans in this category.


<table>
<thead>
<tr>
<th>Type of Vesting</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Total Workers Covered</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None until retirement</td>
<td>330</td>
<td>3.7</td>
<td>579,000</td>
<td>31.1</td>
</tr>
<tr>
<td>Immediate</td>
<td>2,612</td>
<td>29.3</td>
<td>88,000</td>
<td>4.7</td>
</tr>
<tr>
<td>Years of service only</td>
<td>2,925</td>
<td>32.8</td>
<td>769,000</td>
<td>41.3</td>
</tr>
<tr>
<td>Years of participation only</td>
<td>2,334</td>
<td>26.1</td>
<td>155,000</td>
<td>8.3</td>
</tr>
<tr>
<td>Age</td>
<td>9</td>
<td>0.1</td>
<td>568</td>
<td>0.0</td>
</tr>
<tr>
<td>Combination of Service, Participation, or Age</td>
<td>710</td>
<td>8.0</td>
<td>271,000</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>8,920</strong></td>
<td><strong>100.0</strong></td>
<td><strong>1,862,568</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Of the 710 combination plans covered in this study, 340 plans, covering 64.5 per cent of the 271,322 employees under that class of pension arrangement, the combination was composed of service and age stipulations and plan participation and age requirements.

The DBS Survey, while quite detailed, bore out once again the trend towards a more liberal approach to the vesting privilege in employee pension plans. In addition, the prominence of plans requiring a twenty-year service or participation record coincided with the findings of the Canadian Life Insurance Officers Association in 1957 relative to the vesting situation with insured pensions. This twenty year service requirement for vesting purposes was in line with the stipulations of the Department of Finance's "Information Bulletin Fourteen," which unfortunately was discontinued in 1960.

In the 1961 National Trust Company Survey, it was indicated that of the 157 plans in their sample as illustrated in Table 15, 138 called for full vesting at one time or another, and of these, 59 plans had graded vesting privileges. These plans with graded vesting saw grading commencing after the tenth year as the most popular. Just over one-half the graded-vesting approaches began in that year. Those plans with full vesting based on service only saw fifteen and twenty years as the most popular with the latter accounting for 48.5 per cent of the eighty plans in this category. The former condition was present in just over 30 per cent of the plans. Where age and service stipulations were required for vesting,
TABLE 15
CONDITIONS FOR VESTING IN CANADIAN PENSION PLANS

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full Vesting</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On employment or enrollment</td>
<td>8</td>
<td>5.1</td>
</tr>
<tr>
<td>After five years service</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td>After ten years service</td>
<td>8</td>
<td>5.1</td>
</tr>
<tr>
<td>After fifteen years service</td>
<td>24</td>
<td>15.3</td>
</tr>
<tr>
<td>After nineteen years service</td>
<td>6</td>
<td>3.8</td>
</tr>
<tr>
<td>After twenty years service</td>
<td>38</td>
<td>24.2</td>
</tr>
<tr>
<td>After twenty-five years service</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td>Age and Service</td>
<td>45</td>
<td>28.7</td>
</tr>
<tr>
<td>None prior to retirement</td>
<td>19</td>
<td>12.1</td>
</tr>
<tr>
<td>Other stipulations</td>
<td>5</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>157</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Graded Vesting</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On employment or enrollment</td>
<td>2</td>
<td>3.4</td>
</tr>
<tr>
<td>Commencing after first year</td>
<td>3</td>
<td>5.1</td>
</tr>
<tr>
<td>After five years service</td>
<td>5</td>
<td>8.5</td>
</tr>
<tr>
<td>After six years service</td>
<td>4</td>
<td>6.8</td>
</tr>
<tr>
<td>After ten years service</td>
<td>29</td>
<td>49.2</td>
</tr>
<tr>
<td>After eleven years service</td>
<td>8</td>
<td>13.6</td>
</tr>
<tr>
<td>After fifteen years service</td>
<td>6</td>
<td>10.2</td>
</tr>
<tr>
<td>Other stipulations</td>
<td>2</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>59</td>
<td>100.0</td>
</tr>
</tbody>
</table>

the most popular of the forty-five plans in this category was a "twenty year service and age fifty years" situation. This occurred in fourteen plans, or 31 per cent of the plans in question. Thus, this study, although rather limited, did tend to agree with the findings of the others relative to the breakdown of arrangements under which vesting could take place as well as pointing out the important clauses common to these plans or being similar to those of the previous studies already noted.

That all was not satisfactory in this area, however, could be seen from the many references in financial periodicals relative to the supporting of some type of compulsory regulations whether the impetus came from the different provinces or from the Federal Government. Thus, Canada saw one of the driving forces which led to a committee of distinguished academicians and practitioners in the pension area in the Province of Ontario selected in April, 1960 to propose legislation which was to lead to a provincial regulation requiring vesting after the attainment of certain age and service records by employees. The result of this work was borne out in the Ontario Pension Benefits Act in 1962-1963 which was to serve as a landmark act for subsequent legislation by other provinces in the vesting area.

Since this regulation of the Province of Ontario will be explained more fully later, it seems sufficient here to relate some of the underlying reasons generally given as warranting such a revolutionary measure by a Provincial governing body. The removal of the "Blue Book" of regulations referring to vesting and the permanent withdrawal
of "Information Bulletin Number Fourteen" regulating private pensions caused some concern that the trend towards liberalization of vesting would thereafter lessen considerably to the disadvantage of employees under private plans. Further, it was felt that since employees typically took their own contributions to pensions in the form of cash upon withdrawal from the plan, it might appear justified that vesting of employer contributions not be warranted in these situations. It was felt, also, that coverage of private plans should be extended to cover more employees and that stronger funding requirements should be outlined to employees so that there would be reasonable assurance that the benefits promised under private plans would actually be forthcoming.

Early in their study, the Ontario Pension Commission's views were reinforced relative to the condition of vesting in private plans in Canada. From viewing the results of the 1960 DBS Survey of the non-financial aspects of private pension plans in Canada, the Committee noted that only 88,000 employees out of a total of 1.9 million employees covered under private plans at that time had immediate vesting privileges as members of their plans. In addition, a further 579,000 employees received vesting privileges only if they remained in their same employment until retirement. This represented over 31 per cent of the total employees covered under private plans in Canada at that time. 71

71 See Table 17.
In essence, the Ontario Pension Benefits Act as passed in June, 1963 and revised in 1965, set forth regulations relative to the solvency and vesting requirements to be followed by private plans either domiciled in Ontario or covering employees of Ontario-affiliated firms located in other provinces. The vesting requirement provided that all private plans in operation in Ontario shall, beginning January 1, 1965, permit the full vesting of employer contributions in favor of employees where the employee has attained the age of forty-five and has a record of ten successive years of service to the employers. Upon securing this vested right, however, the benefits are locked in and are not available to the employee until his ultimate retirement from active service at age sixty-five.

In April, 1965, the Pension Commission of Ontario issued its first report on the status of pension plans in Ontario as of September, 1963. This was approximately one and a half years prior to the date when all Ontario plans would be required to conform with the regulations of the Ontario Pension Benefits Act. Of the 7,476 private plans then in operation in Ontario, or on behalf of Ontario employees, 1,646 called for immediate vesting and another 1,473 allowed for full vesting with from one to ten years service or participation in the employer's plan. This represented 42 per cent of Ontario plans covering 43 per cent of the employees covered under

---

private plans. Another 52 per cent of private plans permitted full vesting for service of from eleven to twenty years. One hundred ten plans, however, required more than twenty years service before full vesting resulted and another 379 plans allowed no vesting of employer contributions before employee retirement. This is illustrated in Table 16.

A comparison of the vesting conditions relative to the employees covered as reported by the Dominion Bureau of Statistics Study in 1960 and the Ontario Pension Commission Study of 1963 shows the following results:

<table>
<thead>
<tr>
<th></th>
<th>DBS STUDY</th>
<th>ONTARIO PENSION COMMISSION STUDY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Members with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Immediate Full Vesting</td>
<td>4.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Vesting with Service</td>
<td>64.2</td>
<td>77.3</td>
</tr>
<tr>
<td>No Vesting</td>
<td>31.1</td>
<td>16.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It can be seen that plans in Ontario are obviously adjusting to the requirements of the vesting regulations laid down by the Pension Benefits Act. For Canada as a whole, however, the 1960 DBS Study showed that almost a third of the plans in existence at that time had no vesting privileges. Both the Pension Commission of Ontario and the Dominion Bureau of Statistics are expected to release up-dated statistics relative to such non-financial areas as vesting in early or mid-1968.

<table>
<thead>
<tr>
<th>Number of years of Service or Participation required for Full Vesting</th>
<th>Number of Plans</th>
<th>Percentage</th>
<th>Total Workers Covered</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate Full Vesting</td>
<td>1,646</td>
<td>22.0</td>
<td>60,828</td>
<td>6.3</td>
</tr>
<tr>
<td>1 - 5 years</td>
<td>337</td>
<td>4.5</td>
<td>93,524</td>
<td>9.6</td>
</tr>
<tr>
<td>6 - 10 years</td>
<td>1,136</td>
<td>15.2</td>
<td>263,101</td>
<td>27.1</td>
</tr>
<tr>
<td>11 - 15 years</td>
<td>1,295</td>
<td>17.3</td>
<td>176,566</td>
<td>18.2</td>
</tr>
<tr>
<td>16 - 20 years</td>
<td>2,573</td>
<td>34.4</td>
<td>205,178</td>
<td>21.1</td>
</tr>
<tr>
<td>21 - 25 years</td>
<td>79</td>
<td>1.1</td>
<td>10,186</td>
<td>1.1</td>
</tr>
<tr>
<td>Over 25 years</td>
<td>31</td>
<td>0.4</td>
<td>2,026</td>
<td>0.2</td>
</tr>
<tr>
<td>No vesting until Retirement</td>
<td>379</td>
<td>5.1</td>
<td>158,979</td>
<td>16.4</td>
</tr>
<tr>
<td>Totals</td>
<td>7,476</td>
<td>100.0</td>
<td>970,388</td>
<td>100.0</td>
</tr>
</tbody>
</table>

G. OPTIONS AT RETIREMENT

Pension payments are frequently viewed in the sense of being life annuities paid to retirees via monthly instalments up to their deaths at which time the payments would cease. Were this the situation, it would prove to be very unsatisfactory in many cases where the retiree passed away a short while after retirement. For this reason, a retiree is frequently given a number of different options relating to the manner in which he may arrange his benefit payments. In Canada, the most popular of these options appear to be the following: life annuity with term certain; joint life and last survivor method; early or late retirement; disability; annuity certain; and, lump sum cash settlements.74

The life annuity with term certain method provides that the pension benefits will be definitely forthcoming for a specific number of years or the life of the retiree, whichever is longer. In Canada, this method usually calls for the pension payment for the retiree's life or a guaranteed period of five years, ten years or twenty years.75

Under the joint life and last survivor option, which essentially provides a death benefit to a widow if she outlives her husband, the pension will be paid during the joint lifetimes of the pensioner and a dependent who must be the nominated beneficiary and will continue after


75National Trust Company, 1st ed., p. 17.
the death of either of them for the remainder of the survivor's lifetime.\footnote{Lewis Hall and Basil Spurr, \textit{Elements of Insured Pension Plans in Canada}, 2nd ed., p. 36.} This feature is usually secured by a husband and wife with the benefit levels after the husband's death either at the same rate or at a reduced basis compared to the benefits received during the latter's lifetime.

An option made available only since 1952 has a direct relation to the Old Age Security payments made available to all qualified Canadians at age seventy. Under this option, called the notched option, a retiree is given the opportunity, where his normal retirement age is sixty-five, of securing a higher percentage of his retirement benefits for the five year period up to age seventy. At that time, his benefit levels will be reduced, but this reduction would be offset by the Old Age Pension available at that age.

A fourth option available to retirees is the so-called guaranteed return of contributions or refund life annuity approach. The approach, which attempts also to provide some type of death benefit for survivors of the retiree, is used to provide for those instances where the retiree dies soon after the commencement of his annuity and thus a long time before the original cost of the benefits has been recovered. It provides more security than the straight annuity but less than the period-certain approach. There are three alternatives available under this approach.\footnote{James A. Hamilton and Dorrance Bronson, \textit{Pensions}, p. 20.} The first provides for an immediate payment to a beneficiary upon the retiree's death of the difference between the
retiree's total contributions and the benefits he received up to his death. The second alternative is the instalment refund which is basically the same method as the cash refund except that the settlement upon the retiree's death will be made through instalment payments rather than in a lump sum. The third approach, which is the modified refund option, is the most prevalent of the three in Canada, and is similar to the other two approaches in that the settlement is payable either in a lump sum or in instalments. The amount payable, however, will be slightly less than the others in that it is calculated by deducting the total payments to the retiree, whether they represented both the contributions of the employer and the employee or of simply the employee from the total contributions made by the retiree during his employment.

Under the early retirement option, which is usually secured only with the employer's consent but which may be at the option of the employee, the employee is given full benefit of his and his employer's contributions up to the date of termination. The pension benefit, however, will be less than had the employee retired at normal retirement age because fewer contributions would have been made to the fund, thus earning less interest than expected. Then, too, the payments would probably have to be paid over a longer period than originally expected. Hence, the benefit is normally actuarially reduced, although a small minority of plans provide for the payment of the normal pension which would have been available at normal retirement.78

78 Ibid., p. 37.
The disability retirement option operates similar to the early retirement approach in that with a certain service period requirement, an employee may retire on a reduced pension. The amount of the reduction is not identical to the early retirement approach, however, in that the employee is given credit for a full paid-up annuity up to the period of disability retirement. In the case of early retirement, it was already noted, the benefit payments are normally actuarially reduced to account for the early retirement.

The annuity certain option does not appear to follow the normal pension concept. Under this approach, the funding media agrees only to bind itself to a certain number of annuity payments whether to the retiree or to a designated beneficiary. As such, should the retiree outlive the number of payments, the benefits cease and the retiree has no further claim relative to pension benefits under his private plan. Thus, this option does not follow the pattern of providing for a pension covering all the employee's retirement years in those cases where he outlines the term stated in the contract.

The final option available to the retiree under a private pension plan relates to a cash settlement in the form of a lump-sum payment at the employee's retirement. This, however, has never been a popular method for Canadian plans primarily because they were granted no special tax relief and because funding media strongly opposed lump-sum payments at retirement in lieu of some type of pension annuity.

Most of Canada's early plans contained some type of option. The Grand Trunk Railway Plan (1874), for example, allowed an early retirement

79 Ibid., p. 39.
benefit if the pension committee of the company so desired. Other plans for the most part contained privileges for retirement due to disability or provided for a death benefit if the employee died before retirement. It is noteworthy that soon after the turn of the century, more and more plans were turning their attention towards the provision of a widow's benefit and having it incorporated into the plan itself. As a result, the International Harvester Company (1908), Armour & Company (1911), Swift and Company (1916), and Canadian Industries Limited (1919) were among Canada's earliest plans to provide such benefits to widows.

The pension study undertaken by the Province of Ontario in 1929 indicated the presence in many Ontario plans of early retirement and disability retirement privileges. No mention was given, however, of the number of plans calling for widow's and dependent's benefits.

A plan covering Royal Canadian Mounted Police officers was revised in 1934 and thereafter required that the officers contribute to a special fund under their pension plan to provide extra payments to their widows and orphans.

The Queen's University Survey of Private Plans in Canada, conducted in 1937, indicated that most of the contributory plans among the one hundred twenty plans in its survey provided for refunds of employee contributions for death, early retirement, or disability retirement. In addition, many of the plans permitted postponed

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81 Labor Gazette, July, 1934, p. 635.
retirement privileges. Most of the insured plans among the sample allowed the employee an option as to the form of the pension annuity but required a decision from the employee at an average of five years before retirement was expected.  

Several plans introduced shortly after World War II by George Weston Limited (1946), Great Lakes Paper Company (1947), and the Montreal Star Publishing Company (1948), provided for early and postponed retirement and a death benefit which guaranteed payments for a minimum of five years to the retiree or his beneficiary.

There was considerable competition for pension business after World War II between insurance companies and trust companies. One of the principal areas of competition came in the design of such plans and it was here that many of the newer types of options were designed and developed. The Old Age Pension Program, which was implemented in 1952, gave impetus to the notched pension option which enabled a retiree to receive higher benefits between normal retirement and age seventy than afterwards. At age seventy, his lower private pension benefits would be supplemented by the commencement of the Old Age Pension. Likewise, the increased influence of labor unions in the pension area saw a liberalizing of the early retirement privilege so that many negotiated plans now gave the option to the employee rather than the employer.

82 Queen's University, Industrial Relations Section, A Survey of Canadian Retirement Plans, 1938, p. 12.

83 Gordon Milling, "Labour's Interest in Pension Planning," Pensions in Canada, ed. by Laurence E. Coward, p. 188.
In the late 1950's and early 1960's when the vesting issue was undergoing thorough evaluation, more and more attention was directed to the area of options available to employees. Professor Robert M. Clark, noted Canadian pension authority from the University of British Columbia, noted that the area of survivor benefits and dependent children warranted a higher priority at that time than any form of the proposed graduated pension for Canada then drawing considerable support. 84

The National Trust Company Study of 1961 indicated six different varieties of options available in the 157 plans included in the study. These included the following: annuity for life certain; life annuity with guaranteed return of contributions; life annuity with 3, 5, 6 or 10 years certain; and, life annuity with a widow's benefit. The breakdown by number of plans with these options is given below: 85

<table>
<thead>
<tr>
<th>Option</th>
<th>Number of Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Annuity Only</td>
<td>35</td>
</tr>
<tr>
<td>Life Annuity with guaranteed return of contributions</td>
<td>25</td>
</tr>
<tr>
<td>Life and three years guaranteed</td>
<td>8</td>
</tr>
<tr>
<td>Life and five years guaranteed</td>
<td>60</td>
</tr>
<tr>
<td>Life and six years guaranteed</td>
<td>1</td>
</tr>
<tr>
<td>Life and ten years guaranteed</td>
<td>12</td>
</tr>
<tr>
<td>Life and widow's benefit</td>
<td>12</td>
</tr>
<tr>
<td>Not specified</td>
<td>4</td>
</tr>
</tbody>
</table>

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84 Clark, _loc. cit._, Vol. II, p. 43.

85 National Trust Company, _loc. cit._, 2nd ed., p. 43.
In total, 15 plans provide for the payments of a widow's benefit, 6 have an orphans benefit, 152 plans call for an early retirement privilege and 98 provide for disability payments. These latter benefits are illustrated in Table 17.

The Pension Commission of Ontario in its 1963 Survey of Pensions in Ontario, stated that 5,675 out of 7,476 plans provided for benefit options of a term-certain variety. Thus, 3,098 (54.6 per cent) called for five years certain and 2,096 (36.9 per cent) called for ten years certain payments. The breakdown was as follows:

<table>
<thead>
<tr>
<th>Guarantee</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 years</td>
<td>46</td>
<td>0.8</td>
</tr>
<tr>
<td>5 years</td>
<td>3,098</td>
<td>54.6</td>
</tr>
<tr>
<td>6-9 years</td>
<td>380</td>
<td>6.7</td>
</tr>
<tr>
<td>10 years</td>
<td>2,096</td>
<td>36.9</td>
</tr>
<tr>
<td>11-20 years</td>
<td>13</td>
<td>0.2</td>
</tr>
<tr>
<td>No known</td>
<td>42</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><em>5,675</em></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Death benefits were provided in 6,911 plans where death occurred before retirement with 133 providing definite widow's benefits. Where death occurred after retirement, 6,997 plans provided some form of death benefits. However, only 114 had widow's benefits per se.

The tremendous impetus on adequacy of pension plans as indicated in the early 1960's in Canada led to considerable improvements in the

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TABLE 17
EARLY AND DISABILITY RETIREMENT BENEFITS
IN CANADIAN PENSION PLANS

<table>
<thead>
<tr>
<th>Early Retirement Benefits</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Pension</td>
<td>10</td>
<td>6.4</td>
</tr>
<tr>
<td>Money Purchase Basis</td>
<td>8</td>
<td>5.1</td>
</tr>
<tr>
<td>Actuarily Reduced Pension</td>
<td>57</td>
<td>36.3</td>
</tr>
<tr>
<td>Pension Reduced by a Percentage Each Month or Year by which Early Retirement precedes Normal Retirement</td>
<td>77</td>
<td>49.0</td>
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<tr>
<td>Not Specified</td>
<td>5</td>
<td>3.2</td>
</tr>
<tr>
<td>Totals</td>
<td>157</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disability Retirement Benefits</th>
<th>Number of Plans</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Pension</td>
<td>34</td>
<td>21.7</td>
</tr>
<tr>
<td>Money Purchase Basis</td>
<td>6</td>
<td>3.8</td>
</tr>
<tr>
<td>Uniform or Flat-Benefit Basis</td>
<td>10</td>
<td>6.4</td>
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<td>Actuarily Reduced Pension</td>
<td>19</td>
<td>12.1</td>
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<tr>
<td>Pension Reduced by a Percentage Each Month or Year by which Disability Retirement precedes Normal Retirement</td>
<td>29</td>
<td>18.5</td>
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<tr>
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<td>157</td>
<td>100.0</td>
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design and regulation of private pensions. The Federal Government-sponsored Canada Pension Plan even included a widow's benefit in its stipulations while the Ontario Pension Benefits Act required automatic vesting after the attainment of certain age and service requirements. In addition, the competition between the trust companies and the insurance companies has continued so that it may be expected that newer options will be made available in the future years as each administrator attempts to entice the many newly-implemented plans to find in their guardianship and administration the desired fulfillment of plans' objectives.

III. PARALLEL GROWTH OF PRIVATE PENSION PLANS IN THE UNITED STATES

While noting the developments in Canadian pension plans over the last several decades, it is quite interesting to note the trends which have become evident on the United States pension scene.

In the United States, the growth in private pension programs has been almost phenomenal since 1950. At that time, the assets of private plans amounted to just over fourteen billion dollars. By the end of 1964, the asset total reached seventy-seven billion dollars.\(^{87}\) It was estimated that the figure stood at ninety billion dollars at the end of 1966.\(^{88}\)

Unlike the situation in Canada, where employee deductions are tax deductible up to a maximum limit, United States employees are


allowed no tax concessions for contributions to private pension plans. Employers in the United States, on the other hand, do receive tax deductions for contributions to qualified pension plans. Hence, there is a greater tendency, in this country, for private pension plans to be of the non-contributory type.

In their continuing surveys on the status of employee retirement plans in the United States, the Bankers Trust Company reports that by 1965, the ratio of non-contributory to contributory pension plans was 1.7:1 which was up slightly from their 1955-1959 survey. This was quite different from the approximate 3:1 ratio of contributory to non-contributory plans as exists in Canada.

With regard to the other characteristics of pension programs in the United States, various studies have indicated a tendency for increased early retirement provisions, relatively strict adherence to normal retirement provisions, and higher benefit levels than in the past.

There has been more emphasis on improving vesting provisions in private plans in the United States. According to Department of Labor statistics from a survey of the largest pension plans in the United States, close to 60 per cent of the 9.7 million persons covered were eligible for full vesting before retirement. The

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Bankers Trust surveys show that, for both conventional and union-negotiated plans, the trend is definitely upwards as far as vesting is concerned. This was especially true in the latter case where over 94 per cent of such plans included in the 1965 Survey had vesting provisions compared with only 33 per cent in the 1952 Survey. Full vesting typically occurred at age forty after either ten or fifteen years service.92

Where eligibility for membership in pension plans in the United States is concerned, there appears to be a trend towards a liberalization of requirements. The Bankers Trust Survey of 1965 indicated that most union-negotiated pension plans called for automatic employee membership. On the other hand, conventional plans typically called for either the attainment of a certain age, the performance of a certain number of years service, or both. With regard to these requirements, one year of service and either the attainment of ages twenty-five or thirty were most popular.93

Pension benefits, as noted earlier, have been on the increase in the last two decades. The previously mentioned Bankers Trust Survey noted that for union-negotiated plans, there has been a trend towards the flat dollar benefits provided for each year of service and also towards extending the period of service utilized in determining benefits.

For conventional plans, benefit levels were increased. Pensions accrued on compensation levels in previous years were recomputed at

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93Ibid., p. 8.
current levels. In addition, many benefit formulas based on career average earnings saw adjustments in the form of minimum benefits based on average final earnings or in the form of a complete transfer of formulas from career average to final average compensation.\textsuperscript{94}

This Bankers Trust Survey has tended to confirm the statements of several pension experts in the late 1950's. They felt that there was a trend away from career average pension benefit programs in favor of final average plans.\textsuperscript{95}

The principal administrators of private pension plans in the United States have been trust companies or the trust departments of commercial banks. Life insurance companies have not been as important a factor in the pension market primarily for a number of reasons. Among these have been the tax situation relative to the investment of pension funds by insurance companies. Prior to 1959, the income earned by the funds were taxed to the life insurance companies. Hence, premiums to contributors of insured plans tended to be higher than similar plans of a trusteeed nature. In addition, the investment outlets available to life insurance companies have not been as broad as those available to trusteeed pension plans. A third reason for the lack of popularity of insured pensions versus trusteeed pensions has been the inflexibility in the design of insured plans.

The Bankers Trust Survey of 1965 indicated that for union-negotiated plans, ninety per cent utilized the trusteeed approach compared

\textsuperscript{94}Ibid., pp. 23-25.

\textsuperscript{95}James A. Hamilton and Dorrance Bronson, Pensions, p. 389.
with 79 per cent in the 1960 Survey. For conventional plans, the trusted approach was used in 72 per cent of the plans while another 16 per cent of the plans utilized a combination of the trusted and the insured approaches. 96

In noting the growth in this funding area, the trusted approach has been extremely important since 1950. The reserves of insured plans rose from 5.6 billion dollars in 1950 to 27.3 billion dollars in 1964. Trusted pension assets grew from 6.1 billion dollars to 58.1 billion dollars over the same period. 97

From this brief treatment of the recent growth in private pension plans in the United States, it can be seen that the growth parallels that of Canadian plans in many aspects. Only in a few cases are there any wide differences between the plans in each country. Probably the biggest difference is the prevalence of non-contributory plans in the United States compared with the Canadian situation where contributory plans are much more popular.

It should be noted during this brief look at United States pensions that many innovations introduced to pension plans in North America were first implemented in United States plans. Once successful, they found their way into the design of Canadian plans. The most important


of these include trusteed pooled plans for smaller pension programs, segregated accounts for insured pension plans, variable annuity programs for insured pensions, deposit administration funding, terminal funding and split funding. This shows once again the influence which pension happenings in the United States have on their Canadian counterparts.

IV. EMERGENCE OF PROVINCIAL INFLUENCE IN THE CANADIAN PENSION FIELD

In addition to the many trends which have been noted in the growth and development of private pension plans in Canada, there has been a marked trend whose influence in the future will reign heavy in the private area. That trend has been the entrance into the pension field from a regulatory viewpoint of various Provincial Governments. Their objectives have been to seek more assurance that adequate funding of private plans within their boundaries will be provided, that the plans provide regular financial reports to specified government agencies and that various characteristics attached to private pensions will be improved. The Province of Ontario, for example, is striving for better vesting and evidence of solvency for plans involving Ontario corporations or Ontario employees of foreign or alien corporations.

Some of this activity has resulted from the realization by the provinces that private plans could use much more regulations and guidance in order to best meet the objectives of employers and employees. Much of the impetus for provincial action, however, has come from a long drawn-out constitutional dispute between the authorities of a
number of provinces and the Federal Government concerning pension fund activities and regulatory jurisdiction.

According to Section 94A of the British North America Act, as noted earlier, the responsibility for supervision and direction of pension plans in the private sector of the Canadian economy rested with the Provincial Governments. For some decades, however, the Federal Government, through its various legislative amendments and registration requirements, was exerting more and more influence in this area. Since the end of World War II, Provincial Governments had sought to have more control in pension administration. That such activity has borne fruit is shown very positively through the passage of several provincial legislative acts directly relating to increased provincial control over private pension plans.

The provinces most active in this area have been Ontario, Quebec, Saskatchewan, Alberta, and Manitoba. In order to gain some insight into the breadth of such legislation and the degree of regulation exerted by each of the Provincial Governments, a brief explanation of their more important enactments is presented below:

2) The Quebec Pension Plan and Quebec Supplemental Pension Plan Act.
3) The Saskatchewan Employee Pension Plans Registration and Disclosure Act.
A. THE ONTARIO PENSION BENEFITS ACT

On April 7, 1960, Premier Leslie M. Frost of Ontario appointed a group of distinguished academicians and businessmen to a Commission which he termed the Ontario Committee on Portable Pensions. It was no secret, at the time, that Provincial Governments were far from pleased by the encroachment of the Federal Government in the private pension area. However, it was left to Ontario to set a precedent for provincial entry into the field. The Committee as designed by Premier Frost was to seek to accomplish the following four-fold objectives:

1) To extend and improve the benefits of pension plans.
2) To enhance the security of the funds on which pensions depend.
3) To stem the wastage of pension rights through job change by making pensions portable.
4) To remove one of the difficulties that faces older workers seeking employment—the cost of providing pensions for the older worker.98

Ontario felt it should be the leader in such a revolutionary event because it was the most important Canadian province in terms of population, industrial production, natural resources, financial resources, and also had the highest number of pension plans in effect at the time of the consideration of the matter.

An early draft of the Pension Bill was presented at the Conference of Provincial Premiers at Charlottetown, Prince Edward Island, in August, 1961, as part of a continuing attempt to keep other

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provincial governments informed in the field. Frost's successor, Premier John Robarts, showed a keen interest in the plan and made himself available to discuss at length the various proposals of the bill with the Committee. After much study, and with the support of his colleagues, he decided in 1962 to adopt a substantially revised version of the pension bill. Public hearings on the Bill were held by the Committee on Portable Pensions in September, 1962, and upon further revision, it was passed at the 1962-1963 session of the Legislative Assembly. The Bill was given First Reading in March, 1963, referred to a Special Committee of the Legislative Assembly and given Third and final Reading on April 26, 1963. It became Chapter 103 of the Ontario Statutes 1962-1963.99

Although it has been referred to sometimes as a provincial pension plan, the Ontario Pension Benefits Act is a regulatory measure and not a pension plan per se. In its simplest form, it makes the provision of minimum vested pensions compulsory for employees above the age of thirty who are members of pension plans and also requires certain standards of solvency. It does not oppose social security but rather it promises to lend support to further extensions to social security. It does not involve any taxation, subsidization or cross-subsidization. It was amended to conform with the Federally-administered Canada Pension Plan, which was implemented in January, 1966, it

is geared towards the preservation and strengthening of private pension plans as well as encouraging further capital formation through pension investments. 100

The Act and Regulations, as now in force, required all employees to register their plans, amended where required, with the Pension Commission of Ontario by January 1, 1965. Some of the other important aspects of the Act are as follows:

1) Private pension plans must provide a steadily increasing degree of portability of pension rights on termination of employment. Whenever an employee retires, after reaching age forty-five and completing at least ten years continuous service, he must be entitled to a deferred pension from the employer's pension plan. Both the employee's required contribution for service after January 1, 1965, and the corresponding employer contributions must be locked in the plan and vested to the credit of the terminating employee in order to provide the deferred pension arising under the plan's benefit formula for service after January 1, 1965. It is not a retroactive Act and, hence, does not affect pensions from promises or contributions already made under the pension plan prior to January 1, 1965.

2) The Act requires employers to fund liabilities by paying the current year cost of pensions for service in that year and amortizing any unfunded liability existing at January 1, 1965, over a period not more than twenty-five years. For plans which are not fully insured, any deficits in pension liabilities at January 1, 1965, or in the future must be amortized over a period not longer than five years.

3) Certain qualitative and quantitative restrictions are to be placed on the investment of uninsured pension plans, whether they were administered by corporate trustees, individual trustees, or in uninsured "segregated funds" of insurance companies. These restrictions took effect upon the issue of the Ontario Pension Benefits Regulation in August, 1964. 101

The permitted investments for those companies under the Ontario Act will have to fall within the realm of those investments allowed to insurance companies under the Canadian and British Life Insurance Companies Act. The following modifications, however, will be permitted:

1) There will no longer be any limitation on the percentage of stocks which may be held in the administrator's portfolio relative to the pension plans under his domain.

2) There will be no limitation on the percentage of income-producing real estate which may be held in the name of the pension plan.

3) The fund's investment portfolio may consist of up to seven per cent of its book value in investments which are ineligible under the Canadian and British Life Insurance Companies Act. Any investments which at any time since their acquisition were deemed ineligible under the Act may be held in addition to the "seven per cent clause" if ineligible anytime thereafter. Real estate investments included in the "seven per cent" basket purchased for the production of income are limited to Canadian sources. In any case, a single parcel of real estate or any one leasehold investment must not exceed one-half of one per cent of the book value of the fund.

4) Any investment in the stock or debt of a single corporation shall be limited to no more than ten per cent of the book value of the fund.102

Any pension fund whose investments at the time of the passage of the Regulation did not conform with these new provisions were required to bring the plan into conformity before the fiscal year end of the plan which ends in 1970. Those pension plans established after the Regulation was passed, however, must meet the requirements of the Regulation immediately with regard to contributions, dividends, interest, and portfolio changes.

The Act also required the submission of an annual information return to the Pension Commission of Ontario which will be responsible for administrating the Act. Included in the report would be an outline of the financial operations of the plan for the past fiscal year showing such things as the amount of contributions paid for current service benefits, adjustments to financial statements to pay off any unfunded liabilities of the plan, a breakdown of the investment portfolio of the plan by categories and a statistical analysis of the plan members.103

In May, 1965, further legislation was introduced in the Ontario Legislature under the heading of "Ontario Pension Benefits Act—1965". This Act, succeeding the Pension Benefits Act of 1962-1963, had been drafted in cooperation with pension commission representatives of all Canadian provinces and the Federal Government.

The new Act is expected to serve as a "model" for uniform pension legislation that would provide portability, uniform vesting formulas, locking-in of employer contributions and the solvency of pension plans. It also provides for reciprocal agreements between provinces regarding registration, inspection, and the audit of plans across Canada and delegation of certain powers and authority to other provinces. The Bill amends certain sections of the existing Act, though the purpose of the original Act will not change. The amendments made were done so in order to plug certain loopholes and to clarify other sections.

103 Ibid., p. 877.
In brief, the four principal amendments were:

1) The repeal of the regulation that every employer with fifteen or more full-time employees in Ontario must establish a plan if they do not already have one.

2) The vesting, disclosure, and reporting requirements now apply to every plan covering Ontario employees regardless of the size of the group.

3) For plans established on or after January 1, 1965, the employer must file a copy of the plan with the Pension Commission for registration on or before January 1, 1965, or within sixty days of the establishment of the plan.

4) The vesting requirement of the 1962-1963 Act has been extended. If a plan is started or amended after January 1, 1965, all benefits under the new plan or the amendment must be portable after age forty-five and ten years service even if some of the benefits relate to service before January 1, 1965. 104

B. THE QUEBEC PENSION PLAN AND SUPPLEMENTARY PENSION PLANS ACT

In 1960, when it appeared almost a certainty that the Federal Government intended to seriously consider establishing a universal public pension plan along the lines of the Old Age Survivors and Disability Insurance Program in the United States, Premier Jean Lesage of the Province of Quebec, which was then in the throes of a Provincial election, decided to include in his party's platform a clause calling for a Quebec Pension Plan which would supersede any Federal program in that province. In addition, due consideration was to be given to the establishment of rules and regulations relative to the operation of private plans within the boundaries of that province.

Once re-elected, Lesage appointed a pension committee in 1961 to study ways and means of introducing a pension plan administered by the Quebec Government with such a plan relieving the province of any connection with the proposed Canada Pension Plan. At the same time, such a provincial plan would serve to reinforce any existing private plans in the province. The legislation would also provide for increased regulation of private plans through tighter vesting, solvency, and actuarial requirements than those presently in effect.

The Committee submitted its first report to the Quebec Government on July 8, 1963. A bill introducing the proposed plan was introduced in the Quebec Legislature in August of the same year. At this latter presentation, the following motion was adopted by the Legislature:
"It is expedient for the Legislature of the Province of Quebec to pass as soon as possible an act to establish a public and universal retirement fund based on actuarial calculations and on contributions." \(^{105}\)

Work on the plan continued until early 1964 at which time the Quebec Pension Plan Study Committee finished its research and submitted its report to the Government. The report comprised the draft of a pension plan for Quebec, recommendations concerning the investment of the reserve funds that would be accumulated through the plan, and various other recommendations dealing with private pension plans. \(^{106}\)

On June 17, 1964, the Quebec Legislative Assembly passed a resolution

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\(^{105}\) Jean Lesage, "The Quebec Pension Plan," *Pensions in Canada*, p. 11.

describing a modified Quebec Pension Plan and a resolution that a supplementary pension plans act be instituted which would function similar to the Ontario Pension Benefits Act.

The Quebec Pension Plan as passed in June, 1964 and scheduled to commence operations in conjunction with the Canada Pension Plan on January 1, 1966, called for the following stipulations:

1) All persons earning over one thousand dollars a year would be required to contribute to a provincial pension plan (including the self employed.)

2) Employees between eighteen and sixty-five years of age would contribute two per cent of their annual earnings from one thousand dollars to six thousand dollars.

3) Each employer would pay an equal amount (two per cent) while the self employed would be required to contribute the full four per cent of earnings between one thousand dollars and six thousand dollars.

4) All benefits would be payable at age sixty-five with no earnings or retirement tests necessary. Such benefits would be twenty-five per cent of the first six thousand dollars of annual earnings.

5) Inasmuch as contributions are to be based on earnings which exclude the first one thousand dollars whereas the pension is based on all earnings, the lower paid contributor pays a lower percentage of his earnings than does a contributor with higher earnings and gets a larger pension for each dollar paid.

6) Full pensions would be payable to retirees by 1986. Any person retiring before that date would receive a fractional portion of the full pension. For example, a person retiring in 1968 would get three-twentieths of the full pension in that year. As each succeeding year brings the time closer to 1986, the fractional share of the full pension would increase by one-twentieth per year till the full pension date arrives in 1986.
7) Adjustments are to be made to contribution and benefit levels from time to time to reflect cost of living changes up to a maximum of two per cent a year.

8) Administration of the Plan would be in the hands of the Quebec Pension Board, an agency created for this purpose by the Quebec Government.107

The Quebec Supplemental Pension Plan Act was passed in 1965 and serves as the Quebec equivalent of the Ontario Pension Benefits Act. Its function is to provide for the supervision and control of all private plans in the province. Like the Quebec Pension Plan, the administration of the Act is with the Quebec Pension Board which has been entrusted with the additional power of placing any private plan in Quebec under its trusteeship if there were some indication that the interests of the beneficiaries were being jeopardized.

The Act gave the Pension Board the full power to administer its terms. Among the more important of these were the following:

1) If a private pension plan was to be held as being in force in the province, it had to be registered with the Pension Board and certified to be in compliance with the Act's standards.

2) Once a plan is registered, there shall be no amendment made to it without the consent of the Board.

3) If the plan measures up to the Act's standards relative to contributions and benefit formulas; methods and factors for computing pension credits, pensions, and deferred annuities; qualitative and quantitative investment restrictions and adequate solvency measures, the Board will issue a registration certificate indicating that the plan is in force.

4) All plans must include a stipulation for provision to every member a written explanation of the important

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provisions of the plan along with instructions as to the rights and duties of each member under the plan.

5) Private plans must provide for normal retirement of employees at no later than age seventy.

6) No plans may be amended to coordinate themselves with the conditions of the Government pension plans if the result was a reduction in the benefits of any member in respect to service prior to January 1, 1966.

7) All plans shall contractually provide that a member upon termination of his employment or his membership in the plan has attained the age of forty-five years but has reached normal retirement age, is entitled to a deferred annuity if he has completed ten years continuous service with his employer or has had ten years service under the plan.

8) The deferred annuity cannot be paid in any other form during the lifetime of the employee.

9) Investments of the plans covered under the Act shall be limited to those allowed insurance companies under the Canadian and British Insurance Companies Act except as to those modifications which may be permitted by the Pension Board.

10) The Pension Board may inflict penalties stated in the Act on those plans not complying with the terms of the Act.108

C. THE SASKATCHEWAN PENSION PLAN
REGISTRATION AND DISCLOSURE ACT OF 1961

In 1961, the Provincial Government of Saskatchewan enacted a legislative act designed to force the disclosure of additional pertinent information concerning the status of pension plans in that province. Like the Ontario Pension Benefits Act (which was then close to enactment) the Saskatchewan Act was designed not as a pension plan per se,

108 Province of Quebec, Supplemental Pension Plans Act, 1965, Section 6, pp. 3-4.
but as an informatory act aimed along the lines of stricter solvency requirements and fuller disclosure of information relative to the pension plan. As an overseer of the Act, an advisory committee was established to review the statistical data produced by the Act and to recommend appropriate legislation to fill any gaps in the pension coverage of Saskatchewan citizens.

The Act, as passed by the Saskatchewan Legislature in 1961, decided against enforcing minimum probability requirements as are requirements of the Ontario counterpart. The solvency and reporting requirements, however, meant that the information disclosed on Saskatchewan pension plans would be greatly improved over former practices.

The regulations of the Act, which were updated in 1964, require that the information submitted to the Government in the year of establishment of the plan must follow a form entitled "R-1." Each subsequent year, the form used must be an "AR-1." 109

The R-1 Form requires the disclosure of the following information: the name of the plan and the administrator; highlights of the plan; its provisions; method of funding; whether the plan has been registered for income tax purposes; how the administration of the plan will be handled; the names of consulting actuaries and auditors; and a copy of the plan and any other applicable agreement filled with the company.

The AR-1 Form requires a breakdown of plan members by age, sex, and full or part-time status; the number of retired employees (classified as to the reason for retirement and the amount of the pension);

the number of employees who terminated and whether they took cash or a deferred pension; amounts of contributions by employer and employee; the assets, receipts, and disbursements of the fund and a copy of the latest actuarial valuation for the fund if such a valuation is available. This form also provides information on unfunded, pay-as-you-go and terminally funded plans.

D. THE ALBERTA PENSION BENEFITS ACT

The Act was passed in the Alberta Legislature on April 15, 1966 and went into force on January 1, 1967. It was designed to fulfill a three-fold objective. The first was to protect members of private pension plans in Alberta by ensuring that their pension plans are solvent. The second was to provide for the portability of pension rights when employees change jobs. The third was to require employers to provide employees with adequate information about their pension programs.110

The Act provides for the locking-in and vesting of benefits along the lines of Quebec and Ontario.

Among its more important stipulations were the following:

1) Compulsory registration of all private pension plans in operation on January 1, 1967.

2) Compulsory registration of all private pension plans formed on or after January 1, 1967 within sixty days of formation.

3) Full vesting of employer contributions at age forty-five following ten years service with the company or under the plan, whichever comes first.

4) Full disclosure of all material information concerning the plan to employees.

5) Requirement that all plans provide at least some limited rights of withdrawal of benefits before retirement.

E. THE MANITOBA PENSION BOARD ACT

This province followed closely the course set by Ontario and sought to strengthen the solvency rules relative to private plans within its jurisdictional boundaries. In this regard, the Government introduced in the Legislature a pension measure referred to as Bill 107. This was introduced in early 1964 and received second reading in the fall of that year. It was then referred to the Standing Committee of the Legislature which then held public meetings on the Bill. It was due for presentation again in 1966 at which time it was again deferred to the future.

The Act, as proposed, would require all presently outstanding pension plans in Manitoba to register with the Lieutenant-Governor of Manitoba in order that the plan be investigated before a certificate of registration was granted by the province. In order for new plans to qualify for registration, they would have to meet solvency tests, provide full vesting after age forty-five and ten years service with a firm, and have the pension benefit payments begin at no later than age seventy. An added qualification of the Regulation states that the employee is to have the right upon termination of employment to withdraw in cash up to twenty-five per cent of the value of his pension at that time. In addition, a full explanation of the plan would

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have to be given to employees and the plan would have to allow for the transfer of pension benefits from another plan into the employee's new plan to provide him with additional benefits not previously transferable from plan to plan. Finally, all pensions would be non-assignable and non-commutable.

A pension board appointed by the Lieutenant-Governor would reserve the right to approve any changes in the provisions of any plans and such provisions would not be ratified if the changes were to depart from the requirements of the Act. Furthermore, no plan could be terminated without Board Approval and even then only upon condition that adequate provision be made to continue the rights of all pensioners under some other plan or under the supervision of the Board. Employees could also deposit with the Board any amounts which they have withdrawn from whence the Board would provide the employee with a deferred pension or transfer the amount to a plan in which the employee ultimately becomes a member. The Board would also have the authority to order the transfer of pension benefits from one plan to another.

Any plans existing at the time of the passage of the legislation would not be affected directly by the new rules (except for registration of the plans and the submission of annual information returns). Amendments to the plans, however, would require approval and the Pension Board would have wide powers to bring these plans closer to compliance with the provisions affecting new plans.

The aforementioned information returns would have to be filed with the Board before April 1 of each year. The Board would also maintain considerable discretion in regulating the disclosure of information
as to the terms and conditions of the plans as well as the information to be included in these reports.

IV. SUMMARY

Private pension plans typically are classified in terms of their administrators. As such, there are four types of plans commonly in use: insured, trustees, combination plans and unfunded, pay-as-you-go plans. Of these, the most important are insured and trustees plans.

Insured plans have grown considerably since 1940 when best estimates show that there were 334 insured plans in Canada. The Pension Plan Survey released by the Dominion Bureau of Statistics in late 1965 indicates that as of December 31, 1964, there were 10,048 such plans in operation throughout the Dominion. Accompanying this growth has been an increase in the variety of plans made available to employees as outlets for their pension accumulations. In the early 1950's came the introduction of deposit administration, terminal funding, and split funding. In the early 1960's came the implementation of segregated account plans and more emphasis on variable annuities benefit plans as insurance companies sought to curtail the inroads of pooled funds of trust companies in the pension area.

Trust companies emerged from World War II in an excellent competitive position in that no longer were these companies or the contributions taxed immediately for current earnings of the fund. Now such earnings were to be taxed to the retiree at the time he drew his benefit payments. Consequently, trust companies began to actively
seek pension fund business because of its unlimited growth potential. From 1953 to 1957, the number of trustee plans in Canada doubled from 266 to 548. Trust companies introduced pooled pension plans in 1956 and the results have been extremely rewarding. Trusteed plans grew from less than 500 at the end of 1956 to 1,140 in 1960 and to 2,119 by the beginning of 1965. In terms of employees covered under trustee plans, the trend is also definitely upward inasmuch as coverage advanced from less than 800,000 in 1956 to over 1,330,000 in 1964.

Not much information is available on the number of composite pension plans in operation in 1965. In the DBS Survey on the non-financial aspects of private plans in Canada conducted in 1960, however, it was noted that 480 of the 8,920 private plans reported were of this classification. The Pension Study conducted by the National Trust Company and published in 1961 indicated that 42 of the 157 plans covered in the Study were combination plans. It may be inferred that the total number of pension plans covered in the Dominion Bureau of Statistics surveys contain among the insured and trustee plans a considerable number of these combination-type plans. The introduction of split funding no doubt added to the number of such plans.

Unfunded plans have never been too popular in Canada due undoubtedly to the liberal tax advantages available to employer and employee contributions to registered plans as approved by the Minister of Finance.
No thorough studies have yet been made on the number of such plans in Canada as a whole, although the National Trust indicated that among the 157 plans in the 1961 Study, two were unfunded. In addition, the Pension Commission of Ontario stated that 98 of 7,476 plans in operation in Ontario at September 1, 1963 were of this unfunded type plans.

In Canada, the most popular form of funding since World War II and especially in the last decade has been advance funding. This method, which is based on a defined-benefit formula, is found primarily in insured and trusteed plans. Group annuity insured pension plans have increased in numbers by more than 60 per cent in the four-year period, 1960 to 1964. Likewise, trusteed plans increased in numbers by almost 92 per cent in the same four-year period. This latter increase is no doubt due to the continued popularity of the pooled pension concept for the plans of smaller companies. The Government Annuity pension program continued its downward trend in the first half of the 1960's as the number of plans diminished from 1,556 in 1960 to 1,312 plans at the end of December, 1964. This could be traced, in part, to the de-emphasizing of private pension programs because of the obvious conflict with the other private funding media which, after World War II, came of age.

Of the three most notable funding innovations during the 1950's--deposit administration, terminal funding, and split funding--only the split funding approach has had better than moderate success. This was
due to its being a variation of two funding methods already well accepted in Canada. Deposit administration seems more adaptable to a non-contributory plans which was strictly in the minority in Canada and terminal funding has run into much opposition in those provinces requiring improved solvency stipulations under the uniform provincial private pension acts. These latter acts have been growing in prominence in the 1960's spurred on by the passage of the Ontario Pension Benefits Act in 1964 and the Quebec Supplemental Pension Plan Act in 1965.

Eligibility requirements for entry into pension plans have tended to become more and more liberal in the last few decades. This situation was no doubt fostered in World War II when more and more private pension plans were introduced in an effort to uncover a means of remunerating employees on some deferred basis in order to circumvent the wage-freezing policies of the Canadian Government. Whereas early plans in Canada set minimum age requirements at age thirty or higher and maximum age requirements at age forty-five or less, the trend has been towards a more liberal approach to these extremes. In addition, the requirements relative to the number of years service under the employer before inclusion under the pension plan is permitted to the employee has been considerably eased. For example, out of 2,516 plans with a service requirement included in the 1960 DBS Survey of 8,920 plans, 88 per cent allowed entrance into a plan within three years. Similarly, the National Trust Study of
1961 and the Pension Commission of Ontario Survey in 1963 indicated
the same percentage of plans with service requirements falling within
the three-year period.

Where a minimum age was the only requirement as in 211 of the
plans in the DBS Study of 1960, 86.3 per cent set the age at twenty-
five years of age or less. Sixty-one per cent of the plans in the
National Trust Study of 1961 which have minimum age requirements
set at twenty-five years of age or less. Finally, the Pension Com-
mmission of Ontario Survey had 3,817 plans with a minimum age require-
ment and 74 per cent of these set three years or less as the standard.

The maximum age requirement has likewise been improved consid-
erably over the past few decades. This no doubt has been fostered
by the implementation of the Old Age Pension Program which has pro-
vided a minimum pension benefit to Canadians aged seventy and over
since 1952. Hence, the stigma of retiring employees with little or
no pension following their late entrance into the employer's plan
has been eased somewhat. The DBS Survey in 1960 contained 132 plans
with a maximum age requirement, and 39 per cent favored fifty-five
years of age as the standard. Sixty-three per cent allowed ages of
fifty-five and above as the maximum. The National Trust Survey
showed that of fifty plans with a maximum age standard in its Survey,
forty-three set fifty-five years or above as the maximum. In the
Pension Commission of Ontario Study of 1963, 5,012 plans called for
a maximum age requirement of which 4,329 (87 per cent) set the age
at fifty-five years or over, with 119 setting age seventy as the standard.

The Pension Commission of Ontario had a further breakdown of its plan requirements in terms of minimum and maximum age and years of service incorporated into single plans. Where these were present, 34 per cent of the 2,222 plans concerned called for either one or two years service, set the minimum age at twenty-one or twenty-five and allowed a maximum entrance age from fifty to fifty-nine.

It can be seen, then, that the various eligibility requirements for Canadian private plans have been eased considerably over the years so that they stand now at extremely praiseworthy levels. That they have been successful in increasing the number of employees covered under Canadian plans can be noted by simply referring to statistics compiled by the Dominion Bureau of Statistics in 1949 on coverage under Canadian plans as of the end of 1947. At that time, only 40 per cent of all those employees in firms with pension plans were covered under the plans. At the end of 1960, however, a further DBS Survey indicated that approximately 68 per cent of the employees in firms with plans were covered. This compared very favorably with Ontario plans as indicated in the Pension Commission Survey of 1963 where 70 per cent of Ontario employees in firms with pension plans were covered under its terms.

While increased coverage may be due to more plans covered under the different surveys depending on the specific years, the figures do
indicate that liberalized eligibility requirements may have been a major factor.

The trend in the benefit structure of private pension plans in Canada has been towards attempts to give the retiree a pension which incorporates his highest earnings years and at the same time, tries to allow for the shrinkage in purchasing power of fixed pensions due to rising price levels.

In early plans in Canada, the formulas usually adopted covered either the final earnings level of the retiree or an average of the last five to ten years earnings of the retiree. Canada's first private plan, the Grand Trunk Railway Plan (1874) had its benefit schedule based on the earnings of the employee during his final year of employment prior to retirement. Subsequent plans in the early decades of the twentieth century had benefit structures based on either the final earnings figure or an average of a certain number of years prior to retirement. Plans of the Canadian Pacific Railway, Armour and Company, International Harvester and the Ontario Hydro Electric Power Commission were of this type.

Following the Depression, however, more contributory plans developed and with this development came a more important bargaining position relative to pension benefit structures. This brought on an influx of career average plans.

With World War II came a gigantic rise in the number of plans in operation. There also emerged a considerably strengthened labor union position relative to the design of benefit structures.
Favoring the defined-contribution approach, labor unions were instrumental in the increased number of money purchase plans in operation. By 1958, this benefit formula was present specifically in approximately 24 per cent of all private plans and in combination with unit benefit formulas in another 5 per cent of private plans.

The 1960 DBS Survey of the non-financial aspects of private plans in Canada indicated that the money purchase and the career average formulas were present in almost seven-eighths of the 8,920 plans covered under their study. Such formulas, however, covered only 28 per cent of the employees in private plans at that date. It appeared that the plans basing benefit structures on final or average final earnings, while only present in 4 per cent of the plans, nevertheless covered close to half the employees under private pension plans in Canada.

The 1963 Study by the Pension Commission of Ontario bore out these figures in that of the 7,476 private plans in operation in that province in 1963, over three-quarters were of the money purchase or the career average classifications. Just as in the DBS Study, however, the coverage of employees were covered by the benefit formulas. In the case of money purchase plans alone, these accounted for close to half of all the plans in operation in the province, but covered only 6 per cent of the employees in private plans at that time.

Within the last decade, more and more attention has been focused on the purchasing power relative to private pensions with the result that there has been a considerable increase in activity in pooled
pensions where plans are divided in terms of investments (i.e., debt, equity, etc.), variable annuities, segregated insured accounts, and cost-of-living adjustment plans. Each is designed to protect in some way the purchasing power of a fixed pension payment.

The amount of the pension benefit has also been considerably improved upon in Canadian plans. Benefits of today are a far cry from the limited amounts available in early plans. The Grand Trunk Plan (1874), for example, provided for a monthly benefit payment equal to only one-sixtieth of the employee’s final earnings adjusted for the number of years membership under the plan. The Ontario Survey of 1928 indicated that the average formula provided for a benefit of 1 to 1/2 per cent of the average final earnings of the employee adjusted for the number of years service.

The National Trust Company Survey of 1961 indicated that in seventy-one of the eighty-three plans on which the pension was based on a career-average formula, the monthly benefit level was set at 1½ per cent or more of such earnings for each year of service. Likewise, in flat benefit plans, thirteen of nineteen such plans called for a monthly benefit of two dollars or more for each year of service. In the Ontario Survey of 1963, 1,909 of the 2,292 career-average plans provided for monthly benefits of 1½ per cent or higher for each year of accredited service.

In Canada’s early plans, the majority were of a contributory nature. This was due in part to the nature of their administration which was either from England where contributory plans were quite prominent or were designed along the lines of English plans although
administered in Canada. With the turn of the century, however, as the larger corporations introduced plans, the trend drifted towards the non-contributory type arrangement. This continued up to the Depression of the 1930's.

A further reason for this trend towards contributory plans stems from the very favorable income tax legislation afforded employer and employee contributions to pension plans in Canada. Unlike the situation in the United States where employee pension contributions are not deductible when made, employees in Canada are permitted tax deductions up to $1,500 a year for current or future service contributions to private pension plans. A further $1,500 is permitted for lump-sum contributions to cover past service when the employee was not a member of the pension plan. Only upon retirement is the employee taxed on his pension program, provided he stays within the required maximum contribution limits while he is an employee.

In what limited information is available on the formulas in vogue up to this period, indications are that the employer matched the employees' contributions. This was borne out in the Queen's University Survey of private plans in Canada in 1937.

Following the Depression, the trend in the type of plan favored the contributory type. Employers, having realized trying financial experiences in the early 1930's, did not look forward to future problems relative to pensions. Thus, a trend which lasted into the 1960's has seen three out of four private plans assume this contributory formula. The increased influence of labor unions since the late 1940's has been the main driving force towards the newer non-contributory plans. On
the whole, though, their influence has been less than hoped for in view of the number of Canadian subsidiaries of U.S. corporations with consequent international union connections.

Another trend which has continued since the early days of Canadian private plans has been the relationship between employer contributions and those of the employee. Just as in the case in the Queen's University Study in 1937, the more recent surveys on non-financial statistics of private plans in Canada indicate that the contributions of employers and employees are for the most part matched on a fifty-fifty basis. Thus, in the Ontario Study of 1963, 89 per cent of the 3,155 money purchase plans saw matched contributions by each of the principals involved. Likewise, 80 per cent of the money purchase plans covered in the National Trust Company Study of 1961 saw matched contributions.

The contribution formulas appear to have been adjusted to conform with the higher level of benefits generally made available by most plans in Canada. Thus, the most popular contribution formula now sees 5 per cent to 6 per cent accounting for most formulas. For money purchase plans in the National Trust Company Study and the Pension Commission of Ontario Study, the percentage of plans with the contributions by the employers and employees falling within these limits were 80 per cent and 93 per cent respectively. The other plans, career-average and final-average, which have generally been in operation for longer than money purchase plans have lower percentages in each class. The Ontario Study which covered more plans in each category showed percentages of 74 per cent of career-average
plans in this grouping and 55 per cent of the final or average final plans between 5 and 6 per cent.

The normal retirement age of employees in Canadian pension plans had typically been sixty-five years of age for males while that for females has been increasing over the last few decades from fifty-five years up to the current level of close to or equal to that of the males.

Plans typically call for early retirement for ill health or for disability, a normal retirement age and a postponed retirement age. The early retirement has historically been set at a maximum of ten years before normal retirement and the privilege has been based on the attainment of a certain age and the accomplishment of a certain number of years. Some plans require only one or the other of these requirements. Early retirement ages in most Canadian plans are now based on attainment of ages fifty to fifty-five and ten to twenty years service, the accomplishment of fifteen years service, or the simple attainment of age fifty-five.

Normal retirement age has undergone a re-evaluation over the years such that the age for males, while averaging close to sixty-five years of age in the past, has now seen more and more plans select that definite age.

More and more plans in Canada have also adopted a postponed retirement age wherein an employee at his discretion upon reaching normal retirement age could remain employed until the attainment of the postponed age. At that time, however, the retirement usually becomes compulsory and at the discretion of the company. In Canadian private
plans this postponed retirement age has usually been set at seventy years of age, due no doubt to the requirement that Old Age Security payments now commence to retirees at age seventy. This latter age will gradually diminish over the next few years in accordance with the terms of the new Canada Pension Plan. That Plan provides that a universal public pension plan will become available in Canada after January 1, 1966, and that the present Old Age Security Program will set a lowering in the commencement age over a short period of time from seventy years of age to sixty-five years.

The benefits granted at early retirement is usually determined on the basis of two formulas. One involves an actuarial reduction in the benefit level which would have been paid at normal retirement due to the employee's failure to remain employed to the normal age. The other plan formula provides for the payment of the normal pension that would have been payable at the normal retirement age. Disability benefits are usually based on an actuarially reduced formula. The benefits allowed in postponed retirement situations is typically the benefit which would have been paid at normal retirement, although some plans allow a larger benefit if the employee made contributions during the years after normal retirement but in advance of the postponed retirement date.

In Canadian private pension plans the vesting privilege has been a very important issue in recent decades. Early plans typically provided some vesting if it were a contributory plan but none where the plan was of a non-contributory nature. The growth of labor unions changed the trend somewhat in that where plans were of the negotiated
non-contributory type, employees were given a vested right to the em­
ployer contributions under certain conditions. The benefit in most
cases, however, was not payable to the terminating employee immediately
but rather took the format of a deferred annuity payable by the company
at the normal retirement age of the employee.

The Ives Commission Report presented to the House of Commons in
1945 was instrumental in improving this vesting aspect of private plans.
That Commission suggested a continuing level of supervision by regula­
tory bodies over the conditions and stipulations attached to private
pension plans. A direct result of this recommendation was the pub­
lication by the Minister of Finance of rules and regulations to be met
by companies if their pension plans were to qualify for special income
tax deductions. Among the regulations was a directive that full vest­
ing in the form of a deferred annuity had to be permitted to employees
under the plan following the attainment of age fifty and the accomplish­
ment of twenty years service under the plan. Failure to grant such
vesting would disqualify the particular plan from the special tax treat­
ment usually afforded private pension plan contributions.

These rules and regulations, referred to as the "Blue Book of
Pension Regulations" resulted in much disagreement, however, in that
it allowed the Minister of Finance considerable discretion in the inter­
pretation of its terms. Thus, in 1956, it was temporarily withdrawn in
order to be updated in view of the new tax regulations and overall
features of private plans. The revision was issued in 1959 as Infor­
mation Bulletin #14 of the Department of Finance. It lacked any men­
tion of vesting requirements, however, and proved to be relatively un­
popular and was permanently withdrawn in 1960.
During the decade of the 1950's, vesting was improved considerably in many plans. Industry plans, for example, were established in several trades and covered various cities providing not only vesting privileges but also a degree of pension portability.

During the first half of the 1960's, the vesting issue became an extremely important issue in provincial pension legislation. The Ontario Pension Benefits Act specifically required it in private plans for Ontario, other provinces have had continuing studies on the advisability of issuing similar legislation of this type in their own provinces.

An indication of the improving situation in Canada relative to vesting may be drawn from the DBS 1960 Study on non-financial aspects of private plans. Of the 8,920 plans included in that Study, 8,590 had some type of vesting. Thirty-three per cent had only a service requirement of which the most popular was twenty years. This latter situation covered 41 per cent of the workers. Twenty-nine per cent provided for immediate vesting, while 26 per cent based the requirement on participation in the plan. In this latter case, twenty years was also the most prominent experience. The figures were confirmed to a considerable degree by the National Trust Company Pension Study of 1961.

The Study of the Ontario Pension Commission in 1963 indicated that the vesting privilege was more prominent in Ontario plans than in Canada as a whole. This should follow through in terms of the preparations by many Ontario firms for compliance with the terms of the Ontario Pension Benefits Act.
Private plans in Canada typically provide retirees with a number of options concerning the formula for disposition of their pension benefits at retirement. Among the most important are life annuity with term certain, joint life and last survivor method, notched pensions, guaranteed return of contributions, early, postponed retirement or disability retirement, annuity for a certain term and lump sum cash settlements.

The earliest private plans in Canada usually had clauses relating to early retirement or disability retirement provisions. The 1929 Study by the Ontario Government confirmed this situation. The Pension Study of Queen's University in 1937 indicated the presence of stipulations in many plans for the return of contributions upon death, early retirement, or disability retirement. In addition, many plans called for postponed retirement at the option of either the employer or the employee. That Study also found that in most insured plans there was an option relative to the type of annuity desired at retirement. Most of these plans called for a decision by the employee up to five years before expected retirement.

Following World War II, the trend towards provision of special options for retirees relative to the manner in which they were to receive their benefits. The early emphasis at this time was towards the provision of benefits on the basis of life annuities with time certain. The most common period for guaranteed payments was five years.

With the passage of the Old Age Security Act in 1952, the entrance of the notched option approach was noted. This was a method
designed to enable a retiree to adjust his benefits such that they were higher between his retirement age and age seventy than after age seventy when the Old Age Security payments would begin. This method may lose its appeal after 1970 when, by the terms of the newly-implemented Canada Pension Plan, old age benefits will be made available at age sixty-five at that time. This would indicate that the need for notching pension benefits will not be imperative after that date.

Studies undertaken in the early 1960's indicate that options are available in the greater majority of private plans. The National Trust Company Study in 1961 showed that six different types of options were available to the private plans covered in its Survey. Of these, the guarantee of at least five years' benefits was most popular, being present in 60 plans out of 157 covered. Only 35 plans called for the payment of a life annuity. One hundred forty-eight plans provided early retirement options; 112 plans had a postponed retirement option and 98 plans provided for disability privileges. The Ontario Pension Commission Study of 1963 indicated that a number of options were available to retirees and that the most popular was the life annuity with term certain. This was available in 5,675 of 7,476 plans. A five year minimum guarantee was present in 3,098 plans and a ten year guarantee in 2,096 plans. Death benefits were available in 6,911 plans where death occurred prior to retirement and in 6,997 plans where death occurred after retirement. Widow's benefits, however, were available in only 133 plans if death was
before retirement and in 11\(\frac{1}{4}\) if death came after retirement. In
the National Trust Company Study only fifteen plans called for
widows' benefits before retirement and only twelve plans called
specifically for widows' benefits, although the guaranteed term
annuity plans might provide the same purpose where death occurred
before the guaranteed term expired.

This latter situation relative to widows' benefits has led
to considerable study over the past five years. An indication that
positive steps are being taken can be noted from the presence in the
Canada Pension Plan of widows' benefits for all eligible widows under
the Federal pension requirements.

While there has been a considerable increase in the use of pen­
sion plans in Canada, the growth of such plans in the United States
has been close to phenomenal. Assets of private plans by the end of
1966 reached almost $90,000,000,000.

In viewing the characteristics of United States plans, one finds
that over the last two decades, the trend towards non-contributory plans
has continued upwards, more plans provide for early retirement, and
rather strict adherence has been placed on compulsory normal retirement.

In addition, benefit formulas have tended to adhere more and more
to final earnings or average final earnings schedules. Contribution
premiums to insured plans have been decreased due to special tax con­
cessions on pension fund investments by insurance companies.

Vesting has been considerably improved upon as have eligibility
requirements for membership into private plans.
During the decade of the 1950's, there was considerable controversy in Canada concerning the extent to which the Federal Government became involved in the private pension area. It was held by various Provincial authorities that under the terms of the British North America Act of 1867, the Federal Government could act in private pension matters only to the extent that it did not infringe upon provincial rights.

These provincial rights, it was argued, were undermined somewhat with the issuance of the "Blue Book of Pension Rules and Regulations" by the Minister of Finance in 1946. This booklet covered various conditions which private plans were required to meet if they were to qualify for special tax treatment. The fact that the Minister of Finance had considerable discretion in interpreting these conditions did not meet with much provincial favor. Consequently, as already mentioned, the "Blue Book" was withdrawn in 1956 and replaced in 1959 by "Information Bulletin #14" which was itself removed under pressure in 1960.

In the early 1960's the culmination of the decade of provincial activity was realized by the passage of legislation in Saskatchewan in 1961, in Ontario in 1963 and 1965, in Quebec in 1964 and 1965 and pending in Manitoba.

The Ontario Pension Legislation represented the most important milestone in the Canadian pension field. The Ontario Pension Benefits Act covered a comprehensive regulation of the private pension system in that province and covered such important areas as pension portability, solvency, vesting, and disclosure of vital pension information.

The Quebec legislation was composed of two segments, the Quebec Pension Plan and the Supplemental Pension Plans Act. Both went into
effect on January 1, 1966, although they were officially accepted much earlier. The Quebec Pension Plan is that province's equivalent of the Canada Pension Plan, a social security plan also going into effect on January 1, 1966. A contributory plan, it is compulsory on all wage earners with earnings over six hundred dollars; is payable at age sixty-five to qualified retirees; and contains cost-of-living adjustments in an effort to protect fixed-income pensions. The Supplemental Pension Plans Act is Quebec's equivalent of the Ontario Pension Benefits Act. Its objective is to supervise and control the activities of private plans operating in Quebec and also Quebec plans covering workers employed in other provinces. It requires the registration of all plans to determine whether they meet standards of contribution, methods, benefit formulas, actuarial methods, and investment portfolios. In addition, it required vesting at age fifty with twenty years service with the benefit being available only in the form of a deferred annuity; payment of benefits to commence no later than age seventy; distribution of written information regarding the plan to all covered employees; and it prohibited any integration of pension formulas with Federal plans or the Quebec Pension Plan which would result in an employee receiving less benefits than before integration.

The Saskatchewan pension legislation was aimed at the full disclosure of pertinent pension information to provincial authorities so that the solvency of private plans in that province would be assured. It required the registration of all pension plans of the province and also demanded the filing of annual reports to the Saskatchewan Pension
Board indicating the current financial and non-financial status of all plans in the province.

The Province of Alberta passed pension legislation in April, 1966 which went into effect on January 1, 1967. This legislation was similar to that already in operation in Ontario and Quebec and tended to stress three important areas of contention in private pension plans: vesting, solvency, and full disclosure.

The Manitoba legislation, which has been considered since 1963 but has not yet become law in that province, is designed to give more security to the employee-member of a private plan. It principally is attempting to require full vesting through deferred annuities at age forty-five with twenty years service, payments to begin at no later than age seventy, and portability of pension credits among private plans within the boundaries of Manitoba. It has not received passage as of December 31, 1966.
CHAPTER IV

FEDERAL GOVERNMENT INFLUENCE ON CANADIAN PENSION PLANS

I. FEDERAL GOVERNMENT LEGISLATION AFFECTING PENSION PLANS TO 1966

A. EARLY HISTORY

The Federal Government first made its appearance on the Canadian private pension scene in 1870 with the passage of the first Civil Service Superannuation Act which made provisions for a contributory pension plan to cover most civil service employees.¹ Previous to that time, some pensions were available in Canada in that retired British Militia men received retirement annuities from the British Crown. These pensions had been in effect since 1837 and provided a maximum payment of eighty dollars a year to disabled military men who passed certain eligibility tests. The benefits were available also in a number of other circumstances where certain qualifications were met by the retirees.

The Superannuation Act of 1870 provided coverage for all persons in the Canadian Civil Service. In some cases gratuities were to be paid but in all cases retirement was deemed compulsory in order to receive any type of pension benefit. An amendment to this Act in 1882

called for an investigation by the Treasury Board of the Federal Government before payments could commence to retirees. Subsequent amendments were made to the Act also in 1883 to cover the deductions for officers, clerks, and employees paid on a yearly basis and contributing to the Superannuation Fund. The years 1886, 1902, and 1906 saw also minor revisions and amendments in the Act. In 1886, an amendment was made to allow the coverage of retired Naval Marine Pilots along with certain benefits for the widows and orphans of such pilots. In 1902, the Mounted Police Officers Pension Act was enacted—an Act still in force today and existing separate from the other Superannuation Acts per se and also outside the confines of the newly established Canada Pension Plan. Amendments to the Act in 1906 provided for additional coverage to all officers and constables in the Force and also for limited benefits to their widows and orphans.

An amendment to this latter Act in 1935 required all officers to contribute a specific percentage of their salaries towards a widow's and orphans' allowance.

Other legislation relating to civil service-type pensions was passed in 1906 with the establishment of the Judges' Pension Act and the Militia Pension Act. The former provided for the superannuation of judges with adequate benefits there from while the latter was applicable to commissioned officers, non-commissioned officers and men in the permanent Militia Corps. It also provided for the payment of benefits to the widows and children of the officers.

In 1908, the Federal Government finally made its presence felt in the private pension field when it passed legislation aimed at
improving the economic well-being of the aged through the Government Annuities Act. This Act was designed to provide contracts issued by the Government Annuities Branch of the Department of Labor and was aimed at improving the financial burden facing low-income individuals upon their retirement. As such, annuities were sold at low cost and with a high interest rate (relative to that particular time period). The benefits were quite limited, however, in that the maximum annuity purchasable during the 1908-1913 period was $600 per annum; during the 1913-1920 period it was $1,000 per annum; during the 1920-1931 period it was $5,000. In 1931, the limit was set at $1,200 per year. This limit remained in vogue to the end of 1966.

The Federal Government made a further imprint on the pension field in 1916 when it acted upon the issuance of an Order in Council and set up the Board of Pension Commissioners. This Board was to sit in adjudication of Military Veterans' pension claims based on disabilities suffered in any conflicts in which Canada had a part. Such conflicts included under the original plan were the Fenian Raids of 1866 and the North West Rebellion of 1885. The Board was also to view pension claims of widows whose husbands were killed in such conflicts. Conflicts which were subsequently covered under the plan include the First World War, the Second World War and the Korean Conflict.  

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As a result of the Pension Act of 1919, pension benefits were thereafter to be provided by statute rather than by Order in Council. Schedules of benefits for death and disability graduated by service were enacted. In addition, a bonus was payable to the lower ranks which increased pension benefits to the rank and file, effective September 1, 1919, to $720 per year for total disability and $576 per year for widows for their lifetimes. This bonus was increased the following year and made permanent in 1925 with each rank below Captain having their benefits increased to $900 annually for total disability and $720 annually for widows. The annual liability for this type of pension since 1919 has been relatively small for the Federal Government and to 1960 has accounted for less than 1 per cent of the total war liability on these accounts.

That all was not well in the area of pension benefits was brought out quite forcibly in the early 1920's when considerable pressure was being placed on the Federal Government to make a complete investigation of the level of retirement benefits available for elderly Canadians. In his Speech from the Throne on March 14, 1924, Governor General McQuarrie declared that he was appalled by the poor program for pensions in Canada. No longer, he said, could the time-honored excuse of lack of comparative programs in effect in other countries or the lack of experience in pension programs be used to delay the implementation of more advanced and meaningful benefit programs for Canadians. He recommended, also at this time, that the highly inadequate pension grant of $5,000 per year to the Victorian Order
of Nurses be increased to at least $25,000 per annum. The results of the Speech and his recommendation follow.

B. OLD AGE ASSISTANCE ACT - 1927

Acting on the recommendations of Governor General McQuarrie, Prime Minister MacKenzie King on April 29, 1924, speaking in the House of Commons, moved that a special committee be set up to make an inquiry into an old age pension system for Canada with power to send wherever necessary for persons, papers, and records and to report to Parliament from time to time. This committee, chaired by Honorable W. G. Raymond, made its first report in late May, 1924 and its second and final report on July 1, 1924. It recommended the following:

1) That an old age pension be established at the earliest possible date for deserving indigent persons aged seventy and upwards.

2) That applicants must be British subjects, of at least twenty years residence or naturalized subject of at least fifteen years naturalization and twenty-five years residence.

3) That the maximum rate of pension be not more than $20 a month to be lessened by private income or partial ability to earn.

4) That the cost of the pension program be borne on a fifty-fifty basis by the provinces and by the Federal Government.

These recommendations, though deemed minimal for the estimated 98,800 eligible pensioners, were taken up for consideration in the

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3Canada, House of Commons, Debates on Old Age Pensions, 1924-1929 (Ottawa, Ontario: King's Printer), p. 1

4Ibid., p. 4.
House of Commons, but due to pressure of other legislative affairs, it remained dormant until the fall session of 1926. At that time, sufficient pressure was placed on the House to either pass or reject the proposed program. With this degree of influence from external and internal sources alike, the House passed on March 24, 1927, the Old Age Assistance Act, a special program of old age assistance to those retired Canadians who could meet the requirements put forth in the recommendations of the Special Committee.

This retirement program represented the initial entrance of the Federal Government in the area of direct welfare payments to private citizens in Canada. It represented the culmination of almost two decades of discussion, research, lobbying, tabling and finally, eventual passage of the plan. It was not established as a universal plan to cover all retirees nor did it discriminate directly according to the former vocation of the retiree as had the military pensions, the Royal Canadian Mounted Police and the Civil Service Superannuation Plans already in effect. Neither was any effort made to tie the pension benefits to earnings as is done now under the Canada Pension Plan.

The Plan was not immediately welcomed with open arms by the various provinces in Canada, however, due undoubtedly to the requirement that in order to share in the plan, each province would have had to share proportionately on a fifty-fifty basis in the cost of the benefit plan. In the first five years of the Program, only the four western provinces and the Northwest Territories shared in the benefits. In 1931, the Federal Government decided to increase the
inducement to join in the Plan by announcing that in the future it would bear 75 per cent of the cost of the Program with the provinces being responsible for the balance. This proved to be an enticing incentive because by 1949, with the exception of the Yukon Territory, all the provinces and territories in Canada were associated with the Plan.

The benefits under this Assistance Program were quite modest and the "means-test" provision, although considerably liberalized over the years, eliminated many retirees from any Government economic assistance once their tenure of employment was completed. These facts when considered in the light of the increase in the cost of living over the post-World War II period show that significant problems confronted the acceptance and success of the program. Benefits under the plan rose to a maximum of only $55 a month and even this amount represented an increase of 175 per cent over the original benefit payment of $20. In addition, the retiree was able to earn no more than $25 a month in other occupations or his benefit would be reduced. Another restriction in effect up to 1947 was that the applicant had at least five years' residence in the province in which he made application for benefits. Furthermore, any recipient of an Old Age Security Pension (introduced in 1952), Blindness Allowance (introduced in 1952), or a War Veteran's Allowance was not eligible for an Old Age Assistance benefit nor could a Disabled Persons Allowance be payable to a recipient of Old Age Assistance. The amount was affected somewhat also by the various amounts of income or property accessible to or possessed by the applicant.
C. OLD AGE SECURITY ACT - 1952

Pension legislation in the 1930's and 1940's concerned primarily the tax treatment of employer and employee contributions to "approved" or "registered" pension plans deemed satisfactory from the viewpoint of the Minister of National Revenue. Major legislation had to wait until the early 1950's when the foundation was laid for a complete re-evaluation of the Canadian Pension System, with especial emphasis on the role to be played by the Federal Government. In 1950, this matter was given priority treatment with the appointment of a special Joint Committee of the Senate and House of Commons headed by the Honorable Jean Lesage (later Premier of the Province of Quebec) and the Honorable John H. King. After considerable research and discussion with interested groups, the Committee made recommendations in 1951 which were, a year later, incorporated into the Old Age Security Act of 1952.

The Joint Committee studies the entire old age pension structure in 1950 and 1951 and concluded that the pension system in Canada at that time was highly inadequate in terms of coverage and benefit levels. The Committee recommended a universal pension scheme to cover all retired Canadians age seventy and over who could provide evidence of age and who could meet certain residence requirements. In addition, it proposed a lowering of the Old Age Assistance age limit to sixty-five and a liberalizing of the various means-test requirements. In effect, what resulted from the recommendations was a universal flat-benefit pension of forty dollars for all retired Canadians aged seventy and

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over who met residence requirements and a separate pension for those Canadians aged sixty-five to sixty-nine who met various means test requirements. This latter benefit was also available on a limited basis to those retirees aged seventy and over who did not qualify for Old Age Security payments. By 1966, the flat benefit had risen to $75 while the Old Age Assistance program continued to provide benefits of $55 a month maximum but with steadily liberalized conditions for qualification.

With the commencement of the Canada Pension Plan in 1966, both programs encountered sweeping changes. The Old Age Assistance program was eliminated and the Old Age Security program, previously limited to retirees seventy years of age and over, was made available in 1966 to retirees aged sixty-nine and over. Each succeeding year thereafter the age limit was to be decreased by one year until the pension was available at age sixty-five in 1970. The exact features and possible consequences of the Canada Pension Plan will be explained when the matter is treated in depth in the following section.

II. EMERGENCE OF THE CANADA PENSION PLAN AND ITS PROBABLE INFLUENCE IN THE PRIVATE PENSION FIELD

During the decade of the 1950's increasingly more consideration was given to the pension situation in Canada than ever before, particularly from the viewpoint of whether authority for establishing pension regulation was a Provincial or a Federal Government matter. The British North America Act seemed to favor the provinces, but the Federal Government nevertheless continued its research in the area. While allowing
for Provincial rights, the Federal Government was nevertheless deter-
minded to exploit the possibility of introducing a retirement program
in Canada similar in nature to the United States Old Age Survivors
and Disability Program.

The Federal Government decided that it had a responsibility to
meet the pressing need of providing adequate pensions for retired
Canadians. It provided full information of its intentions to the
various provincial pension authorities in Canada, so that no usurpation
of provincial rights would be effected. It then proceeded to investi-
gate the possibility of meeting this need.

Studies were undertaken in earnest in the early 1960's with the
idea of providing some type of comprehensive pension program. It was
concluded, during the research process, that Canada should adopt a
variable, wage-related pension program similar to that in operation
in the United States.\(^6\) This was decided upon because it was the Govern-
ment's belief that it would not be economically feasible to simply up-
grade the Old Age Security flat-benefit pensions because the need would
not be the same in all areas of Canada for such an increase.

A wage-related pension program, it was argued, was currently in
use in a number of countries throughout the world and seemed to be
operating adequately. In addition, since it was wage-related, the
pension benefit would be more in line with the type of consumption
pattern with which the retiree had been familiar during his employment
years.

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\(^6\) Judy LaMarsh, "The Canada Pension Plan," *Pensions in Canada,*
It was believed, by the Federal Government, that there were serious gaps in the provisions of private pension plans in Canada at that time. It feared that those employees who were best protected financially during their retirement years were not those for whom pension payments were most needed. Coverage under private plans was extensive only in the largest plans. Hence, the employees from smaller plans either were not covered at all or were inadequately covered by pension programs.

Vesting, as already mentioned in Chapter III, was quite limited among private plans in Canada. Consequently, those older workers who wished to change jobs were faced with almost insurmountable obstacles as new employers were lax to hire employees who either had not built up an adequate pension program previously or who would not be employed in a new job long enough to build up a sufficient pension estate.

There was a feeling among employers that the last employer will bear the brunt of adverse public opinion if an employee was inadequately protected on a financial basis during his retirement years.

By making the new government plan a universal one, under the administration of the Federal Government, the vesting problem would be eliminated because pension credits would be built up by the employee wherever he worked in Canada. These would be paid to him by the Government upon retirement.

A draft of a proposed program was presented to the Canadian Parliament by the Minister of National Health and Welfare, the Honorable Judy LaMarsh, on March 17, 1964.7

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This draft, entitled Bill C-75, was not immediately accepted for enactment. It did, however, serve as an excellent point of departure for subsequent research on an improved social security program for Canada. It recommended a pay-as-you-go underwriting method, provided for only modest benefits at best, contained a widow's benefit but did not cover benefits for dependent children and orphans, disabled contributors or any death benefits.

Following considerable investigation and analysis a largely revised draft was prepared and submitted to Parliament for First Reading as Bill C-136 on November 9, 1964. After a prolonged study by a Joint Senate-House of Commons Committee, debates in the House of Commons and Senate, and presentation of positions relative to the program by various pension experts in the private sector of the economy, the Canada Pension Plan became law on April 2, 1965 when it received Royal Assent. It became Chapter 51 of the Statutes of Canada and was officially implemented on January 1, 1966.

A. PURPOSE OF THE ACT

Essentially the plan is designed to provide for members of the labor force a social insurance system whereby each contributor builds up a right to a graduated pension the amount of which is related to his previous earnings experience. Together with the universal flat-rate old age pension, the new graduated pension plan will constitute the retired person's old age income security benefit. It is designed to also provide benefits to the disabled contributor and his dependent
children, and in the event of his death, it would provide benefits for his widow and orphaned children.

B. PRINCIPAL FEATURES OF THE ACT

The Plan has numerous features, but for this particular treatise, it seems desirable to scan the more important ones which are as follows:

1) Compulsory coverage extends to almost all employees and self-employed people. Employees must contribute on earnings over $600 up to $5,000 and self-employed persons whose earnings are $600 or more a year, must contribute on their earnings between $800 and $6,000 per annum.

2) An earnings-related retirement pension will be available to contributors at any age between sixty-five and seventy provided they have retired from regular employment. At age seventy, the pension will be available as a right whether retired or not.

3) The plan will provide a retirement pension related to the earnings on which people have contributed. The scale of this pension will rise during a ten year span or transitional period to a level of 25 per cent of these earnings up to a maximum of $1,250 per year.

4) The existing flat-rate old age security pension will also be available at age sixty-five by 1970. The lowering of the qualifying age for old age security a year starting in 1966 will be accompanied by a change in the Income Tax Act whereby the additional personal income tax exemption of $500 will not be available to persons under age seventy who are eligible for old age security.

5) A two-part pension will be paid to disabled contributors. The flat-rate portion in this case will be $25. The earnings-related portion will be 75 per cent of what the retirement pension would have been (where the retirement pension is based on average monthly earnings between the start of the plan or age eighteen to the date the disability starts).

6) A pension will be paid to a widow caring for her dependent children provided the deceased contributor has
made the minimum number of contributions. The pension will also be comprised of two components: a flat-rate portion which at the outset will be twenty-five dollars a month and an earnings-related portion which will be three-eighths of what the husband's retirement pension would have been.

7) Women widowed at age sixty-five or later as well as widows who reach age sixty-five will receive a widow's benefit equal to sixty per cent of their husband's retirement benefit. In addition, they would receive their old age security pension and their regular retirement benefits from the Canada Pension Plan if they contributed to the Plan.

8) A flat-rate benefit will be paid to orphans of contributors and to dependent children of disability pensioners. The amount of these benefits will be twenty-five dollars for each of the first four children and twelve dollars fifty cents for each additional child.

9) A benefit will be paid when a contributor or a pensioner dies. This lump-sum payment will amount to six times the monthly retirement pension that could have been paid but will not exceed five hundred dollars at the outset.

10) Retirement pensions will first be payable in January, 1967. Pension for widows, disabled widowers and orphans, and death benefits will be payable in early 1968. Pensions for disabled contributors and for their dependent children will first be payable in the spring of 1970.

11) Retirement pensions will be increased periodically to conform with increases in the general level of prices. This applies to all other pensions under the Canada Pension Plan—the disability pension, the widows pension, the widowers and the orphans benefit as well as to old age security benefits. Increases will be effected annually if warranted by changes in the Pension Index. In those years where prices decline, no decrease will occur in the benefit levels. However, any subsequent increases in the price level will be modified somewhat to allow for the failure to decrease the benefits when prices levels decreased earlier. The Index selected to serve in these cases will be the Consumer Price Index.
12) Contributions under the Plan will be collected by the Department of National Revenue. The Department of National Health and Welfare will be responsible for the overall administration of the Plan.8

This revolutionary step on the part of the Federal Government of Canada met with considerable opposition from different areas of the Canadian business sector. It had to be admitted, however, that the move was not a totally unexpected one because of the many years of discussion during the latter years of the 1950's and early 1960's. In addition, it might be added that one of the many recommendations put forth by the Joint Committee of the Senate and House of Commons on Old Age Security in 1951 was the adoption of an Old Age Insurance Program on an earnings-related basis similar to the program then in operation in the United States. At that time, however, the legislation was not passed as the Old Age Security legislation for 1952 called only for a universal flat-benefit pension program for which the recipient had to qualify, not on an earnings basis, but according to age and residence requirements.

The idea of the earnings-related pension was never completely shelved, however, and research in the area continued over the decade of the 1950's while the flat-benefit Old Age Security was being evaluated. Research in the area of retirement benefits for the aged in the United States and Canada carried out by Professor Robert Clark on behalf of the Canadian Federal Government showed the Canadian program

to be quite limited as to total benefits available for retirees. In addition, it was generally found that the flat-benefit system had many gaps as far as coverage was concerned. Inasmuch as it was a universal, flat-benefit plan, no consideration was given to adjustments for different living standards in different areas of Canada. Also, in the first ten years of its operation, the flat-benefit level was changed three times from a low of forty dollars a month at the outset to seventy-five dollars in 1963. To continue increasing the level would cause many administrative problems since it is a tax-financed program. The tax base of three per cent of corporate profits, four per cent of personal income, and three per cent Federal sales tax already placed a considerable burden on Federal and Provincial taxing sources so an increase in these would be quite impractical. Finally, those retirees between the ages of sixty-five and sixty-nine had only the Old Age Assistance Program as a source of retirement benefits and this was available only on a means-test basis so that many were automatically ineligible for benefits until they reached the age of seventy and were able to qualify for Old Age Security.

The Federal Government, in the early 1950's, once again took the initiative and seriously studied the adequacy of an additional pension plan to give better and more complete coverage to retired Canadians. From a social point of view, it was felt that an obligation was owed the older members of the labor force and the aged population in general because many had been victims of the Depression whose savings were

dissipated and what pension coverage had been accumulated was lost through inadequate solvency and funding methods. Others had their working years interrupted by World War II and, hence, lost valuable contributory years towards accumulation of satisfactory pensions. Apart from these problems, there was the added complication that until recent years private pension plans were not generally available in Canada on any scale.

The Federal Government thus set out to improve the pension situation by seeking to establish a satisfactory pension plan that would represent a middle-of-the-road approach designed to make available to all Canadians a satisfactory minimum standard of pensions related to incomes up to some predetermined level. Such a plan would be self-financed by employees and by employers in the name of employees, and would serve to supplement rather than to replace private pension plans.

The revised plan, as presented earlier, in this dissertation (as Bill C-136) was enacted as law in April, 1965, and began operation January 1, 1966 with contributions required after that date. Payment of benefits would, however, not commence until January 1, 1967.

For purposes of this study, it is not of ultimate importance that all of its features be discussed further. Rather it seems more important to view the effect which this new pension program will have on the future direction of private plans in Canada. In this regard, it seems appropriate here to consider the economic consequences of the Plan in terms of its effect on the money and capital markets in Canada, and the methods and problems associated with the integration of private plans with the Federal Plan so that the best interests of all concerned
are met. Finally, consideration should be given to the effect of the Plan on the future of Provincial activity in the pension field and whether the introduction of this plan may be taken as an indication that more Federal regulation will be forthcoming in the future in the private pension field.

C. ECONOMIC CONSEQUENCES OF THE CANADA PENSION PLAN

In evaluation the economic impact which the Canada Pension Plan will have on the Dominion as a whole and on the development of private pension plans in particular, the writer has selected as references some of the statements and views of pension experts, educators, labor leaders, and associations who have expressed definite stands on the impact of the Plan. In addition, use was made of the publications of the Department of National Health and Welfare in which their views are likewise stated. Since this latter body will have responsibility for administration of the Plan in those facets outside the collection of pension contributions, their views will be expressed first in commencing this analysis.

1. Department of National Health Views

This Department of the Federal Government is responsible for the administration of the Canada Pension Plan. In its development of the Plan, then, it attempted to feret out the most important problem areas of the Plan.

10 This section represents a summary of the main points brought out in the publication, Canada Pension Plan, issued in 1965 by the Department of National Health and Welfare in Ottawa.
The objective of the Plan, according to the Department, was to provide retirement programs for those workers in their late forties and older who either because of work interruptions during the Depression or World War II, were late in joining private pension plans in Canada or had accumulated only a small reserve through their plans for use during their retirement years. The Department was aware of the tremendous growth in the private pension area, but it felt also that benefit levels were far from adequate in view of recent inflationary trends in the country.

It was emphasized that the Canada Pension Plan did not in any way infringe upon any reserves already built up under private plans. The Government realized that, due to the overabundance of contributory plans in Canada relative to the United States, there would be problems of coordinating the plans in the best interests of all parties. This, however, was deemed a mechanical problem rather than an economic one.

To finance the plan, the Department succeeded in having a partial funding approach adopted so that reserves would be built up in the Plan's early years. When invested, these returns could bring in additional funds which would help defray the ultimate cost of the Plan when, after passage of a ten year transitional period, full benefits would become due to retirees and claims on the Plan would be more numerous than in the early years. It is this contribution area where much of the controversy over the Canada Pension Plan has been centered. It was felt by many that the reserves built up in the early years of the Plan would serve to limit or even decrease the growth of private savings in Canada.
This idea was disputed by the Department. It felt that, based on the experience on the economy of the Old Age Security Program in 1952 and other welfare plans since the 1940's, the economic effects of this new Plan would be moderate at best. Even if all the eligible employers, employees, and self-employed persons paid into the Plan all of their contributions which they would otherwise have saved, they would absorb only in the neighborhood of five per cent of the total personal and business savings realized annually in Canada. While in the short run, the initial impact of the Plan might cause a slight diversion of such savings into public savings, the Department felt that based on the experience of the Old Age Security Program financing methods the diversion would probably be much less than five per cent.\textsuperscript{11} Furthermore, it was believed that the positive effects on the economy of a decade of continued, planned increases in the level of public savings with subsequent investments into social projects and other provincial investment outlets would overbalance the adverse effects of the plan on private and business savings during this period. After 1975, this level of net public savings would be expected to decrease considerably with the increases in the level of benefit payments. What essentially would happen would be merely a redistribution of disposable income from the wage-earning class who are making the contributions to the non-wage-earning class of retirees. In a strict economic sense, income would flow from a segment of the population with a relatively

\textsuperscript{11}\textit{Ibid.}, p. 23.
high propensity to save to a segment with a high propensity to consume.\textsuperscript{12} Such an exchange of funds should lead to an overall increase in the level of spending in the economy.

Evidence had shown also that the effect of the governmental investment of pension moneys would only be moderate inasmuch as similar programs introduced in Sweden and in the United Kingdom in the late 1950's resulted in only minor effects on the capital markets of those countries.

Finally, the Plan is expected to add to the operating costs of employers due to the contributions to be made to private plans. This cost, however, will be less than two per cent in the early years of the Plan, and just as in the case of the three to four per cent increase in labor costs over the last decade, should be absorbed through increased productivity levels in Canada. Since the general price level did not change materially over the decade and because consumers in many provinces have already been saddled with increased sales taxes over the same time period, it seems unlikely that the added cost to employees of the pension would be reflected in higher consumer prices. Instead, as indicated before, the combination of increased productivity and integration of private plans with the Canada Pension Plan should help to considerably alleviate the cost of the plan to employers.

Bearing these problem areas in mind, the Department asked for comments and suggestions from different private sources. From all indications, however, none of the suggestions offered by these groups have been adopted into the final context of the Pension Plan.

\textsuperscript{12}Ibid., p. 24.
2. Life Insurance Industry Views

The life insurance industry in Canada expressed its views on the Canada Pension Plan through the Canadian Life Insurance Officers Association. Basically, the industry felt that the principal consequences of the Plan would be felt in the following areas:

1) It did not meet the aims of social justice in that it would serve only to supplement the incomes of those who least needed improvement.

2) Because its calculation of contribution requirements and dependents exemptions allowed for tax purposes, the Plan serves to hit the last major revenue producer left at the Federal Government level and would serve to require payroll deductions from three-quarters of a million persons not now required to pay taxes.

3) The whole idea of the Plan seemed to skirt the most important requirements facing Canada at the time—education and research. A Study by the Economic Council of Canada in the early 1960's had shown that Canada's scientific and technological skills were twenty-five years behind those of the United States and its economic development was at least ten years behind that of the Western World. To increase Government welfare plans in a country where other needs deserved higher priority appeared to indicate the intention to introduce more socialism into Canada.

4) Indexing of pension contributions and benefits in the future would have the effect of deferring the net cost of the Plan to future generations. If followed as in several European countries, such indexing might spread over into other monetary areas such as Government Bonds and Annuities. Eventually, as in Sweden, the indexing could force private plans entirely out of the pensionable earnings area.

5) Increased benefit levels during retirement would have an adverse effect on the Capital Market in Canada. There would be less demand to save money as a store

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13 Canadian Life Insurance Officers Association, Submission to the Special Joint Committee on the Canada Pension Plan (Toronto, Ontario: Canadian Life Insurance Officers Association, 1965).
of value. Hence, a decrease in investment funds could be expected to occur at a time when Canada vitally needs venture capital.

These views were expressed by the Association during a presentation to the Special Joint Committee of the Senate and House of Commons on the Canada Pension Plan in 1964. Though the suggestions were given some consideration, no adjustments were made as a direct result in the terms of the proposed program.

3. Life Insurance Company Views as per 1966 Survey

In a survey of life insurance pension activities which this writer conducted during the latter half of 1966, the views of more than one hundred life insurance companies were requested relative to the effect which the newly-implemented Canada Pension Plan would have on the future status of private pension plans in Canada.

Over ninety per cent of the companies responded and of these, the consensus view was that there was an immediate slowdown in the number of new private plans formed in Canada since the Plan was implemented in January, 1966. In addition, the respondents noted many cases of "double-decking" integration of employer contributions in union-negotiated plans where only the employer contributed in the past. In the newly-integrated private plan, both the employer and the employee made contributions in addition to the contributions which the employer formerly made.

It was expected that fewer new plans would be started for low-income employee groups as a result of the new Federal Plan. In the long run, however, it was felt that the increased interest and awareness to pension requirements due to the new plan would lead to the
formation of private plans on a greater scale than previously. Many of the newer plans were expected to be designed primarily for executives. Many companies felt that the Canada Pension Plan would produce some specific changes in the design of new plans or in plans already in existence. For example, it was expected that benefit schedules would be considerably improved through cost-of-living adjustments, the use of more separate fund investment outlets as plans attempt to improve their returns, more split funding as media for handling contributions, and an increased interest in those plans whose benefits are to be based on final career earnings bases.

4. Trust Company Views as per 1966 Survey

The survey referred to in the discussion relative to life insurance companies in Canada also sought the views of over fifty Canadian trust companies relative to the effect of the Canada Pension Plan on the future of private pensions in Canada.

The majority of respondents indicated that the immediate impact of the Federal Plan would see a reduction in the contribution levels of employees to private plans. Many companies indicated that integration of the Federal Plan and private plans would take place in such a manner that while the net contributions to the plans would remain the same as before the commencement of the Federal Plan, a portion would now be allocated towards satisfying the requirements of the latter plan, with a lesser amount than formerly now made available for the private plan.
Several companies indicated that the Federal Plan resulted in the cancellation of low-benefit plans, but added that such cancellations were only in exceptional cases.

As a general rule, most companies felt that the Canada Pension Plan would increase interest in pensions and that over the long run, there would eventually be a net increase in the number of plans and the contribution levels to private plans especially for plans of the executive variety.

The trust companies thus saw a temporary adverse effect on the growth of private plans. In the long run, however, they felt that the Federal Plan would serve to aid considerably in the growth of plans in the private sector.

5. Views of Pension Experts

In addition to the above-named organizations, expert views on the effect of the Canada Pension Plan on the Canadian Economy and on the future development of private pension plans have been expressed from time to time. Among the more important and influential views in this area have been the contributions of the following:

1) Robert M. Clark, Ph. D., pension expert from the University of British Columbia and Director of Economic Studies for the Ontario Committee.

2) Gordon Pickering, Director of the Canada Pension Plan.

3) Laurence E. Coward, Vice-President of William Mercer Limited, and former Chairman of the Ontario Pension Commission.

4) Samuel Eckler, Past President of the Canadian Association of Actuaries and the Fraternal Actuarial Association. He is currently a member of the Board of Governors of the Society of Actuaries.
Robert M. Clark

Professor Clark believed that the introduction of the Canada Pension Plan would serve to decrease the rate of contributions to private plans in the future. The combination of integration of the public with private plans at present and the indexing of contributions where required in the coming years would have adverse effects on the willingness of both employers and employees to augment private pension contributions.\(^{14}\)

He has stated that the portability feature of the Plan was very praiseworthy, but he also believed, as did the life insurance industry, that the benefit levels of the Plan were adversely related to the needs of Canada's retired population.

He further expressed concern that the Plan should be so rapidly implemented in view of Canada's favorable position relative to the United States as far as welfare benefits on a per capita of Gross National Produce basis was concerned. Such a Plan should have been given a much more thorough investigation so that the full extent of its implications could be explained to the Canadian public.

Mr. Pickering, former Chairman of the Manitoba Hospital Commissions and now the Director of the Canada Pension Plan, as well as chief executive of the Centenary Hospital in Scarborough, Ontario, sees the Plan as meeting a critical need in the Canadian economy. This need is the provision of financial independence to an increased number of the retired segment of the Canadian economy.

The Plan would lessen the burden of applying such a high percentage of tax dollars towards public assistance. In addition, it would lessen the reliance on residential institutions in old age and would decrease considerably the need of retirees to rely on their offspring for financial assistance during their advanced years. Finally, the Plan would provide society with the assurance that in the future, more and more of the employee population and their families would be provided with added personal protection through the disability and death benefits available under the Plan.

Mr. Coward, in an interview on November 25, 1965, indicated that he believed that the Canada Pension Plan would have little effect on the role of trust companies and life insurance companies in the future of private pensions in Canada. He felt that the plan would lead in the short run to less borrowing by provinces in the capital markets but would not have a materially depressive effect on the degree of provincial borrowing over a significant period into the future.

The nature of the borrowing contract from the Canada Pension Plan by the different provinces was such that there was to be no security given up by the provinces other than a promissory note. The terms dictated only the repayment of the interest on such a note with no demand that the principal be repaid. Hence, Coward foresaw an immediate minor change in provincial borrowing in the financial markets up to a period where having been acclimated to the higher sums made available through the Plan, the provinces would again return to borrowing through issuance of Provincial securities.

Samuel Eckler

Professor Eckler, recognized as an authority in the Canadian pension field, has expressed the view that the Canada Pension Plan will have two major effects on the Canadian economy. First, he feels that the Plan may result in the creation of a fund which will become too powerful and will considerably influence the extent of economic development whether intentionally or otherwise. Secondly, he saw a problem arising if the majority of the investments of the Plan are made in fixed-income securities. In view of the variable nature of the benefit levels from the plan in the future, the indexing of contributions would lead to a net decrease in private savings. Such a decrease would be felt directly in the capital investment markets.

J. G. Connor

Mr. Connor, in a presentation before the Canadian Pension Conference in Toronto in 1964, stated what he considered to be the most important effects of the Plan from the viewpoint of Canadian industry.17

There would be a major problem of integrating the public plan with private plans because of two factors. First, Canadian private plans have typically been designed without regard to a public plan. In other countries, including the United States, the plans emerged with full consideration given to the presence of a payroll-taxed government pension plan. Thus, Canada would have to see an integration of upwards of sixteen thousand private plans which were, for the most part, fully developed and implemented before the public plan was begun in January of 1966. Secondly, because of tax legislation which considerably favors employee contributions to private plans, about three-quarters of Canada's plans are of a contributory nature. Hence, the integration process of adjusting contributions to the public plan and to private plans poses many more problems than had to be met in other countries.

Connor also expressed the belief that many Canadian workers saw the Canada Pension Plan as a replacement for private plans. Because of this, a slowdown in the rate of growth of private plans could most likely be expected in the future as the public plan takes effect.

Finally, he felt that the Plan was being unnecessarily rushed in view of the short experience Canada had had with its Old Age

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Security Program. This, he noted, would most likely result in two other significant problems in the area of private pensions. He concluded that private industry's views were not given a very thorough consideration in the design of the Plan and that Provincial Pension legislation was not far enough advanced at that time to ensure the provision of adequate private plans once the Federal Plan began operation.

J. H. Craigs

Speaking before the Pension Conference in 1964, on behalf of the labor sector of the Canadian economy, Mr. Craigs expressed some definite views of the Plan as felt by that segment of the Canadian population. Basically, it was felt that the Plan would not have a significant enough effect on the retiree sector of the economy because the benefit level of twenty-five per cent of average career earnings was too limited to be really effective. In view of the adverse effect which the Plan was to have on private plans, Mr. Craigs stated that a more liberal level should have been built into the Plan's design.

A second and more pressing problem for a labor viewpoint, Craigs felt, was the belief that the funding of the Plan was designed for reasons irrelevant to the Plan itself. Inasmuch as the Plan is being financed entirely by the private corporations and employees in Canada, Craigs contended that the contribution level should have been designed

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from the viewpoint of covering costs. It was believed also that Governments, whether Federal or Provincial, should not be the principal recipients of the benefits of an over-funded Plan.

Writer's Views

On the basis of the interviews with various pension experts, from the responses to questionnaires sent to insurance companies and trust companies in Canada, and from a reading of a number of publications concerning the Canada Pension Plan, this writer has drawn a number of conclusions as to the effect which the Plan will have on the private pension system and the money markets in Canada.

There should be a slowdown in the growth of private plans in the early years of the Plan because companies which previously had had no private plans will bide their time to see how the Canada Pension Plan will be accepted by their employees. This decrease in the growth of private plans, because of the compulsory nature of employee contributions to the Federal plan, will be most noticeable among lower-income groups.

After a sufficient period, probably about ten years, when the initial effects of the Plan have been experienced, there should be a resurgence in the growth of private plans in Canada. This should occur because of the effects which the limited-benefit schedules (twenty-five per cent of average career earnings) provided under the Plan will have on enticing employees to add to their retirement estates.

Probably the most important effect which the Plan will have will be the provision of investible funds to the various provinces in Canada.
These funds are provided on the basis of net monthly contributions over payments for each province. Thus, for the early years of the Plan, the funds available to the provinces will far out-strip the benefit payments since full benefits will not be available until 1975. The resulting effect on the money markets in Canada should be a considerable increase in the borrowing of provincial governments.

The borrowings would be used to provide extra funds for investment purposes in different provinces which might not otherwise have been available without the Canada Pension Plan.

It was felt in some circles that there would be a decrease in provincial borrowings once the Plan was put into operation because the Plan would prove sufficient to meet most provincial needs. This did not hold true in the early stages of the Plan's existence and indications show that provinces have vastly upgraded their borrowing policies.

III. INTEGRATION OF PRIVATE PENSION PLANS IN CANADA TO CONFORM WITH THE REQUIREMENTS OF THE CANADA PENSION PLAN

While much has been said about the adequacy and worthwhileness of the Canada Pension Plan, the fact remains that the Canada Pension Plan is now an established law and went into effect on January 1, 1966. The criticisms and views related to earlier in this dissertation were aired during debates on the Plan prior to assuming a final format. The major obstacle in actually implementing the Plan concerned the adjustment which private plans would have to make in their contribution and benefit structures due to the contributory nature of the Plan.

Adjustments would be necessary in order to determine whether the Canada Pension Plan would simply be added on top of already-existing
plans of a private nature; whether private plans and the Canada Pension Plan would be coordinated to provide the same benefits as would have been payable under the original private plan; or, whether some other alternative type arrangement would be assumed.

When the Old Age Security Act was established in 1952, the problem of integration did present itself as a major problem and, hence, no significant adjustments appeared to have been made to then-existing private pension plans. The reasons for this situation could include the following:

1) Initially, the benefit was forty dollars a month per eligible retiree and this may have provided little incentive for integration.

2) Inasmuch as the Old Age Security Program was financed on a contributory basis (four per cent personal income tax, three per cent sales tax, and three per cent corporate profits tax) and allowing for the small benefits accruing from the pension, employers felt that little would be gained by integrating private plans with Old Age Security.

3) Benefits were not made available until age seventy. Hence, since normal retirement under private plans was age sixty-five, there would be considerable difficulty encountered in integrating a pension program with a portion of the benefits not becoming available until five years after retirement.

4) Many employers felt that the complete addition of a flat-benefit pension on top of an already existing private pension would prove much more beneficial to the lower paid employees and would better aid them in their retirement years.19

The Canada Pension Plan has presented much more formidable problems, however, in that changes have already been made in the Old Age

Security to reduce the eligible age to sixty-five and benefits have been made available to widows and to disabled workers. With most of Canada's private plans being of a contributory nature, the problem of immediate integration of public and private plans became a pressing matter. Nor was this alleviated by the declaration by the Government that contributions and benefits would be indexed in the future to allow for increases in price levels.

These innovations will, of course, prove fairly costly to taxpayers. Early contributions will serve, however, to establish substantial reserves under the plan. An actuarial report of the corrected Plan was circulated by the Federal Government in November, 1964. At that time, the chief actuary of the Canada Pension Plan, Mr. E. E. Clarke, estimated that by 1975, a fund (excess of contributions over payments, plus interest at five per cent) of more than five billion dollars would be accumulated (based on a four per cent increase in annual average earnings). A similar fund of two billion dollars was expected to be built up under the Quebec Pension Plan. Thus, the total fund for the first ten years of the Plan was expected to reach seven billion dollars.

Fears have been voiced in some areas that the benefit schedules under the Canada Pension Plan may be overly liberal in view of the Plan's basic objective. This was for the provision of benefits to elderly Canadians so that they might be able to retire on a comfortable...

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and dignified basis, considering their needs, the availability of private funds, and the presence of Government benefits.\textsuperscript{21}

It was noted by Geoffrey Calvert, prominent Canadian pension consultant, that unless a rational approach were taken to coordinating, in some way, the benefit levels of private plans and the Canada Pension Plan, then a most unreasonable and illogical retirement program might result in many pension programs. For example, an employee whose average career earnings were five thousand dollars, and with long service, might retire at age sixty-five with an annual benefit of three thousand dollars from his private pension plan (since such plans typically pay benefits between forty and sixty per cent of average earnings), twelve hundred fifty dollars a year from the Canada Pension Plan (twenty-five per cent of average earnings), and nine hundred dollars a year from his old age security once he reached age seventy (which would decrease to age sixty-five by 1970). This would amount to a pension of fifty-one hundred fifty dollars a year during retirement. When his wife qualified for an old age pension, the couple could add a further nine hundred dollars to their annual income. Thus, during retirement, the retired couple would be receiving pension benefits of six thousand fifty dollars or one hundred twenty-one per cent of the husband’s average annual earnings. This would hardly be a logical situation for persons whose financial needs should have diminished during retirement.

One can easily see, then, that some adjustments were required to presently existing private plans and in the design of new plans to restore a normal balance between active and retirement incomes. The thought of paying higher incomes to people who are no longer working does not seem palatable to a rationally-designed Government Pension Program aimed at providing a universal pension program for retired Canadians. Such adjustments as will be required to remedy the present situation present special problems for all employers who had plans established before the advent of the Federal Plan. Basically, they will now have to secure the cooperation of employee groups in looking at and combining the package of benefits under the Canada Pension Plan and the company private plan.

Calvert, in a presentation before the Canadian Association of Actuaries in 1964, stated that each private plan had to be looked at as a separate problem, with its own unique combination of benefit contributions, past history, adequacy, funding arrangements, company policy, and industrial relations aspects.\textsuperscript{22} Despite these differences, however, it is generally agreed that there are certain basic approaches which can be assumed with any plan in adjusting it to coordinate it with the new governmental benefits. The United States and the United Kingdom have each had considerable experience in this area and actuaries in Canada have studied very closely the progress and effectiveness of integration methods in those countries. In Canada, Alexander and Alexander Service, the Canadian Association of Actuaries, the Royal Trust

\textsuperscript{22} Ibid., p. 9.
Company and the Department of National Health and Welfare were among the earliest to suggest methods for integrating private plans with the Federal Plan.

A. TYPES OF INTEGRATION

Many different integration methods had been suggested to pension fund administrators as plans contemplated adjustments to allow for the contributions required under the Canada Pension Plan. Of all such methods proposed, the majority may be said to fall into one or a combination of several distinct approaches. These include formula integration, and ineligible-earnings integration.

1. Formula Integration

This approach calls for the establishment of a formula which provides for certain contribution and benefit rates to apply to earnings up to a certain maximum level and different rates to apply to earnings in excess of that level. The specific earnings level chosen would be referred to as the Integration Wage Base.\textsuperscript{23} For purposes of the Canada Pension Plan, the Integration Wage Base might be set to correspond with the maximum rate of five thousand dollars at which the Plan calls for contributions. Thus, a typical private plan might be integrated by requiring employee contributions at the rate of three per cent on the first five thousand dollars and four and one-half per cent on earnings above that level. These contributions could provide

benefits for each year of service of 1 per cent on the first $5,000 and 1½ per cent of earnings over the $500 level. Since the Canada Pension Plan requires employee contributions of 1 per cent of earnings between $600 and $5,000, this percentage could be included in the total employee contributions with the percentage credited to the private plan being decreased by approximately the rate required under the Canada Pension Plan. 24

Benefits under private plans would be correspondingly adjusted so that benefits resulting from the Canada Pension Plan would relate to the 1 8/10 per cent contribution rate on the first $5,000 of earnings. Other benefits resulting from contributions in excess of the 1 8/10 per cent of the Integration Wage Base and from all contributions in excess of this Base would be forthcoming from the private plan.

The Canadian Federal Government has indicated that from time to time in the future, there would be upward adjustments to the contribution rates and the earnings base. Under formula integration, these adjustments could easily be effected through reallocating the portion of the lower contribution rate attributable to the Canada Pension Plan and by increasing the Integration Wage Base to conform once again with the maximum earnings on which pension contributions are to be made relative to the Canada Pension Plan.

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24 Geoffrey N. Calvert, Integration of Private Pension Plans with the Canada Pension Plan, pp. 4-5.
2. Offset Integration

Under this method of integration, the impact of contributions and benefits under the Canada Pension Plan will result in adjustments to the contributions and benefits under the private plan so that the total benefit at retirement remains constant according to the specified formula. In its simplest form, the private plan would provide for a total level of pension benefits directly related to the employee's wages and length of service with a deduction of the actual amount of benefit available under the Canada Pension Plan.

It is felt by many that this is the most logical and simple integration method available because it leaves contribution and benefit levels on a net basis unaffected by the coordination of the two plans. A serious drawback, however, is evident in the use of this integration method depending on the benefit formula to be followed under the private plan.

Lewis Hall and Basil Spurr of the Standard Life Assurance Company noted in their revised edition of *Elements of Insured Pension Plans in Canada* published in 1965, that where such a program of exact integration was contemplated, it could not take place where the benefits were related to a career earnings plan, since units under such a plan were purchased each year on the basis of earnings existing in each year. Thus, the only complete offset plan would be one where the plan would relate the benefits to a salary level close to or at retirement.

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26 Hall and Spurr, *loc. cit.*, p. 102.
Under final earnings plans, adjustments are typically made in the latter years of a worker's term of service as efforts are made to coordinate contributions with the promised benefit level. The emergence of the Canada Pension Plan contributions and the benefits thereto could result in easy integration with the private plan. The result would be a level of contributions and benefits which would have been forthcoming in any event under the private plan.

Offset integration with career-average earnings plans pose more complicated problems. Since employee contributions to such a plan are normally made on a basis of concurrent salary levels and, inasmuch as employee contributions to qualified plans are irrevocably tendered, the adjustments to the plan through this form of integration could effectively be accomplished only at retirement. Inasmuch as integration is required at once, the subsequent revisions to the public plan to consider cost of living changes and the like would further complicate the situation. The result finds many employees who see their private pension benefits reduced through integration feeling that something which they had purchased in early years was being taken away from them.

An additional problem with offset integration arises from the presence of vesting legislation in various provinces. For example, Ontario provides that every plan must provide for full vesting of employee contributions where the employee has attained the age of forty-five and has recorded ten consecutive years of accredited service to the plan. It becomes extremely difficult to justifiably alter any benefit level which might ordinarily have been allocated to the vested interest of the employee in the employer's contribution. Despite the
apparent weaknesses, offset integration has proven popular with private plans.

Calvert has suggested a number of simple ways in which offset integration may be effected. The benefit formula of the private plan could continue to function as in the past, but some provision could be made to subtract at retirement an amount equal to either:

1) One-half of the new government benefit (or increase in total government benefits becoming effective after the date of amendment). This one-half would be in recognition of the principle that the employee pays for the other half through his own contributions or taxes; or,

2) In cases where employee contributions are also reduced to make way for the new contributions to the government plan, the full amount of the new government benefit may reasonably be deducted from the private plan benefit.

While various problems could be anticipated in the use of these approaches where short-term service was concerned, in cases of early retirement and where cost-of-living adjustments are effected, offset integration could be utilized with considerable success for most private plans.

3. Intermediate Integration

This method of integration is referred to as "double decking" and entails nothing more than the existence of the Canada Pension Plan and a private plan independently alongside one another. Under this approach, the private plan would be designed bearing in mind the benefits and contributions provided under the Canada Pension Plan. The actual benefit formula itself, however, and the level of contributions

Calvert, loc. cit., pp. 5-6.
required under the private plan would bear no direct or contractual relationship with the benefits and contributions under the Government Plan. 28

Double-decking as a form of integration was no doubt the outgrowth of union pressure on employees to retain the provisions adhering to private plans in considering the manner in which the Canada Pension Plan was to be coordinated with the private plan. 29 The general feeling among many unions was that benefit formula, once collectively bargained and probably with considerable difficulty, was not to be altered simply because of the implementation of the Canada Pension Plan.

The implication underlying double-decking is that the extra cost of such integration will be met by employers and employees in addition to their responsibilities under their current private plans. Once this is accepted, the actual consideration of the plans will be simple for most pension formulas, although it would function most easily if the private plan had been a non-contributory plan on which a money purchase formula was to be provided for an homogeneous group. 30

In summation, double-decking or intermediate integration of the public with private plans gives no real formula for integration of the public with the private plans. In addition, some problems would be

\[\text{Hall and Spurr, loc. cit., p. 102.}\]
\[\text{Financial Post, September 25, 1965, p. 9.}\]
\[\text{James M. Gill, Symposium of Views on the Canada Pension Plan, p. 64.}\]
included once the public plan requires increased contributions in future years. The method appears to be best able, however, among all the different integration methods, to permit simple adjustments to private plans once the Canada Pension Plan contributions are increased. It might serve also to provide a temporary integration method in the early period of the Canada Pension Plan's existence as experience might indicate the most favorable permanent integration method to employ.

4. Ineligible Earnings Integration

The other important integration method is somewhat similar to the intermediate or double-decking approach. Essentially, employee earnings up to a certain level are deemed ineligible for inclusion under a private pension plan. Thus, an example might show that up to a level of thirty-five hundred dollars, no contributions can be made to a private plan. The Canada Pension Plan would require contributions up to five thousand dollars so that the brunt of the contributions to pension plans would fall on those employees' earnings in excess of thirty-five hundred dollars since they would contribute to both a public plan and a private plan. 31

This method could assume numerous forms which could include the approach shown already and an approach stating that some percentage of earnings up to a certain level are ineligible for private pension purposes. The primary purpose in any case would be to lessen the burden of pension contributions on lower income groups.

31 Hall and Spurr, Elements of Insured Pension Plans in Canada, 2nd ed., p. 105.
As in the other methods, there are certain complications which affect the success of this type of integration. The adjustments in the level of pensionable earnings under the Canada Pension Plan will undoubtedly see an increase in the level of the ineligible earnings figure. Thus, a degree of ill will could be created between the employer and the employee as the latter sees that earnings on which contributions were made has subsequently been eliminated from providing a benefit. While this might be eased somewhat through provision of a career-average pension benefit formula, not many Canadian plans have adopted this type of integration.

B. INITIAL INTEGRATION EXPERIENCE

The method chosen to integrate private plans with the Federal Plan in time for the commencement of the latter seems to have been determined in no small way by the benefit formulas existing under the private plans at the time of integration. For example, it appears that the majority of the executive-type plans and those for the more important members of middle management have been integrated along the lines of "formula" or "offset" methods, such that the previously liberal benefit levels due under the private plan will be relatively untouched on a net basis though the benefits will be forthcoming from both the private and the Government sources.

On the other hand, many of the private plans which in the past promised only conservative benefits were integrated on a double-decking

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process. The public plan would thus serve to establish a second plan which would provide benefits over and above those originally promised under the private plan. Of course, employee contribution levels would have to be increased along the lines of the requirements of the Canada Pension Plan.

A Study was undertaken by the Canadian Life Insurance Officers Association in late 1965 to uncover how insured pension plans were to be integrated (or modified as the process was termed by the Association). Among the 6,000 insured plans covered in the Survey, 2,300 of the plans followed one of the accepted formulas or offset methods while 3,700 plans chose a double-decked approach to the integration process. Of the 2,300 plans which saw adjustments in the contribution and benefit levels, 1,300 were of the money purchase classification while 1,000 plans were of the formula-benefit type. In most of these integration cases, whether of the money purchase or of the formula-benefit type, the adjustment to private plans invariably represented a reduction in the private plan's contribution levels by the exact or approximate requirements of the Canada Pension Plan. In the remainder of the integrated plans, whatever the formula chosen, extreme care was utilized not to decrease any of the pension credits previously recorded in favor of any employees for periods up to January 1, 1966. This latter situation has resulted from the Federal Government's insistence that where any adjustments are made to private plans to allow for the Canada Pension Plan, no such adjustments will be allowed where the net effect of the new private plan is to provide which, when augmented
by the benefits of the Canada Pension Plan, leave the employee in a less advantageous position than under the private plan.

The Association noted that although only 39 per cent of the 6,000 insured plans covered under the Study were integrated, those plans covered almost 75 per cent of the workers covered under the total number of insured plans in Canada.  

A brief survey of the most important industries and corporations in Canada indicates that labor unions have had considerable influence in the decisions as to integration or double-decking of private plans with the Canada Pension Plan or its Quebec equivalent—the Quebec Pension Plan.

The Canadian Labor Congress voted to double-deck the Federal Plan with its private plan. The Congress was also instrumental in aiding the larger unions in their quest for the double-decked integration. Union activity resulted in both the Canadian National Railway and the Canadian Pacific Railway adopting a form of stacking. The Canadian National Railway permits stacking for employees not covered by such contracts. The Canadian Pacific Railway decided on a partial-stacking process.

The United Auto Workers Union was successful in securing a partial stacking for its members in that the Canada Pension Plan was to replace partially or completely the supplementary pension plans of the

33 Personal interview with Frank C. Dimock, Secretary of the Canadian Life Insurance Officers Association, November 24, 1965, Toronto, Ontario.
major automobile companies. In no case, however, would the regular pension plan of these companies be adjusted to allow for the Federal Plan.

The arrangements at the automobile-feeder plans and at such corporations as Massey-Ferguson Limited and the deHavilland Aircraft Corporation are similarly adjusted with the result that 85 per cent of the members of the United Auto Workers Union are covered under pension plans where the Canada Pension Plan has either double-decked or has replaced in part or in full the supplementary pension plan of their firms.

The United Steelworkers of America, Canada's largest union, has succeeded in securing double-decked adjustments with International Harvester, the Steel Company of Canada, and the Dominion Steel and Coal Corporation.

The United Packinghouse Workers Union negotiated a double-decked arrangement with Swift and Company although Canada's largest meatpacker, Canada Packers Limited, for financial reasons decided to integrate the Federal Plan with its existing private plan.

Other major corporations and institutions in Canada which have elected to integrate the Canada Pension Plan with the private plans include the following: Bell Telephone Company, International Nickel Company, Consolidated Mining and Smelting Company, MacMillan, Bloedel and Powell River Limited (a large west coast woods products concern), the Alberta Wheat Pool, the Royal Bank of Canada and the Provincial Bank of Quebec.34

In all the provinces, the Provincial Governments elected to integrate the Civil Service pensions and the Provincial Teachers Retirement plans with the Canada Pension Plan. In some cases, the integration was complete. Thus, the benefit scales promised under the former plans and the new benefit scales under both the private and public plans were exactly the same. In others, the net benefit scales were improved after the integration process was completed. In no cases were the benefit structures decreased.

IV. CURRENT FEDERAL GOVERNMENT ACTIVITY IN THE PENSION AREA

Since implementing the Canada Pension Plan in January, 1966, the principal Federal Government activity in the pension area appears to be centered on two areas. The first of these concerns the Government's desire to consolidate all of its other welfare plans under a single plan which would enable easier adjustment when necessary and which would lean towards more efficient administration. The second important area related to continuing studies by the Government towards effecting a plan with various nations at providing international portability of Government pensions which would otherwise be forfeited where a worker was required due to transfer to assume residency in a country other than the one wherein his pension plan exists.

In its efforts to consolidate all its welfare plans into a single comprehensive plan, the Federal Government in February, 1966, introduced a bill in the House of Commons to provide for the introduction of the Canada Assistance Act. The Bill received first reading at that time and received second reading on June 21, 1966. In its simplest terms,
the Act aims at bringing together all the various welfare programs to which the Federal Government contributes.\textsuperscript{35} It would also enable the provinces to improve administration of the various welfare plans under their jurisdiction and to provide a certain minimum income level for retirees based on some means-test requirements.

The Assistance Act through the Canada Assistance Plan is initially expected to cost \$85,000,000\ per year and has been described as a modern poor law containing all the modern social welfare weapons.\textsuperscript{36} It has been suggested in some circles that this added step in the Canadian welfare picture is highly desirable in the long run, but that other areas such as a national medicare program, warrant higher priority in the near future.

In the area of international pension portability, the Federal Government of Canada had, by July, 1966, held discussions with pension officials from Britain, France, and West Germany.\textsuperscript{37} During August of 1966, similar discussions took place in the United States.

With the latter country, the pension matter was especially important to such occupations as railway men, truckers, and Canada-based employees of United States companies who from time to time find themselves compelled to contribute into both the United States and the Canada or Quebec Pension Plans.


\textsuperscript{36}Expression used by Mr. R. E. G. Davis in a report to the Canadian Conference on Social Welfare in Vancouver, B.C. on June 22, 1966.

The major problems which the discussions are attempting to solve relate to two specific situations. The first is the process of gaining acceptance in the countries involved in this tentative portability agreement of the idea that ultimate citizenship of the retiree should not affect his eligibility to receive his benefits. This has been an area of considerable disappointment to many retirees in the past when they had found it necessary to change residences shortly before or after retirement. The second point which these discussions hope to solve is the devising of a formula which would make it possible to contribute into one country's plan or the other and still secure full benefits upon retirement. This latter point will undoubtedly require much more study than the former.

V. SUMMARY

During the nineteenth century, the principal pension activity of the Canadian Federal Government centered around provision of various Civil Service pensions and implementing and improving various other minor plans.

In 1908, the Federal Government made a direct step into the private pension field through the provision of annuities for individuals at favorable cost through the Government Annuities Program.

By 1927, the Federal Government had established the first public pension plan for Canada. This was a means-test pension arrangement available to all Canadians over age seventy who could meet various eligibility requirements.
In 1952, a universal Old Age Security Program was implemented by the Government. This was a universal, flat-benefit pension arrangement available upon meeting certain age and residency qualifications rather than on a means-test basis.

On January 1, 1966, the Federal Government once again entered the pension field with another program. This was the Canada Pension Plan which was a contributory, earnings-related benefit program to be provided on a universal basis to all Canadians who have contributed to it over their employment years. It is this plan which has given rise to considerable controversy since its initial presentation to the House of Commons in early 1963. Many segments of the Canadian economy have voiced their ideas of the value of the Plan and the effects both economic and otherwise which it will have on the Canadian economy.

In a survey which this writer conducted in the latter part of 1966 of life insurance companies and trust companies in Canada relative to the effect of the Canada Pension Plan on the system of private pensions, the responses indicated both short-run and long-run evaluations. In the short-run, there would be a drop in private plan contributions due to integration requirements, a fewer number of private plans formed and even the cancellation of a number of smaller plans. In the long run, the Federal Plan would serve to make Canadians more aware of the importance of providing adequate pensions for retirement. The result would be a net increase in the number of new plans and at a faster rate than before the implementation of the Federal Plan. In addition, through the accelerated use of segregated funds, split-funding, pooled pensions, and final earnings plans, a major improvement would be made
in the level of private pension plan benefits over what was available before the new Plan.

The Canada Pension Plan, because of the nature of its contributions, poses a major problem to pension administrators. When the Old Age Security Program of fixed-benefit payments was implemented in 1952, most plans double-decked these benefits because the amount of the benefit ($40 a month) did not warrant the costs involved in considering different integration alternatives. Since no employee contributions were required to the Old Age Security Program, a further reason for double-decking was provided. With the Canada Pension Plan, the requirement that employees make contributions raises definite integration problems.

The principal methods commonly utilized have been the following: formula integration, offset integration, double-decking or intermediate integration, and ineligible earnings integration.

A preliminary study by the Canadian Life Insurance Officers Association has indicated that among 6,000 insured plans studied, 2,300, or 39 per cent, have integrated by one or more of the methods given above. Of these integrated plans, 1,300 provided for a money purchase formula and 1,000 provided definite earnings formula benefits. The integrated plans covered three-quarters of the membership in the 6,000 insured plans.

The integration experience during the early stages of the Canada Pension Plan's operation indicated that the Canadian labor movement has been most favorable towards intermediate or double-decking of the Plan's contributions and benefits. Such industrial giants as the Canadian National Railway and the Canadian Pacific Railway have adopted
forms of double-decking. In addition, this method of integration has been adopted by plans covering almost 85 per cent of the membership of the United Automobile Workers Union.

The United Steelworkers of America and the United Packinghouse Union have also been successful in securing double-decking for some of the plans under their jurisdiction.

Those corporations which have chosen to integrate their private plans with the Federal Plan include the Bell Telephone Company, International Nickel Company, McMillan, Bloedel and Powell River Limited and several chartered banks.

The principal Federal Government activity in the pension area now that the Canada Pension Plan has been put into operation centers around two programs. The first of these is the Canada Assistance Act which is designed to coordinate all the Federal welfare plans outside the Canada Pension Plan so that more efficient administration and evaluation of welfare applications can be effected. It is hoped that such a program would help those retirees not adequately protected by the benefits of the Canada Pension Plan. The second major activity in the pension field which is now being undertaken by the Federal Government concerns the portability of public pension benefits where employees are required to assume residency in countries other than the one in which most of their pension contributions have been made. This activity may cause considerable difficulty in countries other than the United States in view of the feeling by some countries that residency should be a definite requirement for the qualification for public pension benefits.
CHAPTER V

TAX ASPECTS OF PRIVATE PENSION PLANS IN CANADA

I. HISTORY OF FEDERAL TAX LEGISLATION IN

THE PRIVATE PENSION AREA

Canadian pension plans have typically occupied a preferred position as far as income tax legislation is concerned. From the first Canadian plan in 1874, the direct costs incurred by an employer in providing pension benefits for a retiree were tax deductible as business expenses. As early as 1919, the employee covered under a private pension plan was given consideration for tax purposes for deductions from his earnings for contributions to pension plans. An amendment to the Income Tax in that year allowed the employee to deduct from taxable earnings any amounts which were deducted as contributions to private pension plans. Seventeen years later, however, the Department of National Revenue succeeded in amending the Income Tax Act to the extent that the maximum amount an employee could deduct as pension contributions for tax purposes was to be limited to three hundred dollars a year.

In 1938, an amendment was made to the Income Tax Act concerning employer contributions to private pension plans. In that year, an

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1 The principal sources utilized for this section were: Canada, Royal Commission on Taxation of Annuities and Family Corporations (Ottawa, Ontario: King's Printer, 1945); Canada, Health and Welfare Division, Survey of Pension and Welfare Plans in Industry—1947. D.B.S. Reference Papers #4.
employer for the first time was given full credit for tax purposes on any lump-sum payments which he made to private pension plans to cover past-service contributions by employers on behalf of their employees. Previously, the deductions had to be related to actual benefit payments from unfunded plans or for future service performed by the employee.

In 1941, an amendment to the Income War Tax Act limited allowable employer deductions for amounts contributed on employee behalf for current or future service to private plans to no more than three hundred dollars a year for each employee, with the total deductions not to exceed more than five per cent of the employer's payroll for any one year.

On year later, a slight adjustment was made to the 1941 amendment, whereby the total allowable deduction was stated only as such an amount as not to exceed five per cent of the employer's payroll. Two stipulations were made, however, in that any salary over six thousand dollars was counted as six thousand dollars for purposes of this computation and where the contributions on behalf of any employee in any one year exceeded three hundred dollars only the latter amount was deductible for tax purposes.

In that same year, the Minister of National Revenue stated that thereafter, if private plans were to qualify for tax deductions whether for employer or employee contributions, the plans themselves must be approved by the Minister. In addition, where lump-sum payments to pension plans were to qualify for tax deductions, a qualified actuary must provide a recommendation concerning the need for and the size of the lump-sum payment. Furthermore, the Minister would enlist the
Superintendent of Insurance for recommendations concerning the justifiability of the contributions before giving approval to their eligibility for special tax treatment. Where the employer paid the entire amount for the past service in any one year, he was required to allocate the payment over a ten-year period for tax purposes. If only one-tenth of the total sum was to be paid each year, the entire annual contribution was permitted for tax purposes in the year of the payment.

In 1944, an amendment to the Income War Tax Act allowed employees thereafter to deduct from taxable earnings, up to three hundred dollars a year, those contributions to pension plans in respect of service rendered in that year and a further three hundred dollars a year for contributions to cover periods during which he had not been a contributor to the plan.

In its 1945 Report, the Ives Royal Commission recommended, and this was passed during the same year, that the allowable amounts for tax deductions, both for employee contributions for past and future service and employer deductions for present service, should be raised to a maximum of nine hundred dollars a year. Furthermore, the 1945 amendments eliminated the percentage limitation relating to employee payroll. In that year, the Minister of National Revenue published the booklet, *Statement of Principles and Rules Respecting Pension Plans*, in which the guidelines for approval of private pension plans for special tax treatment were outlined. As already mentioned in an earlier chapter, the so-called "Blue Book" was not heartily received by the private sector and, while revised somewhat in 1950, it was eventually removed in 1956. A much less controversial booklet, entitled "Information Bulletin
No. 14, " was issued in 1959 to cover many of the same areas as the "Blue Book" but it died a rapid death a year later.

Meanwhile, during the decade of the 1950's, three other important amendments were made which affected the deductibility of pension contributions for tax purposes. First, in 1954, the maximum amounts which an employee could deduct for current service and for past service were raised to fifteen hundred dollars a year in each case. The maximum amount an employer could deduct for current service was likewise raised to fifteen hundred dollars a year. The amount an employer could deduct for the past service was not affected at this time.

The second amendment related to the tax deductibility of employee contributions for past service while he was a contributor to the pension plan. As a result of this amendment, which was made in 1958, an employee could include within the fifteen hundred dollar limit any contributions he made in the year for prior service during which he was a contributor. He would be permitted this deduction, however, only if he is not claiming in that same year a deduction for prior service during which he was not a contributor to the plan.

The third amendment was also affected in 1958. This related to employer deductions for payments covering the past service of employees. Thereafter, the employer could deduct, in any year, any payment made in that year which does not exceed the amount needed to cover the past service liability. No longer could an employer pay a lump sum into the plan and spread the deduction over a period of years. Instead, as long as the payment was not in excess of the amount required to meet the past service liability, the employer could pay off the entire
liability in any way he chose and obtain full exemption for each payment in the year in which it is made.

After a period of five years, during which there was no formal basis to illustrate the conditions which the Minister of National Revenue sought in the registration of private plans, the Taxation Division of the Department of National Revenue published a set of guidelines which, in general, would show what the Minister tended to stress if private plans were to qualify for the preferred tax treatment.

These guidelines, issued in June, 1965 and revised in May, 1967, dictated the following approach by employers if they expected their pension plans to be accepted for registration, thereby qualifying for tax benefits. Failure to meet the terms of these guidelines would mean that the plan would not be registered and, hence, would not gain the tax concessions.

The pension plan must provide:

1) Only for future service, but past service contributions would be permitted to the extent that the latter contributions maintain the same proportional relationship with future service contributions that the number of years of past service bears to the number of years of future service;

2) For a pension cost not to exceed the cost of a single life annuity with a normal retirement age of sixty guaranteed for ten years;

3) Benefits based on future as well as past services except where employees retire or leave on the date of the inception of the plan;

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2 Bulletin by Department of National Revenue, May 1, 1967, entitled "Departmental Policy in Regard to Approvals Under Section 76 of the Income Act."
4) Minimum normal retirement age to be at least sixty years;

5) Maximum pension not to exceed seventy per cent of the average of the best six years of salary with a minimum of forty thousand dollars per annum;

6) Pension not to exceed two per cent of the average of the best six years salary with a maximum of eleven hundred forty-three dollars for each year;

7) A pension not to be guaranteed for more than ten years;

8) A proper funding program as well as a formula for pension benefits.

II. FEDERAL TAX LEGISLATION AND GROWTH OF PENSION PLANS

Upon viewing these tax changes over the years, it is quite interesting to note the effect which such changes had on the growth of private plans in Canada.

The first realization, of course, is that the tax deductions afforded to employees has created a situation in Canada which is quite different from the United States as far as contributions is concerned. In Canada, contributory plans, as noted earlier in Table 1, account for about eighty-eight per cent of total insured and trusteeed plans by the end of 1965. The Bankers Trust Studies have indicated that the breakdown of plans in the United States shows approximately fifty-five to sixty per cent on a non-contributory basis. This undoubtedly stems from a number of factors of which two stand out. The first is the fact that only the employer is given a tax concession for contributions to private pension plans in the United States. The second reason is the fact that labor unions have been much more influential in pension
matters in the United States than in Canada and have been more successful in implementing non-contributory plans.

In considering the various tax changes affecting pension plans in Canada, an attempt will be made to indicate the subsequent growth in pension plans as illustrated by surveys undertaken by the Dominion Bureau of Statistics.

The first comprehensive DBS Survey took place in the late 1940's and traced the number of welfare plans in Canada to 1947. Subsequent surveys, as already noted, have taken place annually since 1958. A 1953 survey by the Department of Labor was somewhat more limited than the others, but it nevertheless does provide some indication of the stage of development of the Canadian private pension system to 1953.

As noted earlier in this paper, employers in Canada were always given tax deductions for reasonable contributions to private pension plans on behalf of employees. Employees deductions were not deductible, however, until 1919. As a result, and this may be noted in Table 18, pension plan growth was relatively slow during its early stages up to 1919. Only two hundred thirty-eight plans were in existence up to that time. The earliest were contributory, primarily due to the United Kingdom influence on the design of pension plans in Canada. With the turn of the century, many United States corporations set up plans for their Canadian subsidiaries primarily of the non-contributory type. In addition, many Canadian plans at this time were of the non-contributory type. The rapid jump in plans, from 1910 to 1919, was due somewhat to the World War I wage freeze where more interest was stirred up for this type of compensation method.
TABLE 18
Canadian Pension Plans By Year
Of Establishment to 1947

<table>
<thead>
<tr>
<th>Year</th>
<th>All Industries</th>
<th>Cumulative Total</th>
</tr>
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<tbody>
<tr>
<td>Pre 1900</td>
<td>7</td>
<td>7</td>
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<tr>
<td>1900 - 1909</td>
<td>59</td>
<td>66</td>
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<tr>
<td>1910 - 1919</td>
<td>172</td>
<td>238</td>
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<tr>
<td>1920 - 1929</td>
<td>369</td>
<td>707</td>
</tr>
<tr>
<td>1930 - 1939</td>
<td>465</td>
<td>1,072</td>
</tr>
<tr>
<td>1940 - 1947</td>
<td>2,340</td>
<td>3,412</td>
</tr>
<tr>
<td>Year not Indicated</td>
<td>133</td>
<td>3,545</td>
</tr>
</tbody>
</table>


Following the 1919 legislation allowing employee tax deductions for contributions to pension plans, there was a rapid increase in the number of pension plans in existence in Canada. Thus, by 1929, there were over 600 plans in operation. Insured plans were given a considerable boost in 1927 when the Department of National Revenue ruled that the income on investment of pension plans was not taxable until eventually resumed by the employee upon retirement. Trust companies, as noted in an earlier chapter, had to wait until 1945 for comparable tax treatment relative to investment income.

The decade of the 1930's saw the Depression cause a number of pension plans to liquidate as a result of the financial failure of the
employer's business. Another adverse occurrence during this decade was the ruling by the Department of National Revenue that the maximum pension deduction which an employee could claim for tax purposes would be set at $300. In 1938, however, in an effort to promote sounder financing of pension plans, the Department of National Revenue allowed employers to deduct from income any lump-sum payments made to private plans on account of the past service of employees. This would enable older plans to become more soundly financed and would also allow new plans to find themselves on a solid financial footing very quickly. During this decade, the number of pension plans managed to grow to over a thousand by 1939.

World War II saw a huge increase in the number of private plans as the Federal Government's wage freeze and excess profits taxes resulted in a greater degree of attention being focused on different means of deferred compensation for employees. In addition, the maximum limit for employee pension deductions was increased to $900 in 1945. The maximum limit for employer deductions, set at $300 in 1941 was also increased to $900 in 1945. The Federal Government, on the recommendation of the Ives Commission, also saw fit to place trust companies on a more competitive basis with life insurance companies for pension business by ruling the income on the investments of trusteed pension would not be taxable until actually received by the employee. The contributor to the trusteed fund could also qualify for maximum tax benefits.
As a result, pension growth was stimulated considerably such that during the period 1940-1947 over 2,300 plans were introduced in Canada.

There were 3,545 pension plans in existence in Canada by 1947, of which 3,410 could be definitely placed in terms of year of inception. Of the 3,410 plans, 3,172 were introduced in the period since 1919 when tax legislation began to make its influence felt on the private pension system.

Subsequent tax legislation affecting pension plans took place in 1954 when the limit for employee deductions for tax purposes was raised to $1,500 to cover both past and current service. In addition, employers were affected by 1954 and 1958 tax legislation. The former allowed an employer to deduct $1,500 a year on behalf of current employee service. The latter allowed him to deduct $1,500 a year on behalf of past employee service.

Since that period, the principal area of government legislation has concerned registration requirements as to the maximum pension benefits, minimum retirement age and the maximum guaranteed period for pension payments. The only major tax legislation was that effected in 1961 wherein the Department of National Revenue ruled that if trusteed pension plans expected to qualify for tax exemption of the investment income, then only 10 per cent of this income could come from sources outside Canada.

As noted in Table 1, Page 111, the number of pension plans in Canada has more than doubled in the period since 1957 when the Dominion
Bureau of Statistics Surveys began on an annual basis. It should also be noted that the proportion of contributory to non-contributory plans has remained approximately the same over this period. For trusted plans, this relationship can be seen by referring to Table 2, Page 112. For insured plans, a personal survey of the writer affirmed the 1957 relationship of over 93 per cent contributory plans.

While tax legislation may not have been the sole reason for the tremendous growth in the number of private pension plans in Canada, it may be concluded, from the discussion above, that it was very instrumental in the direction which this growth has taken and was undoubtedly a major factor in the early development of plans.

Many reasons are given for pension development in the western world and many, no doubt, have acceptance in Canada as being forces behind the growth of the Canadian system. For example, many employers feel a responsibility to provide for the financial security of their employees when the latter have retired. Labor unions have exerted considerable pressure upon employers to implement pension plans for employees. The deferred compensation approach towards pension planning played a major role in this growth during World War II. Hand in hand with these factors seems to be the role of tax legislation as affecting the contributions of employers and employees and as affecting the investment income of administrators and underwriters of pension plans.

It is this writer's conclusion that tax legislation was one of the major influences in the growth and development of private pension plans in Canada.
III. CURRENT STATUS OF FEDERAL INCOME TAX LEGISLATION RELATIVE TO EMPLOYER AND EMPLOYEE CONTRIBUTIONS TO PRIVATE PENSION PLANS

A. EMPLOYEE TAX DEDUCTIONS

The current income tax law has several sections in explanation of employers' deductions and employees' deductions to private pension plans if favorable tax treatment is to be afforded. The related sections affecting employers are Sections 11 (1)(g), 11 (1)(h), 12 (2), 76, and Regulation 2700 of the Canadian Income Tax Act. Each of these sections will be explained somewhat in the following paragraphs.

Section 11 (1)(g)

This Section is concerned primarily with the deductibility of employer contributions to those plans which qualify as registered plans and refers to the annual payments made on behalf of employees to cover current service.\(^3\) A summary of the Section shows that an employer is allowed to deduct amounts up to $1,500 for contributions made to such a plan in any year or within 120 days of the end of the year for which the service is rendered. Where the employer's contributions are not clearly identifiable as to particular employees, the maximum deduction limit is the same as above. The calculation, however, is somewhat complicated and is explained in Regulation 2700. The specific wording of this Section and Regulation, as well as the other sections mentioned in this chapter, will be found in Appendix D.

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Section 11 (l)(h)

This section covers the area of terminal funding which is a type of funding whereby no formal provision for advance funding is made over the working lives of the employees. Instead, an annuity is purchased upon the employee's retirement through a lump-sum payment by the employer.

It states that a tax deduction is to be allowed employers where the terms of a registered pension plan call for the payment of a lump sum to the plan in the year in which the employee becomes eligible to retire, retires, or reaches an age at which the pension benefits become payable to him. The deduction could be claimed for a specific year if the payment is made in that year or within sixty days from the end of that year.

This section puts no statutory limit on the amount of the employer's contributions. Sections 11 (l)(g), and 11 (l)(h), and Regulation 2700 are further explained in Appendix D.

Section 12 (2)

This section covers the tax treatment afforded various business expenses. Specifically, it states that in the computation of income, no deduction shall be made in respect of an outlay or expense otherwise deductible except to the extent that the outlay or expense was reasonable in the circumstances. In its interpretation, the section has been deemed to include such areas as employee group insurance, pay-as-

\[4\text{ Ibid., p. 38.}\]
\[5\text{ Ibid., p. 60.}\]
you-go pension plans, medical plans, and workmen's compensation along with such other costs not specifically covered under the Income Tax Act.

Section 76

This particular section refers to lump-sum contributions to private pension plans by employers. These payments may be made to cover the past service of employees or to increase the level of benefits to be ultimately paid to retirees.

To be eligible for tax relief under Section 76 of the Income Tax Act, special payments in respect of past services must meet certain requirements. These conditions represent the so-called "guidelines" of the Department of National Revenue which were noted in the summary of income tax legislation presented earlier in this chapter. This section is also explained in Appendix D.

B. EMPLOYEE TAX DEDUCTIONS

The related sections of the Income Tax Act affecting employee tax deductions are contained primarily in Sections 11 (1)(i), 11 (1)(u), 11 (1)(x), and 11 (8). These are explained in the following paragraphs.

Section 11 (1)(i)

This section is designed to be sufficiently liberal as to allow most employees the opportunity to deduct reasonable pension contributions from their incomes. It states that an employee may deduct from his taxes an amount, not exceeding fifteen hundred dollars, retained

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6 Ibid., pp. 235-236.
7 Ibid., p. 39.
by his employer as contributions to a registered pension plan in respect of service rendered during that year.

In addition, he could deduct an amount, not exceeding fifteen hundred dollars a year for payments into a registered pension fund to cover service rendered by him during prior years when he was not a contributor to the plan. He could also deduct an amount, not exceeding fifteen hundred dollars less amounts already claimed under the above two situations, to cover contributions made to a registered pension fund in respect of prior service during a period while he was contributing to the fund. The exact wording of this section may be found in Appendix D.

Section 11 (1)(n)

This section allows for the transfer of an employee's equity or interest in one pension fund or plan to another or to a registered savings plan without having to pay a tax at the time or by reason of the transfer. Such payments may be made within sixty days after the end of the taxation year and must not include amounts which were otherwise deductible in the preceding year.

Section 11 (1)(x)

Under this section, any contributions required of employees under the Canada Pension Plan as the Quebec Pension Plan are deductible from taxes in addition to the fifteen hundred dollars maximum mentioned under Section 11 (1)(i).^9

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^8 Ibid., p. 46.
^9 Ibid., p. 47.
Section 11 (8)

This section allows an employee to deduct past service contributions made by him in the past to the extent that he was not then able to deduct them. It states that contributions made after 1945 in respect to services rendered by him in a year while he was not a contributor, and after 1962 in respect of services rendered by him in a year while he was a contributor, may be deducted for tax purposes, subject to the limitations set up in Section 11 (1)(i). Section 11 (8) is explained further in Appendix D.

IV. INCOME TAX STATUS OF LIFE INSURANCE COMPANIES AND TRUST COMPANIES RELATIVE TO INCOME EARNED ON THE INVESTMENTS OF PRIVATE PENSION PLANS

The tax status of life insurance underwriters of private pension plans and trust company administrators of private pension plans is covered under Sections 30 and 62 (1)(q) respectively. Briefly explained, these sections go as follows:

Section 30

According to this section, life insurance companies pay income taxes only on the aggregate of amounts credited to stockholders' accounts less investment losses and special reserves (i.e., insurance funds and investment reserve funds). Investment income not for the account of stockholders is tax exempt. This category would include income earned on the investment of pension funds.

\[\text{Ibid.}, \text{pp. 52-53.}\]
\[\text{Ibid.}, \text{pp. 110-111.}\]
Section 62 (1)(q)

Section 62 deals with the exemption from income taxes of certain trusts administered in Canada. From the point of view of this dissertation, the vital aspects are found in subsection (1), paragraph (q) which proceeds as follows: No tax is payable upon the income of a person for a period that the person was a trust for pension purposes or corporation established or incorporated solely in connection with, or for the administration of, a registered pension fund or plan provided not less than ninety per cent of the income of the fund for that period came from sources within the Dominion of Canada.\textsuperscript{12}

V. TAXABILITY OF PENSION BENEFITS

The general rules regarding the taxability of pension benefits in the hands of recipients are contained in Sections 6, 31A, 36, and 139. They are explained briefly in the following paragraphs.

Section 6 (1)(a)(iv)

This section states essentially that superannuation benefits, as a general rule, are taxable in the year in which they are received by the retiree.\textsuperscript{13}

Section 31A

Section 31A deals with the taxability of income received from duties performed in Canada.\textsuperscript{14} It states that income is recognized and taxable in the year received where payments are made by a Canadian

\textsuperscript{12}Ibid., p. 187.

\textsuperscript{13}Ibid., p. 18.

\textsuperscript{14}Ibid., p. 113.
resident to a non-resident of Canada, if, in the past five years the recipient was a resident of Canada or was employed in Canada for a period or periods adding up to at least thirty-six months, if such a payment was made pursuant to the terms of a superannuation or pension fund. This is explained in greater detail in Appendix D.

Section 36 (1)

This section permits income averaging in those cases where a lump-sum payment has been made to a retiree or beneficiary by reason of a withdrawal of benefits, a winding up of a pension plan, a reward for long service, a death benefit through a pension fund or plan or other related reasons. The average tax rate permissible in this situation is that rate which is determined by taking the ratio of the total tax paid for the three years previous to the receipt of the benefit to the total income earned before adjustment for allowable exemptions.

Where the payment is made by reason of a withdrawal of benefits, the preferred tax treatment is limited to an amount not exceeding fifteen hundred dollars times the number of years the employee was a member of the pension plan. Amounts over that figure would be taxed at normal tax rates. This limitation is not in effect where the payment was in the form of a death benefit to the beneficiary named in the plan.

Section 36 (2)

This section explains the tax treatment afforded recipients of lump-sum payments covered in Section 36 (1) where such recipients were

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15 Ibid., pp. 127-128.
not residents of Canada for the immediately preceding three year period.¹⁶ It is explained in Appendix D.

Section 36 (3)

This particular section states that any lump-sum payment paid to an employee upon his termination of employment which payment is immediately paid into a superannuation or pension plan shall be deducted from taxable income in the year it is received.¹⁷

The exact wording of the Income Tax Act relative to Section 36 may be found in Appendix D.

Section 139 (1)(ar)

This section defines superannuation or pension benefit. It states that, unlike a "retiring allowance" granted in recognition of long service or in respect of loss of office or employment, a superannuation or pension benefit includes any amount received out of or under a superannuation or pension trust or plan.

Section 139 (10)

This section covers in two parts, which are described in full in Appendix D, the taxability of pension benefits accumulated by an employee at the time of his retirement.¹⁸ Part one serves to exempt from taxable income the benefits received out of a pension contract if the latter provided that payment take the form of a deferred paid up contract. On the other hand, part two states that pension benefits

¹⁶Ibid., pp. 129-130.
¹⁷Ibid., p. 131.
¹⁸Ibid., p. 132.
are taxable upon termination of employment if the contract calls for immediate commencement of payment of such benefits even though the employee or retiree elects to delay receipt of such payments.

VI. TAXABILITY OF DEATH AND WIDOWS' BENEFITS FROM PRIVATE PENSION PLANS

This area of pension plan tax legislation is covered under Sections 36 (1), 36 (4), and 139 (1)(j). Section 36 (1) which has already been discussed dealt with lump-sum payments given various parties as benefit payments. Essentially it covered the income averaging aspect of death benefits. Section 36 (4) relates to estate taxes and succession duties and their effect on lump-sum benefit payments made as death benefits from superannuation or pension funds or plans. Section 139 (1)(j) defines the term "death benefits" and also discusses the taxability of such benefits in the hands of the widow. Since Section 36 (1) was already explained earlier, the descriptions at this stage will cover the other sections mentioned here.

Section 36 (4)

This section makes provision for a tax credit where either a Federal estate tax or a provincial succession duty has been paid or is payable on a pension payment or death benefit arising from a pension plan. It is explained further in Appendix D.

Section 139 (1)(j)

In this section is explained the various aspects relative to the computation of death benefits under private pension plans. It shows

\[19\] Ibid., p. 128.
how the computation is made where a widow is surviving and where no
widow is surviving at the time of the death of the subject. A
complete statement of this section is found in Appendix D.

VII. THE TAX LEGISLATION RELATIVE TO SELF-EMPLOYED
INDIVIDUALS COVERED UNDER
PRIVATE PENSION PLANS

For many years, the preferred tax treatment afforded individuals
under private pension plans was available only where the individual
was classed as an employee. Thus, the self-employed individual, not
being an employee, did not qualify for such tax advantages.

In 1957, however, an amendment was made to the Income Tax Act
to specifically cover this situation. Under Section 79B establishing
the Registered Retirement Savings Plan, an individual, if he met the
various qualifications, could make contributions toward his retirement
security and have these contributions deducted subject to certain
limits from his current taxable income.

The qualifications are as follows:

1) Where the individual is not now participating in a
registered employee pension plan, he may contribute
up to ten per cent of his earned income or twenty-
five hundred dollars, whichever is the lesser and
deduct these contributions from his gross income in
determining his taxable income.

2) Where the individual is now contributing to an em-
ployee pension plan and where his contributions to
that plan are less than ten per cent of his income
or fifteen hundred dollars, whichever is the lesser,
he may contribute the difference to a registered re-
tirement savings plan and receive the same tax
treatment.

20Ibid., p. 408.
3) The interest, dividends and other income produced by the person's savings are not subject to tax during the period they are held by the trust or insurance company.

4) The plan must require that the pension begin before age seventy-one.

5) The plan must provide for a pension payable for life, but the pension may not be guaranteed for a period of longer than fifteen years after its commencement in the event of earlier death.

6) The plan may provide for a pension payable for someone else's life as well as the participants, but only if that other person is the participant's spouse.

7) The plan itself must not provide for the participant's borrowing on or assigning the annuity.

8) When the participant begins to draw his pension, it is added in full for tax purposes to whatever other income he may have at that time, and he will, of course, be taxed on his pension at his then highest tax bracket.

9) If the participant should die before his annuity begins, his estate will simply pay a straight 15 per cent tax on the proceeds of the plan.

10) The plan itself must not provide for a refund to the participant of any monies he has paid other than in the form of a life annuity or a refund of his premiums, with or without interest and dividends if he dies before his annuity begins. If, however, the individual has his contract amended and receives cash, the cash is added to whatever other income he may have in that year and is taxed at the recipient's highest tax bracket.

11) Regardless of how low a person's other income may be at the time, if he amends his plan and obtains cash, there is a minimum tax of 25 per cent on any lump sum cash refunds to the purchaser out of a registered retirement savings plan.²¹

²¹Ibid., p. 408.
VIII. SUMMARY

Income tax regulation did not play a very important role in the direction of growth of private pension plans in Canada until 1919. Up to that time, the employer's costs of providing the pension were accepted as ordinary business expenses and were allowable tax deductions as were similar business expenses.

In 1919, however, an amendment to the Income Tax Act permitted employees to likewise take tax deductions for any contributions they made to private pension plans. In 1936, the amount of the allowable deduction was set at three hundred dollars per year. In 1944, employees were given the right to deduct from taxable income in each year up to three hundred dollars for contributions to private pension plans in respect of present service and a further three hundred dollars for contributions to private plans in respect of past service when he was not a contributor to the plan. The Ives Commission's recommendations in 1945 saw these allowable amounts rise to nine hundred dollars and an amendment to the Income Tax Act in 1954 saw the amounts increased to fifteen hundred dollars on each count. The latter level still prevails in early 1967.

The legislation was also implemented to affect the employer's contribution was also implemented to affect the employer's contributions to private pension plans. As already mentioned, all amounts contributed by the employer to private plans were typically deductible as ordinary business expenses as far back as 1875 when Canada saw the development of its first private plan. In 1938, the employer was given, through an amendment in the Income Tax Act, the right to deduct from
taxable income any lump-sum payments which he made in any one year to cover the past service of his employees. Thus, the employer could deduct lump-sum payments to plans in respect of past services of employees and could also deduct unlimited amounts for contributions on employees' behalf in respect of the current service of the employee.

In 1941, as had earlier been the case with employee contributions, limitations were imposed on the employer's ability to deduct unlimited deductions to cover contributions to private pension plans in employees' behalf. The amount which the employer could thereafter contribute to the plan in respect of current service and receive full tax benefits was restricted to three hundred dollars per employee. In 1942, a directive of the Minister of National Revenue stated that if lump-sum payments by employers were made on behalf of employees, a recommendation must be provided by a qualified actuary asserting the need for and the size of the lump-sum payment.

As in the case of employee deductions, the recommendations of the Ives Commission in 1945 saw the deductible amounts for employers rising to nine hundred dollars per year. In 1954, the amount the employer could deduct in respect of current service of employees was raised to fifteen hundred dollars and in 1958, amendments were made relative to the deductibility of lump-sum contributions by employees to private pension plans for employees. No longer could the employer
make the lump-sum payment in one year and spread the payment for tax purposes over the next ten year period. As a result of the 1958 amendment, the entire amount was to be taken as a tax deduction in the year in which the lump-sum payment was made.

There have been no further material amendments affecting employer and employee contributions to pension plans since the 1958 amendments so that at present, the employer status is thus: It is permissible to contribute to an employee's credit in the latter's pension plan in the amount of $1,500 in respect of the employee's present service. In addition, lump-sum payments may be contributed upon the recommendation of a qualified actuary for an amount deemed necessary under the circumstances of the plan.

In tracing the growth of private pension plans in Canada, it is quite interesting to note the influence which tax legislation has had. While not the sole reason for the growth, such legislation has tended to go hand in hand with trade union influence, employer feeling of moral responsibility to look after their employee's retirement years and trends toward the increased importance of deferred compensation as part of the over-all employee compensation package.

The employee is permitted for tax purposes to contribute up to $1,500 per year in respect of future service and a like amount to cover past service for years in which he did not contribute to the plan. However, had he been a contributor to the plan in the past, he is still allowed a deduction of amounts covering the difference between the amounts originally paid and the $1,500. This latter deduction is not permissible in any year wherein the
employee is claiming a deduction for past service during which he was not a contributor to the plan.

The underwriters and trustees of private pension plan contracts are also faced with certain tax legislation. For example, insurance companies by reason of a special tax exemption are free from the payment of any taxes on amounts earned through the investment of its funds. Thus, pension earnings are tax exempt up to the time when benefits are paid to the retirees at which time the latter are taxed on a personal basis.

Where trust companies are concerned, the tax situation is similar. As long as the trust can show that ninety per cent of the income from the pension plan was derived from sources in Canada, the income earned on the pension investments would be tax exempt to the trustee and also to the members of the pension plan. As in the case of the insurance companies, the benefits themselves would be taxable to the retirees upon receipt.

Federal income tax law covers thoroughly the area of taxability of pension benefits to the recipients. As a general rule, the pension is taxable when received, but exceptions arise where the recipient is a resident of a country with a reciprocal pension agreement with Canada. In this latter case, if the recipient qualifies under various tax law stipulations, the pension may be non-taxable by Canada.

Where lump-sum benefits are paid under the terms of the pension agreement tax law permits income averaging with the three years immediately preceding the receipt of the benefits.
Death benefits received under the terms of a pension plan are taxed in the year of receipt or may also be used under an income averaging plan. In any case, the benefits are tax exempt to the dependent or other recipient to the extent that the amount does not exceed ten thousand dollars or the last year's remuneration of the deceased, whichever is the lesser.

Self-employed individuals in Canada received a real boon from a pension viewpoint in 1957 when, for the first time, such employees would be permitted to contribute to a private pension plan and qualify for benefits somewhat similar to those individuals covered under private pension plans.

To qualify for special tax treatment the self-employed's plan must meet several qualifications of which the more important include payment of benefits by at least age seventy-one, provision of a lifetime annuity, death benefits to the insured's spouse, and the plan must not allow any borrowing on by the individual nor may it allow for a refund to the participant of any monies contributed exclusive of his contributions with or without interest.

Upon qualification under this so-called Registered Retirement Plan, the individual, if he is not already a member of a registered pension plan, may contribute up to ten per cent of his earned income or twenty-five hundred dollars annually, whichever is the lesser and deduct these contributions in computing his taxable income. If he is already a member of a registered pension plan, if his contributions under this latter plan are less than ten per cent of income or fifteen
hundred dollars, whichever is the lesser, he may contribute the difference to a registered retirement savings plan and receive the additional tax benefits resulting from such an operation.
CANADIAN PRIVATE PENSION PLANS:

A STUDY OF THEIR HISTORY, TRENDS, TAXATION,

AND INVESTMENTS

VOLUME II

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of the Ohio State University

By

Adrian Charles Edwards, B.Comm., M.B.A.

* * * * *

The Ohio State University
1967

Approved by

[Signature]
Adviser
Department of Business
Organization
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CHAPTER VI

INVESTMENTS OF PRIVATE PENSION PLANS IN CANADA

I. INVESTMENTS OF LIFE INSURANCE COMPANIES

The principal media utilized for the funding of pension plans in Canada are life insurance companies and trustees of both the individual and the corporate categories. To a limited extent, the Annuities Branch of the Department of Labor will also underwrite private annuity plans.

Since the insurance company and trustee approaches are most relevant in Canada, the investigation into the investment policies, regulations, and practices of Canadian pension fund administrators and underwriters will concentrate on these media.

This investigation will briefly relate the over-all policies which are followed by these institutions relative to pension fund investments. It will then trace the trends in investment patterns, noting how Federal and Provincial Government regulations have affected such trends. Finally, a brief look will be taken at some of the performance measurements currently used to evaluate pension fund investment management.

A. INVESTMENT POLICIES OF LIFE INSURANCE COMPANIES

At the end of 1966, there were approximately 140 life insurance companies operating in Canada. Of these, sixty-eight
were Canadian-incorporated firms; fifty were United States-incorporated firms with branches in Canada; sixteen were British-incorporated firms; and the remainder were European-incorporated firms operating in Canada.\(^1\) The most important from the viewpoint of this study will be the Canadian and the United States companies since they make up over 85 per cent of the companies operating in Canada and in terms of their geographical proximity would probably follow similar investment patterns for the pension plans underwritten. Some British-owned companies operating in Canada write no insurance business outside of Canada so that in fact they are Canadian companies. For this study, such firms are classed among the Canadian companies.

If a theory of insurance company investments were perceived, it would probably follow along the lines of adhering closely to the nature of the liabilities assumed.\(^2\) Since the great majority of life insurance and annuity contracts written will run for many years before maturing and then are often payable in regular annual amounts to beneficiaries, a large pool of personal savings becomes available for investment purposes in such companies. The first feature in relation to accumulations of pension monies, then, is that there is no pressing need for maintenance of a highly liquid investment portfolio.


On the other hand, it is vital that an insurance company be able to meet its obligations when they eventually come due in order to protect the interests of the over nine million Canadians who were policyholders in mid-1966. Therefore, while it is noted that an insurance company's investment portfolio need not be highly liquid, it nevertheless must have safety of principal as one of its main investment tenets.

From a financial management viewpoint, the insurance company is thus faced with the perennial dilemma of liquidity and profitability in that some liquidity is needed to handle annual outflows of funds, while at the same time, the stockholders and policyholders of the company look to the profitability of their investment. In this latter case, however, the safety of principal concept must be tempered somewhat so that the investments will yield the maximum return consistent with the required safety. Otherwise, the competition for pension monies will find those insurance companies aggressively pursuing the highest return (consistent with the risk they should prudently bear) garnering more business than the more conservative companies.

A dampening feature which must, of course, be considered in the investment policies of life insurance companies is the role played by the Federal Government in its regulation of the areas wherein life insurance investments may take place. In general, such rules are of two kinds: those for Canadian companies and those for foreign companies.

---

The former represent those companies incorporated in Canada under Federal or Provincial law and which are registered with the Federal Department of Insurance. These companies' investment policies are regulated by the Canadian and British Life Insurance Companies Act under Chapter 31 of the Revised Statutes of Canada. The latter represent those companies incorporated in countries other than Canada but which have registered with the Federal Department of Insurance for permission to operate in Canada. These companies are regulated by the Foreign Insurance Companies Act under Chapter 125 of the Revised Statutes of Canada, 1956.

During the summer of 1966, a survey was conducted by this writer of all of the Canadian-incorporated life insurance companies as well as the major, in terms of assets and dollars of insurance in force, United States and European-incorporated companies which were then operating in Canada.

One of the purposes of the questionnaires distributed during the survey was the uncovering for practical purposes, of the objectives currently stated as being followed by the life insurance companies in their investments of pension funds.

One hundred four questionnaires were mailed to the companies and including follow-up letters to the companies which failed to respond to the original questionnaires, a total of ninety-one companies remitted responses. Of these, thirty-nine indicated that they underwrote pension business in Canada.

The companies were asked to select from a list of objectives, which the writer provided, the top three objectives in order of
importance which they followed in the investment of pension funds.

The objectives stated were as follows:

1) safety of principal;
2) stability of income;
3) adequacy of income;
4) liquidity;
5) capital appreciation;
6) income comparable at least with cost-of-living increases;
7) diversification of risk;
8) any objective not in this list which was peculiar to any of the firms involved.

To verify the significance of the responses, the writer checked the number of pension plans as indicated in the responses with the number indicated in the 1965 Report of the Superintendent of Insurance for Canada. The number indicated in the survey responses were less than 3 per cent lower than the 10,866 plans shown in the Superintendent's Report.

A tabulation of the results of the questionnaire is illustrated in Table 19.

It appears quite clear from the findings that safety of principal and adequacy of income are by far the most important investment policies followed by the companies responding to the inquiries. They account for 94 per cent of the primary objectives, approximately 50 per cent of the secondary objectives, and collectively represent over 70 per cent of the primary and secondary objectives.
TABLE 19
INVESTMENT OBJECTIVES OF CANADIAN LIFE INSURANCE COMPANIES WHICH UNDERWRITE PRIVATE PENSION PLANS

<table>
<thead>
<tr>
<th>Objective</th>
<th>No. 1</th>
<th>No. 2</th>
<th>No. 3</th>
<th>No. of Times Listed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety of Principal</td>
<td>28</td>
<td>3</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>Adequacy of Income</td>
<td>5</td>
<td>15</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Stability of Income</td>
<td>1</td>
<td>11</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Diversification of Risk</td>
<td>0</td>
<td>2</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Capital Appreciation</td>
<td>1</td>
<td>0</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Income Comparable with Cost-of-living Increases</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>35</td>
<td>35</td>
<td>34</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>4**</td>
<td>4**</td>
<td>5*</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>39</td>
<td>39</td>
<td>39</td>
<td>117</td>
</tr>
</tbody>
</table>

*One firm gave only two objectives.
**Four firms did not indicate their objectives.

Source: Personal Survey of those Canadian Life Insurance companies which underwrite private pension plans. Survey was conducted during latter half of 1966. Of the one hundred four companies to whom questionnaires were sent, ninety-four companies responded of which thirty-nine companies underwrote pension plans.
of the life insurance companies' investment policies. Of the thirty-nine respondents, thirty-five were among the top forty life insurance companies in Canada in terms of admitted assets at June 30, 1966.

In the last decade, only five of the insurance companies in the survey saw fit to adjust their objectives. In only one case was there a major change of policy. That involved an adjustment from stressing safety of principal to a policy of maximization of income, growth of income and capital appreciation. One company changed a policy of safety of principal, stability of income, and liquidity to one of safety of principal, adequacy of income, and diversification. The other three companies made adjustments aimed either at changing a secondary or third objective of diversification into newer objectives of capital appreciation; stability of income into adequacy of income; and, diversification into capital appreciation.

Of the thirty-nine companies who indicated that they underwrote private pension plans, all but two indicated that the funds collected under the plans were invested entirely by Canadian investment officers who had sole responsibility for investment administration. The remaining two companies, who between them underwrote sixty-four group annuity plans, were Canadian branches of United States insurance companies. In each case, the responsibility for investment administration lies with the principal office in the United States.

Before proceeding to the analysis of actual asset investments over time by Canadian life insurance companies, it seems advisable to look first at the regulations imposed by the Federal Department of Insurance. With this frame of reference, it will then be easier to
understand the reasons for certain trends which have become evident in the investment practices of these life insurance companies.

B. INVESTMENT REGULATIONS

The underlying philosophy of the Federal regulations of life insurance companies relative to investments appears to be the assurance as far as possible of the security of principal or income in each investment parcel. In general, such regulations cover three investment areas: secured fixed-income securities; debentures and stock; and, proportion of a particular issue which an insurance company may purchase. With regard to the first, there are only a few limitations imposed if such investment securities are backed by the taxing power of the issuer or by specific charges on real property. Debentures and stocks must pass eligibility tests based on continuity of past income in order to qualify for investment status. In the third case, there are some classes of investments on which limitations are placed relative to the proportion of a company's assets which may be allocated to that investment or limitations as to the proportion of a particular issue which an insurance company may hold.

Canadian-incorporated and foreign-incorporated life insurance companies are each required to be Federally registered in Canada and both are required to comply with similar investment regulations. Except for a few provisions, the investment terms of the Canadian and

---

British Life Insurance Companies Act and the Foreign Insurance Companies Act are identical. This examination, therefore, stresses the former regulations.

These regulations cover a life insurance company's ability to invest in Government bonds, corporate bonds, preferred stocks, common stocks, collateral loans, mortgage loans, lease investments, community service projects, as well as a general fund which might possess investments not generally acceptable under the other regulations. A brief resume of the specific investment regulations covered under the Acts is as follows.

1. Government Bonds

Any life insurance company, Federally-registered in Canada, may at its discretion invest, without statutory limit, any portion of its assets in the direct or guaranteed debt securities of the Federal, Provincial, or State Governments of Canada and other Commonwealth countries, the United States of America and other countries or subdivisions in which the company does business. An insurance company may also invest, without statutory limit, in the direct or guaranteed debt securities of any municipal corporation or school corporation in Canada or in the other countries where it does business. In addition, there are no limits as to the investment levels in debt instruments.

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5 These regulations were found in Section 63, 64A and 81 of Chapter 31 of the Revised Statutes of Canada—1961 entitled Canadian and British Life Insurance Companies Act, and Section 5 of Chapter 40 of the Revised Statutes of Canada, 1965, entitled An Act to Amend Certain Acts Administered by the Department of Insurance.

secured by the levies under the authority of a province of Canada on property situated in that province nor on the fully-secured securities of a fabrique. No statutory limits exist relative to the investment in the bonds issued by the International Bank for Reconstruction and Development.

2. Corporate Bonds

Any corporate bonds secured by a mortgage or charge on real estate, leaseholds, plant and equipment of a corporation that is used in the transaction of its business may be held without statutory limit. In addition, equipment trust certificates or obligations issued for the purchase of transportation equipment for use on railways or public highways by a Canadian or United States corporation can be held without statutory limit provided said equipment obligations or certificates are fully secured by an assignment of the transportation equipment to, or the ownership thereof by, a trustee and a lease or conditional sale thereof by the trustee to the corporation.

For corporate debentures to qualify for investment status, the corporation issuing them must have paid a dividend in each of the five years immediately preceding the date of investment at least equal to the specified annual rate upon all its preferred shares or a dividend in each year of a period of five years, ended less than one year before the date of investment, upon its common shares of at least four per cent of the average value at which the shares were carried in the

---

7Ibid., ch. 31, pt. 3, Revised Statutes of 1961, sec. 63 (1)(e), (f), (h), (i), (j), pp. 28-29.
capital stock account of the corporation during the year in which the dividend was paid. In addition, debentures of or guaranteed by a corporation may also be held where the earnings of the corporation, in a period of five years ended less than one year before the date of the investment, have been equal in total to at least ten times and in each of any four of the five years have been equal to at least one and a half times the annual interest requirements at the date of the investment on all indebtedness of or guaranteed by it other than indebtedness classified as a current liability in the balance sheet of the corporation.

3. Guaranteed Investment Certificates

Guaranteed investment certificates issued by a trust company incorporated in Canada can qualify for investment status if, at the date of the investment, the preferred shares or the common shares of the trust company are authorized as investments according to the requirements of the Canadian and British Life Insurance Companies Act.\(^9\)

4. Preferred Stocks

The preferred stock of a corporation may be held by insurance companies for investment purposes if the corporation has paid a dividend in each of the five years immediately preceding the date of investment at least equal to the specified rate on all of its preferred shares or the common shares of the corporation are, at the date of the investment, authorized as investments for insurance companies' portfolios.\(^9\)

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\(^8\)&nbis;Ibid., sec. 5 (1)(j), p. 360.

\(^9\)&nbis;Ibid., sec. 5 (1)(k), pp. 360-361.
5. Common Stocks

The fully paid common shares of a corporation can qualify for investment status if, during a period of five years that ended less than one year before the date of the investment, it has either paid a dividend in each year upon its common shares or has had earnings in each year available for the payment of a dividend upon its common shares of at least 4 per cent of the average value at which the shares were carried in the capital stock account of the corporation during the year in which the corporation had earnings available for the payment of dividends. However, except for certain privileges relative to investments made in other life insurance companies, whether Canadian-incorporated or elsewhere, a company shall not purchase more than 30 per cent of the common shares of any corporation. Nor could an insurance company, unless for the purpose of establishing a mutual insurance company, buy back its own stock.

The total book value of the investments of an insurance company in common shares shall not exceed 25 per cent of the book value of the total assets of that company.

6. Mortgage Loans

Life insurance companies may invest any portion of their assets in mortgage loans provided that in each case the loan does not exceed 75 per cent of the value of the real estate covered.

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11 Ibid., sec. 5 (9), p. 364.
12 Ibid., sec. 5 (7), p. 363, and ch. 31 of Revised Statutes of 1961, pt. 3, sec. 63, sec. 2 (a) and (c), p. 31.
Mortgage loans in excess of this limit may still be made if the excess is guaranteed or insured by the government or an agency of the government of the country, province or state in which the real estate is located. In Canada, the National Housing Act gives authority to the Central Mortgage and Housing Corporation to guarantee loans made by life insurance companies as approved lenders which may exceed seventy-five per cent of the property to an extent which depends upon the designation of the borrower and the purposes for which the loan is to be used. Mortgage loans made by the life insurance companies under the National Housing Act are insured to the extent of approximately ninety-eight per cent of the value of the loan. 13

7. Real Estate Investments for the Production of Income

Real estate and leaseholds for the production of income in Canada or in any country in which the company is carrying on business, either alone or jointly with any other insurance company transacting the business of life insurance in Canada or with any loan company or trust company incorporated in Canada, if a lease on the real estate or leasehold is made to or guaranteed by the government, or an agency of the government, of the country in which the real estate or leasehold is situated or of a province, state or municipality of that country, or a corporation, the preferred shares or common shares of which are, at the date of investment, authorized as eligible investments for life insurance companies. 14

13 Hood, loc. cit., p. 349.
The investment may also become eligible if the lease provides for a net revenue sufficient to yield a reasonable interest return during the period of the lease and to repay at least eighty-five per cent of the amount invested by the company invested by the company in the real estate or leasehold within the period of the lease, but not exceeding thirty years from the date of the investment. In addition, eligibility can result where the total investment of a company in any one parcel of real estate or in any one leasehold does not exceed two per cent of the book value of the assets of the company.

In all cases of such real estate investments, the life insurance company must have authority to hold, maintain, improve, lease, sell or otherwise deal with or dispose of the real estate or leasehold at its discretion.

Real estate and leaseholds may be held also for investment purposes if, during the last three years immediately preceding the date of the investment, the real estate or leasehold provided net revenue in an amount that, if continued in future years, would be sufficient to yield a reasonable interest return on the amount invested and to repay at least eighty-five per cent of that amount within the remaining economic life of the improvements to the real estate or leasehold but not exceeding forty years from the date of the investment. If the total investment of a company in any one parcel of real estate or in any one leasehold does not exceed one and a half per cent of the book value of the total assets of the company, the above holds true.

As in the prior case of real estate investments, the life insurance company must have authority to hold, maintain, improve, or dispose of the real estate or leasehold at its discretion.
8. Real Estate Mortgages

Ground rents, mortgages or pledges (hypothecs) on real estate in Canada, or in any country in which the life insurance company is doing business, may be held for investment purposes. However, the amount paid for the mortgage or pledge, together with the amount of indebtedness under any mortgage or pledge on the real estate ranking equally with or superior to the mortgage or hypothec in which the investment is made, shall not exceed three-quarters of the value of the real estate covered thereby.

The mortgages or hypothecs on real estate or leaseholds in Canada or in any country in which the company is carrying on business, or bonds or notes secured by such mortgages or hypothecs can qualify for investment purposes, notwithstanding that the mortgage or hypothec exceeds the amount that the company is otherwise authorized to invest, if the excess is guaranteed or insured by the government or through an agency of the government of the country in which the real estate or leasehold is situated or the province or state in that country.


In accordance with the National Housing Act, life insurance investments may be directed towards the construction and operation of low-cost or moderate-cost rental housing projects and the purchase and improvement of land for housing developments. To qualify, however, such investments must promise earnings sufficient to pay at least six

\[ ^15 \text{Ibid., ch. 40, Revised Statutes of 1965, pt. 1, sec. 5 (5)(m), p. 361.} \]
per cent on the investment and to amortize the cost of the project, apart from the cost of the land, within the useful life of the project or fifty years.\textsuperscript{16}

10. Miscellaneous Investments

A so-called "basket clause" is available under the Act to cover investments not otherwise authorized as eligible investments.\textsuperscript{17} Under this clause, the companies are authorized, up to a limit of seven per cent of their total assets, to invest in bonds, shares, and debentures not otherwise eligible. In addition, they are permitted, under this clause, to invest in real estate and leaseholds for the production of income in Canada or other countries where they do business without having to meet the conditions that the lease be to a corporation whose stocks are eligible investments and that the net revenue be adequate to return at least eighty-five per cent of the investment within forty years. The total investment in any one parcel of real estate or any one leasehold under the basket clause may not exceed two per cent of the book value of the ledger assets of the company.

The clause does not enlarge the powers to invest in mortgages nor does it remove the limitations on the proportion of common shares and total shares of any one company that may be held by a particular life company. The limitation of twenty-five per cent and ten per cent of ledger assets respectively of investments in common stock and real

\textsuperscript{16}Hood, loc. cit., p. 350.

estate for the production of income are overriding limitations and pertain to holdings under the basket clause or other clauses.

11. Eligible Loans

A life insurance company may lend its investment funds or any portion thereof on security of three types of collateral.¹⁸ The first refers to any of the bonds, debentures, or other evidences of indebtedness, shares or other securities which are eligible for life insurance investments. Real estate mortgages may also qualify as collateral, provided the amount of the loan, together with the amount of the indebtedness under any mortgage or hypothec on the real estate or the interest therein ranking equally with or superior to the loan, shall not exceed three-quarters of the value of the real estate or interest therein. This is subject to the exception that a company may accept as part payment for real estate sold by it a mortgage or hypothec for more than three-quarters of the sale price of the real estate. Finally, real estate or leaseholds in Canada or in any other country in which the company is carrying on business, notwithstanding that the loan exceeds the amount that the company is otherwise authorized to lend, if the extent of the excess, the mortgage or the hypothec thereon securing the loan is guaranteed or insured by the government or through an agency of the government of the country in which the real estate or leasehold is situated or of a province or state of that country.

In addition to all of the above-mentioned investment outlets, a life insurance company may lend its funds as authorized by the National

Housing Act of 1938, the National Housing Act, and the National Housing Act of 1954.

12. Segregated Accounts

In 1961, insurance companies were granted the power to establish special accounts for a number of purposes including disability insurance, accidental death and dismemberment insurance and all kinds of annuities. The funds in such accounts would not be available to pay the general liabilities of the insurance companies but would be applicable to the accounts themselves though any excess funds remaining in the accounts after the discharge of all of the companies' liabilities in respect of the policies for which the fund was maintained may be used for any purposes as may be determined by the directors.

In addition, any amounts transferred to the separate account from another fund of the company may with the approval of the Superintendent of Insurance, be withdrawn from the separate or segregated account and transferred to such other fund as the directors may determine.

These segregated funds could employ a more diversified set of investment objectives, but in terms of the total assets of these funds, they would be subject to the same rules relative to the so-called basket clause, the percentage of book value to be invested in common stock and the percentage of the total book value of the investments of a company to be held in real estate and leaseholds for the production of income. However, where the policies, in respect of which a separate

account's assets are maintained, are such that the reserves therefor,
to be included in the annual statement, vary in amount depending on
the market value of the assets of the fund, the percentage limits
specified as to holdings of common stock and of real estate and lease-
holds do not apply to the investments and loans constituting the assets
of the fund. In the application of those limits to the company as a
whole, the assets of any such separate fund shall not be taken into
account.

13. Ineligible Loans and Investments

Besides the investments mentioned which may become eligible for
life insurance company funds, there are a number of distinct areas wherein
such funds may not be placed. For example, no investment may be
made in any security on which the payment of principal or interest
is in default. No insurance company may invest its life insurance
funds in the shares of any other company transacting the business of
life insurance if such investment were to exceed fifty per cent of the
latter's surplus or would exceed twenty-five per cent of its own total
assets. These limitations apply to Canadian-incorporated insurance
companies.

Finally, no insurance company may make a loan to any of its di-
rectors or officers or to the wife or child of any such director or
officer, except on the security of their own life insurance policies.
Furthermore, an insurance company may not lend funds to any corpora-
tion if more than one-half of the shares of the capital stock of that

20Ibid., ch. 31, pt. IV, sec. 63 (9)(10), 64 (1)(2)(3), 1961,
p. 33, and ch. 40, pt. I, sec. 6 (64A), 1965, p. 365.
corporation are owned by any director or officer of such insurance company or the wife or child of any such director or officer or by any combination of such persons.

14. Valuation of Securities

The Canadian and British Life Insurance Companies Act provides that with respect to life insurance companies, in their annual statements, the securities owned by a company shall be taken into account at values which in total do not exceed the sum of the amortized values of securities not in default, issued or guaranteed by the Government of Canada or by the Government of the United Kingdom or by the Government of the United States of America; and the market values of all securities other than those mentioned above. 21

In those cases where in the opinion of the Superintendent of Insurance, the market values are unduly depressed, the Minister of Finance may permit the use of values in excess of market values, but not exceeding the values used for these purposes in the next preceding annual statement of the company or, in the case of securities acquired by the company since the date of that statement, not exceeding the book values at the date of the annual statement to be deposited.

21"Amortized value," when used in relation to the value of a redeemable security at any date after purchase, means a value so determined that if the security were purchased at that date and at that value, the yield would be the same as the yield with reference to the original purchase price.

"Market value" means the market value at the date of the annual statement or, in the discretion of the Superintendent of Insurance, at a date not more than sixty days before the date of that statement.
Every annual statement required by the Canadian and British Life Insurance Companies Act to be deposited with the Department of Insurance would be required to show in a schedule the market values of all securities owned by the company at the date of the statement.

C. INVESTMENTS OF LIFE INSURANCE COMPANIES

1. Trends in Asset Portfolios

In tracing the trend of life insurance company asset investments in Canada, one is faced with the realization that Canada is a nation not particularly endowed with the best opportunities for such institutional investment. In addition, due to the historic conservatism of the British Commonwealth nations and its consequent effect on Canadian ventures, life insurance companies have tended to follow a rather conservative path.

Evidence of the latter situation may be found by reference to statements within the last two decades by two prominent British life insurance actuaries as reported in William Hood's *Financing of Economic Activity in Canada*. The first, J. B. H. Pegler, stated in 1948 that the objectives followed by life insurance companies at that time were approximately similar to those stated as "investment canons" in 1862 by A. H. Bailey in a paper to the Institute of Actuaries in England.

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These canons held that the first consideration of an investment decision must be the security of principal and the second, which was to be subordinated to the first, should be the highest yield consistent with this safety of principal. Pegler felt that an adjustment in this thesis should find the aim of the life insurance company changed to a more aggressive approach since times and conditions have changed in Canada and more emphasis should be placed on yields than in the past. The second actuary, H. G. Clarke, stated in 1954 that both yield and security of principal should be considered and that on an over-all basis, investment policy should be designed such that the company secures the maximum expected yield with the minimum error, having due regard for the nature and incidence of the liabilities of such institutions.

In line with such policies favoring safety of principal, life insurance companies in the past invested heavily in government bonds, corporate bonds, mortgages, and other fixed-income securities while refraining from investments in equity securities where either the risk involved or the securities or yields available left much to be desired from the insurance company's viewpoint. In addition, it might be added that investment regulations favored the fixed-income, fixed-value type of investment.

The accompanying Tables 20 through 23 provide an insight into the trends which have been evident in the investments made by Canadian life insurance companies of both the Federally-registered and provincially-registered types. In addition, information is provided on the yields experienced by Canadian-incorporated and foreign-incorporated
### Table 20

**Asset Portfolios of Life Insurance Companies in Canada - 1890 - 1965**

<table>
<thead>
<tr>
<th>Year</th>
<th>Bonds</th>
<th>Mortgages</th>
<th>Policy Loans</th>
<th>Real Estates</th>
<th>Stocks</th>
<th>Miscellaneous</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890</td>
<td>4,846</td>
<td>5,171</td>
<td>429</td>
<td>405</td>
<td>426</td>
<td>329</td>
<td>11,604</td>
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<td>1891</td>
<td>4,881</td>
<td>4,780</td>
<td>415</td>
<td>362</td>
<td>420</td>
<td>293</td>
<td>11,151</td>
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<tr>
<td>1892</td>
<td>4,754</td>
<td>4,166</td>
<td>401</td>
<td>338</td>
<td>324</td>
<td>288</td>
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<td>1893</td>
<td>4,474</td>
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<td>386</td>
<td>328</td>
<td>324</td>
<td>260</td>
<td>9,494</td>
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<tr>
<td>1894</td>
<td>4,242</td>
<td>3,396</td>
<td>371</td>
<td>315</td>
<td>286</td>
<td>240</td>
<td>8,855</td>
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<tr>
<td>1895</td>
<td>3,990</td>
<td>3,105</td>
<td>356</td>
<td>294</td>
<td>291</td>
<td>258</td>
<td>8,260</td>
</tr>
<tr>
<td>1896</td>
<td>3,722</td>
<td>2,876</td>
<td>333</td>
<td>275</td>
<td>257</td>
<td>244</td>
<td>7,699</td>
</tr>
<tr>
<td>1897</td>
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Page 331.
TABLE 21

PERCENTAGE BREAKDOWN OF ASSET PORTFOLIOS OF LIFE INSURANCE COMPANIES IN CANADA, 1890 - 1965

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Source: Table 20
TABLE 22

ASSETS OF FEDERALLY-REGISTERED LIFE INSURANCE COMPANIES
IN CANADA, 1957 - 1965 ($MILLIONS)

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companies over the period 1960-1966. A complete analysis of the trends which are noted in these tables will be provided along with a consideration of the increasingly important role being played in Canadian investment circles by insured variable annuity and insured segregated plans as introduced in the last decade.

2. Analysis of Trends in Asset Portfolios

In reviewing the trends which have become evident in the investments of pension monies by Canadian life insurance companies, it must be remembered that for the most part, insured pension funds have typically been commingled in the companies' general investment accounts. Only since 1961 have these companies introduced variable annuities and segregated accounts in an effort to take advantage of rising prices of equity securities as a hedge against purchasing power losses once pension benefits were being paid to plan members. These latter two programs will be discussed in the next section of this paper.

It has been the writer's contention that up to 1961, the objectives followed by life insurance companies in their investment of pension monies and in their investment of other insurance funds have been identical. The reason for this was the fact that all insurance receipts were commingled into one general account and investments were made by the investment officer of the company quite irrespective of the source of the funds.

This contention was borne out in discussions in August, 1967 in Toronto, Ontario, with Laurence Coward, Executive Vice-President of William Mercer Limited, a prominent pension consultant in Canada, John Seltzer, Vice-President and General Manager of Murray Bulger and
Associates, another prominent Canadian pension consultant, and Frank Dimock, Secretary and former Executive Assistant of the Canadian Life Insurance Association.

As noted in Tables 20 through 23, life insurance companies have typically divided their investments into six broad categories: bonds, including Federal Government, provincials, municipals and corporates; mortgages; policy loans; real estate; common stock; and a general or miscellaneous account to cover items not falling in the above categories. To better understand the nature of the trends, each of these investment outlets will be viewed in terms of their growth per se and also in comparison with the other asset investments. For the most part, the data is for Federally-registered companies only because data on provincially-licensed companies was quite sketchy up to the decade of the 1950's. Since these latter companies comprise only about 3 per cent of the assets and 6 per cent of the total life insurance in force in Canada at the beginning of 1966, it is unlikely that the absence of information prior to the mid-1950's will significantly affect the trends in the asset portfolios of all life insurance companies.  

a. Bonds

There have been three notable trends in the investment in bonds by Canadian life insurance companies. The first of these covered the period from 1890 to the decade of the 1920's. During this period, bonds as a percentage of total assets rose from 47 per cent in 1890 to 54 per cent by 1920. However, these investments tended to lose
some favor during the "ill-fated" 1920's as more and more companies sought the speculative gains possible in equity securities. As a result, by 1930 investment funds had flowed rapidly from bonds into stocks. Bonds at this time accounted for only 28 per cent of the total assets held by Canadian life insurance companies.

The Depression, however, had a major effect on subsequent investment policies such that bond investments increased to 41 per cent in 1935, 56 per cent in 1940, and 76 per cent by 1945. The latter percentage no doubt indicated the role which life insurance companies played in the financing of World War II. Since 1945, however, the investment in bonds on a percentage basis as related to total assets have shown a constant downtrend such that by the end of 1965, bonds accounted for only 41 per cent of total assets.

While bonds, as a whole, have lost some of their former prominence, the downward trend is most evident in the holdings of Federal Government bonds rather than the others mentioned earlier. In the decade of 1954-1964, for example, holdings of Federal Government bonds as a percentage of total bonds diminished from 28 per cent to 13 per cent and in dollar amounts from $840,000,000 to $611,000,000. Other Canadian bonds, on the other hand, while increasing as a percentage of total bonds, increased their dollar holdings from $2.6 billion to $4.1 billion.

Thus, on an over-all basis, it can be noted that the investments of life insurance companies, and, hence, the funds of insured pension
programs, have tended to de-emphasize the importance of Federal Government bonds in their portfolios. While other bonds decreased by only 7 per cent in terms of percentage of total assets between 1954 and 1964, Federal Government bonds decreased in importance by more than 62 per cent. Part of the reason for such a change is a more competitive investment policy by life insurance companies as they strive to win more and more new insurance dollars from the public and from other insurance companies and financial institutions. It is also due partly to a general liberalizing in investment regulations by the Federal Government through amendments to the Canadian and British Life Insurance Companies in 1956 and 1961 allowing more leeway to the insurance companies in terms of eligibility of real estate mortgages and equity securities as investment outlets.

It should also be noted that provincial bonds doubled in usage as a percentage of total bonds between 1954 and 1964, rising from 12 per cent to 23 per cent. This, no doubt, is due to the enticing yields which some provinces had offered during that decade. To a limited degree, municipal bonds also grew in popularity from 11 per cent in 1954 to 15 per cent of total bonds in 1964.

It can thus be said that since World War II in particular, at least two noteworthy trends have set in regarding the bond portfolios of life insurance companies. A continual decline in popularity has been experienced by low-yielding Federal Government bonds. On the other hand, this decline has been more than offset by the very favorable increase in the dollar investment in provincial bonds. The former, as noted earlier, decreased in importance among bond portfolios
by about thirty per cent while the latter increased by over three hundred per cent over the period in question. Table 24 presents a breakdown on bond portfolios for the 1954-1964 period and Table 25 provides the same information on a percentage basis.

b. Mortgages

As noted in the section on investment regulations, the principal mortgage investments of Canadian life insurance companies involve those guaranteed by the Central Mortgage and Housing Corporation under the National Housing Act and conventional loans granted primarily by commercial banks, trust companies and credit unions.

The trend in this type of investment shows that during the period 1881 to 1911 activity was quite high and mortgages reached forty-three per cent of total assets in 1891, a percentage not since attained by insurance companies. After 1911, however, there was a steady decrease in the investment in mortgages as life insurance companies were involved in financing part of Canada's role in World War I through purchases of Federal Government bonds. In addition, the bullish period of the 1920's saw the liquidation of both bond and mortgage investments as money flowed into equities and to a limited extent into policy loans.

The Depression saw a further drop in the importance of mortgages in the portfolios of life insurance companies. The biggest blow, however, came with World War II. The government bond market was once again quite popular with life insurance companies and mortgages fell to a low of eight per cent of assets by 1945.

Since 1945, however, the growth in mortgage investments has been quite impressive. In the twenty year period, 1945-1965, mortgages rose
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<td>3,625</td>
<td>3,393</td>
<td>3,257</td>
<td>3,078</td>
<td>3,052</td>
<td>3,040</td>
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</table>

TABLE 25

PERCENTAGE BREAKDOWN OF BOND INVESTMENTS OF LIFE INSURANCE COMPANIES IN CANADA, 1954 - 1964

<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
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<td>Govt. of Canada</td>
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<td>Provincials</td>
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<td>Municipals</td>
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<td>Corporates</td>
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<td>3</td>
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<td>3</td>
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<td>3</td>
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<td>3</td>
</tr>
</tbody>
</table>

100 100 100 100 100 100 100 100 100 100 100

Source: Table 24
in asset portfolios from 8 per cent to 42 per cent of total assets. As far as the source of the increase, it is very interesting to note that in 1945, Federal Government bonds and mortgages accounted for 84 per cent of the assets of insurance companies and in 1965, they accounted for 83 per cent. However, the proportions were radically different relative to bond and mortgage holdings. Whereas, in 1945, Federal Government bonds accounted for 76 per cent of assets, they could account for only 41 per cent in 1965. The difference appears to have gone entirely in the direction of mortgage investments.

Several reasons might be given for this situation, but the most prominent appear to be the following: higher yields available on mortgage investments though the risk differences vis-a-vis high quality bonds were not excessive; more competition among life insurance companies for pension business with a corresponding liberalizing in investment policies; and the lifting of various restrictions on the ability of life insurance companies to invest more heavily in mortgages.

c. Policy Loans

These investments have not attained any significant degree of importance and have remained at a constant percentage of assets since the early 1940's. Their heyday appears to have coincided with the 1911-1935 period which, as noted earlier, encompassed World War I with its demand on insurance policy savings, the turbulent 1920's with the demand for available savings as sources of further equity investments, and the Depression with its demand for savings as a supplement for rapidly decreasing personal incomes.
As a general observation, it might be stated that policy loans have played and will continue to play a relatively minor role in the asset portfolios of Canadian life insurance companies. Dollarwise, these companies have increased their holdings of policy loans by almost three times ($152,000,000 to $429,000,000) during the period 1945 to 1965, but have barely managed to retain their position of holding 5 per cent of the asset investments of life insurance companies.

**d. Real Estate**

This type of investment, like policy loans, has been rather insignificant for Canadian life insurance companies. If there was any period which might be marked as "most important" for real estate investments, it would be the period 1890 to the early 1900's when such investments comprised 8 per cent of the total assets held by insurance companies. Between 1911 and 1950, however, such investments comprised only 3 to 4 per cent of assets and by 1950, this had decreased to a mere 1 per cent of total assets.

Renewed interest in real estate was kindled in 1956 and 1961 with changes in the Canadian and British Life Insurance Companies Act relative to an insurance company's ability to hold real estate for income purposes. There was no major change in such holdings, however, and while such investments accounted for as much as 3 per cent of assets by 1957, there has been no change in this percentage since that latter year. This tends to reflect once again on the conservative nature of life insurance investments as companies consider this area too risky to sacrifice a material amount of investment funds.
e. Stocks

This type of investment has likewise played a rather insignificant role in the asset portfolios of Canadian life insurance companies. Only in the 1920's and the 1930's was there any real interest shown in equity investments.

In the 1920's the speculative fever hit the securities markets and funds flowed from government bonds and mortgages into equities such that, by the end of the decade, they reached almost twenty-five percent of the total asset holdings of insurance companies. This was the high point for equity investments, however, and by 1940, the percentage was down to twelve per cent and by 1945, it was down to six percent of assets.

This type of investment has never recovered from the Depression as an important asset holding for life insurance companies, as the combination of close Federal Government regulation and conservative investment policies combined to lessen the activity in equities.

The trend, which shows that these investments have remained fairly constant on a percentage of assets basis, is quite surprising when one considers that there was a liberalizing of equity investment regulations in 1956 and 1961 through amendments to the Canadian and British Life Insurance Companies Act. One can only surmise that the shock of the Depression, the various economic setbacks in the late 1930's and the early and late 1950's, and the market setback of 1962 have made indelible imprints on the dangers of investing in equity securities by life insurance companies considering the nature of their liability contents.
f. Miscellaneous Assets

These investments have never comprised a significant percentage of life insurance assets. They include cash balances required to meet short-term needs, interest receivable on investments, dividends receivable on investments, and any fixed assets which the companies own and occupy for business purposes. As noted in Table 21, the percentage of total assets represented in this pool have changed only slightly since the early 1930's and by the end of 1965, accounted for only three per cent of assets of life insurance companies.

3. Asset Structures of Life Insurance Companies Underwriting Pension Plans in Canada

In an attempt to determine whether there is a significant difference between the investment practices of life insurance companies which underwrite a high volume of pension business and companies which underwrite a small volume of pension business, a further breakdown was made in the asset structures of insurance companies underwriting pension plans.

From the responses to the survey of life insurance companies underwriting pension programs in Canada, which, as noted earlier, the writer conducted during 1966, a division was made between those companies underwriting one hundred or more plans and those companies underwriting fewer than one hundred plans. There was a wide gap between insurance companies with over a hundred plans and those with fewer than one hundred plans so that there were no borderline cases in terms of the grouping of companies.

Tables 26 and 27 illustrate, on an aggregate and on a percentage basis, the various relationships computed on the basis of information provided by the Superintendent of Insurance for Canada.
### TABLE 26

ASSETS OF LIFE INSURANCE COMPANIES

UNDERWRITING PENSION PLANS IN CANADA - 1964

<table>
<thead>
<tr>
<th></th>
<th>Underwriters of Over 100 Plans</th>
<th>Underwriters of Fewer than 100 Plans</th>
<th>Underwriters of All Pension Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000's %</td>
<td>$000's %</td>
<td>$000's %</td>
</tr>
<tr>
<td>Bonds</td>
<td>4,621  43</td>
<td>412  43</td>
<td>5,033  43</td>
</tr>
<tr>
<td>Mortgages</td>
<td>4,251  38</td>
<td>461  48</td>
<td>4,711  41</td>
</tr>
<tr>
<td>Policy Loans</td>
<td>466  4</td>
<td>38  4</td>
<td>505  4</td>
</tr>
<tr>
<td>Real Estate</td>
<td>307  3</td>
<td>8  1</td>
<td>314  1</td>
</tr>
<tr>
<td>Stocks</td>
<td>698  7</td>
<td>15  2</td>
<td>712  6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>559  5</td>
<td>33  4</td>
<td>593  5</td>
</tr>
<tr>
<td></td>
<td>10,772* 100</td>
<td>967  100</td>
<td>11,748* 100</td>
</tr>
</tbody>
</table>

*Includes two British companies.

<table>
<thead>
<tr>
<th>Type of Asset</th>
<th>All Companies</th>
<th>Companies Underwriting Pension Plan</th>
<th>Underwriter of Over 100 Plans</th>
<th>Underwriter of Less Than 100 Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>41</td>
<td>43</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Mortgages</td>
<td>42</td>
<td>40</td>
<td>38</td>
<td>48</td>
</tr>
<tr>
<td>Policy Loans</td>
<td>5</td>
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<td>1</td>
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<tr>
<td>Stocks</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Miscellaneous</td>
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<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Tables 21, 26.
## Table 28

**Assets of Life Insurance Companies Which Underwrote More Than 100 Pension Plans in Canada in 1964**

<table>
<thead>
<tr>
<th>Company</th>
<th>Bonds Dollars</th>
<th>Mortgages Dollars</th>
<th>Policy Loans Dollars</th>
<th>Real Estate Dollars</th>
<th>Stocks Dollars</th>
<th>Misc. Dollars</th>
<th>Total 1964 Dollars</th>
<th>1964 Inv. Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crown Life</td>
<td>174</td>
<td>211</td>
<td>30</td>
<td>6</td>
<td>24</td>
<td>5</td>
<td>477</td>
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<tr>
<td>Confederation Life</td>
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<td>192</td>
<td>32</td>
<td>5</td>
<td>28</td>
<td>15</td>
<td>586</td>
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<tr>
<td>Sun Life</td>
<td>1,484</td>
<td>800</td>
<td>104</td>
<td>4</td>
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<td>9</td>
<td>2,824</td>
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<td>National Life</td>
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<td>4</td>
<td>3</td>
<td>2</td>
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<td>Standard Life</td>
<td>235</td>
<td>171</td>
<td>3</td>
<td>2</td>
<td>85</td>
<td>17</td>
<td>506</td>
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<td>1,881</td>
<td>18</td>
<td>4</td>
<td>21</td>
<td>5</td>
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<td>Great West</td>
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<td>Mutual of Canada</td>
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<td>Manufacturers Life</td>
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<td>Prudential</td>
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<td>30</td>
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<td>14</td>
<td>7</td>
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<td>Excelsior</td>
<td>78</td>
<td>56</td>
<td>8</td>
<td>5</td>
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<td>4</td>
<td>159</td>
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<tr>
<td><strong>Totals</strong></td>
<td><strong>4,621</strong></td>
<td><strong>4,251</strong></td>
<td><strong>466</strong></td>
<td><strong>307</strong></td>
<td><strong>698</strong></td>
<td><strong>7</strong></td>
<td><strong>10,773</strong></td>
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</tbody>
</table>

*Sources: Canada, Report of the Superintendent of Insurance for Canada, 1964, p. 35A.*
<table>
<thead>
<tr>
<th>Company</th>
<th>Bonds Dollars</th>
<th>Bonds %</th>
<th>Mortgages Dollars</th>
<th>Mortgages %</th>
<th>Policy Loans Dollars</th>
<th>Policy Loans %</th>
<th>Real Estate Dollars</th>
<th>Real Estate %</th>
<th>Stocks Dollars</th>
<th>Stocks %</th>
<th>Misc. Dollars</th>
<th>Misc. %</th>
<th>Total Dollars</th>
<th>Total %</th>
<th>1964 Can. Yield</th>
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<td>Co-operative Life</td>
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<td>66</td>
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<td>2</td>
<td>3</td>
<td>55</td>
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<td>Prudential</td>
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<td>5</td>
<td>5</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Canada, *Report of the Superintendent of Insurance for Canada, 1964*, p. 35A.
The initial conclusion from viewing these Tables is that bonds tend to be slightly more important in the portfolios of companies underwriting pension plans than in companies not engaged in the private pension business. In addition, it appears that real estate investments have little importance in the portfolios of companies underwriting pension plans.

Among companies underwriting pension plans, there appears to be no significant difference in the importance of bonds in their portfolios whether the companies underwrote more or less than 100 plans. Mortgages represented a much higher percentage of assets for companies underwriting less than 100 plans than for companies with more than 100 plans. Conversely, policy loans, real estate, common stock and other miscellaneous assets appear as more important to the portfolios of the companies underwriting in excess of 100 plans.

The most significant differences between the investment practices of the two different classes of insurance companies is that those companies underwriting more than 100 plans tended to place much more importance on equity investments and conversely place relatively less importance on mortgage investments than do companies underwriting less than 100 plans.

A further analysis of the asset portfolios of the companies involved in this comparison reveals some rather striking differences from company to company within the same class as far as number of pension plans underwritten is concerned. For example, as noted in Table 28, it can be seen that for the year 1964, Standard Life Assurance
Company had invested 18.9 per cent of its assets in the form of equity securities. Likewise, Sun Life Insurance Company, Manufacturers Life Insurance Company, and Canada Life Insurance Company had invested 8.9 per cent, 8 per cent, and 7.8 per cent respectively, into equity investments.

Other relationships which were significantly different from class averages saw Monarch Life, Sun Life, Prudential Assurance, Confederation Life and Excelsior Life Insurance companies, with in excess of 49 per cent of their assets in the form of bonds. London Life had close to 70 per cent of its assets invested in mortgages and only 3.4 per cent in the form of equity investments.

Table 29 provides similar information on companies underwriting less than 100 plans. Only the Norwich Union Life Insurance Company showed any significant variance from the average stock investment by this group. The presence of the Prudential Life Insurance Company of the United States in the statistics for this group has tended to bias the figures considerably. In the case of bonds, the latter company's low investment here has tended to deflate the average bond investment considerably. In the case of mortgage investments, Prudential's high investment (58.8 per cent of assets) has tended to inflate the figures somewhat.

A further relationship may be noted from Tables 28 and 29. It is the investment yield experienced by the companies operating in each group. Those who underwrote in excess of 100 plans tended to outperform the other group of companies based on an average yield on investments.
All of the companies in the group underwriting less than 100 plans indicated that safety of principal was their primary objective in the investment of insurance funds. In those companies underwriting more than 100 plans, most indicated that safety of principal was their primary investment objective though several stated that maximization of income in the long-run and adequacy of income were the primary objectives. One company, which indicated that safety of principal was the primary investment objective, nevertheless experienced a return of 7.54 per cent on their investments in 1964.

From this brief treatment of the 1964 asset structures of Canadian life insurance companies which underwrite pension plans, it can be noted that there are significant differences in the percentage breakdown of total assets of each group in the form of mortgage investments and equity investments.

There was little difference in the percentage breakdown of assets held by all insurance companies and those held by insurance companies underwriting pension plans.

4. Emergence of Newer Investment Outlets for Pension Plans

a. Variable Annuities

The life insurance industries in Canada and the United States have given considerable attention to this method of investing over the last decade and a half. The cost-of-living index had been increasing steadily since World War II with the resultant situation that the purchasing power of money has been dwindling. The equity markets, on the other hand, showed steady rises since the late 1940's so that the idea of tying pension benefits to the growth in value of equities or at
least variable-income securities was given more and more consideration. As a result, there emerged in the mid-1950's a pension arrangement which would attempt to take advantage of those investments which might preserve the purchasing power of the beneficiaries of the plans.

Variable annuity plans, as already noted in an earlier chapter, were first introduced in the United States. The first plan to be offered was a trusteed one and involved the College Retirement Equities Fund, a variable pension arrangement for college professors and was introduced in 1952. The first industrial plan was also a trusteed one and was implemented the same year by the Long Island Lighting Company. The trusteed approach has proven quite popular in the United States such that by the early 1960's at least twenty-three corporations had plans. An association covering twelve major airlines in the United States also provided such a pension program.  

Some of the corporations with such programs were Aerojet General, Boeing Airplane Company, Bristol-Myers, Chemstrand, General Mills, General Tire and Rubber, Kidder, Peabody and Company, Oxford University Press, Scudder, Stevens and Clark, Warner and Lambert and the Great Atlantic and Pacific Tea Company. A few of the airlines covered under such a program are American Airlines, Pan American Airlines, Trans-World Airlines, Northeast Airlines and United Airlines.

Individual variable annuity programs came into operation in the late 1950's through programs introduced by mutual fund organizations.

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Under these plans, an individual, through regular deposits to his fund, could establish a variable pension program for himself. Most of these plans, however, do have an option allowing the individual to redeem all or a portion of his fund balance in order to purchase an annuity from a life insurance company at the rates in effect at the time of redemption. One such plan is that provided by Advisors Fund, Incorporated, through an agreement with the Standard Life Insurance Company. Investors Diversified Mutual Fund has also entered the field of individual variable annuities within the last few years.

Other mutual funds operating individual variable annuity plans are Fundamental Investors, Incorporated, Keystone Retirement Equities Trust and the United Fund Variable Annuity Trust and Fund. This latter plan, however, has encountered certain legal problems in Kansas, the state of its inception. Inasmuch as the program seeks to apply the annuity principle by spreading the mortality among all the participants in the fund, the attorney-general of Kansas has concluded that the company's plan was basically an insurance program, that the contract involved is an insurance contract, and that the program was to be subject to regulation by the Kansas insurance commission.

Life insurance companies entered the variable annuity area, as already mentioned, in 1954 when the Life Insurance Company of Little Rock, Arkansas introduced an intra-state plan. A year later, the Variable Annuity Life Insurance Company of Washington, D.C. introduced the first insured inter-state variable annuity program.

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24 Ibid., p. 190.
25 Ibid., p. 192.
Unlike the situation with trusted variable annuity plans, there developed considerable opposition towards the issuance of the insured type of program. This opposition came primarily from the Securities and Exchange Commission. The Commission studied the variable annuity as presented by life insurance companies and concluded in 1956 that the Variable Annuity Life Insurance Company came under the jurisdiction of both the Securities Act of 1933 and the Investment Companies Act of 1940 because of its variable annuity program. In the former case, it ruled that the variable annuity was a "security" as defined under the Securities Act and that the company was an "investment company" as defined under the Investment Companies Act. It should, therefore, be required to register with the Commission under both Acts. The Commission brought suit to force this registration.26

The company's stand for exemption from registration was upheld in the District of Columbia United States District Court and also by the United States Court of Appeals. In March, 1959, however, the Supreme Court ruled in favor of the Commission. In its opinion, the Court held that since the contract did not guarantee a fixed income, the annuitant assumed all the investment risks. Since this feature is essential in an insurance contract, any contract not meeting this standard would be something other than an insurance contract and, hence, would not qualify for exemption from registration under the Securities Act of 1933 and the Investment Companies Act of 1940.

The company subsequently registered under both Acts in 1960 and these were deemed effective in May 13 of that year.

The Prudential Life Insurance Company registered with the Securities and Exchange Commission under the Securities Act of 1933 when it implemented its variable annuity program in 1964. Unlike the case with the Variable Annuity Life Insurance Company, however, it was not required to register as an investment company under the 1940 Act. The Commission did, however, state that the separate account set up by the company would have to register as an investment company. This ruling was appealed all the way up the legal processes to the Supreme Court. That agency upheld the Commission's ruling and Prudential was forced to make the required registration.

In the late 1950's and early 1960's many states introduced legislation providing for the issuance of variable annuity contracts or for the setting up of separate accounts to facilitate the sale of variable annuities. By mid-1965, approximately half the states in the United States had enacted such legislation. Many states allow both group and individual variable annuities. New York, however, allows only group plans.  

A further breakthrough in this area came in early 1966 when the Equitable Life Assurance Society, the third largest life insurance company in the United States, entered the variable annuity field.

In May, 1967, two of the largest life insurance companies, Metropolitan Life and John Hancock Mutual Life indicated that they

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were intent on entering the variable annuity field. This meant that only New York Life remains, among the eight largest life insurance companies in the United States, who has not indicated that it intends to issue the variable annuity. At this time, fourteen insurance companies offer variable annuities to groups while twenty-six others were engaged in offering mutual fund programs to individuals. These latter plans include variable insurance as well as individual variable annuities.

In Canada, variable annuities have been introduced with much less legal opposition. A principal reason for this is the absence of a Federal body in Canada of the stature of the Securities and Exchange Commission.

Just as in the United States, variable annuities were introduced in Canada as trusteed plans. In 1959, the first formal plan was introduced by the Pilots' Association of Air Canada. A similar trusteed variable annuity program was introduced for the pilots of Canadian Pacific Airlines late that same year. These were group variable annuity programs as the names suggest.

In 1960, the first individual variable annuity plan was introduced in Canada through a rather complicated program introduced by the National Life Insurance Company. The latter company, through a British Columbia-based mutual fund, sold variable annuities to individuals. Upon retirement, the credits were transferred to a trust company

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which would administer the plan. That company, in turn, upon payment of a premium to the National Life Insurance Company, was enabled to insure the plan for the mortality element. In this way, the individual would be relieved of the risk of completely liquidating his annuity program before his death. Table 30 indicates the results of the mutual fund, referred to as the Mutual Accumulating Fund. As noted in the Table, the retirement plan provides for both a fixed-income segment and a variable income element. Except for a drop in the value of the fund during 1966, the variable portion of the plan had increased from an initial unit cost of $59.12 in January 1, 1961 to $83.95 by January 1, 1966, an increase of 42 per cent. During 1966, however, the value of the variable portion of the plan was only $66.81.

In 1961, an amendment to the Canadian and British Life Insurance Companies Act allowed life insurance companies to set up special segregated funds for pension purposes. One of its programs was to allow life insurance companies to set up variable annuity plans whose value would be determined by the performance of the equity securities included in the separate account.

Life insurance companies did not jump at the opportunity to issue such contracts. By the end of 1966, only two companies, National Life and Industrial Life, had underwritten variable annuity plans with the former company establishing plans for two clients and the latter setting up plans for forty-seven clients. The assets in these plans were valued at close to $1,500,000 on June 30, 1966.  

30Personal survey of writer of assets of variable annuity plans in Canada as conducted in mid-1966.
<table>
<thead>
<tr>
<th>Year</th>
<th>Unit Value Jan. 1</th>
<th>Variable Annuity $ Per Month</th>
<th>Fixed Annuity $ Per Month</th>
<th>Total Annuity*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>1.13**</td>
<td>66.81**</td>
<td>67.85</td>
<td>134.66</td>
</tr>
<tr>
<td>1966</td>
<td>1.42</td>
<td>83.95</td>
<td>67.85</td>
<td>151.80</td>
</tr>
<tr>
<td>1965</td>
<td>1.38</td>
<td>81.59</td>
<td>67.85</td>
<td>149.44</td>
</tr>
<tr>
<td>1964</td>
<td>1.21</td>
<td>71.53</td>
<td>67.85</td>
<td>139.38</td>
</tr>
<tr>
<td>1963</td>
<td>1.08</td>
<td>63.84</td>
<td>67.85</td>
<td>131.69</td>
</tr>
<tr>
<td>1962</td>
<td>1.21</td>
<td>71.53</td>
<td>67.85</td>
<td>139.38</td>
</tr>
<tr>
<td>1961</td>
<td>1.00</td>
<td>59.12</td>
<td>67.85</td>
<td>126.97</td>
</tr>
</tbody>
</table>

*Fixed-amount annuity purchased with same amount of money as variable plan in 1961.
**Based on average market value of units January 1 to mid-November, 1966.

The reason for the lack of activity, however, has not been legislative roadblocks, but rather the concept of a variable pension for retirees. It continues to be held by many life insurance companies in Canada that a variable pension, based somewhat on the whims of the emotional behavior of equity markets was not in line with commonly acceptable life insurance company business. Whereas, the Securities and Exchange Commission played a major role in the lethargic development of variable annuities in the United States, group variable annuity programs in Canada came under the jurisdiction of the Superintendent of Insurance of the Federal Government.

Within the last few years, there has been an increased interest among Canadian life insurance companies in the offering of individual variable annuity programs. As a result, by mid-1967, seven companies had introduced a type of "variable" insurance program. These companies are Canada Life, Industrial Life, National Life, Confederation Life, Empire Life, and Seaboard Life, and Norwich Union Life Insurance Company.\(^31\)

Typical of the programs offered with this variable insurance concept is the Univest Life Plan offered by Norwich Union. This plan is a combination life insurance policy and mutual fund contract.\(^32\)

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\(^{32}\) Robert Catherwood, "'Club' rules bent to Create this 'variable life insurance!'" Financial Post, April 30, 1966, p. 1.
Under the plan, the company allocates an individual's policy premiums into fixed-income investments and into a common stock fund. Whole life values are built up over the life of the policy based on the value of the fund. The value, of course, cannot be guaranteed in advance. The company would invest thirty-five per cent of the first premium and seventy per cent of each subsequent premium into the common stock investment fund. The remainder would be utilized to invest in the fixed income investments and to pay the expenses of the plan.

Where the plan is discontinued prior to retirement, a cash surrender value would be available from the plan based on the value of the employee's units in the overall investment fund. He might also decide to take a deferred paid-up whole life policy, the amount of which would be actuarially determined based on the credits accumulated up to the date of termination. This latter alternative would see the benefits paid when the employee eventually retired at age sixty-five regardless of the particular occupations or employers with whom the employee might be connected once leaving the Univest Plan.

While the plan is basically an insurance plan with variable insurance benefits based on the performance of the company's common stock fund, it is typical of the approach taken to provide individual variable annuities in Canada. This annuity feature is usually attached to the insurance contract as one of the options available to the individual policyholder.

As noted earlier, there is far less regulation of variable annuity programs in Canada than in the United States. Despite this, however, variable annuity plans have not been too important in Canada. An
indication of the growth of group insured programs was already given
and it noted that only the Industrial Life Assurance Company and the
National Life Insurance Company were actively engaged in issuing such
contracts in Canada by mid-1967. As noted also there were less than
fifty plans in operation on June 30, 1966. From interviews in Toronto,
Ontario with several pension consultants and with the Canadian Life
Insurance Company, indications showed that there was no appreciable
growth in this area during the last year.

The growth in the trusteed type of variable annuity has likewise
not been too impressive since its inception in 1959. Outside of Air
Canada, Canadian Pacific Airlines, and the Canadian subsidiary of
Warner Lambert Company, little interest has been shown in this type
of program.

Individual variable annuities have not been an important factor
in Canadian pension business. It has not been pushed too much by life
insurance companies, nor has there been any appreciable demand for this
type of program. Were there to be a sudden increased demand for individ­
ual variable annuities in Canada, there would be no legal or politi­
cal roadblocks. This type of program, if attached to an insurance con­
tract, as is the case in many variable life insurance contracts, comes
under the jurisdiction of the Superintendent of Insurance of the Fed­
eral Department of Insurance who has already indicated that such
policies may be introduced by life insurance companies in Canada.

Thus, variable annuity plans have not been too important in
Canada to this date. It is hoped in some circles, however, that the
increased activity created in the United States with the entrance of
the Equitable Life Insurance Society into the variable annuity area will have favorable influence on the acceptance of the variable concept in Canada in the years to come.

b. Segregated Accounts

In 1961, the Canadian and British Insurance Companies Act, as already noted, was amended to allow life insurance companies to hold funds which were separate from the general investment funds of the company. This enabled Canadian life insurance companies to establish equity funds so that they could be better able to compete with the pooled pension approach utilized so successfully by trust companies.

These separate account plans had previously been sought in the United States since 1956. The state of Connecticut was the first to give official authorization for such programs in 1959.

By 1965, twenty-three states had adopted such separate account legislation to cover life insurance companies, either in the variable annuity field or for the purpose of setting up segregated asset accounts for clients.33

Segregated or separate account plans have made it possible for life insurance companies to diversify their pension business by enabling them to offer to clients a plan which could provide the normal guaranteed deferred annuity portion of a retirement contract, through the utilization of employee contributions, and would also provide a fund completely separate from general insurance funds. These separate funds could be invested entirely in equity investments or in a combination

33Blakeslee, loc. cit., p. 56.
of debt and equity investments as the insurance company so desires and would involve only the employer's contributions under the particular plan.

The manner in which the benefit will eventually be paid under segregated accounts will be similar to the two alternatives available under the variable annuity arrangements. The first method will be the accumulation of units towards the credit of each employee under the plan with the value of the units determined by the market value of the assets in the segregated account up to the time of retirement. At that time, however, a fixed benefit would be purchased in the name of the retiree. This method is the so-called variable accumulation plan. The second method is the strict-variable annuity and calls for benefit payments based on the market value of the segregated account at the time the benefits are received during the retirement years. Hence, the payments will be variable ones depending on the performance of the equity investments in the segregated account. Unlike the trustee variable annuity, however, the retiree would be insured against the mortality risk.

In the survey of Canadian life insurance companies which was conducted by the writer in 1966, it was found that since the first segregated accounts were provided in 1961, a total of fourteen companies had entered this phase of pension planning by 1965. The number of companies utilizing this type of account increased eighteen times over the same period, increasing from eight companies in 1961 to one hundred forty-six in 1965. The book value of the assets in the accounts increased from just over one million dollars in 1961 to almost ninety-
four million dollars in 1965. These relationships are illustrated in Table 31.

TABLE 31
SEGREGATED PENSION ACCOUNTS IN CANADA, 1961 - 1965

<table>
<thead>
<tr>
<th></th>
<th>Number of Life Insurance Companies Writing Plans</th>
<th>Number of Segregated Plans in Operation</th>
<th>Market Value of Assets In Segregated Funds (000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>14</td>
<td>146</td>
<td>93,802</td>
</tr>
<tr>
<td>1964</td>
<td>12</td>
<td>97</td>
<td>53,583</td>
</tr>
<tr>
<td>1963</td>
<td>9</td>
<td>65</td>
<td>22,009</td>
</tr>
<tr>
<td>1962</td>
<td>7</td>
<td>39</td>
<td>4,531</td>
</tr>
<tr>
<td>1961</td>
<td>5</td>
<td>8</td>
<td>1,074</td>
</tr>
</tbody>
</table>

Source: Personal Survey of Life Insurance Companies in Canada conducted during summer of 1966.

A comparison of the personal survey with figures released by the Dominion Bureau of Statistics, as noted in Table 31 indicates that the December 31, 1965 book values of assets of segregated plans were almost identical. Table 32 provides a comparison of the book values and market values of the assets in segregated funds in both dollar and percentage terms for 1964 and 1965 and provides an indication of the weight given to equity investments in these segregated funds.

Just as in the case of the investment practices of life insurance companies underwriting pension plans in Canada, an analysis of the investments of the various companies, through their segregated funds, shows some quite interesting practices. For example, as noted in Table 33, American Life and Mutual Assurance Company of Canada had
### TABLE 32

**ASSETS OF SEGREGATED ACCOUNT PLANS IN CANADA, 1964 - 1965**

<table>
<thead>
<tr>
<th>Company</th>
<th>Book Values</th>
<th>Market Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt. of Canada</td>
<td>4,151</td>
<td>2,766</td>
</tr>
<tr>
<td>Provincial</td>
<td>4,696</td>
<td>3,698</td>
</tr>
<tr>
<td>Municipals</td>
<td>3,780</td>
<td>2,953</td>
</tr>
<tr>
<td>Other Canadian</td>
<td>21,115</td>
<td>14,297</td>
</tr>
<tr>
<td>Non-Canadian</td>
<td>281</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>34,023</td>
<td>23,714</td>
</tr>
<tr>
<td>Stocks:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian - Com.</td>
<td>24,854</td>
<td>11,642</td>
</tr>
<tr>
<td>Canadian - Pfd.</td>
<td>426</td>
<td>171</td>
</tr>
<tr>
<td>Non-Canadian - Com.</td>
<td>420</td>
<td>255</td>
</tr>
<tr>
<td>Total</td>
<td>25,700</td>
<td>12,068</td>
</tr>
<tr>
<td>Mortgages:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insured</td>
<td>3,013</td>
<td>2,875</td>
</tr>
<tr>
<td>Conventional</td>
<td>26,948</td>
<td>17,560</td>
</tr>
<tr>
<td>Total</td>
<td>29,971</td>
<td>20,435</td>
</tr>
<tr>
<td>Real Estate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4,110</td>
<td>1,621</td>
</tr>
<tr>
<td>Total Assets</td>
<td>93,803</td>
<td>57,858</td>
</tr>
</tbody>
</table>

### TABLE 33

**BREAKDOWN OF SEGREGATED FUNDS IN CANADA - 1964**

(000's)

<table>
<thead>
<tr>
<th>Company</th>
<th>Bonds Dollars</th>
<th>%</th>
<th>Mortgages Dollars</th>
<th>%</th>
<th>Stocks Dollars</th>
<th>%</th>
<th>Miscellaneous Dollars</th>
<th>%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada Life</td>
<td>1,257</td>
<td>42</td>
<td>982</td>
<td>33</td>
<td>713</td>
<td>24</td>
<td>55</td>
<td>2</td>
<td>3,007</td>
</tr>
<tr>
<td>Confederation Life</td>
<td>1,899</td>
<td>37</td>
<td>2,121</td>
<td>40</td>
<td>1,014</td>
<td>20</td>
<td>135</td>
<td>4</td>
<td>5,169</td>
</tr>
<tr>
<td>Crown Life</td>
<td>-</td>
<td>-</td>
<td>61</td>
<td>85</td>
<td>16</td>
<td>15</td>
<td>1</td>
<td>0</td>
<td>78</td>
</tr>
<tr>
<td>Great West Life</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>5</td>
<td>252</td>
<td>95</td>
<td>264</td>
</tr>
<tr>
<td>Imperial Life</td>
<td>1,048</td>
<td>31</td>
<td>1,086</td>
<td>32</td>
<td>1,143</td>
<td>34</td>
<td>81</td>
<td>3</td>
<td>3,358</td>
</tr>
<tr>
<td>London Life</td>
<td>210</td>
<td>16</td>
<td>713</td>
<td>53</td>
<td>357</td>
<td>27</td>
<td>55</td>
<td>4</td>
<td>1,336</td>
</tr>
<tr>
<td>Manufacturers Life</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>88</td>
<td>82</td>
<td>19</td>
<td>18</td>
<td>107</td>
</tr>
<tr>
<td>Mutual Life</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>475</td>
<td>97</td>
<td>14</td>
<td>3</td>
<td>489</td>
</tr>
<tr>
<td>National Life</td>
<td>4,929</td>
<td>42</td>
<td>2,957</td>
<td>25</td>
<td>3,553</td>
<td>30</td>
<td>314</td>
<td>3</td>
<td>11,754</td>
</tr>
<tr>
<td>North American Life</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,197</td>
<td>96</td>
<td>45</td>
<td>4</td>
<td>1,243</td>
</tr>
<tr>
<td>Sun Life</td>
<td>14,944</td>
<td>44</td>
<td>12,540</td>
<td>37</td>
<td>5,416</td>
<td>16</td>
<td>654</td>
<td>2</td>
<td>33,354</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>24,088</strong></td>
<td><strong>40</strong></td>
<td><strong>20,459</strong></td>
<td><strong>34</strong></td>
<td><strong>13,987</strong></td>
<td><strong>23</strong></td>
<td><strong>1,625</strong></td>
<td><strong>3</strong></td>
<td><strong>60,159</strong></td>
</tr>
</tbody>
</table>

*Source: Canada, Report of the Superintendent of Insurance for Canada, 1964, p. 18A.*
invested their segregated funds almost entirely in equities, four of
the remaining companies offering segregated funds had equity invest­
ments of less than twenty per cent of the book value of their funds.
Similar relationships as this exist in both bond and mortgage invest­
ments of the companies offering the segregated plans.

In considering the growth of these segregated funds, it is im­
portant to note that the 1961 legislation which enabled life insurance
companies to provide these accounts, did not create a new pension con­
cept. The segregated account is the way that trust accounts are held
and trusteed pension plans were typically invested this way through
the pooled pension programs. Instead the legislation enabled life
insurance companies to refer to a statutory ruling that they were able
to offer such accounts to the public.

The initial years of segregated plans have proven very encourag­
ing from the viewpoint of those companies adopting the arrangements.
In the future, this progress will undoubtedly continue as life insur­
ance companies become more and more aggressive following the relaxing
of investment regulations over the last decade. These plans tend to
indicate that life insurance companies intend to compete vigorously
with trust companies for the pension monies to be made available in
Canada as the private pension movement continues its growth.

II. INVESTMENTS OF TRUST COMPANIES

By the end of June, 1966, there were approximately sixty trust
companies in operation in Canada. Close to fifty of these were char­
tered by provincial acts and the balance by the Federal Government
through Acts of the Parliament of Canada. These Federally-incorporated
companies operate in various provinces under a system of licenses or registration required by the legislation of the provinces.\textsuperscript{34} Provincial-registered companies can qualify for the privilege of operating in other provinces by meeting the eligibility requirements established by those provinces. In any event, the extent to which any trust company, whether provincially or Federally registered, may carry on business in any province is governed by the regulations as set up in that province.

A. INVESTMENT POLICIES OF TRUST COMPANIES

Where the investment of trust monies is concerned, there is generally much more leeway afforded the trust company than that allowed to insurance companies. Essentially, the principal factors influencing the investment policies of trust companies, and hence trusteed pensions, are the fiduciary laws which affect all financial institutions and the contract which created the trust. Since the former follow somewhat along the lines of the "prudent man" theory prevalent in the United States, there is usually considerable latitude in the development of investment policies for the investment of pension funds by such companies.

The services of a trust company are usually sought for a number of reasons, the more important of which are included in the following: greater flexibility in the design of plans to suit individual requirements; relative ease in amendments to existing plans; close control over the contributions to pension plans; possibility of greater

\textsuperscript{34}Hood, loc. cit., p. 311.
investment returns than would be available under insured plans; and, the benefits of experienced management by actuaries, pension consultants, and administrators.\textsuperscript{35}

The factor of flexibility becomes most important when it is realized that the employer, through the proper wording of the trust agreement covering the benefit plan, can relieve the trust company from the responsibility of adhering strictly to the terms of financial institutional investment regulations.\textsuperscript{36} Thus, where it is not greatly restricted, the trust company can find itself in a position to design an investment program which has considerable breadth relative to the potential returns in terms of yield and capital appreciation.

With this in mind, it should follow that, inasmuch as trust companies have been in the pension area for almost half a century, there should have evolved a fairly definite set of investment objectives and policies relative to private pension funds. To bear out this contention, the writer conducted a survey during the latter half of 1966 in which all the Canadian trust companies which handle pension plans were queried as to their objectives and as to the source of responsibility for the investment decisions.

The survey comprised fifty-six trust companies then conducting trust business in Canada. Responses were received from thirty-nine companies of which eighteen were involved in administering pension programs. The eighteen were included in the top twenty-five trust companies


\textsuperscript{36}\textit{Ibid.}, p. 158.
in Canada as measured by the size of their assets at June 30, 1966. For this reason, it was felt that the responses were fairly representative of the policies and objectives of trust companies administering private pension plans in Canada at that time. The results of the survey were somewhat inconclusive as to the principal objectives and may be noted by reference to Table 34.

Seven of the companies indicated that over the last decade they effected changes in their previous objectives. However, the changes were evaluated on an over-all basis and tended to cancel each other out with one exception. In that particular case, the company indicated that it had changed its former objectives of safety of principal, capital appreciation, and diversification into a single comprehensive objective of long-run maximization of investment yield.

Where the administration of the pension plans was concerned, the eighteen respondents gave their companies' experiences. In thirteen of the companies, the trust company was given sole responsibility for investment decisions and in another, it had partial responsibility. Only two respondents indicated that the employer had sole responsibility for investment decisions, but four stated that the employer had some, even if minimal, influence on the investment decisions. The other two respondents administering plans, reported that the majority of the plans which they administered, had prime responsibility for investment decisions was delegated to a pension consultant in one case and to an individual trustee in the other.

From an analysis of the survey, it becomes evident that there is no well-defined set of objectives which can be accepted as being
TABLE 34
INVESTMENT OBJECTIVES OF TRUSTEED PENSION PLANS

<table>
<thead>
<tr>
<th>Objective</th>
<th>No. 1</th>
<th>No. 2</th>
<th>No. 3</th>
<th>Number of Times Listed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety of Principal</td>
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<td>5</td>
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<td>13</td>
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<tr>
<td>Adequacy of Income</td>
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<td>0</td>
<td>7</td>
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<tr>
<td>Capital Appreciation</td>
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<td>3</td>
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<td>12</td>
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<td>Diversification of Risk</td>
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<td>0</td>
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<td>7</td>
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<tr>
<td>Income Comparable with Cost-of-Living Increases</td>
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<td>4</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Stability of Income</td>
<td>18</td>
<td>16</td>
<td>15</td>
<td>49</td>
</tr>
</tbody>
</table>

*Two companies indicated only one objective.
**One other company indicated two objectives.

Source: Personal Survey of Investment Objectives of those Canadian Trust Companies which administer private pension plans. Survey was conducted during latter half of 1966 and encompassed fifty-six companies in all. Of the forty responses, eighteen companies administered private pension plans.
followed generally by Canadian trust companies relative to pension plan investments. It does appear, though, that safety of principal and capital appreciation are part of most investment programs. Safety of principal, adequacy of income, and capital appreciation seem to be the most popular of the objectives and appeared as the primary objectives in eighty-three per cent of the cases. The safety of principal objective appeared as one of the three objectives followed by thirteen of the eighteen respondents. To complicate matters, diversification of risk appeared as the primary objective in two cases and was mentioned by a total of seven companies as a factor in the determination of their investment policies.

On the basis of the results of the survey, then, the conclusion may be drawn that each trust company's investment policies are quite broad relative to the investment of pension monies accumulated through private pension plans. This tends to confirm the flexibility factor as an important advantage associated with the selection of the trustee method of pension funding. The presence of such a diverse set of objectives could also be attributed to the lack of any specific instructions in the contract. Hence, the trustee would have to operate within the bounds of the trustee statutes in vogue in the province wherein the trust company is operating.

In the next section, a brief resume will be given of the general powers of a trust company and then an explanation will be given of the regulations affecting pension plan investment policies as laid down by the Federal Government. A brief presentation of the trends evident in asset investments of trusteeed funds will then be given along with an analysis of such trends over the last decade.
B. INVESTMENT REGULATIONS

Trust companies are granted in their charter a number of definite powers which distinguish them from other financial institutions. A brief summary of the more important of such powers as related to this dissertation would include the following:

1) They may act as agents in managing property and collecting the income therefrom.

2) They may act as agents for counter-signing, registering and like activities related to the issuance and cancellation of security certificates.

3) They may act as executors, administrators, receivers, liquidators, custodians, and the like and as agents for such officers.

4) They may accept and execute all such trusts of every description, and nature as are entrusted to it by any government or person, or committed or transferred to it by the order of a judge.

5) They may hold securities as agent or trustee.

6) They may act as agent or attorney for winding up estates, receiving or collecting any principal, interest, rents, and other like collections and also as agents in the sale or purchase of any real or personal property and to generally act in all matters in the nature of a trust or general agency.

7) They may act as custodian for securities or other property.

8) They may act as investing and managing agent of estates and properties for and on behalf of executors, administrators, and trustees or other persons.

9) They may hold real estate or other collateral as security for loans or investments in conjunction with trust company functions of accepting and protecting customer deposits.37

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37 Canada, Revised Statutes of Canada, 1952, ch. 272, sec. 63 (a) through (i), pp. 5140-5142.
Trust companies raise their funds through issuance of capital stock and the retention of earnings (company funds); through acceptance of deposits (guaranteed funds); and by the acceptance of funds to cover estates, agencies and trust accounts. It is in this latter area wherein pension plans come under the administration of trust companies.

As a general rule, the investment outlets available for estate, trust or agency funds are governed by the terms of the contract creating the relationship. Where no specific mention is made in the instrument creating the arrangement, the outlet selected will usually be governed by the terms of the trustee act operating in the province wherein the trust, estate or agency is under administration. Even where such a trustee act is in effect, or considerable flexibility is allowed, the trustee under the terms of the trust agreement, the administrator is expected to conduct his investment activity in a manner similar to that which would be undertaken by a prudent man. In other words, his performance would be evaluated, among other ways, by his record of having made investments which, in the light of the prevailing circumstances, were reasonable and proper. 38

Where the trust agreement is not specific on the investment powers of the trustee, then, it is most likely that his policies will adhere quite closely to the Trustee Act existing in his particular province as far as und investment is concerned. Since these funds set up for pension plans are not guaranteed to the retirees as is

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38 Hood, loc. cit., p. 316.
the case with insured plans, the specific regulations of the Federal Trust Companies Act covering this type of trust agreement, and this is not too different from the various provincial acts, would be those regulations relative to the investment of "unguaranteed" trust money.

To provide some indication of the extent of the regulations governing such investments, a brief resume of the pertinent sections of the Trust Companies Act as noted in the Revised Statutes of Canada of 1952, Chapter 272. Subsequent amendments to the Act were effected in Chapter 10 of the 1953 Revised Act, Chapter 42 of the 1958 Act and Chapter 55 of the 1961 Revised Act.

Subject to any restrictions contained in the instrument creating the trust, a trust company may invest unguaranteed trust money in the following securities:

1) debentures, bonds, stocks, or other securities
   a) of or guaranteed by the Government of Canada,
   b) of or guaranteed by the government of a province,
   c) of or guaranteed by the Government of Great Britain and Northern Ireland or of any of Her Majesty's self-governing dominions or dependents,
   d) of or guaranteed by the Government of the United States or of a state thereof,
   e) of or guaranteed by the International Bank for Reconstruction and Development,
   f) of a municipal corporation in Canada,
   g) guaranteed by a municipal corporation in Canada,
   h) secured by rates or taxes levied under the authority of laws of a province on property situated in the province and collectible by the municipalities in which the property is situated.
Such investments may take place provided none are in default relative to principal or interest.

2) mortgages or hypothecs on freehold real estate in Canada and agreements for sale of such real estate but the amount paid for the mortgage, hypothec or agreement for sale together with the amount of the indebtedness under any mortgage, hypothec or agreement for sale ranking superior to the mortgage, hypothec or agreement for sale in which the investment is made, shall not exceed two-thirds of the real estate;

3) securities in which trustees are authorized by the laws of the province in which the trust is being administered to invest trust monies;

4) any such securities which are authorized by the instrument creating the trust agreement.

A trust company may land unguaranteed money on the security of those securities covered under paragraphs 1, 2, and 3 as available for investment purposes. It may also loan funds on the security of those other securities which are authorized by the instrument creating the trust and upon the security of freehold real estate in Canada. The amount of the loan together with the amount of indebtedness under any mortgage or hypothec on the real estate ranking superior to the loan shall not exceed two-thirds of the value of the real estate.\(^{39}\)

There is no restriction on the ability of the trustee to invest in common stocks where unguaranteed monies are concerned except that there can be no purchases made of employer common stock. Prior to 1956, trust companies were restricted to those investments available to life insurance companies in which case they were restricted to a

\(^{39}\)Canada, Revised Statutes of Canada, 1961, ch. 55, sec. 64, (1)(a)(i)(ii)(iii); (c)(i)(ii)(iii); (5).
maximum investment in common stock to fifteen per cent of the book
value of the pension plan's assets.

C. INVESTMENTS OF CANADIAN TRUST COMPANIES

1. Trends in Asset Portfolios

In viewing the investments of trusteed pension plans, it was
found that information was not generally made available for public
consumption until the decade following World War II. In addition,
the various legislative changes relative to the investment powers
afforded to trust companies along with the steady rise in the general
level of prices have seen trust companies vary their asset portfolios
somewhat in order to adjust to the changing times. The steady increase
in the value of equity securities on the various securities markets
has also played a role in enticing more investment in the line of
these securities, both from the viewpoints of trusteed pension plans
per se and trusteed pooled pension plans.

The legislative amendments affecting trust company investment
of pension funds as set up in 1961 along with the serious stock mar­
et setback in 1962 have tended to slow down the activity in this area
of investment opportunities.

The information in Tables 35 through 41 relative to the invest­
ments of trust companies for private pension plans was obtained for
the most part from the Dominion Bureau of Statistics and from the
Trust Companies Association of Canada. An analysis will be made of
these asset portfolios in the section immediately following the tables.
### TABLE 35

**ASSETS OF TRUSTEED PENSION PLANS**

**IN CANADA AT MARKET VALUE ($Millions) 1961 - 1965**

<table>
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<td>Bonds:</td>
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<td>Government</td>
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<td>547</td>
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<td>1,640</td>
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<td>587</td>
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<td>888</td>
<td>802</td>
<td>714</td>
<td>666</td>
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<td>4</td>
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<tr>
<td></td>
<td>4,070</td>
<td>3,855</td>
<td>3,525</td>
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<td>629</td>
<td>486</td>
<td>448</td>
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<td>Non-Canadian-Common</td>
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<td>158</td>
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<td></td>
<td>621</td>
<td>595</td>
<td>482</td>
<td>417</td>
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<td>Real Estate and Leasebacks</td>
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<td>357</td>
<td>254</td>
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<td>135</td>
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<td>72</td>
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<td>6,780</td>
<td>6,100</td>
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TABLE 36

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<tr>
<td><strong>Bonds:</strong></td>
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<td>609</td>
<td>602</td>
<td>654</td>
<td>591</td>
<td>496</td>
<td>481</td>
<td>469</td>
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<td>264</td>
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<td>546</td>
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<td>627</td>
<td>539</td>
<td>481</td>
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<td>1,642</td>
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<td>605</td>
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<td><strong>Stocks:</strong></td>
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<td>192</td>
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<tr>
<td><strong>Real Estate and Leasebacks</strong></td>
<td>44</td>
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<td>40</td>
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<td>29</td>
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<tr>
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<td>128</td>
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<td><strong>Totals</strong></td>
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<td>4,074</td>
<td>3,616</td>
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<td>2,460</td>
<td>2,000</td>
<td>833</td>
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*No information available for 1954-1955.*

TABLE 37

ASSETS OF CONTRIBUTORY TRUSTEED PENSION PLANS IN CANADA
1957 - 1965*, (Millions)

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*No breakdown of assets according to type of plan before 1956.

### TABLE 38

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*No breakdown according to type of plan before 1956.

### Table 39

**Percentage Breakdown of Assets of Trusted Pension Plans in Canada, 1952 - 1965**

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*No information available for 1954-1955.*

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Source: Table 37
## Table 41

**Percentage Breakdown of Assets of Non-Contribution Trusteed Pension Plans in Canada, 1956 - 1965**

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|                | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Table 38
2. Analysis of Trends in Asset Portfolios

In the analysis of trends relative to the asset portfolios of
trusteed pension plans in Canada, consideration will first be given
to the trend in the assets of all plans in operation in that country.
A breakdown will then be made of contributory and non-contributory
plans so that an insight may be gained as to the source of the dif­
ferent changes which have taken place in the asset compositions.
Tables 35 through 41 contain breakdov/ns in the asset structures of
trusied plans, first on a dollar basis and then on a percentage
basis. Table 35 shows the market value of the assets of trusteed
plans for the period 1961 through 1965. Tables 36 through 41, how­
ever, are stated on the basis of book values since this method was
used for valuing asset portfolios up to the end of 1964.

In the analysis which follows, the trends relative to the direc­
tion taken by the assets of all plans as well as the direction taken
by the assets of contributory plans will be discussed on a concurrent
basis.

a. Pooled Funds and Mutual Funds

These investment outlets have become an important factor in the
asset structures of trusteed pension plans in Canada. From a total
of $3,000,000 of pension monies invested in these funds in 1956, there
has been a phenomenal increase to over $460,000,000 in those accounts
by the end of 1965. Growth has been especially noticeable in the
area of pooled pension plans which were first introduced in 1956 and
which had reached $428,000,000 in assets by the end of 1965. On a
percentage basis, these outlets accounted for only one-tenth of one per cent of total trusteed pension assets in 1956. However, by the end of 1965, they accounted for 7 per cent of total trusteed assets.

Among contributory plans, the investment in pooled funds increased from $81,000,000 in 1960 to $283,000,000 by the end of 1965 or an increase of over 250 per cent. In terms of the percentage of assets, however, the increase went from 2.8 per cent in 1960 to 5.4 per cent in 1965.

For non-contributory plans, the increase in pooled fund investments was much more pronounced, increasing from $21,000,000 in 1960 to almost $145,000,000 in 1965. In terms of percentage of total assets of non-contributory plans, the increase went from 2.9 per cent in 1960 to 10.6 per cent in 1965.

Mutual fund investments doubled on a dollar basis from $29,000,000 to $58,000,000 during the 1960 to 1964 period, but eased up considerably in 1965. The trend, however, appears to have been the reverse of the situation evident with pooled pension plans. Almost all of the mutual fund investments from trusteed plans has evolved from contributory plans. Thus, of $32,000,000 of mutual fund investments at the end of 1965, $30,000,000 came from contributory plans. As a percentage of total trusteed pension assets, mutual funds accounted for under 1 per cent at the end of 1965, a figure slightly below that of the preceding four years.
b. Bonds

The trend in bond investments of trusteed pension plans has been quite similar to the investment patterns noted earlier with reference to the investments of life insurance companies. In 1952, these investments accounted for almost 85 per cent of the assets of trusteed plans. By 1960, this percentage had fallen to 77 per cent and by 1965, it decreased to 64.1 per cent.

Similar relationships can be found in bond investments in both contributory and non-contributory plans. In the former, the investment in bonds fell from 83 per cent of assets in 1956 to 66.6 per cent in 1965. In the latter case, the decrease went from 79 per cent to about 53 per cent.

Just as in the case of life insurance company investments, the area of greatest decrease in bond investments was in the holdings of Canadian Government bonds. These decreased from over 36 per cent of assets in 1952 to just over 23.5 per cent in 1956, to 18.1 per cent in 1960 and to 7.8 per cent in 1965.

In contributory plans, the decrease in Canadian Government bonds was almost identical to the situation with all plans. Investment in this area fell from 24 per cent in 1956 to 8.7 per cent in 1965. For non-contributory plans, the decrease went from 21 per cent in 1956 to 4.2 per cent in 1965.

There was no appreciable change in the investment in provincial bonds by trusteed pension plans between 1956 and 1965. On an over-all
basis, the percentage of assets invested in this form remained steady at approximately 33 to 35 per cent. For contributory plans, the level stood at 35 per cent and for non-contributory plans, it stood around 17 to 20 per cent.

Municipal bonds were also steady as a percentage of assets though not as stable as the experience with provincial bonds. On a percentage basis, there was a slight decrease from 12 per cent of assets in 1956 to 10 per cent in 1965. This decrease was noted in both the contributory and the non-contributory plans. The former fell from 11.6 per cent to 10.2 per cent. The latter fell from 13.5 per cent to 8.8 per cent.

The investment in all other bonds increased slightly over the period in question, from 14.8 per cent in 1956 to 15.7 per cent in 1965. Contributory plans increased their holdings in this category of investment from 12.4 per cent to 13.6 per cent over the period. However, non-contributory plan holdings of these bonds, which included corporate bonds, fell from 23.8 per cent to 22.2 per cent of assets over the period.

Several reasons might be given for the decrease in the importance of bonds as part of the asset portfolios of trusteed pensions. The first appears to be the favorable legislation affecting trustee activity in the investment area. In 1956, trust companies were released of the responsibility of limiting their investments to those eligible for life insurance companies under the Canadian and British
Life Insurance Companies Act. This gave trust companies considerable flexibility in that their investment limitations could be quite minimal and would depend, to a great deal, on the wording of the trust agreement between the company and the client. It should be noted also that pooled pensions were introduced in Canada in 1956. This led to a division of investment funds away from bonds. Indicative of this situation is the fact that from 1956 to 1965, trusteeed pension plan investments of bonds decreased by 67 per cent as a percentage of assets. This was almost completely accounted for by a 14 per cent combined increase as a percentage of assets by equity investments of the straight stock purchases and the pooled fund and mutual fund varieties. Added pressure for the reduction in bond investments came from the availability of insured residential mortgage investments yielding a return considerably in excess of that on most bond investments.

c. Stocks

This investment outlet has increased considerably in importance since the early 1950's. From $53,000,000 in 1952, total investment in stocks rose to $120,000,000 in 1956, to $261,000,000 in 1960, and to $993,000,000 by the end of 1965. As a percentage of assets, these equity holdings rose to 15 per cent of assets by the end of 1965 from 6 per cent in 1956.

Contributory plan investments in stocks rose from 4.4 per cent of assets in 1956 to 13 per cent in 1965. For non-contributory plans, the percentage figures show 12.5 per cent in 1956 and 23 per cent in
1965. These percentages show the tendency in Canada to invest employer contributions on a much more liberal basis than where employee contributions are concerned. Hence, more equity investments are purchased with employer funds.

Most stock investments are represented by Canadian common stocks. In 1956, Canadian common stocks accounted for 3.9 per cent of total assets. In 1965, this percentage was up to 12.1 per cent. For contributory plans, the percentage of Canadian common stocks to total assets was 2.7 per cent in 1956 and 10.6 per cent in 1965. For non-contributory plans, the respective percentages were 8.3 per cent and 17.7 per cent for 1956 and 1965.

The second most important stock investments were non-Canadian common stocks (primarily from the United States). These rose from less than one-half of one per cent of assets in 1956 to 2.6 per cent in 1965. Such investments for contributory plans rose from one-tenth of one per cent in 1956 to 2.1 per cent in 1965. For non-contributory plans, the related percentages for 1956 and 1965 were 1.1 per cent and 4.5 per cent.

Preferred stocks of both the domestic and foreign types have never really been very important in Canada as far as trusteeed plans have been concerned. In 1956, they accounted for about 1.8 per cent of assets, but by 1965, the percentage had fallen to eight-tenths of one per cent. Among contributory and non-contributory plans, the decrease was most notable among contributory plans where the percentage
of preferred stocks to total assets decreased from 2.9 per cent in 1956 to eight-tenths of one per cent in 1965.

The over-all trend relative to equity investments has thus been definitely upwards since 1956 in both the contributory and non-contributory plans. Almost every year during the 1956-1964 period, the combined over-all percentages of stock investments to total assets has been increasing. However, there was a decrease in the percentage of stocks to total assets for both contributory and non-contributory plans during 1960 and this adversely affected the trend for both types of plans. The trend has been quite positive since that time with the result that both the dollar value and the percentage breakdown of stock to total assets have been increasing. It might be noted that in 1960, funds flowed from equity investments back into bonds as the latter became a popular investment outlet inasmuch as the recession of the late 1950's in the United States had spilled over into Canada. As noted above, however, the flow of funds out of stocks and into bonds was short-lived and by 1961 it was reversed. The latter trend was still in vogue up to the end of 1965.

Thus, the combination of liberalization of investment regulations affecting investments of trustee plans, along with the desire of administrators of such plans to at least preserve the purchasing power of the pension plans entrusted to them, has seen this source of investment assets improve considerably in Canada over the period 1956 through 1965. An indication of the success at attaining the latter objectives
may be found from noting that the market value of the assets of trusted plans as noted in Table 35 was $6.8 billion at the end of 1965, while the book values of these assets was $6.6 billion.

d. Mortgages

The activity of trusted pension plans in this area has been primarily in residential mortgages which have been insured by the National Housing Act. The other principal type of loans, the conventional loan offered by commercial banks and credit unions, has remained constant as a percentage of total trusted pension assets between 1956 and 1965 at approximately 3.3 per cent. For contributory plans, the percentage has remained relatively stable, around 3.4 to 3.5 per cent though it did increase to 4.6 per cent in 1965 and for non-contributory plans it has remained constant at 1.7 per cent.

In insured residential mortgages, however, just as in the case of life insurance company investments, funds have been tapped from the bond markets, particularly Government bonds, into this outlet. On a dollar basis, the increase went from $53,000,000 in 1956 to $387,000,000 in 1965. Stated as a percentage of assets, the increase has gone from 2.6 per cent in 1956 to 5.4 per cent in 1965 on an overall basis. For contributory plans the increase went from 2.9 per cent of assets in 1956 to 6.1 per cent in 1965. For non-contributory plans, it went from 1.9 per cent in 1956 to 4.5 per cent in 1965.

Thus, it can very clearly be seen that the principal area of growth relative to mortgages has been in the insured residential
mortgage area. Two reasons for this would be the safety of principal over conventional bonds through the insured feature and the higher yield over government bonds available in these investments.

e. Miscellaneous Assets

This group of assets as an investment outlet has diminished considerably in importance during the 1956-1965 period, falling from 5 per cent of assets in 1956 to 3.7 per cent in 1965. Similar decreases were noted in both contributory and non-contributory plans. This is due primarily to the fund's retaining of certain minimum balances in cash and bank deposits over the years. As a group, these assets do not represent a very potent influence on over-all asset portfolios of trusteed plans.

f. Real Estate and Leasebacks

These investments have likewise served only a minor role in the asset trends of trusteed pension plans in Canada although they more than doubled in dollars invested between 1959 and 1965. The increase went from $18,000,000 in 1959 to $44,000,000 in 1965. In percentage terms, this represents an increase of only one-tenth of one per cent as a percentage of total assets of trusteed plans over the period in question—from six-tenths of one per cent to seven-tenths of one per cent of assets. Among non-contributory plans, however, the percentage has increased from three-tenths of one per cent of assets in 1959 to about 1.1 per cent in 1965. On a dollar basis, this represents an increase from $2,000,000 to $15,000,000. Most of this increase came in 1961 when new rules relative to the investment of trusteed pension plans in
real estate were introduced in Canada, through amendments to the 
Trust Companies Act.

The fact that most of the growth in real estate and leaseback 
investments has come from non-contributory plans shows once again the 
more liberal investment policies typically used with plans made up 
entirely of employer contributions.

3. Emergence of Newer Investment Outlets for Trusteed Pension Plans 
a. Pooled Pensions

As noted already, the trust industry in Canada introduced a 
very revolutionary concept in private pension programs in 1956 when it 
implemented the first so-called pooled pension plans.

Essentially, these were introduced to enable trust companies to 
gain a competitive advantage over life insurance companies in the 
private pension field by providing the smaller pension plans with the 
economy and diversification of risk given by huge purchasing facilities. 
Through pooled pension plans, assets from the pension plans of many 
employers are mingled in a common fund with the individual employers 
owning proportionate interests in such funds. Those trust companies 
which are geared to give individually-designed investment portfolios 
to small-sized plans usually establish many pooled funds with each 
specializing in a special type of investment. In this way, a small 
plan could have a different investment portfolio from another plan 
through using a different mix of pooled funds with each plan still 
getting the diversification, liquidity and economic investment

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management once only obtained by large plans. Examples of such pooled funds currently in operation are those of the Canada Trust Company and the Royal Trust Company. The Canada Trust Company offers five such plans. These include a fixed-income fund, an equity fund, a conventional mortgage fund, a National Housing Act mortgage fund, and an American equity fund. The Royal Trust Company offers five similar plans. These include a Canadian Government bond fund, a corporate fixed-income fund, a common stock fund, a National Housing Act mortgage fund and a conventional mortgage fund.

An indication of the spectacular growth of pooled pensions in the first decade of their existence may be garnered from noting that total assets administered under these plans in 1956 were $3,000,000 whereas in 1965, the amount had risen to approximately $480,000,000. Tables 42 and 43 show the growth in assets administered under pooled plans and sheds some light on the pertinent trends when viewed on a percentage basis.

Just as was the case in the investment patterns of Canadian life insurance companies and regular trusteed pension plans, there has been a decrease in the investment in bonds of pooled funds during the 1957-1965 period. This decrease has been made up by the increase in the investments in mortgages and stocks. However, there have been some noteworthy trends in the investments in these latter two assets.

First, the growth in mortgages has come from both the insured and conventional-type mortgages. Insured mortgages accounted for just over one-half of one per cent of the assets of pooled funds in 1957 whereas they accounted for 10 per cent in 1965. However, it
TABLE 42
ASSETS OF TRUSTEED POOLED PENSION PLANS
IN CANADA, 1957 - 1965 (Millions)

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<tr>
<td>Other Canadian</td>
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<td>91</td>
<td>74</td>
<td>57</td>
<td>47</td>
<td>37</td>
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<tr>
<td>Totals</td>
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<td>135</td>
<td>111</td>
<td>90</td>
<td>75</td>
<td>57</td>
<td>38</td>
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<td>1</td>
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<td>10</td>
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<tr>
<td>Totals</td>
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<td>73</td>
<td>52</td>
<td>39</td>
<td>25</td>
<td>16</td>
<td>8</td>
<td>3</td>
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<td>Conventional</td>
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<td>13</td>
<td>8</td>
<td>5</td>
<td>3</td>
<td>2</td>
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<tr>
<td>Totals</td>
<td>187</td>
<td>117</td>
<td>72</td>
<td>44</td>
<td>22</td>
<td>9</td>
<td>7</td>
<td>4</td>
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<td>Real Estate and Leasebacks</td>
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<td>-</td>
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<tr>
<td>Totals</td>
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<td>260</td>
<td>192</td>
<td>137</td>
<td>94</td>
<td>63</td>
<td>37</td>
<td>16</td>
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</table>

### TABLE 43

**PERCENTAGE BREAKDOWN OF ASSETS OF TRUSTED
POOLED PENSION PLANS IN CANADA, 1957 - 1965**

<table>
<thead>
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<tbody>
<tr>
<td><strong>Bonds:</strong></td>
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<tr>
<td>Governments</td>
<td>1.4</td>
<td>1.6</td>
<td>2.1</td>
<td>2.6</td>
<td>3.7</td>
<td>4.7</td>
<td>4.9</td>
<td>3.8</td>
<td>3.2</td>
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<tr>
<td>Provincials</td>
<td>6.9</td>
<td>8.6</td>
<td>9.4</td>
<td>11.3</td>
<td>12.9</td>
<td>12.8</td>
<td>11.7</td>
<td>11.1</td>
<td>15.1</td>
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<tr>
<td>Municipals</td>
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<td>2.4</td>
<td>2.8</td>
<td>3.3</td>
<td>3.1</td>
<td>4.2</td>
<td>4.7</td>
<td>4.6</td>
<td>4.8</td>
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<tr>
<td>Other Canadian</td>
<td>23.0</td>
<td>25.9</td>
<td>28.3</td>
<td>29.7</td>
<td>34.5</td>
<td>39.5</td>
<td>39.4</td>
<td>43.9</td>
<td>47.0</td>
</tr>
<tr>
<td>Non-Canadian</td>
<td>0.1</td>
<td>-</td>
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</tr>
<tr>
<td><strong>Total:</strong></td>
<td>33.2</td>
<td>38.5</td>
<td>42.6</td>
<td>46.9</td>
<td>54.3</td>
<td>61.2</td>
<td>60.8</td>
<td>63.4</td>
<td>70.2</td>
</tr>
</tbody>
</table>

| **Stocks:** |       |       |       |       |       |       |       |       |       |
| Can.-Common | 19.9  | 20.4  | 22.0  | 22.0  | 24.0  | 22.2  | 21.4  | 19.8  | 15.7  |
| -Pfd. | 0.4  | 0.3   | 0.3   | 0.3   | 0.4   | 0.3   | 0.4   | 0.8   | 1.9   |
| Non-Can.-Com. | 5.6 | 5.6 | 5.7 | 5.1 | 4.2 | 4.3 | 3.8 | 2.4 | 1.3 |
| -Pfd. |       |       |       |       |       |       |       |       |       |
| **Total:** | 25.9  | 26.3  | 28.0  | 27.4  | 28.5  | 26.9  | 25.8  | 23.0  | 18.9  |

| **Mortgages:** |       |       |       |       |       |       |       |       |       |
| Insured | 10.0  | 12.6  | 12.8  | 11.5  | 6.4   | 1.9   | 3.0   | 4.1   | 0.6   |
| Conventional | 28.9  | 20.9  | 14.7  | 11.3  | 4.3   | 8.0   | 7.6   | 6.8   | 9.4   |
| **Total:** | 38.9  | 33.5  | 27.5  | 27.8  | 15.7  | 9.4   | 10.6  | 10.9  | 10.0  |

| **Real Estate and Leasebacks** |       |       |       |       |       |       |       |       |       |
| 0.2 | 0.5 | 0.2 | 0.3 | - | - | - | - | - |

| **Miscellaneous** |       |       |       |       |       |       |       |       |       |
| 1.8 | 1.2 | 1.7 | 2.6 | 1.5 | 2.1 | 2.7 | 2.7 | 0.8 |
| **Total:** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source: Table 42*
is in the area of conventional mortgages wherein the investment trend is most noticeable. As a percentage of total assets, these mortgages accounted for 9.4 per cent in 1957, but were almost 29 per cent in 1965. Conventional mortgages represented the highest commitment of funds of pooled pension plans at the end of 1965.

With regard to the investments of pooled pension plans in equity investments, there has been relatively little growth since 1959 on a percentage of assets basis. The increase in dollars was from just over $16,000,000 in 1959 to over $125,000,000 by the end of 1964. On a percentage basis, stocks increased from 25.8 per cent of assets in 1959 to only 25.9 per cent in 1965. If any trends are noticeable relative to these investments, it is in the makeup of the stock investments. Canadian common stocks had been decreasing somewhat since 1961, from 24 per cent of assets to 19.9 per cent in 1965. Non-Canadian common stocks increased by 1.4 per cent of assets over the same period, but were not extensive enough to prevent a drop in the percentage of stocks to total assets from 28.5 per cent in 1961 to 25.9 per cent in 1965.

The reasons for the slight drop in the percentage of stocks to total assets is due somewhat to the market scare of 1962 when the first taste of adverse market conditions hit mutual funds and pooled funds alike. In addition, discussions with pension consultants in Toronto, Ontario, in August, 1967 indicated that there has been
considerable switching of clients' accounts from regular trusteed plans into pooled accounts. Thus, accounts which previously been invested heavily in mortgages were switched to pooled accounts and with the result that the percentage of mortgage investments to total assets has been increasing steadily since the early 1960's. In addition, many trust companies are also mortgage companies such that when the mortgage market becomes tight, the trust division of these companies has typically invested both ordinary trusteed accounts and pooled accounts in this area. On a dollar basis, equity investments have not had as poor a showing as might have been first presumed. From an investment of just under $3,000,000 in equities in 1957, pooled funds had an investment in equities of close to $125,000,000 by the end of 1965.

It is interesting to note from Table 43 that the combined decrease in bonds and equities as a percentage of assets was almost exactly met by the increase in the importance of mortgages as a percent of assets for the period 1961-1965. The decrease in the former had amounted to 24 per cent whereas the increase in the latter was about 23.2 per cent.

b. Mutual Funds

Mutual fund investing in Canada has really come into its own during the last two decades. From a total investment of little over

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$20,000,000 in 1945, there has been a fantastic increase to $1,000,000,700 at the end of 1964. 42

This growth has also been noted in the investments of trusteeed pension plans in that by the end of 1964, pension plans had invested $58,000,000 in such funds. This represented an increase of about 100 per cent since 1960.

Various means are available to undertake such investments, but several trends have been noted within the last few years. The simplest method, of course, would find the trust company or an insurance company, as the case may be, investing in mutual funds available on the registered exchanges or on the over-the-counter markets in Canada or the United States. Of late, however, it has been noted that both trust companies and insurance companies have started their own funds. Through keeping such assets segregated from the other assets of their companies, they have been able to find a profitable outlet for investing pension monies. From the trust company point of view, the Canada Trust, the Eastern and Chartered Trust, the Guaranty Trust and the Waterloo Trust companies all have equity funds under their management. 43 Other trust companies with different varieties of mutual funds administered include the Metropolitan Trust, the Montreal Trust, the Royal Trust, and the National Trust Companies.

Life insurance companies active in this area include the Imperial Life Assurance Company of Canada through its parent company, Celco

Enterprises, which owns Imperial Life and the Investors Group Investment Companies. The most revolutionary plan utilizing mutual fund investments is probably that offered by the Norwich Union Life Insurance Company and which has already been referred to in the treatment of life insurance companies earlier in this Chapter. As mentioned then, the company's plan, referred to as the Univest Plan, is a combination life insurance policy and mutual fund contract.

The rapid growth in mutual fund investment is all the more remarkable when one notes that the market downturn of 1962 has an extremely dampening effect on the theory of equity investments for retirement plan purposes. While variable annuities and segregated fund pension arrangement provided by life insurance companies were felt to have been adversely affected by the aforesaid downtown, the same cannot be said of the growth in the popularity of either the mutual funds or the pooled pension concept as far as equity investments for private pension plans are concerned.

In Table 36, it was noted that mutual fund investments by trust companies had doubled between 1960 and 1964. In addition, when added to pooled fund investments, these two media accounted for $382,000,000 in investments by the end of 1964. In percentage terms, they accounted for almost 7 per cent of the investments of trusteeed pension plans as compared with just over one-half of one per cent in 1957 and just over 2 per cent in 1960. During 1965, the assets of trusteeed plans in the form of mutual funds decreased to $32,000,000. It should be noted, however, that much of this decrease has been caused by a transfer of

\[44\] Ibid.
accounts previously listed by the Dominion Bureau of Statistics as mutual funds into pooled funds, which form the accounts now assume.

One trend which has continued in this area relative to trends evident in pooled fund investing is that whereas most of the activity in pooled accounts originates from non-contributory plans, the greater proportion of mutual fund business for pension plans originates from contributory plans.

III. PERFORMANCE MEASUREMENT OF PRIVATE PENSION PLANS

A. GENERAL APPROACHES

Over the last decade, there has been considerable attention given in financial writings to the importance of measuring the performance of administrators in the investment of the huge sums which have been furnished by private pension plans. Because of this, various authors have suggested methods which would best typify accurate measures of such performance.

By their nature, private pension plans need special consideration when the manner of investment performance is to be evaluated. The underlying objective behind over-all administration of pension plans is to meet the agreed upon benefit schedule upon the retirement of plan members. Unfortunately, all too many observers seem to believe that the best measurement of pension investment management is the over-all yield on the funds employed. With a pension plan, however, one must realize that the guiding principal behind the design of investment portfolios should be that benefits will have to be provided at some definite future date. Hence, safety of principal must be given priority over other objectives.
In the personal survey conducted in the latter half of 1966, it was noted that in addition to safety of principal, the administrators or underwriters of Canadian pension plans adhered to some of the following objectives: stability of income; adequacy of income; diversification of risk; income comparable to cost-of-living changes; capital appreciation; and a number of others. In judging the performance of pension fund investment management, then, the results obtained on a quantitative basis must be tempered to consider the objectives of the administrator. For example, those administrators whose principal objective has been stated as safety of principal should, all other things being equal, realize a lower yield than those plans aspiring towards adequacy of income or capital appreciation as the principal objectives. Unfortunately, it is not simple to measure accurately this subjective aspect relative to comparison of different objectives. Hence, the type of plan designed and whether the company itself is interested in having the plan provide certain benefits at the lowest cost or whether it wishes the highest return or other objectives for a set contribution level must be borne in mind when the performance of investment management is being evaluated. In addition, trust companies typically are less regulated in investment matters than are insurance companies. For this reason, the former would be expected to outperform the insurance companies from an investment viewpoint because of the wider range of investments available to them. The insurance companies, on the other hand, guarantee their benefit schedules for the most part and this fact will warrant due consideration in comparing trust company investment performance with that of life insurance companies. The ability of trust companies to keep all pension plan accounts separate from the general
funds of the company provides closer control over the accounts than can be accomplished by life insurance companies who are still in the initial years of setting up separate accounts for pension monies so that they are not all allocable to the general funds of the insurance companies.

Other factors which complicate the measurement of pension fund performance are the varying dates of inception, inconsistencies in the timing of contributions and pension payments. Many plans will, in addition, be considerably affected by the investment philosophies of the employer or trustee or the labor union if the plan covers a number of companies' employees who are members of a common labor union.

With these drawbacks in mind, a brief overview of the many performance measurements now utilized on a general basis will be presented and the area of consideration will then be to the methods employed by Canadian insurance companies and trust companies for competition of investment yields. A brief look will then be given to the results of investments by the Canadian insurance and trust companies in terms of yields experienced.

B. ACCEPTED PERFORMANCE YARDSTICKS

1. Compound Rate of Return Approach

Under this approach, the basic idea is that the pension fund derives its income from the invested accumulation of net contributions. The efficiency of the management of the invested contributions can be determined by compounding the income where the ending market value of the fund's assets is equated to a series of net contributions over several time periods by means of a compound interest rate which would
be the unknown factor. In terms of a formula, the following would suffice:

\[ M_2 = C_1 + (1 + i)^n + C_2 (1 + i)^{n-1} \ldots + C_n (1 + i) \]

Where \( M_2 \) is the ending value of the fund,
\( C \) is the net contribution payments per period,
\( n \) is each year,
\( i \) is the rate of return to be computed through the formula.

The measurement is utilized to inform the employer corporation whether or not it would have been better to deposit the contributions in a bank or insurance company. The measure has limited utility in that the resultant solution can be compared only with the return on another pension plan. However, since it is a readily understandable method and requires only a minimum of information for calculation, it tends to be used often by trustees and other administrators.

Among those who oppose this method on theoretical grounds, the principal reasons arise from the failure of the approach to give consideration to the factor of risk and the fact that the results from using this method will be considerably affected by the timing of the contributions to the administrator for investment. Those contributions made to the administrator shortly before a market rise will lead to a high rate of return for the fund. Those contributions made just before a market downturn will lead to a low rate of return for the fund. Thus, if compounding were used, the results would illustrate the effectiveness of the corporation's good timing and the administrator's good

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fortune rather than his investment ability. The underlying assumption is the use of the method is that all contributions and withdrawals from the fund are made at the middle of each year—an assumption which somewhat limits the theoretical value of the computation.

2. Income on Income Approach

This approach is very similar to the Compound Rate of Return approach with only one major exception. It assumes semi-annual compounding in the year that a net contribution is earned and annual compounding thereafter. The income earned in one year earns income on itself in each subsequent year but earns nothing further in the year of receipt.

Most opponents of this approach assert that the additional feature of the semi-annual compounding either adds little to improving the measurement from a theoretical standpoint or, if warranted, it may be built into the Compound Rate approach.

3. Trend of Value Approach

This method attempts to measure investment performance in terms of the trend of a pension fund's market values either through a series of compound or average rates of return or by fitting a curve to the trend of market values directly. The method seeks to summarize the


47 McCandlish, loc. cit., p. 106.


direction and degree of change in a pension fund's market value and in this way seeks to account for the past experience and present situation of the fund. The use of the least squares method of constructing the trend line allows for the plotting of a secular trend of a time series from which the squared deviations are least with a measurement which is directly comparable to similar measurements of other performances regardless of the units of measure or the magnitude of the figures. In this regard, the fund's performance may be compared with an economic index such as the Gross National Product or the trend in consumer prices.

Opponents of this method state that it can be extremely misleading because of its basic tenets. An assumption in the use of the method is that all the net contributions to the fund have been made in the first year. Thus, a fund which saw net contributions during each year of its existence would possess a built-in downward bias where this method is employed. In addition, the method would be biased most against those plans where the contributions were growing as the plan became older.

It is also pointed out that for effective trend line usage, the time period coverage should be fairly representative or long enough to provide meaningful results. Where pension funds are concerned, the concept of pension fund growth rates is compatible with the classical definition of trend, but the time period which has elapsed since

50 Ibid., p. 108.

51 Bower and Williamson, loc. cit., p. 146; Dietz, loc. cit., p. 85.
pension fund performance measurement assumed any great significance has been so short that there could be very little confidence afforded any trends relative to the direction of these rates.\textsuperscript{52}

In support of this evaluation method, it may be said that the advantage of trend values stems primarily from the fact that it diminishes the importance of selecting specific beginning and ending periods. Since it is only a statistical illustration of actual results and would be unlikely to pass through the beginning and ending periods under consideration, it is generally felt that it gives only a general method of performance measurement and should not be utilized for specific decision-making purposes.

4. Equivalent Approach

This method is used quite extensively and attempts to compare the performance of the pension plan with some independent index. One such approach would find the construction of an index from the Dow Jones Averages or the Standard and Poor’s Index for bond and stock prices in proportions corresponding to the pension fund’s own mix.\textsuperscript{53}

In using this measurement, however, one encounters the age-old problem of buying the averages. Even in comparative terms, the method suffers in that the pension fund manager or administrator is being evaluated by a performance measurement which cannot by definition correspond exactly to a pension plan in terms of functions and objectives.

This method has been suggested in some circles along the lines of comparing the yield on the fund with the trend of yields on government

\textsuperscript{52}Dietz, \textit{loc. cit.}, p. 86.

Here it is suggested that the plan performance be compared with the current yield on government bonds on the basis of a compound interest yield. The actual value of the fund at any time would then be compared to the value of the fund had it been invested in the government bonds over its life assuming the same contribution schedule in either the theoretical or the actual cases. If the theoretical value exceeded the actual value at the time of measurement, this would be a sign to liquidate the fund and invest in the government bonds for the higher yield.

This approach would, of course, only serve to minimize the loss otherwise occurring in the particular construction of the pension fund portfolio. As an otherwise effective yardstick measuring the performance of the pension administrator it would have limited utility.

5. Average Return on Investment Approach

The Average Rate of Return approach is the simplest and, hence, by far the one most often used for evaluating the investment performance of pension plans.

Under this approach, a formula is utilized whereby the total earnings of the fund, including the interest and dividends earned as well as the realized capital gains or losses on the sale of securities and other fund assets during the period under review are divided by the average market value of the fund's assets for the specified period. Many formulas have been utilized for this purpose, but each provides

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the identical result since the same inputs are utilized to compute the yield in question.

Among the most common formulas used for this method are the following:

a) Average Yield = \( \frac{I}{A + K(B-I-A)} \)

Where \( I \) = Total income from the fund,
\( A \) = Market value of the fund at the beginning of the period,
\( K \) = Fraction of the year during which net new contributions have been invested,
\( B \) = Market value of the fund at the end of the period.

b) Average Yield = \( \frac{I}{\frac{1}{2}(A+B)-\frac{1}{2}I} \)

Where \( I \) = Total income from the fund,
\( A \) = Market value of the fund at the beginning of the period,
\( B \) = Market value of the fund at the end of the period.

An assumption is also made that the income is earned over the full period.

c) Average Yield = \( \frac{2I}{(A + B - I)} \)

Where the assumptions are the same as in b).

d) Average Yield = \( \frac{MV_2 - MV_1 - NC}{MV_1 + \frac{1}{2}NC} \)

Where \( MV_2 \) = Market value of the fund at the end of the period,
\( MV_1 \) = Market value of the fund at the beginning of the period,
\( NC \) = Net contributions which are made evenly throughout the period.
e) Average Yield = \[
\frac{EMV - (BMV + TNC)}{BMV + 1QNC + 2QNC + 3QNC + 4QNC}
\]

Where EMV = Ending market value of the fund,
BMV = Beginning market value of the fund,
TNC = Total net contributions,
QNC = Specific contributions per quarter of the period.

Slight adjustments have been made from time to time to compute the yield on the equity portion only of the particular portfolio. In addition, compounding has sometimes been utilized not only where the average method was used on a year by year basis but where the comparison is desired for a number of years between different portfolios in the same company or between the portfolios of different companies.

6. Weighted Return Approach

Under this approach, which has been suggested in some circles, an attempt has been made to weight the annual contributions made to all funds under administration by taking the rate of return from each fund administered applying it to the total annual contributions and discovering which fund outpaced the others. The comparisons would,

\[55\]
\[56\]
\[57\]
of course, give consideration to the objectives sought by each plan.

For example, suppose that XYZ Company was contributing to two funds
and that the contributions to each were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund X Contribution</th>
<th>Market Value on first day of year</th>
<th>Rate of Return</th>
<th>Fund Y Contribution</th>
<th>Market Value on first day of year</th>
<th>Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>800</td>
<td>904.00</td>
<td>+13%</td>
<td>1200</td>
<td>1404.00</td>
<td>+17%</td>
</tr>
<tr>
<td>2</td>
<td>600</td>
<td>1158.08</td>
<td>-23%</td>
<td>100</td>
<td>947.52</td>
<td>-37%</td>
</tr>
<tr>
<td>3</td>
<td>600</td>
<td>1916.31</td>
<td>+ 9%</td>
<td>300</td>
<td>1384.75</td>
<td>+11%</td>
</tr>
<tr>
<td>4</td>
<td>600</td>
<td>3346.69</td>
<td>+33%</td>
<td>1400</td>
<td>4093.58</td>
<td>+47%</td>
</tr>
</tbody>
</table>

**Fund X**

Average Return: 5.98%
Compounded Return: 9.89%

**Fund Y**

Average Return: 4.72%
Compounded Return: 13.29%

### WEIGHTED APPROACH

<table>
<thead>
<tr>
<th>Net Contributions</th>
<th>Investment at End of Year</th>
<th>Return on Fund X</th>
<th>Market Value End of Year (Inv. X Return)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2000.00</td>
<td>$2000.00</td>
<td>1.13%</td>
<td>$2260.00</td>
</tr>
<tr>
<td>700.00</td>
<td>2960.00</td>
<td>0.77</td>
<td>2279.20</td>
</tr>
<tr>
<td>900.00</td>
<td>3179.20</td>
<td>1.09</td>
<td>2365.33</td>
</tr>
<tr>
<td>2000.00</td>
<td>5465.33</td>
<td>1.33</td>
<td>7268.89</td>
</tr>
</tbody>
</table>

### WEIGHTED RETURN

\[ \$7268.89 = \$2000 \left(1 + R\right)^4 + \$700 \left(1 + R\right)^3 + \$900 \left(1 + R\right)^2 + \$2000 \left(1 + R\right)^1 \]

\[ R = 10.69\% \]

<table>
<thead>
<tr>
<th>Net Contributions</th>
<th>Investment at End of Year</th>
<th>Return on Fund Y</th>
<th>Market Value End of Year (Inv. Y Return)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2000.00</td>
<td>$2000.00</td>
<td>1.17%</td>
<td>$2340.00</td>
</tr>
<tr>
<td>700.00</td>
<td>3040.00</td>
<td>0.63</td>
<td>1915.20</td>
</tr>
<tr>
<td>900.00</td>
<td>2815.20</td>
<td>1.11</td>
<td>3124.87</td>
</tr>
<tr>
<td>2000.00</td>
<td>5124.87</td>
<td>1.47</td>
<td>7533.84</td>
</tr>
</tbody>
</table>
$7533.84 = $2000 \ (1 + R)^4 + $700 \ (1 + R)^3 + $900 \ (1 + R)^2 + $2000 \ (1 + R)^1 \\
R = 12.19\% \\

It is felt by the proponents of this approach that it is especially useful because it gives proper modification to the average return's equal weighting for each year and avoids the compound rate of return's error in giving each fund an individual weighting system based on the net contributions to that fund. Thus, it would serve to indicate to the employer company which fund would have left him in the better financial condition if all net contributions had been given to just one manager. 58

IV. CANADIAN EXPERIENCE RELATIVE TO RATE OF RETURN MEASUREMENTS

A. INSURANCE COMPANIES

The methods utilized by the Canadian life insurance companies are similar to those used in the United States. In the personal survey of the investment policies and methods of computing investment returns, conducted during the latter half of 1966, twenty-eight of the thirty-three insurance companies, who indicated the method by which returns were measured, stated that they followed the Average Rate of Return approach as required in annual reports to the Superintendent of Insurance. The formula used was as follows:

Rate of Return = \frac{2I}{A + B - I}

Where
I = The total income of the fund,
A = Market value of the fund at the beginning of the period,
B = Market value of the fund at the end of the period.

The assumption is also made that the income is earned equally over the full period.

In several instances, companies indicated that, while utilizing the formula given above, they included in the income factor only the interest and dividends earned during the period. Capital appreciation and capital gains are not included in the figure to be used as income for the period.

Other companies indicated that their approaches differed depending on whether they were reporting to the Department of Insurance on the return of group annuities or whether they were reporting other types of plans. For government purposes, they used the average return basis but otherwise they used a "New Money Rate" approach. One other company used an "Investment Year" approach and another a "Weighted Average" of net rates of interest earned on each class of investment.

The "New Money Rate" approach is utilized by several companies for measuring the return on deposit administration accounts. It is based on the theory that in each year a certain amount of new funds finds its way into the pension assets of a company. Such money is invested and bears interest on a compound basis and this provides more investment funds. A consulting actuary determines the actual size of the deposit and interest is credited to the deposit administration account on a new money system using a fifteen year "roll-over" period.59 This rate is declared after the end of the calendar year based on a study of the year's investment transactions. The resulting assets are guaranteed for annuity payments and one company

59 Information presented in questionnaire response from the Great-West Life Assurance Company, Winnipeg, Manitoba.
offered a minimum interest rate guarantee on the account for the first five and one-half years of its existence. The rates actually credited by that company in this program from 1961 to 1965 were five and sixty-seven one hundredths per cent, five and sixty-five one hundredths per cent, five and eighty-six one hundredths per cent, five and eighty-six one hundredths per cent, and six per cent respectively.

The "Investment Year" method is used where group annuity contracts are being considered. It is a method for allocating investment income among lines of insurance and annuity business and was first adopted for allocating investment income for dividend purposes among group annuity policyholders. It identifies the interest rates realized on investments made in different years, commencing with the beginning of the plan. The funds made available for new investments each year receive the earnings based on the new investments made in that year. Thus, this approach is similar to the new money approach except that it is designed towards group annuity rather than deposit administration plans.

Those companies which sold segregated accounts indicated that the method they used for computing investment return rates followed closely along the lines of the average return. The net change in the segregated account from the beginning of the year and the end less the new contributions during the year served as the investment figure. The return figure was comprised of interest and dividends. In some cases, unrealized capital gains also were included in the return figure.

---

60 Information presented in questionnaire response from the Prudential Life Assurance Company of America, Toronto, Ontario.
In the section illustrating investment yields as experienced by life insurance companies in Canada since 1960, a breakdown will be given of the rates earned on typical life insurance accounts as well as a further breakdown on some of the yields experienced on segregated accounts.

B. TRUST COMPANIES

Trust companies in Canada are utilizing, in most cases, the average return method as indicative of the manner in which the rate of return on investments is computed. In the 1966 survey, already mentioned with regard to insurance companies, most trust companies responding to the questionnaires stated that they followed the basic average return approach and gave no credit directly to unrealized capital gains. This seems to bear out the experience relative to insurance companies using this measure. Other companies show the gross return on investment by including the unrealized capital gains on their pension trust investments and then also provide net results by disregarding these unrealized gains.

In most, if not all, cases the trust companies will incorporate the compounding interest factor into the average rate in order to give a clearer picture of the trend in the returns over a certain time period.

In the case of pooled pension plans, most companies followed one or the other or both of the following methods: average income on book value of the pension assets, and average income on market value of the pension assets. A few companies weighted the returns in terms of frequency of cash flows relative to the funds considered
and one computed its rate on the basis of a hypothetical investment made each quarter into the pension pool.

As in the case of insurance companies, the following section on investment yields will provide an indication of the investment experiences of trust companies through trusteed pension plans per se and also of pooled pension plans.

V. YIELDS EXPERIENCES ON INVESTMENT OF PENSION MONIES BY CANADIAN LIFE INSURANCE COMPANIES AND TRUST COMPANIES

In this section on the investments of private pension plans in Canada, a brief review will be given of the investment yields which have been realized through the investments of insurance companies and trust companies. These returns do not represent confidential information since they are published on an annual basis by the Financial Post, the Canadian financial weekly. Hence, the companies may be identified by name, in the case of insurance companies at least, without divulging information not otherwise available to the public. The yield experiences are illustrated in Tables 44, 45, and 46.

It is interesting to note the somewhat higher yields which insurance companies earn in Canada over similar companies in the United States. This is due primarily to the higher borrowing costs in Canada. Hence, a better than six per cent yield on investments by a Canadian life insurance company does not necessarily mean that the firm is involved in a reckless investment program. Rather it would show both the higher costs of borrowing in Canada, the risk factor involved in many Canadian investments, and the ability of the investor to adopt a more liberal policy for investments than is generally available in many countries.
TABLE 44

YIELDS ON INVESTMENTS REALIZED BY CANADIAN LIFE INSURANCE COMPANIES FOR THE PERIOD 1960 - 1965

(The First Thirty-one Companies are Listed in Descending Order of 1966 Asset Size.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sun Life</td>
<td>5.83</td>
<td>5.65</td>
<td>5.52</td>
<td>5.44</td>
</tr>
<tr>
<td>2.</td>
<td>London Life</td>
<td>5.76</td>
<td>5.72</td>
<td>5.54</td>
<td>5.46</td>
</tr>
<tr>
<td>3.</td>
<td>Metropolitan Life*</td>
<td>4.64</td>
<td>4.54</td>
<td>4.45</td>
<td>4.36</td>
</tr>
<tr>
<td>4.</td>
<td>Mutual Life Assurance</td>
<td>5.64</td>
<td>5.56</td>
<td>5.48</td>
<td>5.36</td>
</tr>
<tr>
<td>5.</td>
<td>Manufacturers' Life</td>
<td>5.35</td>
<td>5.54</td>
<td>6.92</td>
<td>5.92</td>
</tr>
<tr>
<td>6.</td>
<td>Great-West Life</td>
<td>6.27</td>
<td>6.12</td>
<td>6.02</td>
<td>5.92</td>
</tr>
<tr>
<td>7.</td>
<td>Canada Life*</td>
<td>5.66</td>
<td>5.52</td>
<td>5.44</td>
<td>5.34</td>
</tr>
<tr>
<td>9.</td>
<td>Standard Life</td>
<td>6.24</td>
<td>5.93</td>
<td>5.87</td>
<td>5.75</td>
</tr>
<tr>
<td>11.</td>
<td>North American Life</td>
<td>5.85</td>
<td>5.73</td>
<td>5.57</td>
<td>5.44</td>
</tr>
<tr>
<td>12.</td>
<td>Crown Life</td>
<td>6.13</td>
<td>6.08</td>
<td>5.99</td>
<td>5.92</td>
</tr>
<tr>
<td>13.</td>
<td>Imperial Life*</td>
<td>5.92</td>
<td>5.77</td>
<td>5.60</td>
<td>5.45</td>
</tr>
<tr>
<td>14.</td>
<td>Dominion Life*</td>
<td>5.68</td>
<td>5.60</td>
<td>5.52</td>
<td>5.41</td>
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<tr>
<td>15.</td>
<td>Prudential Assurance</td>
<td>6.70</td>
<td>6.60</td>
<td>6.50</td>
<td>6.70</td>
</tr>
<tr>
<td>16.</td>
<td>Excelsior Life</td>
<td>6.00</td>
<td>5.86</td>
<td>5.85</td>
<td>5.63</td>
</tr>
<tr>
<td>17.</td>
<td>Industrial Life</td>
<td>6.10</td>
<td>5.95</td>
<td>5.82</td>
<td>5.75</td>
</tr>
<tr>
<td>18.</td>
<td>National Life</td>
<td>6.15</td>
<td>6.14</td>
<td>6.04</td>
<td>5.88</td>
</tr>
<tr>
<td>19.</td>
<td>Monarch Life</td>
<td>5.81</td>
<td>5.72</td>
<td>5.59</td>
<td>5.41</td>
</tr>
<tr>
<td>21.</td>
<td>La Sauvegarde</td>
<td>5.87</td>
<td>5.80</td>
<td>5.64</td>
<td>n.a.</td>
</tr>
<tr>
<td>22.</td>
<td>Northern Life</td>
<td>5.62</td>
<td>5.51</td>
<td>5.54</td>
<td>5.48</td>
</tr>
<tr>
<td>23.</td>
<td>Empire Life</td>
<td>5.85</td>
<td>5.57</td>
<td>5.55</td>
<td>5.53</td>
</tr>
<tr>
<td>24.</td>
<td>Travelers Life*</td>
<td>4.54</td>
<td>4.42</td>
<td>4.35</td>
<td>4.14</td>
</tr>
<tr>
<td>25.</td>
<td>Zurich Life</td>
<td>5.86</td>
<td>5.82</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>27.</td>
<td>Montreal Life</td>
<td>5.67</td>
<td>5.72</td>
<td>5.57</td>
<td>5.57</td>
</tr>
<tr>
<td>28.</td>
<td>Equitable Life Can.</td>
<td>5.88</td>
<td>5.76</td>
<td>5.55</td>
<td>5.61</td>
</tr>
<tr>
<td>29.</td>
<td>Alliance Mutual</td>
<td>5.86</td>
<td>5.70</td>
<td>5.46</td>
<td>5.32</td>
</tr>
<tr>
<td>30.</td>
<td>Sovereign Life</td>
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<td>5.52</td>
<td>5.51</td>
<td>n.a.</td>
</tr>
<tr>
<td>31.</td>
<td>Norwich Union Life</td>
<td>5.88</td>
<td>5.86</td>
<td>5.89</td>
<td>5.83</td>
</tr>
<tr>
<td></td>
<td>Commercial Life</td>
<td>5.13</td>
<td>5.16</td>
<td>5.15</td>
<td>5.22</td>
</tr>
<tr>
<td></td>
<td>Canadian Provident</td>
<td>5.95</td>
<td>5.70</td>
<td>5.47</td>
<td>5.35</td>
</tr>
<tr>
<td></td>
<td>Co-operators Life</td>
<td>5.80</td>
<td>5.80</td>
<td>5.70</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>Desjardins Mutual</td>
<td>5.68</td>
<td>5.46</td>
<td>5.39</td>
<td>5.08</td>
</tr>
<tr>
<td></td>
<td>T. Eaton Life</td>
<td>4.94</td>
<td>4.92</td>
<td>4.84</td>
<td>4.74</td>
</tr>
<tr>
<td></td>
<td>Family Life</td>
<td>5.05</td>
<td>4.80</td>
<td>4.80</td>
<td>4.60</td>
</tr>
<tr>
<td></td>
<td>Laurentian Life</td>
<td>5.25</td>
<td>5.35</td>
<td>5.19</td>
<td>5.09</td>
</tr>
<tr>
<td></td>
<td>Maritime Life</td>
<td>5.52</td>
<td>5.49</td>
<td>5.30</td>
<td>5.30</td>
</tr>
<tr>
<td></td>
<td>Mercantile &amp; General</td>
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<td>5.61</td>
<td>5.35</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>North-West Life</td>
<td>5.34</td>
<td>5.67</td>
<td>5.23</td>
<td>5.63</td>
</tr>
<tr>
<td></td>
<td>La Solidarite</td>
<td>5.69</td>
<td>5.94</td>
<td>5.60</td>
<td>5.71</td>
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<tr>
<td></td>
<td>La Survivance</td>
<td>4.86</td>
<td>4.72</td>
<td>4.67</td>
<td>4.62</td>
</tr>
<tr>
<td></td>
<td>Reliable Life</td>
<td>5.79</td>
<td>5.62</td>
<td>5.17</td>
<td>4.73</td>
</tr>
</tbody>
</table>

*Yield includes return on world-wide assets.
### TABLE 45

**YIELDS OF SEGREGATED FUNDS OF SELECTED INSURANCE COMPANIES IN CANADA**

#### Equity Accounts

<table>
<thead>
<tr>
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<th></th>
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<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>7.60</td>
<td>25.40</td>
<td>15.00</td>
<td>-7.10</td>
<td>23.6</td>
</tr>
<tr>
<td>2</td>
<td>3.54</td>
<td>3.38</td>
<td>3.27</td>
<td>2.63</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>6.73</td>
<td>19.53</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>3.28</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>7.82</td>
<td>22.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>7.80</td>
<td>21.40</td>
<td>7.90</td>
<td>-2.60</td>
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<tr>
<td>7</td>
<td>10.83</td>
<td>31.77</td>
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<tr>
<td>8</td>
<td></td>
<td>3.37</td>
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#### Corporate Bonds

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</thead>
<tbody>
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<td>1</td>
<td>1.60</td>
<td>6.40</td>
<td>4.50</td>
<td>9.40</td>
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<td>6.00</td>
<td>6.02</td>
<td>6.10</td>
<td>6.21</td>
<td>6.31</td>
</tr>
<tr>
<td>4</td>
<td>5.92</td>
<td>5.86</td>
<td>5.85</td>
<td>5.63</td>
<td>5.65</td>
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<tr>
<td>9</td>
<td>6.00</td>
<td>5.86</td>
<td>5.85</td>
<td>5.63</td>
<td>5.65</td>
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</table>

#### Conventional Mortgages

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</thead>
<tbody>
<tr>
<td>2</td>
<td>7.04</td>
<td>7.03</td>
<td>7.03</td>
<td>7.03</td>
<td>7.03</td>
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<td>3</td>
<td>6.27</td>
<td>5.95</td>
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</tr>
<tr>
<td>4</td>
<td>6.97</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

#### Government Bonds

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<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>5.60</td>
<td>5.61</td>
<td>5.61</td>
<td>5.66</td>
<td>5.77</td>
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</tbody>
</table>

#### National Housing Act Mortgages

<table>
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<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>6.55</td>
<td>6.56</td>
<td>6.56</td>
<td>6.63</td>
<td>6.75</td>
</tr>
</tbody>
</table>

Source: Personal Survey of Insurance Companies in Canada conducted during last half of 1966. Names of the companies involved have been disguised by the numbers listed to the left of the yield data.
TABLE 46

YIELDS OF TRUSTEED PENSION FUNDS AND POOLED PENSION PLANS IN CANADA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>5.12</td>
<td>5.11</td>
<td>5.21</td>
<td>5.06</td>
<td>5.10</td>
<td>5.10</td>
</tr>
<tr>
<td>B</td>
<td>4.60</td>
<td>15.17</td>
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National Housing Act Mortgages

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*Included in investment yield were capital gains and capital appreciation as well as dividends.

Source: Personal Survey of Trust Companies in Canada conducted during the last half of 1966. Names of the companies involved have been disguised by the letters listed to the left of the yield data.
The yields in the foregoing tables, which for the most part were computed on an average rate of return basis, gives an indication of the returns garnered by life insurance companies and trust companies over the period 1960-1965.

VI. CANADIAN EXPERIENCE RELATIVE TO COORDINATION OF INVESTMENT OBJECTIVES WITH INVESTMENT RESULTS

As can be seen from the previous two sections, there has been considerable attention given in recent years to the measurement of the investment performance of private pension plans. Likewise, annual reports of trust companies and life insurance companies have gone to considerable length to explain the objectives followed in the investment of pension monies. A logical process which appears to have received little practical application, however, has been the coordination of investment returns with investment objectives.

Many reasons have been given for this situation. The most important probably stems from the feeling by many that successful investment management of a pension plan cannot be measured only in terms of a quantitative figure. For example, one trust company, in its pension publications on the progress of its pension business has stated that the "best" yield which a pension plan can attain is that yield which considers the requirements of the fund, the personal preferences of the employers and uses considerable selectivity in the choice of security investments. The company states that there can be no one general investment policy. Hence, a single measurement mechanism would not be apropos. Instead, each portfolio should be designed
bearing in mind the liquidity needs and long-term growth based on the estimated build-up of assets and the liabilities to be met and the economic outlook with respect to the economy and the securities available to meet each need.61

On the other hand, one insurance company felt that the objectives sought in the investment of its insurance funds and its pension funds were essentially the same. It felt that performance could be measured by evaluating the entire portfolio as though it were a single account. In its performance measurement, however, the company admitted that it typically eliminates security investments in financial institutions since these latter were usually purchased through tradition rather than any scientific evaluation.62 No mention was made in the report as to whether results and objectives were coordinated.

The sources consulted in Section III of this chapter, which presented the formulas currently used to measure pension performance, likewise, did not attempt to relate quantitative results with investment objectives.

In interviews with various pension experts in Toronto in August, 1967, it was noted that while pension consultants were advocating the importance of relating objectives with results, there still was no apparent trend on the part of employers or even many trustees and insurance companies to make such measurements a vital segment of the over-all pension program.


The life insurance industry has been annually publishing its total investment results in the *Financial Post*. The return on its segregated accounts, while not regularly published, was nevertheless made available to this writer during a personal survey in 1966. The trust industry has only in the last few years begun publishing the results of its performance in the investment of pension funds, particularly pooled funds.

It is accepted by pension experts in Canada that even this minimum of investment performance information usually falls on deaf ears from the point of view of impressing clients. For this reason, trust companies, especially, while undertaking extensive research on performance measurement criteria for their own benefit, have not actively publicized their results for fear that unnecessary disequilibrium would be introduced in the trusteed pension area as wholesale shifting of accounts might occur where one company consistently outperforms the others in terms of investment yield. This argument does not gain too much sympathy from this writer.

John Seltzer, General Manager and Vice-President of Murray Bulger and Associates, a pension consulting firm, stated in an interview on August 25, 1967, that his firm has long been advocating the importance of evaluating the investment performance of pension funds. Here, he noted, was an area almost entirely neglected by many employers who in the past appeared more concerned with contributory levels, benefit levels, and retirement age and disability options than in considering how efficiently a fund was being invested.
This latter situation tends to bear out a similar statement made by Robert Catherwood, pension staff writer of the Financial Post, who noted in August, 1967, that despite the obvious importance of investment performance, many Canadian employers still are more concerned about the actuarial details of benefits and costs than with the management of the pension fund. 63

This lack of concern on the part of employers has tended to limit the fullest development of this performance versus objectives segment of pension programs. It is the feeling of the writer, however, that the administrators and underwriters themselves should have a definite program for evaluating their investment performance. Many have made a start by stating their objectives in a manner that can be evaluated with some accuracy through various formulas. For example, one company stated its objective in investing pension plans is maximization of the long-term investment return without undue risk. Its starting point in the design of its investment portfolio would then favor long-term fixed income securities and high quality equity investments. Another company stated that the investment objectives sought in the investment of its pension funds, was maximization of income, growth of income, capital appreciation, and avoidance of loss of assets. Diversification would be a very important contributory factor towards the attainment of these objectives.

A trust company has evaluated these objectives in terms of what an appropriate yield would be. At the conclusion of each year, it

evaluates the performance of the pension portfolio. Then, bearing in mind the state of the economy, it adjusts the portfolios if the objectives have not been met. If the objective was met, the company will still evaluate the results in order to determine whether the fund was performing to its potential in view of the available securities which would still fall within the bounds of the predetermined objectives.

Some progress has thus been made in this important area and more and more companies have indicated that they should definitely provide some evaluation method for coordinating objectives with results.

The writer feels that, with more and more information becoming available to investment officers of pension plans through the increased use of computer operations, the importance of measuring investment performance and of matching it with the objectives sought by the particular plan. This will be the outgrowth of the increased attention focused on this aspect of private pension plans in the United States. With so many Canadian subsidiaries of United States corporations funding their pension plans in Canada, the communication of information from parent to subsidiary will place more pressure on Canadian administrators and underwriters to coordinate objectives with performance and to make such information public to pension plan employers.

VII. SUMMARY

From the foregoing treatment of the investment regulations, policies, and practices of various Canadian financial institutions, it is evident that the current investment picture is much more liberal than had been in evidence in the past.
As far as life insurance companies are concerned, although most companies continue to stress safety of principal as the primary objective, there is a trend towards the seeking of adequate income as the secondary objective sought by most plans, at least for those companies engaged in underwriting private pension plans.

Canadian life insurance companies are governed in their investment activities by the Canadian and British Life Insurance Companies Act. Foreign companies come under the jurisdiction of the Foreign Insurance Companies Act. Both are somewhat similar in their requirements. Broad changes were effected in these Acts in 1956 and 1961 which have made it possible for insurance companies to invest in much more liberal ways. This enabled the insurance companies to purchase more equity securities for their portfolios. In addition, since 1961, pension fund contributions could be separated from general insurance funds and invested separately from the latter funds. In this way, insurance companies could be better able to compete for pension monies against the trusteed pooled pension arrangements.

In the investment of their funds, life insurance companies have increased their assets from $2.8 billion in 1945 to $11.6 billion in 1965. However, the percentage of assets made up by various securities has undergone a considerable change since 1945 as a result of changing investment policies followed by insurance companies. For example, the percentage of assets represented by bonds decreased from 26 per cent in 1945 to just over 41 per cent in 1965. The principal decrease was in Federal Government bonds which diminished from 28 per cent of assets in 1945 to just over 13 per cent in 1965. On the other hand,
mortgage investments increased from 8 per cent of assets in 1945 to over 42 per cent in 1965. There was no material difference in the holdings of stocks, real estate or in the policy loans of the life insurance industry when expressed as a percentage of total assets.

In analyzing the asset portfolios of insurance companies which underwrite pension plans, several noteworthy relationships were uncovered. It was found, for example, that those companies which underwrote more than 100 plans tended to invest more heavily in equities than those companies which underwrote less than 100 plans. In the latter case, those companies underwriting between 1 and 100 plans tended to invest more heavily in mortgage securities.

There was little difference, however, in the percentage breakdown of assets by those companies which underwrote pension plans and those companies which underwrote no pension business in 1964.

Two new investment outlets have made their appearance on the life insurance scene in Canada within the last decade. The first of these, the variable annuity, was introduced in the early 1960's but has not been very successful to date. The plan calls for a certain portion of the pension premiums to be deposited in a special account for equity purchases. The market performance of the equities in the fund would determine the size of the pension benefits. Only two Canadian companies sold such policies at the end of 1966. One provided for fixed benefits for the retiree based on the fund's performance while the employee was a contributor. The other company provided
for variable payments based on the continuing performance of the fund both during the employment years of the employee and the years during which he would be receiving the pension benefits. The second new plan introduced by life insurance companies in the last decade was the segregated account plan. This provides for the investment of employer contributions into a special account similar to the variable annuity. The employee contributions would be paid into an account which would provide for a fixed annuity at retirement. Assets in such segregated plans have quadrupled between 1961 and 1965 and stood at approximately $94,000,000 by the end of 1965.

Canadian trust companies have less regulations than have life insurance companies. They are covered in general by a Federal trustee act and also by provincial trustee acts in those provinces wherein they operate. These latter regulations affect both the guaranteed and unguaranteed funds of trust companies in much the same manner as the Federal act. Pension funds come under the general requirements of un­guaranteed trust monies. It should be remembered also that the invest­ment powers of trustees are quite liberal. They usually have to abide only by the terms of the trust agreement which they have helped draft. The agreement itself is generally prepared in such a way as to provide considerable leeway to the trustee as far as his selection of invest­ment outlets is concerned.

Thus, it is not surprising to find many cases where safety of principal or stability of yield are bypassed as principal objectives of trustees in favor of capital appreciation, purchasing power protection, and adequacy of yield.
Total trusteed investment assets have grown from $717,000,000 in 1952 to $6.6 billion in 1965. Just as in the case of life insurance company investments, however, the popularity of bond investments has definitely been on the wane. The percentage investment of bonds to total assets fell from 84.5 per cent in 1952 to 64 per cent in 1965. The source of the decrease, similar to insurance company investments, lay primarily in the area of Federal Government bonds. These holdings fell from 37 per cent of assets in 1952 to less than 8 per cent in 1965. The decrease was offset somewhat, however, by a rise in the investments of trusteed plans in both provincial bonds and Canadian corporate bonds.

The equity investments of trusteed pension plans doubled in the 1956-1965 period and the rise was noted in both contributory and non-contributory plans. By the end of 1965, such equity holdings amounted to over 15 per cent of assets on an over-all basis while amounting to 23 per cent of the assets of non-contributory plans.

Mortgage investments likewise doubled on a percentage of assets basis in the period 1952-1965. Most of this increase came in the area of insured residential mortgages.

Two new forces made an appearance on the investment scene for trusteed pensions over the period in question. These are pooled pensions and mutual funds. Pooled pensions, which allow a small plan to deposit its funds into a pool for investment purposes, have seen their assets grow from just less than $16,000,000 in 1957 to approximately $481,000,000 by the end of 1965. Just as in the case of
trusteed pension plans per se the emphasis on investments has been away from bonds and into mortgage investments. Federal Government bonds have never been an important facet of investment for these funds and in the 1957-1965 period, even corporate bonds decreased in importance, falling from 47 per cent of total assets to about 26 per cent. Stocks grew quickly as a percentage of assets in 1958 and 1959, but since have leveled off at around the 26 to 28 per cent range. Mortgages have shown a marked increase for pooled pension investments. Conventional mortgages have been quite popular and over the 1957-1965 period increased as a percentage of total assets from 9 per cent to 29 per cent. In dollar amounts, this represented an increase from $1,500,000 to over $139,000,000 for the period in question.

Mutual funds increased in popularity for trusteed pension plans, in the 1960-1964 period. Since 1960, pension plan holdings of such funds had risen from $29,000,000 to $58,000,000 by the end of 1964. This amount decreased to $32,000,000 at the end of 1965. Just as in the case of pooled pensions, the principal source of activity for mutual fund purchases by pension plans emanates from contributory plans. These latter plans accounted for $30,000,000 of such holdings at the end of 1965.

As the growth of private pension plans continues at a rapid rate, the competition for those funds by both life insurance companies and trust companies has in many cases has resulted in considerable importance being placed on the investment return which is promised to the
plan. Since this return will result either in a higher benefit to retirees or a lower cost to the plan to provide the benefits, considerable interest has been focused in the investment return area within the last decade.

The principal methods utilized to compute the returns from such portfolio investments have centered around five approaches. These include a compound rate of return, an income on income return, an equivalent return, an average return on investment, and a weighted average return on investment.

In Canada, life insurance companies tend to stress the average return on investment. This is the required approach in reports to the Federal Superintendent of Insurance. Included in the return figure is the interest or dividends actually received over the period. Hence, capital gains and capital appreciation are typically not included as part of the annual returns.

For trust companies, on the other hand, the average return approach is also used but the return usually will include the interest and dividends, the capital gains realized on investment sales, and any capital appreciation which the investments may have garnered over the period in question.

In a review of the rates earned on investments by these Canadian financial institutions, it was noted that rates earned appeared quite high relative to returns in the United States. For 1964, for example, the life insurance companies included in the sample used in this dissertation had earnings which ranged from 4.9 per cent to 6.7 per cent.
with a median of about 5.9 per cent. This is indicative of the higher borrowing rates in Canada, the higher risk attached to various investments and the supply of available investments relative to the enormous amount of funds being made available each year to financial institutions for investment purposes.

Within recent years, there has been considerable activity on the part of many pension consultants to impress on pension plan employers the importance of securing a report on the investment performance of the management of the fund. Likewise, more activity has taken place among trustees and underwriters of pension plans to determine whether the various performance yardsticks for evaluating pension plan investment management can be utilized to coordinate investment results with investment objectives.
CHAPTER VII

SUMMARY AND CONCLUSIONS

I. SUMMARY

The first private pension plan in Canada was implemented by the Grand Trunk Railway Company in 1874. The first real activity in the private pension area, however, did not occur until after the passage of the Railway Companies Act in 1896. This Act, which gave railroads the right to establish pension plans, served as the springboard for a decade of continued action on the part of railroads to establish such employee welfare plans. Up until the time the Act was passed, most of the pension activity of a private nature was centered among a group of financial institutions including banks and insurance companies.

While these latter plans were typically of a contributory nature, due no doubt to the British influence on the administration of Canada's financial institutions at the time, the railroad plans were usually of a non-contributory type. This latter feature may have been due primarily to management's desire to maintain complete control over the operation of the plans.

The Federal Government made its first legislative appearance on the pension scene in 1908 with the introduction of the Government Annuities Act, an Act which provided Canadians with an opportunity to purchase retirement annuities at a reasonable cost. In 1916, the
Federal Government introduced yet another pension scheme, a program of pension payments for military veterans of various conflicts in which Canada was a party. This program is still in force and has since been amended to cover World War II and the Korean Conflict.

The trend begun by the railroads in the late nineteenth century towards the implementation of non-contributory plans continued until after World War I. At that time, however, the Federal Government, through revolutionary tax measures, made a very significant imprint on the direction and design of private Canadian pension plans. In 1919, the Federal Government amended the Income Tax Act to provide that, thereafter, any deductions from an employee's payroll withheld by an employer for purposes of providing a retirement pension for that employee, would be allowable as a tax deduction for the employee. Thus, began a series of direct measures by the Canadian Government to instill into Canadians the realization that it was necessary to provide for their own welfare upon retirement.

Trust companies and insurance companies became quite interested in the developments in the private pension area in the early decades of the twentieth century. As a result, these two important competitive forces joined the pension fund societies, which had been in operation since 1887 to administer private pension plans, in the administration and underwriting of private pension plans. The trust companies entered the field in 1915. Life insurance companies underwrote their first plans in 1923.

Because many retired Canadians were either not covered or had been very inadequately covered by pension programs by the early 1920's,
the Federal Government of Canada introduced in 1927, the Old Age Assistance Program. This was a "means-test" pension program which was designed to cover primarily the most indigent retirees. As a result, it was quite restrictive.

The Depression of 1929 saw a blow struck to the financial health of many Canadian corporations. With this, many employees experienced the loss of potential pension benefits. Since non-contributory plans were most affected, the machinery was set in motion to avoid such problems in the future. Employers wished to see more participation by employees and the latter wanted to see a greater legal obligation on the part of the employers to provide some system of retirement benefits for them. Thus, the 1930's saw a push in the growth of contributory plans along with adjustments in benefit and contribution levels.

The Federal Government made another highly significant tax amendment in 1939 when, in an effort to assure the solvency position of private pension plans, it decreed that, thereafter, employers would be permitted to deposit, on behalf of past service of employees, lump-sum payments into pension plans on behalf of employees and to claim such payments as tax deductions up to a certain specified limit, in the year in which the deposit was made. The employer was given tax deductions for payments to pension plans to cover past and present service of the employee. The employee was given tax credits to cover present service of the employee. The employee was given tax credits to cover present service, but in 1942, he, too, could deduct for past service. The Federal Government was in this way showing itself as a
direct force towards the growth and development of private pension plans in Canada.

With the commencement of World War II, pension plans continued to grow as the government imposed a wage-freeze which put a ceiling on current wages, and imposed excess profits taxes on corporations. Growth was further spirited with the end of World War II and competition became quite keen between trust companies and insurance companies for the pension dollar. Thus, it was not surprising to see many new designs of plans introduced at that time.

The Federal Government showed its influence in the pension field once again in 1952 when it introduced a universal, fixed-benefit pension program with no means-test requirement to cover all Canadians aged seventy and over. Citizenship and residency were the only restrictions imposed with regard to the program entitled The Old Age Security Program.

With the constant competition by pension administrators at this time, many innovations were introduced in the design of private plans. Deposit administration, terminal funding, split funding, pooled pensions and variable annuities all were introduced during the decade of the 1950's.

In an effort to encourage investments which might provide purchasing power protection for retirees to offset inflationary tendencies in the Canadian economy, the investment regulations facing administrators under the Canadian and British Life Insurance Companies Act were amended in 1956 and again in 1961 to provide such flexibility through more liberal equity investment regulations.
Not all was well with the operations of the private pension system, however, because many plans provided little vesting of employer contributions prior to retirement and not all plans were actuarially solvent at this time, so various provincial authorities set out to implement standards which had to be met by employers providing private pension plans within their provinces. Thus, in 1961, Saskatchewan introduced its pension legislation calling for registration of all plans and disclosure of all pertinent facts relative to the employee position under private pension plans. Ontario introduced its portable pension legislation in 1963, requiring portability of pension credits for those employees of Ontario-based firms, or employees of branches of Ontario companies residing in other provinces, who switch jobs within the province of Ontario or between firms which have home offices in Ontario. This legislation also called for certain solvency standards which had to be met by Ontario employers having pension plans in their firms. Several other provinces, including Quebec and Alberta, have since entered the private pension arena. Both introduced pension legislation in 1966 and both patterned such legislation somewhat after the Ontario Pension Benefits Act.

Probably the most revolutionary pension measure to be introduced in Canada has been the Canada Pension Plan. This is the Canadian equivalent of the Old Age Survivors and Disability Program in effect in the United States. It is a universal pension program, implemented January 1, 1966, and is scheduled to reach its full impact by 1976 when full benefits will be available to retirees.
This Canada Pension Plan is significantly different from the Old Age Security Program introduced in Canada in 1952.

The Old Age Security Program was a universal, flat-benefit pension arrangement under which pensions were paid to Canadians at age seventy or over who could meet a residency test. It was financed through a corporation tax, a consumer sales tax and a personal income tax and provided no death benefit, widows pension, disability pension or orphans benefit.

The Canada Plan, on the other hand, provided for an earnings-related benefit payment. It is a universal, compulsory pension program payable at age seventy and requires no residency test upon retirement. It is financed through employer and employee contributions and provides for death benefits, widows benefits, disability pensions and orphans benefits.

It is expected that this Plan will provide the impetus for more growth in the private pension area by bringing to mind to more employers the need for providing for the economic well being of their employees once the latter have retired from active service. This should provide still more investment funds for private pension trustees which in turn will provide funds for the further growth of the Canadian economy.

From the point of view of the various provinces of Canada, the Canada Pension Plan should prove a boon in that these provinces will be able to borrow funds from the Federal Government on a pro rata basis with contributions made to the Federal plan by contributors in their provinces. This should lead to an increased level of capital spending in those provinces as a further source of funds becomes available to
these provincial authorities besides their usual access to Canada's money markets.

Canada's private pension system has thus received another boost in its continuous growth period. This period began soon after World War II. Numerous factors have added to this growth and these were discussed at length earlier in this dissertation. The major of these factors, which included the preferred tax status of the income earned on the investment of the fund itself, the tax benefits from employee and employer contributions to private plans, the liberalization of investment regulations relating to such funds, the introduction of the Canada Pension Plan and the increased activity of provincial authorities in the private pension area, have all served and will continue to serve as inducements towards the continued growth and the direction of private pension plans in Canada.

II. CONCLUSIONS

In concluding this dissertation, it is appropriate here to consider the various hypotheses which were raised in the introductory chapter. These will be discussed in order and will be supported or disproved on the basis of the information secured from a study of published sources of both an historical and a contemporary nature, from responses to questionnaires sent to the principal trust companies and life insurance companies in Canada who conduct pension business, from responses to questionnaires sent to the chief financial officers of those United States firms which secured control over Canadian corporations through mergers during the period 1959 through mid-1965,
and through personal interviews with trust officers, life insurance pension experts, pension consultants and pension actuaries in Canada.
A. TESTING OF HYPOTHESES

1) Federal Government influence has aided and encouraged the growth of private pension plans in Canada rather than restricted such growth.

In approaching this hypothesis, the writer attempted to trace the parallel paths of the passage of government legislation and the growth of private pension plans in Canada.

As early as 1870, the Federal Government was instrumental in the establishment of the Civil Servants Superannuation Act to provide the first pseudo-private pension plan for Canadians. This appeared to prompt activity in the private area such that four years later, the Grand Trunk Railway Company introduced the first private pension program in Canada.

The next major step by the Federal Government in the pension area came with the passage of the Government Annuities Act in 1908. This was, as noted in the text of the dissertation, a program by the Federal Government to provide individual retirement annuities for retired Canadians. Although established to service individuals, the program was made a part of a number of corporate pension programs set up during the second decade of the twentieth century. That particular decade proved to be very important for early pension and welfare growth in Canada. A 1947 study by the Dominion Bureau of Statistics indicated
that one hundred seventy-two of the two hundred thirty-eight pension and welfare plans in operation by the end of 1919 were established during this decade.

In 1919, the Federal Government, through the Department of National Revenue, effected a revolutionary tax measure for North America at least, when it ruled that, henceforth, any portion of an employee's salary or wages which was retained by an employer for purposes of providing a pension for the employee, would be deductible by the employee from his taxable income in the year in which the amount was retained. This Act provided impetus for the establishment of a more formal type of pension program by many companies because it was now easier to fund the pension program with employee participation.

That same decade saw the Federal Government grant tax concessions to life insurance companies through tax exemptions for the earnings from the investment of policy reserves. Likewise, trust companies were given a limited exemption. On a parallel basis, pension and welfare plans grew in Canada by almost two hundred per cent during the decade of the 1920's.

The depression proved a staggering blow for many companies in Canada and in many cases, the private pension plans of such companies were liquidated. Following the depression, employers were determined to gain more support from employees in company pension plans so the emphasis for new plans was towards contributory programs.

This trend was slowed somewhat in 1936 when the maximum contributions of employees for tax purposes was limited to three hundred dollars
a year. This, however, proved to be only a temporary setback because in 1938, the Federal Government, in an effort to promote sounder funding of private pension programs and also to entice more employers to establish such programs, ruled that lump-sum contributions could be made to pension programs by employers to cover the past service of employees. Such sums would be full deductible for tax purposes during the year they were made.

The growth of pension and welfare plans continued throughout this decade such that there were over a thousand plans in operation by 1939.

Pension plan growth received a considerable boost during the years of World War II when the Federal Government imposed a wage freeze and an excess profits tax on corporations. The wage freeze did not cover deferred wages so that this latter type of compensation through pension programs was taken in many cases by corporations to secure and retain desired employees. During the period of World War II, the limits on employee contributions to pension programs were raised, employees could contribute in respect of former service to an employer and secure tax relief, and employers saw limitations placed on their ability to deduct amounts contributed to pension programs in the name of employees.

Prior to the latter restriction, employers were allowed to deduct amounts considered reasonable under existing circumstances. During World War II, the Department of National Revenue, in placing a maximum limit on deductions, was to determine what a reasonable amount would be—acting on the recommendation of a qualified actuary.
The Federal Government in 1945, acting on the advice of a Royal Commission, increased the deductible amounts for both employer and employee contributions to private pension plans. In addition, it decreed that trusteed pension plans would be given similar tax concessions relative to income on the investment of pension monies as was enjoyed by insurance companies. Trust companies were, however, placed under similar investment regulations as were life insurance companies.

By 1947, pension and welfare programs had increased by almost twenty-five hundred since 1940 and much of the increase was attributed to the wage-freeze and to the ability of employers and employees to make added contributions to cover the past service credits of employees. In the former case, such contributions could take the form of lump-sum payments so that the excess profits taxes could also be avoided through pension contributions.

In 1948 the Federal Government put a severe crimp in the Government Annuities Program by lowering interest rates and increasing premiums. This forced employers to look elsewhere for adequate pension arrangements for employees.

In 1952 the Old Age Security Program was introduced in Canada to supplement private pensions and also to entice employers to provide for the retirement years of their employees by establishing formal pension programs.

In 1954 the maximum deductible amounts for employee contributions to private plans was raised to fifteen hundred dollars a year. Likewise, employers were allowed similar deductions at that time.
As indicated in Table 1, pension growth has been very impressive since 1954 with the total number of plans increasing by almost two hundred seventy per cent.

This growth period has been explained in many circles as the culmination of many factors which included the parallel growth of the private pension system in the United States. It has also been held that the era since 1954 has been one wherein there was constant activity on the part of labor unions, provincial governments and the Federal government to provide for the economic well-being of retired Canadians.

These contentions were borne out in interviews in Toronto in November of 1965 and in August, 1967.

On the basis of the analysis of the growth pattern of the private pension system in Canada, the history of government legislation in the private pension area and on the basis of personal interviews with various pension experts in Canada, the writer concludes that the activity of the Federal Government in the private pension area in the past has been very conducive to the development of the private pension system in Canada.
2) The establishment and design of pension plans in Canada, while formerly influenced very much by innovations in the United Kingdom and patterned accordingly after British plans, are now and will continue to be influenced more and more by new developments on the United States private pension scene.

Once again, from the treatment of the history of private pension plans in Canada, it was noted that Canada's early plans were patterned quite similar to those of early British plans. British plans were typically contributory in nature. Since most of the early administrators of Canadian pension plans were members of the companies employing the plans and since Canadian business was still influenced considerably by British customs, most plans were designed after their British prototypes. Then again, as already noted, most of Canada's early plans were those of financial institutions. For the most part, these institutions were either Canadian branches or affiliates of British institutions. Hence, their operations were dictated to a great extent, by events affecting parallel operations in the United Kingdom. Such operations included the design and administration of private pension plans. In addition, many of the pension plans of a public nature, which first appeared in Canada, were those awarded to British military veterans who had retired to Canada. The combination of these military pensions and the strong ties of Canada and Britain
in the late nineteenth century saw British influence spill over into the area of private pension plans.

Even the Government Annuities Program introduced in Canada in 1908 was patterned somewhat after the British Government Annuity Program which had been in existence since 1808. This latter plan had originally been introduced to reduce the National Debt but was continued thereafter as a straight annuity program. Canada's plan, instituted in 1908, has continued to operate as a straight annuity program, although it was modified in 1948 and has since diminished considerably in importance as a factor in Canada's private pension system.

Over the last half century, however, there has been a trend among Canadian pension plans away from the British influence and towards pension trends evident in the United States. Besides mere physical proximity, many factors have been at work to produce such a change in the direction of pension plan growth.

As noted in the consideration of the trends in the growth of the private pension system in Canada, the period of greatest growth in terms of the number of plans instituted, has been the period since 1953.

This period has coincided with a period of considerable United States investment in Canadian industry. Consequently, it was not too unusual to find that the pension plans in the Canadian subsidiaries of United States companies soon assumed many of the features of the plan of the parent company. This fact was brought out in discussions with pension consultants in Toronto, Ontario in August, 1967.
It was noted, during these discussions, that the majority of the pension plans administered by Canadian trust companies were plans of Canadian subsidiaries of United States firms. In such cases, except for the important exception of employee tax deductions for pension contributors, it was stated that many of the pension plans of such Canadian subsidiaries were designed in the United States.

In the personal survey of combinations between United States and Canadian companies conducted by the writer in 1967, it was noted that in over twenty-one per cent of the Canadian companies which had had pension plans in operation at the time of the combination, the plans were adjusted to be in conformity with the parent company's plan in the United States. In only five combinations was the parent company's pension plan adjusted to bring it up to Canadian standards.

Many other instances show that the United States influence has become quite marked in the design of Canadian pension programs. Among the more important cases, which were brought up during the course of the research for this dissertation, are presented in the following pages. They include:

a) The Canada Pension Plan, a public retirement program patterned very closely after the Old Age Survivors and Disability Insurance Program in operation in the United States. Both are universal, compulsory, contributory, earnings-related plans whose objectives were to serve as complementary pension programs alongside the private pension plans of employees in each country.

b) The integration methods utilized to coordinate private pension plans in Canada with the Canada Pension Plan are similar in all
but one case with the methods utilized in the United States for such integration. The one exception was the "ineligible earnings" method which is a by-product of the integration methods used for coordination purposes in Great Britain.

These facts were noted during the research on integration methods utilized and were confirmed by the Canadian Life Insurance Association in August, 1967.

c) Both countries installed similar economic sanctions affecting employee and corporate income during World War II. These sanctions were introduced first in the United States and were then followed closely by Canada. They included excess profits taxes for the length of World War II which forced employers to divert funds towards such activities as private pension plans rather than to pay taxes on excess earnings. Likewise, Canada imposed a wage freeze in 1941 and, although the freeze was not introduced in the United States until 1942, it was similar to the wage freeze implemented in the United States during World War I.

d) The famous court decision involving the Inland Steel Corporation and the National Labor Relations Board in 1948, in which it was decided that private pensions would thereafter become a matter for collective bargaining, had its effect in Canada as early as 1950 when the United Steelworkers of America had its pension plan become a significant part of the collective bargaining during its wage negotiations with Ford Company of Canada. This trend towards collectively bargained pension plans has continued for major corporations with international unions to some extent since the Inland Steel decision.
In the personal survey of United States-Canadian combinations during the 1959-1965 period, it was noted that fourteen Canadian firms were brought under collectively-bargained contracts covering the parent company in the United States. This represented seventy per cent of the cases where the parent company had been covered under a collectively bargained labor contract and the Canadian firm had not been so covered at the time of the combination.

e) In the design of pension plans, Canadian pension plans have also adopted such United States pension plan characteristics as deposit administration funding, terminal funding, split funding, and joint and last survivor benefit options.

These features seem to have been given trial periods in the United States and, upon gaining acceptance, were then introduced in Canada. The deposit administration feature had somewhat limited success in Canada when first introduced but has been quite important in the design of plans since 1960.

f) The history of variable annuity features in private pension plans in the United States and Canada has likewise followed a similar pattern. The first trusteeed variable annuity in the United States was introduced in 1951 with the College Retirement Equity Fund of the Teachers Insurance and Annuity Association and on an industrial basis with the Long Island Lighting Company in 1952. The first insured variable annuities in the United States were introduced in 1955 by the Variable Annuity Life Insurance Company.

Variable annuity programs were not introduced in Canada until 1959 when the Pilots Association of Air Canada implemented a trusteeed
plan. Insured variable annuity plans were introduced in 1961 follow-
ing the passage of separate account legislation in Canada.

g) Pooled pension plans of trust companies were likewise intro-
duced in the United States in 1951 which preceded by three years their
introduction in Canada.

h) Cost-of-living adjustments to pension plans, a product of
United States union-negotiated private pension plans, have been added
to many plans in operation. Likewise, these changes which from time
to time have been made an integral part of the clauses of the newly-
implemented Canada Pension Plan.

i) The increasing popularity of common stocks in the portfolios
of trust company-administered pension plans in the United States has
also had its complementary action in Canada as trust companies have
added considerably to their holdings of equity securities. The grow-
ing use of the prudent man rule, first used in the United States, is
now a guiding principle behind most trust investments in Canada. The
investment pattern of Canadian trusteeed pension plans was noted in
Tables 36 and 39 where it could be seen that equity investments in-
creased by more than 700 per cent in dollar terms over the period
1956 through 1965. In percentage terms, equities rose from 6 per cent
of assets in 1956 to over 15 per cent by the end of 1965.

In the United States the investment of trusteeed pension plans
in equities has likewise shown a considerable increase as common stocks
rose from 11 per cent of assets in 1950 to 30 per cent in 1959 and
over 42 per cent by the end of 1965.¹

j) James Hamilton and Dorrance Bronson, in their publication, *Pensions*, noted that it is typical for United States corporations, upon purchasing Canadian firms, to send managers to Canada to give the benefit of their knowledge and training to the Canadian employees. In conjunction with such aid, the managers bring along to the Canadian firm the ideas developed in the United States in the field of employee benefit programs.²

k) The above authors also point out that non-resident international-union leaders typically stipulate that they must be allowed to bargain in Canada for pension plans whose terms and benefits are tailored to conditions in the United States.³

i) The personal survey conducted during 1966 indicated that most United States life insurance companies in Canada tend to underwrite only a few plans each and as a general rule are satisfied to provide assets in Canada sufficient only to meet their liabilities for insurance policies sold in Canada.

Despite this assertion, however, the survey indicated that three Canadian life insurance companies, controlled by parent companies in the United States, underwrote no less than 578 group annuity plans and 28 segregated accounts at the end of 1965. The dollar investment in these plans amounted to close to $100,000,000. Several United States insurance companies indicated that they underwrote plans of Canada subsidiaries


³Ibid.
of United States parent corporations. These accounted for at least eighty plans covering over sixty million dollars in policy reserves.

m) Finally, it should be noted that segregated fund legislation was introduced in the United States prior to the introduction in Canada. The first legislation was passed in New Jersey in 1959, although the first plans were not implemented until 1961. In Canada, both the legislation and the initial plans were introduced in 1961.

The instances noted above provide a basis which tends to confirm this hypothesis. The periodicals quoted, the interviews in Toronto and Ottawa in 1965 and 1967, and the personal surveys of life insurance companies and trust companies as conducted in 1966 provide positive support of the effect which the United States influence has on the design and direction of the private pension plans within the Canadian pension system.

The British influence has not been eliminated because two of the largest underwriters of insured plans in Canada, the Standard Life Assurance and the Prudential Life Assurance Companies, between them underwrite over one thousand private plans. These companies, however, have operated in Canada for as long as most Canadian companies. Consequently, they are sometimes referred to as "Canadian" companies.
3. The passage of the Ontario Pension Benefits Act in 1963 was the logical outcome of the lack of private initiative and direction in providing private pension plans with stronger vesting and solvency provisions.

The Ontario Pension Benefits Act represents the results of a province's decision to enter an area of private pensions wherein it deemed that private initiative was at a very low ebb if not entirely lacking. Specifically, the areas covered included vesting and solvency conditions. Ontario's entry into this area seems to have been based somewhat on a general understanding of poor vesting and solvency situation evident in private pension plans in Canada in general and in Ontario in particular. Such feelings were confirmed by a number of private pension studies carried out in Canada during the decade of the 1950's. A 1954 survey of two hundred fourteen private plans conducted by the Federal Department of Labor's Economic Research Bureau indicated that, where vesting was provided in plans, only six provided immediate vesting of employer contributions and only eighty-eight others provided for full vesting before employee retirement. Thus, the remaining plans, one hundred twenty in all, either provided for no vesting until retirement or had provisions for vesting on a graded basis with full credit for employer contributions not available until retirement. A similar study was carried out by the Canadian Life Insurance Officers Association in late 1957. This study indicated that
of seven thousand one hundred ninety-six insured plans then in operation in Canada, less than fourteen per cent provided for immediate vesting and less than twenty-five per cent provided for full vesting after as much as ten years service. The Dominion Bureau of Statistics in a 1960 survey of eight thousand nine hundred twenty private pension plans in Canada showed that thirty per cent had immediate vesting but that these plans covered less than five per cent of the total number of employees covered under the plans studied. On the other hand, four per cent of the plans had no vesting until retirement but covered over thirty-one per cent of the total number of employees who were members of these plans. Where years of service or participation in the plan were the factors determining full vesting before retirement, employees for the most part were required to serve twenty years to qualify.

This was the situation prior to the implementation of the Ontario Pension Benefits Act. Experts had shown concern for the number of years regarding the status of vesting as required under private pension plans in Canada.

Private pensions had for some time been guided somewhat in vesting decisions by recommendations put forth through a series of "Blue Books" or guidelines set forth by the Department of National Revenue for pension design if full tax benefits were to be realized. Although such guidelines were not to be considered as definitive ultimatums to be followed by private plans in every respect, they did serve as a type of yardstick to follow in the design of plans. The studies already quoted indicated that vesting to the late 1950's had not
improved much in Canada. However, these "Blue Books" which suggested full vesting by age fifty and twenty years service, were withdrawn in 1957 and when their replacement, "Information Bulletin Number Fourteen," contained nothing on vesting requirements, it was felt by provincial authorities in Ontario that if vesting was to be improved upon, it could be done only through legislation. So, inasmuch as Ontario possesses about half the total private plans in Canada, this province felt that it could serve as the prime force behind the efforts to establish sounder and more restrictive vesting standards.

The removal of the solvency requirements from the private pension plan regulations of "Information Bulletin Number Fourteen" added still more impetus to Ontario's desire to improve the financial position of private pension plans.

With regard to the solvency question, it has been pointed out by Premier John Robarts of Ontario that one of the objectives in the establishment of the Ontario Pension Benefits Act was the enhancement of the security of the funds on which pension plans depend. It was further pointed out by Dr. Robert M. Clark, Director of Economic Studies for the Ontario Committee on Taxation and a noted Canadian pension expert, that a number of private pension plans in Canada were not accumulating sufficient funds to be able to provide retirees with pension benefits of promised amounts.

It was felt also by the Committee on Portable Pensions that if portability of pension credits was to be successful, and this was to be a major feature of the Act, then the fund from which such credits would be taken must be sufficient to meet such withdrawals. If total
credits were awarded to terminating employees from an underfunded account, then the remaining employees' claims on the fund would be reduced. If fewer than total credit were transferred on behalf of the employee, and this would occur with an underfunded account, then the pension plan would not be meeting its legal obligations. Thus, the Committee deemed it very important that solvency rules, previously lacking in many private pension plans, should be implemented in Ontario's private plans as part of the portability provisions on the Ontario Pension Benefits Act.

This hypothesis, then, that there is lack of private initiative, as illustrated by the inadequate vesting and solvency provisions in many Canadian pension plans, is borne out by the definitive action carried out by the Ontario Pension Commission and, it may be noted, by several other provinces through subsequent pension legislation covering these requirements in particular.
4. The tax advantages accruing from employee contributions to registered pension plans have served and will continue to serve as a major incentive towards contributory plans in Canada. Such tax incentives will continue to override labor union's attempts to increase the number of non-contributory plans in Canada.

It was expected that the now famous Inland Steel decision of 1948 making pension plans a bargainable issue during management-labor discussions would have a significant effect on the trend in the design of private pension plans in Canada. This effect was to be noted especially in the number of negotiated non-contributory pension plans which would be introduced in Canada relative to the number of contributory plans to be established. However, from the information provided by the Dominion Bureau of Statistics on trusteed pension plans, the Canadian Life Insurance Officers Association on insured plans, and on a personal survey conducted in 1966, statistics show that there has been no significant growth pattern on behalf of non-contributory plans. This is further illustrated in Table 47.

Survey results obtained by the Dominion Bureau of Statistics on trusteed pension plans from 1957 to 1965 and from a personal survey covering 1965, showed that, as noted in Table 47, the trend relative to contributory and non-contributory plans has been quite constant since 1959 especially. Only in 1965 was there a significant divergence from the trend. The reason most often given for this result
TABLE 47
DISTRIBUTION OF CONTRIBUTORY AND NON-CONTRIBUTORY TRUSTEED PENSION PLANS IN CANADA, 1957 - 1965

Numerical Terms

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<tr>
<td>Contributory</td>
<td>2087</td>
<td>1594</td>
<td>1340</td>
<td>1144</td>
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<td>846</td>
<td>729</td>
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<td>433</td>
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<tr>
<td>Non-Contributory</td>
<td>911</td>
<td>525</td>
<td>465</td>
<td>403</td>
<td>359</td>
<td>294</td>
<td>256</td>
<td>191</td>
<td>115</td>
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<tr>
<td>Total</td>
<td>2998</td>
<td>2119</td>
<td>1805</td>
<td>1547</td>
<td>1363</td>
<td>1140</td>
<td>986</td>
<td>841</td>
<td>548</td>
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Percentage Terms

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<tbody>
<tr>
<td>Contributory</td>
<td>69.6</td>
<td>75.2</td>
<td>74.2</td>
<td>73.9</td>
<td>73.7</td>
<td>74.2</td>
<td>73.9</td>
<td>77.3</td>
<td>79.0</td>
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<tr>
<td>Non-Contributory</td>
<td>30.4</td>
<td>24.8</td>
<td>25.8</td>
<td>26.1</td>
<td>26.3</td>
<td>25.8</td>
<td>26.1</td>
<td>22.7</td>
<td>21.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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was that labor unions were instrumental in forcing double-decking inte-
tegration of private plans with the Canada Pension Plan to commence in 1966. Hence, many firms adjusted their former contributory plans in advance especially in Quebec, where many small plans were cashed out in 1965. A second reason given for the situation was that most new plans implemented in 1965 were non-contributory only in antici-
pation of the compulsory contributions to be required a year later under the Canada Pension Plan.

The Canadian Life Insurance Officers Association indicated in its Memorandum on Old Age Security published in June of 1958 that over 92 per cent of the insured pension plans in operation in 1957 were of a contributory nature.

The 1966 personal survey indicated that the relationship has remained constant with 92 per cent of the close to 11,000 insured plans being of the contributory category. The survey results received from trust companies were also similar to the trend evident in the growth of contributory plans in the trusteed area.

In the brief consideration of United States private pension plans it was noted that the contributory-non-contributory relationships were quite different from the Canadian situation. Canadian plans showed that about 87 per cent were contributory in 1965 where both trusteed and insured plans were aggregated. On the other hand, a 1965 Bankers Trust Company Survey showed that over 63 per cent of the private pension plans in the United States were of the non-contributory variety.
Inasmuch as the tax benefits, which have already been discussed in depth, are generally considered to be the main reasons for the relationship of contributory to non-contributory plans in Canada, there is no indication to show that union activity as a result of the Inland Steel case has had any significant effect on the design of private pension plans in Canada. As noted in Table 47, the relationship has been fairly constant for trusteed plans for the period 1957 through 1965. Likewise, the Canadian Life Insurance Officers Association figures of 1957 match closely with those obtained in the writer's personal survey of 1966.

The foregoing statistics, while they do serve to bring out quite forcefully that there has been no significant success realized by labor unions in securing more non-contributory plans for Canadian employees, nevertheless do point out a very important fact. There has been a considerable increase in the number and the coverage of private pension plans in Canadian corporations which had not otherwise had pension plans for their employees.
5. The presence of a pension plan in a Canadian corporation looms as one of the deciding positive factors in determining whether a United States corporation decides to invest in the Canadian company on a "direct" instead of on a "portfolio" basis.

Before analyzing this hypothesis, the terms "direct investment" and "portfolio investment" require definition. "Direct investment" refers to the approach taken by an investor whose objective is to purchase enough securities from a corporation such that he can have voting control. Hence, he would be in a position to influence directly the subsequent direction of the corporation whose securities were purchased. By "portfolio investment" is meant the purchase of securities where the primary objective is other than control. The investor is not overly involved or interested in exercising control over the corporation whose securities he purchased. His main objectives would be either a steady income in the form of interest or dividends or possible capital gains through the subsequent sale of the securities. These objectives could also be followed, of course, under direct investment. The principal difference, however, lies in the fact that the principal objective in portfolio investments is not control.

When a pension plan is already in effect in a Canadian company, the United States firm would not be required to establish such plans upon the consummation of a combination. Thus, the latter firm would be spared the responsibility of possibly having to fund the past service credits of the employees were this to be a requirement once a plan is
eventually set up in the Canadian company. If the Canadian company already had a pension plan in existence at the time of the combination, these past service credits might already have been funded. Hence, that particular cost would not face the prospective purchaser of the Canadian firm.

As noted in the body of the dissertation, there has been a tremendous inflow of United States dollars into Canada during the last half-century. From the time of World War I when the United States replaced the United Kingdom as the principal foreign investor in Canada, there has been a steady inflow of such funds from the United States. However, the United Kingdom invested in Canada primarily on a portfolio basis in the form of direct loans, but the direction of the United States inflow of funds was primarily in the form of direct investment in Canadian industry.

In the two decades since the end of World War II, this United States investment in Canada increased from $2.5 billion in 1945 to over twenty billion dollars by the mid-1960's. Such a tremendous investment by United States interests, particularly since about seventy per cent was in the form of direct investments, has resulted in foreign interests gaining control of the three major Canadian industries: manufacturing, mining, and petroleum.

Since these investments took place during the period of greatest growth of Canada's private pension plans, the question arises as to the role which private pension plans in Canadian firms played in the discussions leading to subsequent combinations between United States and Canadian firms. This role would be measured in terms of whether
the pension plan stood out as a major factor in determining whether the combination would go through, whether the pension plan affected the financial details of the combination, and whether if no agreement was reached as to the disposition of the pension plan, the United States firm withdrew from the combination and invested in the Canadian firm only on a portfolio investment basis.

To verify this hypothesis, the personal survey of United States-Canadian combinations, where the United States firm emerged as the dominant force, was conducted for the sample period of 1959 through mid-1965. This period was marked by a considerable growth in private pension plans in Canada as the number increased from 8,394 to 13,479. Likewise, it was a period of considerable United States investment in Canada.

The results of the study showed some definite stands by United States firms in such combination dealings. As illustrated in Appendix B, there were 104 United States companies involved in such combinations over the period in question and these accounted for 152 combinations. Of the total number of combinations, 24 involved the purchase of assets or takeovers by Canadian subsidiaries of the United States firms covered in the survey and responses covering five other combinations were incomplete. Hence, they were eliminated from the results.

In the 123 combinations which involved takeovers of Canadian companies by United States companies, it was found that in 51 cases, or over 41 per cent, that the Canadian firm involved did not have an
employee pension plan at the time of the combination. Furthermore, in only one of the remaining seventy-two combinations was the pension plan in the Canadian firm a major factor concerning the consummation of the combination and in only nine of the seventy-two combinations was the pension plan in the Canadian firm a major factor concerning the consummation of the combination and in only nine of the seventy-two cases did the presence of a pension plan have any bearing on the negotiations concerning the price to be paid for the Canadian firm in the combination.

For the majority of the questions in the survey, the respondents indicated that the Canadian pension plan, if adjusted at all following the completion of the combination, was upgraded to meet current Canadian standards or to meet current United States standards. In those cases where the plan in the Canadian firm was contributory but that in the United States was non-contributory, the Canadian plan continued on a contributory basis. This was undoubtedly due to the tax benefits afforded such employee contributions to private pension plans in Canada.

In a number of cases, United States firms, whose plans were covered under union-negotiated pension programs, proceeded to include the absorbed Canadian firms under the major pension program of the surviving firm.

The results of this survey indicate, then, that the presence of a private pension plan in a Canadian corporation has no significant influence over the type of investing, whether it be direct or portfolio, followed by United States interests in their investments in Canada. A stronger conclusion would appear to be that the private pension plan
in the Canadian firm is of little significance in any major discussions relative to the combination of a Canadian and a United States business combination.

The deciding factor appears most likely to have been the ease with which United States interests could enter the Canadian investment scene. Canada needed venture capital in its development over the last several decades and by reason of investment restrictions and conservative investment policies followed by Canadian financial institutions, the funds were not to be forthcoming from this source. Hence, funds flowed into Canada from the United States. The presence of special tax concessions in such industries as petroleum and mining accounted for such a high rate of funds flowing into this sector of Canadian industry. Likewise, the ability of the United States firms to obtain tax credits in the United States for the 15 per cent withholding tax on dividends received from Canada-based corporations provided those firms with further incentives towards direct investment in Canadian industry. Such tax credits are not available to Canadian investors.

From viewing such large increases in the volume of United States investment in Canadian industry, particularly in the form of direct investment, and having viewed the results of the survey, the conclusion drawn is that the presence of a private pension plan in a Canadian firm which is taken over by a United States firm is neither an incentive nor a deterrent to the decision whether a combination would take place or whether the United States firm would invest in the Canadian firm on a direct or on a portfolio basis.
The survey results, which indicated that in over forty-one per cent of the combinations no pension plan existed in the Canadian firm, present the implication that such Canadian firms might even provide targets, all other things being equal, for more easily-consummated combinations than for similar companies which already have pension plans established at the time of the negotiations.

The writer, in selecting this hypothesis believed that the pension plan in the Canadian firm should have received more than token consideration for a number of reasons.

The first relates to the fact that the combinations covered under the survey took place during a period of considerable pension activity in Canada. With the tremendous growth in the private system during that period, it seemed practical to the writer that a Canadian company which had already established a pension program would prove to be a more desirable purchase than a company without a plan. The survey results, however, indicated that in forty-one per cent of the combinations, the Canadian firm had no plan in operation when the merger was consummated.

A further reason to believe that the pension plan in the Canadian firm would be a positive factor in favor of a combination was drawn from the fact that most of the current legislation of a provincial nature in Canada deals with adequate vesting and funding features. A fully-funded plan, then, should have proven to be a financial bonus in favor of the Canadian firm's chances of being purchased by the United States firm. The survey results, once again, however, indicated that in only one case was the plan a major factor and in only nine other cases did it receive any consideration in the combination negotiations.
6. The regulation on investment of pension funds by Canadian trustees and underwriters has been especially restrictive in view of the proximity of the United States investment market and the need for the development of Canada's resources. Such regulation thus has served to hinder the most efficient investment of the funds generated by Canada's private plans.

The historical development of government regulation of the investments of trust companies and life insurance companies was covered in depth in the body of this dissertation.

At this stage, it might do well to outline the important dates relative to these investment regulations as related to trust companies and then life insurance companies.

The more important dates for life insurance companies are listed and explained below.

1945—The Ives Commission Report in 1945 recommended that the taxation of life insured pension plan income and trusteeed pension plan income be placed on a consistent basis. Prior to this time, trust companies were required to choose between having the income of the fund deemed tax exempt with employee contributions non-deductible for tax purposes, or vice versa. Exemptions after 1945 were to be allowed for both employee contributions and for the income earned on trusteeed plans. The Commission also recommended, however, that continuous supervision be imposed on trusteeed plans because of the lack of any significant regulations over their activities. Up to 1945, trusteeed plans were regulated
primarily by the terms of the particular pension contract. Hence, the administration of such plans was quite flexible. The result of the Commission's recommendation was that it was decided by the Department of National Revenue that trusteed pension plans would be bound by the same investment regulations as those which governed life insurance company investments. These regulations were spelled out in the Canadian and British Life Insurance Companies Act.

The principal restrictions related to the qualitative stipulations to be met by bonds, mortgages, real estate and equity investments before they could be eligible as investments for trust funds which included pension plans. The requirement on equity investments stated that each trust company would be limited to a maximum investment in equities of no more than 15 per cent of the book value of the trust companies assets.

1956—Trust companies were relieved of the obligation of limiting their investments to those allowed life insurance companies under the Canadian and British Insurance Companies Act. Thereafter, the investment limitations could be spelled out in the trust agreement. In this case, however, the trust investment officer would be expected to act prudently in the discharge of his duties.

1961—The Department of National Revenue notified trust companies that beginning in 1961 and reaching full effect in 1963, 90 per cent of the investment income of Canadian trust companies must come from Canadian sources if tax exemptions for the trust fund income was to be expected.
It is usually held that investment restrictions for financial institutions are aimed primarily at assuring safety of principal of the funds invested. Hence, restrictions are placed on the institutions' ability to invest in securities which are below the highest grades and also in the institutions' ability to purchase equity securities.

In viewing the investment policies of trusteed pension plans to confirm or refute the hypothesis as to whether the plans have been unduly restricted in the past, the writer utilized a number of studies carried out by the Dominion Bureau of Statistics and also conducted a number of interviews with pension investment consultants and other pension experts in Canada.

The approach taken in analyzing the hypothesis then will be to trace the investment patterns of trusteed plans from the early 1950's when pension plans became a going concern in Canada, and an extremely important factor in Canada's money and capital markets.

In considering the trends in the investment of trusteed pension plans during the 1952-1965 period, this hypothesis may be studied quite closely.

In 1952 and 1955, as was noted in Table 39, equity investments represented only 7 per cent of the book value of assets of trusteed funds. At that time, as mentioned earlier in this section, trust companies were permitted a maximum of 15 per cent of the book value of their assets in the form of equity securities.

Since 1956, there has been a steady increase in the percentage of trusteed pension plan assets being invested in equity securities. On a dollar basis, the increase has been over 700 per cent increasing
from $120,000,000 in 1956 to $993,000,000 at the end of 1965. The market value of the equity investments in 1965 was $1.3 billion. Equity investments thus represented over 15 per cent of the book value of assets by 1965. Pooled funds have also been quite active in Canada following their introduction in 1956. Since 1960 alone, the increase in equity investments as a percentage of the total assets of trusteed plans has been 400 per cent. Thus, by the end of 1965, pooled funds had equity investments of $129,000,000 representing approximately 26 per cent of assets.

It was pointed out during interviews with pension consultants, actuaries and trust officers in Canada in 1965 and again in 1965, that many Canadian trust companies are also mortgage companies. This combination of activities has seen considerable trust company activity in the mortgage area. Hence, it is not surprising to note that mortgages represent the largest single group of investments by pooled funds at 39 per cent of the book value of assets at December 31, 1965. For trust funds as a whole, mortgages accounted for 10 per cent of the investments.

In addition, trusteed plans have been able to liquidate a considerable portion of their bond investments since the early 1950's and have succeeded in lowering the investment in bonds from 85 per cent in 1952 to 64 per cent by the end of 1965. Pooled funds have been successful in lowering their bond investments from 70 per cent of assets in 1957 to 33 per cent in 1965.

To summarize the investment patterns briefly, the writer notes that the period of closest regulation over the investment practices
of trusteed pension was from 1946 to 1956 when the investments had to meet the qualitative and quantitative standards of the Canadian and British Life Insurance Companies Act. That period, however, was not marked by any major growth in the trusteed area, although the favorable tax legislation in 1945 did serve to revive this type of pension media. The period of greatest growth in trusteed pension plans has been since 1957.

The investment record since that time, considering the fact that the outlets available to trust companies were quite extensive and legislation minimal, does not indicate that the previous period of close regulation had a major role in further restricting the investment in equity securities.

Instead, trust companies were able to limit considerably their investments in bonds. They were enabled to increase their equity investments from $120,000,000 in 1956 to almost $1,000,000,000 in 1967. There was no maximum limit on equity investments, although there was a limitation on the ability of a fund to invest in equity securities of the employer of the fund.

In noting the extent to which the funds purchased common stocks, however, it was somewhat surprising to note that the combined equity investments of all trusteed plans, including pooled funds, in 1965 amounted to only 15 per cent of the book value of assets, as compared with 42 per cent of non-insured pension plans in the United States in 1965. Mortgages, on the other hand, accounted for over 11 per cent of the assets of trusteed plans in Canada in 1965 as compared with only 5.5 per cent in the United States at the same time.4

In the analysis of why there should be such a discrepancy in the investment patterns in these areas of equities and mortgages in Canada and the United States, the writer noted that interest rates are typically higher in Canada than in the United States. Hence, mortgage yields could be expected to be higher than those in the United States. On the other hand, although there are, theoretically, sufficient equity investments available in Canada, their over-all attractiveness in terms of yield and capital appreciation has typically not measured up favorably against mortgages. One trust investment office noted that it was not unusual for conventional mortgages to command rates of 9 to 10 per cent in Canada as late as 1966.

When one considers also the close relationship between trust companies and mortgage companies in Canada, the investments of trust funds in mortgages is not difficult to comprehend. One pension consultant informed the writer, for example, that where trust savings deposits, normally channeled into mortgages, fail to meet the demand for mortgage credit pension monies typically are utilized to meet the needs.

The writer concludes that the hypothesis relative to trust company investment regulations and resulting practices cannot be supported as stated. It cannot be said that the investment restrictions in vogue for trusteed pension funds between 1946 and 1956 had unreasonably created an ultra-conservative outlook towards equity investments.

By 1957, as mentioned earlier, there were only 520 trusteed plans in Canada. In the period from 1956 to the end of 1965, close to 1,500 new trusteed plans came into existence with assets of approximately $46,000,000,000. Of that amount, however, only $870,000,000 was channelled into equities, although no quantitative limits existed outside
of the terms of the pension agreements between the trustee and the employer. This equity investment was almost matched by the $800,000,000 invested in Canadian corporate hands over the same period.

The writer feels that investment policies and peculiarities of the Canadian investment markets rather than the after-effects of restrictive legislation as the principal reasons for the lack of equity investments by Canadian trusteed pension plans. Furthermore, the writer believes that the probability of a more intensive use of equity investments by trusteed pensions is unlikely in the near future.

For life insurance companies, the history of legislation goes back much further. It was noted during a speech by Mr. B. T. Holmes at the annual meeting of the Canadian Life Insurance Association in 1964, that as far back as 1906, a Royal Commission Report stated that equity investments had no place in an insurance company's investment portfolio.

Mr. Holmes noted also that the Superintendent of Insurance exerted considerable pressure in 1932 to limit the ability of life insurance companies to invest in equity securities. The House of Commons, at that time, however, did not adopt the restrictive approach suggested by the Superintendent although it did limit the life insurance companies to no higher an investment in equities than 15 per cent of the book value of their own assets.

He noted in his conclusions that life insurance companies must make a transition from the role of managers of funds into investors of funds.

Since this hypothesis holds that investment regulations have been unduly restrictive for life insurance companies as well as trust
companies, it is appropriate here to consider the other important
dates, wherein government regulation affected insurance company in-
vestment outlets.

**World War II**—As was expected of other financial institutions in Canada
at the time, life insurance companies were expected to help finance
Canada's role in the War. As a result, by 1945 more than 76 per cent
of the assets of Canadian life insurance companies was in the form of
bonds.

**Early post-World War II Years**—The Canadian government expected fi-
nancial institutions to play a major role in the financing of the
post-war housing boom in Canada. As a result, during the period 1945
to 1950, life insurance company investments in mortgages rose from
$200,000,000 to $769,000,000 or from 8 per cent to 18 per cent of
admitted assets over the same period.

**1948**—Life insurance companies were given a special "basket clause"
for investment purposes. This meant that up to a maximum of 3 per
cent of the book value of the companies' assets could be held in the
form of investments not otherwise eligible for these companies.

**1950**—Life insurance companies were to be permitted, for the first
time, to invest in real estate and leaseholds for the production of
income in Canada or wherever else the company carried on business.
Such investments were to be held to a maximum of 5 per cent of the
book value of a company's assets.

Amendments to the Canadian and British Life Insurance Companies
Act were effected in 1956, 1958, 1961 and 1965 with the latter two
years proving most pertinent for insured pension purposes. In the 1961 amendments, the legislative changes allowed for increased investments in mortgages from 60 per cent to 66 2/3 per cent of the value of the property covered. In addition, the basket clause of non-specified investments (i.e., investments which do not have to meet qualitative regulations of the Canadian and British Life Insurance Companies Act) was increased from 3 per cent to 5 per cent. The limit on income which could be earned on real estate was likewise increased from 5 per cent to 10 per cent of the book value of the assets of the insurance company.

Probably the most important amendment for life insurance companies in 1961 was the one allowing these companies thereafter to establish special "segregated" funds along the lines of pooled funds of trust companies. Such a fund could invest up to 100 per cent of its assets in equity securities if the insurance companies so desired and the employer of the plan agreed. These investments would, however, be subject to the usual qualitative regulations under the Canadian and British Life Insurance Companies Act.

In 1965 life insurance companies were permitted to increase their investments in equity securities from 15 per cent to 25 per cent of the book value of the companies' assets. The basket clause of non-specified investments was likewise increased from 5 per cent to 7 per cent of the book value of assets.

In tracing the trend in the investments of life insurance companies, the writer found that since 1945, bonds and mortgages have comprised between 83 per cent and 85 per cent of the assets of these
companies. In addition, despite the allowable limit of 15 per cent of assets in the form of equity investments, the percentage has remained constant at 5 to 6 per cent since 1945.

Granting more stringent qualifications for equity investment eligibility, there remains still the realization that many Canadian equity securities could have met the standards.

Some insurance executives have argued that the nature of a life insurance company’s liabilities is such that a significant market decline in equities, if invested to the maximum allowable limit, would have seriously threatened the solvency of the company. Hence, safety of principal should have been and was the major objective sought in investment of insurance monies.  

It was for the latter reason and the argument that too few investment quality stocks are available for life insurance companies. Therefore, those companies typically selected high-yielding mortgages.

In further analyzing this segment of the hypothesis, the writer attempted to classify insurance companies in terms of those which underwrote a considerable number of pension plans and those which underwrote relatively few plans.

This operation proved very illuminating in that while there was little difference in the percentage breakdown of assets of companies underwriting pension plans and those not underwriting plans, there were significant differences in the asset portfolios of companies handling many plans as against those with only a few. The principal areas of difference lie in the former companies' equity holdings as against the latter companies' mortgage holdings.

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More specifically, five of the fourteen Canadian life insurance companies underwriting more than 100 plans in 1964 had equity holdings of 7 per cent or over. One firm invested 17 per cent of its funds into equities while the largest Canadian insurance company had 9 per cent of its approximately $3,000,000,000 in assets invested in equities.

Those firms underwriting fewer than 100 plans tended to stress mortgage investments at the expense of equities, with three of the sixteen such companies holding at least 59 per cent of assets in this form.

The breakdown of assets held by segregated funds for 1964 and 1965, as noted in Table 32, indicated the extent to which equities have increased in usage. For the two years in question, stocks doubled from $12,000,000 to $25,000,000 and increased as a percentage of assets from $21,000 to close to $26,000.

Manufacturers Life Insurance company maintained equity investments in excess of 81 per cent of book values in each year. Likewise, Mutual Assurance Company of Canada had invested over 90 per cent of its segregated funds in the form of equities during 1965 and 1965. North American Life maintained its equity investments at 92 per cent or above over the two years.

These last two analyses show that life insurance companies can and do invest in equity securities despite the investment regulations imposed by the Canadian and British Life Insurance Companies Act. Those underwriting a high volume of pension plans showed much more aggressive investment practices than those underwriting few plans.
Likewise, within the former group, several companies far exceeded the others in their stock holdings.

A similar situation exists where segregated funds have been in operation since 1961. An interesting feature noted by the writer was eleven of the fourteen insurance companies which underwrote more than 100 pension plans in 1964 were also among the twelve companies implementing segregated accounts for their clients. It is those companies investing heavily in equities through segregated accounts that are also following through in the investment of all their assets on a more aggressive basis than companies underwriting little or no pension business. This would be indicative, for 1964 at least, that the investment policies followed by life companies in the pension business is quite different from the latter firms.

From the brief analysis of the investment regulations and practices of Canadian life insurance companies, the writer concludes, as in the case of trusteeed pension plans, that there is little evidence that restrictive investment regulation has resulted in the relatively low investment of life insurance funds in equity securities. Rather, as in the case of trust companies, many life insurance companies have undertaken very conservative investment policies because of the nature of the life insurance promise, in addition to taking advantage of the relatively high yields available in mortgage investments in Canada.
B. SOME CONCLUDING REMARKS ON PRIVATE PENSION PLANS IN CANADA

Having considered the hypotheses which were introduced in the introductory chapter of this dissertation, a number of conclusions may be drawn relative to the current state of private pension plans in Canada and some indication may be derived as to the future of the private pension system in Canada.

From the research garnered during the course of this dissertation, it was shown that the Canadian Federal Government has been very instrumental in aiding the growth and development of the private pension system. Its tax legislation has provided considerable incentive for the funding of private plans and also for the design of so many contributory plans compared to the prevalence of non-contributory plans in the United States.

Indications were also brought up to show that the Canadian private pension system is influenced considerably at present by pension innovations in the United States. Formerly, the Canadian system drew heavily from British experience for the design of its private plans.

It was also noted that the Ontario Pension Benefits Act, introduced in 1962, was the by-product of the lack of private initiative in providing adequate vesting and solvency features in their pension programs. Since the Federal Government had stepped out of this area in 1959, there remained no pressure on the part of employers in Canada to provide for the above features. Besides Ontario, a number of other provinces have since introduced similar legislation affecting vesting and solvency features of private pension plans.
Through a survey of the United States firms which had absorbed, through merger or other type business combination over the period 1959-1965, the writer was somewhat disappointed at the apparent lack of attention given the Canadian firm's private pension plan during the negotiations. The survey results showed that only in a very few cases did the plan assume any importance relative to the purchase price provided by the United States firm.

Finally, in a study of the investment regulations and practices of private pension plans, of both the trustee and insured categories, it was noted that the reason for the lack of equity investments by insurance companies and trust companies must be traced to some other causes than the restrictive nature of the regulations. Among such causes are the interrelationships of trust companies and mortgage companies in Canada as well as the peculiar features of the Canadian mortgage market as compared with the equities market.

With the recent publication of the Carter Report on Taxation in Canada, there is a possibility that the Canadian private pension system may be significantly affected by new legislation. This legislation, mentioned briefly in Appendix C, if passed, would see a single career tax deduction of the contributions necessary to provide a $12,000 pension, beginning at age sixty-five. The implications of this legislation and accompanying changes in the design of private plans in Canada, are beyond the scope of this dissertation. Mention is made at this time, however, in order to bring to light the challenges facing the private pension system at present and which may equally influence pension growth in the 1970's.
APPENDIX A

GLOSSARY OF PENSION TERMS*

ACCRUED FUTURE SERVICE BENEFIT. That portion of a participant's retirement benefit that relates to his period of credited service after the effective date of the plan and before a specified current date.1

ADVANCE FUNDING. This refers to any system of financing a plan which ahead of the actual falling due of the pension payments to retired employees, sets aside funds with an insurance company or trustee, or sets up liabilities on the balance sheet.2

AGE DISTRIBUTION. A classification of individuals according to their ages, such as the numbers of males grouped within ages 20-24, 25-29, 30-34, etc.6

ANNUITANT. The person during whose life an annuity is payable, usually the person to receive the annuity.5

ANNUITY. A contract that provides an income for a specified period of time, such as a number of years or for life.5

ANNUITY CONSIDERATION. The payment or one of the regular periodical payments an annuitant is required to make for an annuity.3

BENEFICIARY. A person who may become eligible to receive or who is receiving benefits under the plan, other than as a participant.1

BENEFIT FORMULA. A rule by which the amount of a pension is calculated, the amount being determined by multiplying either some fraction of the earnings with respect to which contributions have been made, or a fixed dollar amount, by the years of personable service.6

CAREER AVERAGE BENEFIT FORMULA. A unit benefit formula in which one of the components is an employee's average earnings of the whole period of his employment under the plan.

CASH WITHDRAWAL. The taking of a refund of his contributions by an employee whose job or position with an employer has terminated.6

*Because of the number of definitions, credits are coded and sources may be formed at conclusion of this Appendix.
COMMENCEMENT DATE. The date, uniform for all employees and occurring once a year, wherein actual enrollment into membership of a pension plan can take place. This allows for the start of contributions and the accumulation of benefits and occurs once the eligibility requirements have been met.\(^4\)

CONDITIONAL VESTING. That form of vesting in a contributing plan under which entitlement to a vested benefit is conditional upon the non-withdrawal of the participant's contributions.\(^1\)

CONTINGENT VESTING. That form of vesting under which entitlement to a vested benefit is conditional upon the circumstances surrounding the employee's termination of service or his conduct at the time of and after separation of employment.\(^1\)

CONTRIBUTORY PLAN. A plan into which both employees and employers make payments for the purchase of pensions.\(^6\)

CONTROLLED FUNDING. A slight variation of the conventional group annuity whereby an attempt is made to overcome the fluctuations of single premium approaches and at the same time to limit the costs incurred in withdrawals from pension plans. An employer simply defers the purchase of pension annuities until shortly before retirement age. The total cost of the pension benefits is estimated and then spread over a definite number of years until the employee's retirement. Only those employees nearest retirement age are included in the estimates so that the benefits purchased might reasonably be expected to be drawn by the employees upon retirement.\(^4\)

COST-OF-LIVING BENEFIT FORMULA. A benefit formula tied to some index (i.e., Consumer Price Index) to give the beneficiaries of a private pension plan the opportunity of securing purchasing power protection in their retirement years.\(^4\)

CREDITED SERVICE. The service on which an employee's pension benefit is computed.\(^5\)

CURRENT SERVICE BENEFIT. That portion of a participant's retirement benefit that relates to his credited service in a contemporary period (usually a year).\(^1\)

DEATH BENEFITS. The sum of money paid in the event that a member of a pension plan dies before his pension has commenced.\(^6\)

DEFERRED ANNUITY. An annuity the periodic payments under which have not yet begun. Typical of plans wherein a cash settlement is not granted upon early termination of service. Instead, the beneficiary is credited with a deferred annuity payable at the normal retirement age.\(^6\)
DEFERRED VESTING. That form of vesting under which rights to vested benefits are acquired by a participant commencing upon the fulfillment of specified requirements (usually in terms of attained age, years of service and/or plan membership). 1

DISABILITY BENEFIT. A feature added to some life insurance policies and insured pension plans providing for waiver of premium and sometimes payment of monthly income upon the furnishing of proof that the insured has become totally and permanently disabled. 3

EMPLOYEE. Anyone who works under the direction of another, the consideration being a wage or salary. Anyone who, being remunerated on the basis of a commission, is regarded by his principal, or by the law, as an employee for pension purposes.

EMPLOYER'S CREDITS. The amount of benefit which an employer undertakes to provide as specified in some benefit formula. 6

EMPLOYERS' PLANS. Pension plans of all types of organizations, including those of private business, governments, government agencies, and corporations, institutions and associations of all kinds. Trade unions are sometimes included under the heading of association. 6

EARLY RETIREMENT AGE. The earliest age at which an employee may retire. Such provisions in a pension contract will usually include other conditions which entitle an employee to an earlier pension of a reduced amount. 5

ELIGIBILITY. The age and service conditions which govern the acceptance of an employee into a plan. Service refers to the number of months or years that must be completed for an employee to become eligible to join the plan.

ENTRY AGE NORMAL FUNDING. The scale of level premium contribution rates that would prevail if all employees entered a pension at a specified age. Entry age normal calculations imply a staff to which no recruits are added above the specified age, except as casual labor or on the understanding that they cannot join the pension plan. 6

EQUITY FUND. A fund set up by an insurance company to accommodate those segregated account pension arrangements wherein the investments are primarily in common stocks. In some such accounts, preferred stocks are also held. 4

EXCESS PLANS. Insured pension plans established to provide pensions in excess of the maximum which can be purchased under government annuities. These plans are not popular in Canada because of the
decreasing importance of the government annuity type of pension arrangement and also because of the administrative difficulties associated with dual underwriters or trustees.

EXPERIENCE RATING. The system alterations are made to premium rates in insured pension plans over a period of time to make allowances for changes in general mortality and/or investment conditions.4

FINAL AVERAGE BENEFIT FORMULA. A pension formula one factor in which is the average level of earnings in the last few years before retirement. The number of years tends to vary but 10, 5 or 3 are not uncommon.6

FINAL EARNINGS BENEFIT FORMULA. A pension formula one factor in which is the level of earnings in the pay period (usually a year) immediately before retirement.6

FIXED BENEFIT. A pension whose amount is not increased for longer service or larger income. Usually payable only to those with a minimum period of service. A minimum pension is typical of a fixed benefit.6

FLAT BENEFIT FORMULA. A pension formula one factor of which is a fixed or flat payment for each month's or year's service, irrespective of the worker's level of earnings, the remaining factor being the number of months or years of pensionable service.6

FORMULA INTEGRATION. An approach towards the coordination of the Canada Pension Plan with private plans whereby a plan is provided for certain contribution and benefit rates to apply to earnings up to a certain maximum level and different rates to apply to earnings in excess of that level. Thus, the contributions to a private plan might be low for earnings up to $5,000 because of the required contributions to the Canada Pension Plan. For earnings over the $5,000 level, the contributions to the private plan could be increased considerable since the Canada Pension Plan does not apply to amounts over that level.

FULL VESTING. That form of immediate or deferred vesting under which all the accrued benefits of a participant became vested benefits.1

FUNDING AGENCY. An organization or individual that provides facilities for the accumulation of assets to be used for the payment of benefits under a pension plan, or an organization that provides facilities for the purchase of such benefits.1

FUNDING INSTRUMENT. Agreements or contracts governing the conditions under which a funding agency performs its functions.1
FUNDING MEDIUM. The character of the asset structure used by a funding agency in fulfilling its obligations as set forth in the funding instrument.

FUTURE SERVICE BENEFIT. That portion of a participant's retirement benefit that relates to his period of credited service after the effective date of the plan.

GOVERNMENT ANNUITY. An annuity paid by the Annuities Branch of the Federal Department of Labor in return for the payment of premiums by the client. These are usually paid under a master group plan and are rarely available under individual contracts.

GRADED VESTING. That form of immediate or deferred vesting under which an increasing proportion of the accrued benefits of a participant becomes a vested benefit in accordance with a specific formula and requirements (usually in times of attained age, years of service and/or plan membership).

GRADUATED VESTING. A graduated progression from No Vesting through Partial Vesting to Full Vesting of employer's contribution.

GROUP ANNUITY. A pension plan providing annuities at retirement to a group of persons under a master policy. It is usually issued to an employer for the benefit of employees. The individual members of the group hold certificates as evidence of their annuities. The most common type of group annuity provides for the purchase each year of a paid-up deferred annuity for each member, the total amount received by the member at retirement being the sum of these deferred annuities.

GUARANTEED ANNUITY. An annuity for life but guaranteed for a certain term of years in the event the annuitant dies shortly after the annuity comes into force. At an extra charge, a guarantee for five years is commonly purchased.

IMMEDIATE VESTING. The situation in which the employee begins, immediately after becoming a member of a pension plan, to gain either a full or a fractional claim on the benefits attributable to the employer's contributions.

INSURED PENSION PLAN. A pension plan under which the contributions are paid into an insurance company which normally guarantees to pay a certain pension benefit in accordance with the annuity rates contained in the contract between the parties involved. Plans underwritten by the Government Annuity program are sometimes referred to as insured pension plans.

INELIGIBLE EARNINGS INTEGRATION. A method of coordinating the Canada Pension Plan with private pension plans whereby the earnings of
employees will be ineligible for private pension contributions up to a certain level. This allows for the compulsory contributions to the Canada Pension Plan such that there will not be too great a financial burden on low-income employees having to make contributions to public and private pension plans at the same time.  

JOINT LIFE (LAST SURVIVOR) ANNUITY. An annuity payable, after the death of the principal annuitant, during the life of the surviving person such as a widow or widower. This type of annuity costs more than a similar annuity on a single life.  

LEVEL PREMIUM FUNDING. A method of calculating pension contributions at a uniform percentage rate over an employee's whole period of pensionable service to retirement or termination. It serves to anticipate, in the case of young employees, the higher contributions usually required as they grow older, and results in a larger average accumulation and hence larger earnings of interest.  

LOCKED-IN CONTRIBUTIONS. Contributions to private pension plans in those provinces following portability statutes are "locked-in" in the form of a deferred paid-up annuity payable at age sixty-five provided the contributor has met various age and service requirements.  

LOCK-IN VESTING. That form of vesting in a contributory plan under which the participant has no rights to withdraw his contributions after benefit attributable to employer contributions have vested (except, possible, upon disability or with tax penalty).  

MODIFIED REFUND. A form of pension which guarantees that the benefit payments will be continued to the beneficiary until at least the employee's contributions have been returned. It is designed to avoid the feeling of forfeiture when a pensioner dies soon after retirement.  

MONEY PURCHASE PLAN. A pension plan in which contributions of employee and employer are accumulated, at interest, to purchase at retirement whatever annuity the resulting sum will purchase. The employer's contributions may be subject to vesting conditions similar to those in other types of plans.  

NO VESTING. A pension arrangement under which the employee gains no vested claim in the employer's contributions until retirement.  

NON-CONTRIBUTORY PLAN. A pension plan in which all contributions take the form of payments made by the employer.
NORMAL RETIREMENT AGE. The age at which an employee usually becomes eligible to retire at full benefits. It is also the age chosen for calculating the contributions necessary, when invested at compound interest, to provide a specified benefit.5

OFFSET INTEGRATION. A method of integrating the Canada Pension Plan with a private pension plan whereby the impact of the contributions to each plan will produce adjustments to the level of pension benefit which would otherwise have been received under the private plan. Under this method of integration, the net benefits will remain the same as under the previous private plan except that they will now emanate from the Canada Pension Plan and the private plan.4

PARTIAL VESTING. That form of immediate or deferred vesting under which a specified portion of the accrued benefits of a participant become a vested benefit.1

PARTICIPANT. An employee, or former employee, who may become eligible to receive, or is receiving, benefits under the plan as a result of his credited service.1

PARTIAL VESTING. That vesting which at any particular time has been attained under a system of graduated vesting.6

PARTICIPATING GROUP ANNUITIES. That type of group annuity pension which has been frequently offered to meet a demand for more immediate participation in any excess interest earnings, or other sources of surplus income, or to reflect current interest rates at the time the premiums are paid. Such adjustments take the form of direct refunds for past overpayments, lower future premiums or some combination of these methods.4

PAST SERVICE BENEFIT. That portion of a participant's retirement benefit that relates to his period of credited service before the effective date of the plan.1

PAST SERVICE LIABILITY. A liability assumed by an employer with respect to service rendered before introduction of a pension plan, ordinarily discharged by payments into a fund over a period of years.6

PAY-AS-YOU-GO PENSION. All pension payments are made from ordinary revenues or other sources external to the plan, there being neither assets segregated, nor a liability set up, for meeting its obligations.6

PENSION. An annuity, or in some cases a similar but non-contractual payment, paid to a retiring employee.6
PENSION TRUSTS. Individual insurance policies issued by an insurance company on the lives of participating employees, the policies being held by trustees under a Trust Agreement. These policies will usually include a life insurance benefit as well as pension benefit. The original contracts are based on the employee's current earnings and new policies are usually issued when earnings increase. An employee leaving the plan may maintain his policy in full force by paying future premiums.

PERIOD OF DEFERMENT. The period prior to the commencement of pension, during which a deferred annuity is in force. The period ends either when the annuity starts to be paid, or when a death benefit becomes payable in lieu of an annuity.

POOLED FUNDS. Pension arrangements provided by trust companies in which the assets from the pension funds of many employers are mingled in a common fund. Individual employers purchase proportionate units in such funds.

PORTABLE PENSION. A pension, acquired through membership in an employer's pension plan, the terms of which permit an employee who leaves the service of the employer to retain as much advantage from the employer's contributions to date of leaving as if he had stayed in the employer's service.

PRIOR SERVICE BENEFIT. That portion of a participant's retirement benefit that relates to his period of credited service before a specified date.

PROBATIONARY PERIOD. A period of time which must be served by an employee before he qualifies for membership in a pension plan, for full vesting or for full benefits under the employer's pension plan.

PROSPECTIVE FUTURE SERVICE BENEFIT. That portion of a participant's retirement benefit that relates to his period of credited service to be rendered after a specified current date.

PURE LIFE PENSION. The simplest form of pension arrangement. It yields the highest amount of pension and the instalments of pension continue only up to the death of the employee. The usual type of pension for a non-contributory type of pension plan.

QUALIFICATION DATE. The date, after serving a probationary period, that an employee becomes eligible for inclusion as a member of a pension plan. When used with reference to provincial pension acts, it means the date upon which, or after which, all employers must conform to the regulations of the provincial pension legislation.
SALARY SCALE. The level of earnings, usually on a full-time basis, that are assumed for employees at successive years of age throughout a working life with a given employer. This is necessary for estimating the future accrual of pension benefits and costs.

SCALE-TYPE PLAN. A pension plan the benefits of which are usually stated in terms of a fixed percentage of income. Since income usually fluctuates, this fixed percentage will produce a scaled pension benefit.

SEGREGATED FUNDS. Life insurance company pension arrangements, based somewhat on the theory behind pooled pension plans administered by trust companies. The funds collected under such "segregated" arrangements are kept separate from other funds collected by the company and may have considerably more flexibility relative to investment outlets than general funds. Sometimes referred to as Separate Investment Funds.

SEPARATION RULE. The proportion of employees that cease to be on a payroll in a given period. Includes temporary lay-offs of permanent staff and also lay-offs of casual labor. The separation rate exceeds the rate of permanent withdrawal and exaggerates the mobility of labor. The relevant rates for pension purposes are rates of job-changing and termination.

SERVICE PERIOD. The period during which pensionable service is rendered.

SETTLEMENT OPTIONS. The alternatives frequently made available to retirees as to the manner in which the pension benefits shall be made payable. Such alternatives include specific guarantees as to the length of payments, the type of payments, the status of beneficiaries, and the like.

SIDE FUND. A supplementary pension fund set up where the disability clause in private pension plans calls for full pension credits up to the time of disability with no actuarial reduction for early retirement. To assure that adequate funds are sometimes adjusted during the employee's working years.

SINGLE PREMIUM FUNDING. A method of pension funding under which the employer's cost in any year in respect of any one individual is the present value at the latter's age of his pension and refund benefits for service in the year less the employee's contributions (if any).

SOLVENCY. That quality in a private pension plan which the plan possesses if it is in a financial position at any particular moment in time to be able to pay all the pension benefits promised up to that time.
SPREAD PERIOD. The period of time over which an employer decides to allocate the funding of previously unfunded past-service liabilities on behalf of employees.

STATE PLAN. A governmental arrangement for providing pensions in old age, with or without specific sources of revenues. It may provide a fixed or a wage-related benefit, any may or may not incorporate some form of means test.

SUDDEN VESTING. Full Vesting occurring at a single point in time, at the end of a period of Delayed Vesting equivalent to delayed full vesting.

SUPPLEMENTAL PENSION PLAN. A private pension plan installed by an employer to complement a public plan. In Canada, a supplemental pension plan would complement the Canada Pension Plan or the Quebec Pension Plan.

TEMPORARY ABSENCE. Absence from employment for a short period of time by an employee member of a pension plan. During that period, if he continues to receive full compensation from the company, his pension contributions will be deducted as usual and his period of continuous service for pension purposes will remain intact.

TERMINAL FUNDING. Instead of building up a systematic fund during the employee's period of service, the employer undertakes to purchase, from an insurer, an annuity of defined amount at the time of each worker's retirement in his service. There is no provision for those employees who leave prior to retirement. In addition, no assets are accumulated for the provision of accrued pension claims in the event that the employer ceases operation.

TERMINATION. A more or less permanent severance of the relation between employer and employee, whether by deliberate withdrawal, by involuntary withdrawal owing to illness, accident, disability, or by discharge or lay-off not followed by rehiring.

TERMINATION RATE. The proportion of employed persons of given age that terminates during that year of age, for reasons other than death or retirement.

TRANSFERABLE PENSION. An accumulation of pension monies or pension credits, with provision that the full present value of the presently vested claims can be withdrawn from the plan and introduced into another plan.

TRUST DEED. A document provided by a trust company in a pension arrangement in which is found an outline of the details of the plan. This must be a part of the pension agreement if the plan is to qualify for special tax treatment.
TRUST FUND. A pension arrangement under which accumulations of pension monies takes place in a fund which is held and invested under the management supervision of a corporate trustee, personal trustee, or a pension fund society. Pensions may be paid directly from the trust fund or purchased from an insurer with money from the fund. The fund is supervised by a qualified actuary to ensure that the fund is sufficient to meet present and future liabilities as provided under the terms and provisions of the plan provided by the employer.3

UNCONDITIONAL VESTING. That form of vesting in a contributing plan under which entitlement to a vested benefit is not conditional upon the non-withdrawal of the participant's contributions.

UNCOVERED AREA. Employees who work for employers that do not have pension plans are referred to as being in the "uncovered area" as far as pension coverage is concerned.6

UNFUNDED LIABILITY. The liability assumed by an employer who agrees to allow pension credits for the past service of his employees. Such past service liabilities are usually funded either by lump-sum payments or by annual allocations over some future period. The unfunded liability is the unamortized portion of the total past service liabilities.4

UNIT BENEFIT FORMULA. A pension that provides a benefit whose amount is determined in part by earnings over the whole period of employment (i.e., career earnings). This is equivalent to determining a pension on the basis of average career earnings multiplied by years of service.6

UNIT OF PENSION. That amount of pension which is computed by applying an agreed-upon percentage figure to the annual earnings (or similar base) to arrive at the pension unit which would then be multiplied by the number of years' service by the employee to determine his total pension.4

UNVESTED PLAN. A pension plan which provides for no vesting until the retirement of the employee.5

VARIABLE ANNUITY PLAN. A pension plan designed to enable an employee to protect himself somewhat for changes in the purchasing power of his pension when received in retirement. This plan provides such protection because a portion of the contributions made under the plan is invested in equity securities which on an over-all basis tend to move in the same direction as the general price level.4

VESTING. The attainment by a participant of a benefit right, attributable to employer contributions, that is not contingent upon a participant's continuation in a specified employment.1
VESTED BENEFIT. A benefit the payment of which is not contingent upon a participant's continuation in specified employment.¹

VOLUNTARY ENROLMENT. Some pension plans provide an option to the employee as to whether he will become a contributor. This tends to have pros and cons relative to the position of the younger employees and the older employees as far as the accumulation of pension benefits is concerned.

WAGE-RELATED PLAN. Any plan that provides a pension whose amount is influenced by the level of an employee's earnings in each period of service.⁶

WITHDRAWAL BENEFITS. Stipulations are usually found in pension contracts to provide for the type of benefit program to be utilized where the employee withdraws from a pension plan at or before retirement. This covers death, disability, voluntary withdrawal for other reasons, dismissal and normal or postponed retirement.⁴
SOURCES


APPENDIX B

DISPOSITION OF THE PRIVATE CANADIAN PENSION PLAN
FOLLOWING MERGERS BETWEEN UNITED STATES
AND CANADIAN COMPANIES

From time to time the question has been raised as to the handling of the private pension plans in Canadian companies which through mergers or some like combination have been assumed by a United States company.

To uncover some indication as to the role played by such plans in the negotiations for the combination and to secure a general idea of the ultimate status of the pension plan in the Canadian company, a survey was conducted during the latter part of 1966 of the principal business combinations between Canadian and United States firms which took place during the period 1959 to 1965 in which the United States firm was the dominant one in the resulting corporation.

As indicated by Moody's Industrial Manual and Moody's Banking and Finance Manual, there were 115 United States companies involved in 163 combinations with Canadian firms from 1959 through 1965. Thirty companies were involved in two or more combinations, while eighty-five companies had effected only one such merger. Of the thirty companies which had completed multiple combinations, four had concluded four mergers each, ten had completed three mergers each, and another sixteen had been involved in two combinations each.

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Responses were received from 104 of the firms queried. These covered 152 combinations. Among these responses, several adjustments had to be made. A number of combinations were effected through the Canadian subsidiaries of the United States firms. Hence, no material effect should be expected relative to the plan of the merged Canadian company. Likewise, a number of the combinations were explained in the responses as simply the purchases of minority interests in the Canadian firms in question. Some represented merely the purchase of some of the assets of the latter firms. One firm refused to complete the questionnaire on the basis that such information as pension status was confidential and two other questionnaires were returned in an incomplete form since the Canadian firms involved were liquidated soon after the combinations were effected.

In the table which follows, a breakdown is given on the survey responses.

<table>
<thead>
<tr>
<th></th>
<th>Companies</th>
<th>Combinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Questionnaires</td>
<td>115</td>
<td>163</td>
</tr>
<tr>
<td>Total Responses</td>
<td>104</td>
<td>152</td>
</tr>
<tr>
<td>Incomplete Responses</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Refusals</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Non-mergers</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Subsidiary Mergers</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>Net Responses</td>
<td>81</td>
<td>123</td>
</tr>
<tr>
<td>No pension plan in the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian company at the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>time of the combination</td>
<td>33</td>
<td>51</td>
</tr>
<tr>
<td>Responses which are most</td>
<td></td>
<td></td>
</tr>
<tr>
<td>pertinent to the question of</td>
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<tr>
<td>disposition of the private</td>
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<tr>
<td>pension plan of the Canadian</td>
<td></td>
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</tr>
<tr>
<td>Company</td>
<td>48</td>
<td>72</td>
</tr>
</tbody>
</table>
Thus, of the 104 companies responding to the questionnaire, forty-eight companies, covering seventy-two combinations, provided information pertinent to this study. Not all questions were answered, but for the most part, the completed responses have provided sufficient information such that general statements may be made relative to the disposition of the Canadian pension plans following the merger of a Canadian firm with a United States firm the latter of which remained as the dominant force.

In the seventy-two combinations, only one United States respondent indicated that the Canadian pension plan was a major factor in determining whether the combination would take place. However, nine United States firms indicated that the pension plan of the Canadian firm, although not a major influence on whether the combination would take place, nevertheless had a bearing on the financial negotiations relative to the combination. Fourteen of seventy respondents to the question as to whether the Canadian plan was changed in any way following the merger in order to conform with United States standards, indicated that such changes were effected. One other respondent indicated that such changes were effected. One other respondent indicated that the plan of the Canadian firm was revised to bring it up to Canadian standards as had been in effect at the time of the combination.

Where the Canadian company was purchased by the Canadian subsidiary of the United States firm, the only adjustments made to the former's plan were for the purpose of bringing it into conformity with the then-existing Canadian standards.
Relative to the effect on the administration of the Canadian pension plan following the combination, sixty-six respondents expressed their experiences. Sixty-two of these companies indicated that the plan continued to be administered by Canadian trust companies or underwritten by Canadian life insurance companies and hence investment policies did not change measurably. Fifty-two respondents stated that in no cases did the trustees or underwriters of the United States company's pension plan take over the administration in Canada of the Canadian plan, although two companies did indicate that the trustees of their United States plan did take over such administration where the assets of the Canadian plan were invested in the United States.

The terms of the plan in effect with the United States firm at the time of the combination, only five of fifty-one companies responding stated that there were any adjustments required or made in order to bring the plan into conformity with the plan in effect with the Canadian company's plan.

With regard to combinations wherein either both parties (Canadian and United States) had previously been covered by a collectively bargaining agreement or where only the United States firm was so covered, twenty-two companies qualified. Where both parties were covered, only two plans necessitated any adjustments after the combination. However, where the Canadian firm had not been previously covered by such a contract, fourteen plans required some adjustments in order to bring them into conformity with the United States companies' plans. Such adjustments invariably took the form of changes in contributions for purposes
of bringing the promised benefits more in line with the benefits offered to United States' employees.

Companies were queried also on any changes in the Canadian plan subsequent to the combination. Disregarding the direct integration procedure which many plans undertook in order to adjust for the added contributory burdens necessitated by the Canada Pension Plan, twelve companies of thirty-seven answering the question admitted that further changes had been made in the design of the Canadian plan.

A breakdown on the results of the entire survey is found in the following table. After each question is given the response provided by the respondents. A total of seventy-two combinations were reported upon.

In summarizing this brief survey, it may be said that on the basis of business combinations between United States and Canadian firms as effected over the period 1959 to 1965, the pension plan existing in the latter firm was not a major consideration in the decision as to whether the merger would be accomplished. It did, in some cases however, have a bearing on the financial aspects of the merger.

From an administration point of view, the pension plan of the merged Canadian firm remained under Canadian trustees, sometimes the same as before the merger but in other cases, the trustee or underwriter of plans of other Canadian companies owned by the United States firm was called upon to administer all or a part of the aforementioned pension plan. Only in a few isolated cases were the assets of the merged Canadian firm's pension plan administered in the United States by the trustees or underwriters of the United States plan.
UNITED STATES - CANADIAN MERGERS

The following questions are designed to determine the disposition of the private pension plans in Canadian business enterprises after mergers with or take-overs by United States companies. (The term "combination" will be used for both mergers and take-overs.)

1. The pension plan of the Canadian firm was:
   a) A major factor in determining whether the combination would take place; 1 71
   b) Not a major factor in determining whether the combination would take place but it had a bearing on the price to be paid for the Canadian firm; 9 62
   c) Revised to conform with pension plan in force with the United States firm; 15 55
   d) Left essentially the same even though the Canadian firm became a subsidiary or division of the United States firm. 52 15

2. Relative to the investment of the pension contributions made by the employees of the Canadian firm after the merger:
   a) These funds continue to be administered in Canada by Canadian trustees; 62 4
   b) These funds continue to be administered in Canada but by the trustees of the U. S. company's pension plan; 52 15
   c) These funds are now administered in the United States by the trustees of the U. S. company's pension plan. 2 50

3. The pension plan of the United States firm was:
   a) Left untouched following the combination because the Canadian firm was actually purchased by another Canadian subsidiary of the United States firm; 32 28
   b) Left untouched where the Canadian firm was purchased directly by the United States firm; 39 8
   c) Adjusted to incorporate some of the major advantages of the plan of the Canadian firm. 5 46

4. ANSWER ONLY IF UNITED STATES FIRM'S PRIVATE PENSION PLAN IS COVERED UNDER A COLLECTIVELY BARGAINED UNION CONTRACT.
a) Both United States firm's pension plan and the Canadian firm's pension plan were covered under collectively-bargained labor agreements so that no adjustments were made to the Canadian firm's plan;
b) The United States firm's pension plan is covered under a collectively-bargained labor contract while the Canadian firm's plan was not covered under such a plan. Nevertheless, there were no adjustments to the Canadian plan.

5. a) Disregarding the adjustments to private plans in Canada as necessitated by the Canada Pension Plan, there have been no significant changes in the Canadian company's plan subsequent to the combination;
b) If the answer to #5 a) is "no", please indicate briefly the nature of these changes.
Finally, there were a number of cases where the plan of the merged Canadian firm was adjusted at the time of the combination in order to bring it into conformity with either the United States plan or with similar Canadian plans.

One important item illustrated in the survey, which may be worthy of note, is the fact that in fifty-one of the 123 combinations, or in 42 per cent of the major business combinations for the period 1959 to 1965 between Canadian and United States interests, as reported by Moody's various financial manuals, there was no pension plan in force in the Canadian firm at the time of the combinations. This may be indicative of the lack of pension coverage in many Canadian business firms. On the other hand, it might show that United States interests may consider Canadian companies not having pension plans in existence at the time of the preliminary merger investigation as being prime targets for less complicated combinations than might otherwise have been the case.
APPENDIX C

EXCERPTS FROM THE CARTER ROYAL COMMISSION REPORT ON
TAXATION RELATIVE TO EFFECTS ON PRIVATE
PENSION SYSTEM IN CANADA

In February, 1967, a Royal Commission Report on taxation in Canada was presented to the Canadian Government. This Report, entitled the Carter Royal Commission Report on Taxation, if adopted along lines closely following its recommendations, promises to be the most revolutionary piece of tax legislation to be effected in the Western World in the last half century.

The Report represents the culmination of a comprehensive four year study of the entire tax structure in Canada as conducted by a group headed by a Toronto accountant, Kenneth Carter, and five other commissioners.

The Commission was concerned with studying the Canadian tax structure with the view to changing it in such a way that greater equity would be achieved and a higher rate of growth might be achieved through a reallocation of savings. In the course of the study, the Commission was guided by two realizations. The first was that individuals with high annual incomes were paying taxes at a rate no higher than that of individuals with much lower incomes. The second related to the fact that because of undue favorable tax incentives, there was

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a general feeling that a misallocation of funds into some industries at the expense of others.

What the Report essentially does is to reconstruct the entire tax system for Canada. Its principal thesis appears to be that "a dollar is a dollar no matter what its source" and that it should, therefore, be made to pay its proportionate share of tax levies. Its principal areas of consideration included the following: a new comprehensive tax base, new rates for both personal and business incomes, capital gains levies, sales taxes, income averaging, expense accounts, death duties and gift taxes, retirement savings plans, research and development costs, taxation of cooperatives and credit unions, taxation of financial institutions, and the removal of special tax incentives for certain types of industries (i.e., mining and petroleum companies).

For the purposes of this dissertation, the most important areas to consider are the integration of individual and corporate taxes, the capital gains considerations, the taxation of financial institutions and the new incentives for retirement savings plans. A brief summary of how these features affect private pension plans will be given at the conclusion of this section.

Integration of Individual and Corporate Income Taxes

Under the Carter Commission's recommendations, a complete reorganization would be made both in personal and corporate income tax rates. In addition, special rebate considerations would be given to Canadian stockholders on account of taxes paid by Canadian corporations in which they had invested.
Where personal income is concerned, the present rates would be reduced from a maximum of 80 per cent to 50 per cent, although progressive tax rates would still be in vogue.

For corporations, the tax rate would be a flat 50 per cent with no surtax arrangement as in effect at present where the tax is only 21 per cent on the first $35,000 and 50 per cent thereafter. Indefinite carryforwards or two-year carrybacks would be allowed for corporate losses.

The most revolutionary step, however, involves the integration of corporate and personal taxes. Under this approach, it is recommended that all business income would eventually be taxed at the personal rate of the Canadian stockholders. Canadian stockholders would be provided with a 100 per cent tax credit for taxes paid on their behalf by Canadian corporations. In the computation of his total tax liability, the Canadian stockholder would be given a refund if the amount of taxes paid by a Canadian corporation on its income exceeds the rate which the stockholder would be required to pay on his dividends. The present 20 per cent dividend tax credit would be withdrawn. An adjustment would also be made in the cost basis for security investments in corporations where the corporation retained some of its earnings rather than paid them out as dividends. Thus, if an investor purchased the common stock of XYZ Corporation for $50 a share and the corporation withheld half of its after-tax earnings per share of $8 for that year, the new cost basis of the security for capital gains purposes would rise by the amount of the retained earnings. Thus, the new cost basis would be set at $54.
In addition, the stockholder would be given complete credit for the taxes paid by the corporation on the before-tax earnings.

This integration is of interest for the administrators and underwriters of Canadian private pension plans because in the past, these groups have as a rule invested heavily in Canadian securities and would thus be affected by any changes in tax rates involving corporations in Canada.

Capital Gains Considerations

There is at present no tax assessed on gains from the sale of capital assets in Canada. Under the Carter Commission approach of "a dollar is a dollar regardless of its source," capital gains would be taxed at the rate applicable to the individual's or the corporation's income. In the latter case, of course, the rate would be a flat 50 per cent. This tax would not be retroactive but would take into consideration only those gains in excess of market values which were realized from the effective date of the legislation. As mentioned earlier, the investor, whether individual or a corporation, would be permitted to adjust his cost basis for the security by the amount of earnings per share which had been retained by the corporation since the time of the initial purchase or the effective date of the tax legislation, whichever came later. Capital losses would immediately become deductible from income in a manner similar to business expenses.

Pension plan administrators and underwriters would be directly affected by this capital gains legislation if it is enacted as per the Commission's recommendations. The net effect of the capital gains
assessments would be offset somewhat when consideration is given to the tax credits available to corporate investors for taxes paid by the corporations in which they invested and also by the adjustments which would be made in the cost bases of their security holdings on account of retained earnings each year where dividend payouts from current earnings would be less than 100 per cent.

**Taxation of Financial Institutions**

Probably one of the Commission's more controversial recommendations relates to the proposal for increased taxes on many financial institutions. Under this recommendation, life insurance companies, banks, trust and loan companies, finance companies and mutual funds would be taxed on the same basis as all other corporations in Canada. Thus, such former deductions as the inner reserves of banks and the "unusually high" reserves for bad debt losses on mortgage loans for trust and loan companies would no longer be available as tax deductions in the future. In addition, general and contingency reserves would, if the legislation is passed, not be available as tax deductions for life insurance companies. Likewise, the income earned on the investment of policy reserves would be taxable to the individual policyholder if such income exceeded a certain specified rate.

At present, insurance companies are taxed only on that portion of investment income credited to stockholder accounts and from which dividends are paid. Participating company stockholders are limited by law as to the extent to which they can share in such investment income whereas non-participating company stockholders are given credit
for all such earnings. However, since more than 70 per cent of all insurance business done in Canada is on a participating basis, little tax revenue has been received by the Canadian Government from this source in the past.

Since life insurance companies have been quite active in the private pension area, such legislation will tend to have somewhat adverse effects on their competitive position relative to trust companies and individual trustees. Higher premiums will no doubt become a reality as life insurance companies find it more expensive to maintain benefit levels in the future. Trust companies were not affected by the legislation and their investment income will remain non-taxable at the time of receipt and taxable to the members of the trustees' pension plans only upon their receipt of benefits at retirement.

Retirement Savings Plans

These plans, which provide an outlet to the self-employed for pension purposes, would be considerably improved under the Commission's recommendations. Whereas, at present, the income of such plans is taxable when earned, the proposed recommendations would defer any tax on the investment of such funds until the benefits were paid to the retirees. The plan would also receive full credit for any taxes paid by corporations in which it had received any dividends.

A limitation currently exists relative to the maximum contribution level of such plans for tax benefits. This is the lesser of 20 per cent of income or $2,500 if only the individual contributes and the lower of 20 per cent of income or $1,500 is both the individual
and his employer contributes. The Commission has recommended that the percentage limitation be dropped and that the maximum deduction be computed on an entirely new basis. This would be accomplished as follows: the maximum deduction allowable for tax purposes would be that amount sufficient to purchase an annual pension of $12,000 guaranteed for ten years payable at age sixty-five. For a family unit, the maximum would be that amount sufficient to purchase a $12,000 annuity on a joint and last survivor basis starting when the older spouse reaches age sixty-five.

This upper limit for tax deductions applies not only to past contributory costs but also to the absolute size of the pension fund. Thus, if the market value of the fund exceeded the amount necessary to pay the annuity, the excess would be included as part of the individual plan member's income.


Financial institutions will be somewhat adversely affected if the Carter Commission Report were to be implemented in its present form. This is due primarily to recommendations of the Report that many financial institutions be taxed on a basis similar to any other type of tax-paying corporation. Hardest hit would be the life insurance companies who would suffer the loss of such current tax exemptions as general and contingency reserves and would also see the investment earned on the investment of policy reserves included in the taxable incomes of their policyholders. These situations would be most revolutionary. Trust companies, banks, and mortgage and finance companies would also
see changes as the amounts of bad debt allowances deductible for tax purposes would be decreased considerably.

Where pension plans are directly affected, the retirement savings plans for the self-employed will reap the greatest benefits from the recommendations of the Commission's recommendations. Whereas in the past the earnings on the investment of such funds was immediately taxable to the individual, the latter would, if the recommendations pass, be allowed to defer the taxes on this income as well as any capital gains to the time when he would be in receipt of his pension benefits. In addition, the percentage limitation on the amount of pension contributions allowable for tax purposes on an annual basis would be eliminated. As mentioned earlier, newer, more liberal deductions would be permitted.

Employer plans, whether of the insured or the trusteeed types, would also see the removal of the dollar limits now in force and the new deductible amounts would be computed on a basis similar to that shown above in the case of self-employed pensions.

Insured pension plans may realize a slight rise in premiums because of the loss of former tax protections. This tax protection, as mentioned earlier, took the form of special contingencies for bad debt and other losses. Since the level of these contingencies allowable for tax purposes will be curtailed considerably, benefit levels will become more expensive to attain in the future.

The loss of capital gains exemptions will tend to hit all administrators and underwriters of private pension plans. It is expected, however, that this will be more than offset by the tax credits to be
made available through investments in equity securities of different corporations. That tax credit will tend to approximately double the net dividend yields now experienced by pension fund administrators such that an increased demand may be expected for equity securities of Canadian corporations (since the tax credit applies only to Canadian taxpayers investing in Canadian corporations).

It is expected that pension plans will place less emphasis in the future on bonds and mortgages if the Commission's recommendations are accepted. Over the last two decades, there has been a noted trend away from most bonds and into mortgages because of the yields available from these latter investments. With the "doubling" of stock yields as would be experienced with the Carter suggestions, it is reasonable to expect that pension funds will tend to increase their activity in equity securities. Likewise, other corporations and individuals would seek to increase their holdings of equity securities at the expense of the fixed-income securities where the tax credit would not be in effect. It is expected, although this is not a surety, that United States interests will divert the funds which they now have invested in Canadian equity securities into the higher yielding bonds and mortgages once Canadians had diverted their funds from bonds and mortgages into equities. A further investigation of this latter suggestion is beyond the expanse of this dissertation.

A final area wherein pension plans will be affected somewhat through the Carter Report's recommendations, is in the field of real estate transactions. These investments, although they have never really attained a significant degree of importance for Canadian pension
plans, will be even less favored where the capital gains tax is instituted and assessed on a personal or a corporate basis depending on the investor. Up until now, the capital gain feature was the principal force behind real estate investments by pension plans.

In summation, the Carter Tax Report is expected to affect private pension plan development in Canada along the following lines:

a) Increased interest in Retirement Savings Plans because of increased tax concessions.

b) Probable higher premiums on insured pension plans because of the increased tax burdens to be assessed on life insurance companies.

c) Increased activity in equity markets by private pension plans as the latter seek to reap the benefits of the tax credits associated with equity investing.

d) A slowdown in the purchase of bonds and mortgages due to the previously mentioned increased activity in equity investing.

e) Less interest in real estate transactions because of the loss of capital gains exemptions as have existed in Canada up to the time of the Commission's report.


"This Accountant Questions Carter Commission's Stance, 'Take All or Northing at All,'" Financial Post, April 1, 1967, p. 21.


APPENDIX D

CANADIAN INCOME TAX ACT AS RELATED TO
PRIVATE PENSION PLANS

As noted in Chapter 5 concerning the relationship between Federal income tax legislation and private pension plans, a number of sections and clauses of the Canadian Income Tax Act were presented only in summary form.

In this Appendix a fuller explanation of the terms of the Income Tax Act will be presented.

I. EMPLOYER'S CONTRIBUTIONS TO PRIVATE PENSION PLANS IN CANADA

Section 11 (1)(g)

(g) Employer's contribution to Pension Fund--a deduction is permitted for an amount paid by a taxpayer in the year or within 120 days from the end of the year to or under a registered pension fund or plan in respect of services rendered by employees of the taxpayer in the year; subject, however, as follows:

(i) In any case where the amount so paid is the aggregate of the amounts each of which is identifiable as a specified amount in respect of an individual employee of the taxpayer, the amount deductible under this paragraph in respect of any one such employee is the lesser of the amount so specified in respect of that employee or $1,500, and

(ii) in any other case, the amount deductible under this paragraph is the lesser of the amount so paid or an amount determined in the prescribed manner not exceeding, however, $1,500 multiplied by the number of employees of the taxpayer in respect of whom the amount as may be deducted as a special contribution under Section 76.
Note: "prescribed manner" as mentioned in paragraph (ii) is explained in Regulation 2700.

Section 11 (1)(h)

(h) Idem.--a deduction is permitted where a registered pension fund or plan contains a provision under which the taxpayer may provide superannuation or pension benefits for an employee or former employee of the taxpayer by making a lump-sum payment to or under the fund or plan in the year in which the employee or former employee:

(i) becomes eligible to retire,
(ii) retires or otherwise ceases to be employed by the taxpayer, or
(iii) reaches an age at which the superannuation or pension benefits so provided for become payable or commence to be payable to him,

an amount paid by the taxpayer in the year or within sixty days from the end of the year pursuant thereto as the lump sum in respect of an employee of an employer or former employee who, in the year, became eligible to retire, retired or otherwise ceased to be employed by the taxpayer or reached the age referred to in paragraph (iii) (except to the extent that it is deductible under paragraph (g).

Section 76

This section concerns the deductibility of lump-sum payments to pension plans by employers. The important subsections, as mentioned in Chapter 5, are 76 (1) and 76 (2).

Section 76 (1)

(1) Where a taxpayer is an employer and has made a special payment in a taxation year on account of an employees' superannuation or pension fund or plan in respect of past services of employees pursuant to a recommendation by a qualified actuary in whose opinion the resources of the fund or plan required to be augmented by an amount not less than the amount of the special payment to ensure that all the obligations of the fund or plan to the employees may be discharged in full, and has made the payment so that it is irrevocably vested in or for the fund or plan and the payment has been approved by the Minister on the advice of the Superintendent of
Insurance, there may be deducted in computing the income of the taxpayer for the taxation year the amount of the deduction.

Section 76 (2)

(2) For greater certainty and without restricting the generality of subsection (1), it is hereby declared that subsection (1) is applicable where the resources of the fund or plan are required to be augmented by reason of an increase in the superannuation or pension benefits payable out of or under the fund or plan.

Regulation 2700

This regulation defines the prescribed manner clause contained in Section 11 (1)(g) and refers to employers' contributions to registered pension funds or plans. It is comprised of three subsections which will be reviewed in the following paragraphs.

(1) For the purpose of subparagraph (ii) of paragraph (g) of subsection (1) of Section 11 of the Income Tax Act, the amount determined in prescribed manner (hereinafter in this Part referred to as the "prescribed amount") shall be determined as follows:

(a) determine, in respect of each individual employer on whose behalf the employer's contribution was paid, the amount that is the lesser of
   (i) the amount paid in the year by the taxpayer as salary or wages to that employee, or
   (ii) that proportion of the total payroll that $1,500 is of the employer's contribution; and

(b) determine, in respect of each individual employee on whose behalf the employer's contribution was paid, the amount that is that proportion of the amount determined under paragraph (a) in respect of that employee that the employer's contribution is of the total payroll, and

(c) determine the amount that is the aggregate of each of the amounts determined under paragraph (b); and the amount determined under paragraph (c) is the prescribed amount.
(2) In lieu of determining the prescribed amount in accordance with subsection (1) the taxpayer may elect to determine that amount as follows:

(a) determine, in respect of each individual employee on whose behalf the employer's contribution was paid, the amount that is the lesser of
   (i) the amount that can be established to be the actual cost to the taxpayer of benefits under the registered pension fund or plan in respect of services rendered by that employee in the year, or
   (ii) $1,500; and

(b) determine the amount that is the aggregate of each of the amounts determined under paragraph (a); and the amount determined under paragraph (b) is the prescribed amount.

(3) In this section

(a) "employer's contributions" means the amount paid by the taxpayer in the year or within 120 days from the end of the year to or under a registered pension fund or plan in respect of service rendered by employees of the taxpayers in the year; and

(b) "total payroll" means the aggregate of all amounts paid in the year by the taxpayer as salary or wages to employees of the taxpayers who are included in the fund or plan.

II. EMPLOYEE CONTRIBUTIONS TO PRIVATE PENSION PLANS

In Chapter 5, it was noted that the relevant sections of the Income Tax relative to the deductibility of employee contributions to pension plans were Sections 11 (1)(i), 11 (1)(u), 11 (1)(x), and 11 (8).

In this Appendix, Sections 11 (1)(i) and 11 (8) will be quoted from the Income Tax Act because their length did not allow their inclusion in Chapter 5. Sections 11 (1)(u) and 11 (1)(x) were self-explanatory and so are not repeated here.
Section 11 (1)(i)

(1) Employee's contribution to pension fund—a deduction is permitted for amounts contributed by the taxpayer to or under a registered pension fund or plan,

(i) not exceeding in the aggregate $1,500 in the year, if retained by his employer from his remuneration for or under the fund or plan in respect of services rendered in the year or paid into or under the fund or plan by the taxpayer as part of his dues for the year as a member of a trade union,

(ii) not exceeding in the aggregate, the lesser of

(A) $1,500 paid in the year into or under the fund or plan by the taxpayer in respect of services rendered by him prior to the year while he was not a contributor, or

(B) that part of an amount paid in the year into or under the fund or plan by the taxpayer in respect of services rendered by him previous to the year while he was not a contributor that is not in excess of the amount obtained by multiplying the number of years previous to the year in which he rendered services while he was not a contributor by $1,500 and subtracting from the product the aggregate of all amounts deducted under this paragraph in previous years,

to the extent not deductible in the immediately preceding year under paragraph (u), and

(iii) not exceeding in the aggregate $1,500 minus any amount deducted under paragraphs (i) or (ii) in computing his income for the year, paid in the year into or under the fund or plan by the previous to the year while he was a contributor, to the extent not deductible in the immediately preceding year under paragraph (u).

Section 11 (8)

(8) Employee's contribution to pension fund for arrears—where an amount has been contributed by a taxpayer to or under a registered pension fund or plan
(a) after 1945, in respect of services rendered by him in a year while he was not a contributor, or

(b) after 1962, in respect of services rendered by him in a year while he was a contributor,

it may be included in computing a deduction under

(c) subparagraph (ii) of paragraph (i) of subsection (1), in the case of an amount described in paragraph (a), or

(d) subparagraph (iii) of paragraph (i) of subsection (1), in the case of an amount described in paragraph (b).

for the taxation year subsequent to the year in which it was contributed to the extent that it exceeds the aggregates of amounts deductible in respect thereof under this subsection, the said subparagraph (ii) or (iii) or paragraph (u) of subsection (1) in computing incomes for years preceding the taxation year.

III. TAXABILITY OF PENSION BENEFITS

The general rule relative to the taxability of pension benefits is contained in Section 6 (1)(a)(iv) of the Income Tax Act and was explained in Chapter 5.

There are, however, some special rulings mentioned in summary form in Chapter 5 relative to the taxability of pension benefits to non-residents and the possibility of income averaging of pension benefits to both widows and non-residents where lump-sum payments are made. In addition, definitions were presented in summary form relative to what constituted the taxable features of retiring allowances and death benefits.

These features are presented again in the form in which they are found in the Income Tax Act.
Section 31A

This section deals with the taxability of income received from duties performed in Canada. Specifically, it is stated as follows:

Income from duties performed in Canada—Where, in a taxation year, a payment is made by a person resident in Canada to an individual who is not resident in Canada and who during the five years immediately preceding the year in which the payment is made

(a) was a resident in Canada, or

(b) was employed in Canada

for a period or periods the aggregate of which was at least thirty-six months, if the payment is

(c) a payment

(i) out of or pursuant to a superannuation or pension fund or plan,

(ii) upon retirement of an employee in recognition of long service and not made out of or under a superannuation fund or plan,

(d) a payment made by an employer to an employee or former employee upon or after retirement in respect of loss of office or employment,

the payment shall be deemed to be income to the payee, for the year in which it was received, from duties that shall be deemed to have been performed by him in Canada in that year, unless it can be established by subsequent events or otherwise, that the payment was made as part of a series of annual or other periodic payments payable throughout the lifetime of the payee.

Section 36

This section is very important from the viewpoint of a receipt of a lump-sum payment at the time of his retirement. Of the six subsections covering this area, the most important for this dissertation are Sections 36 (1)(a)(i)(ii), 36 (2) and 36 (3). These are explained as follows:
Section 36 (1)

(1) Winding up of pension fund—In the case of

(a) a single payment

(i) out of or pursuant to a superannuation
    or pension fund or plan

(A) upon the death, withdrawal or
    retirement from employment of
    an employee or former employee,
(B) upon the winding-up of the fund
    or plan in full satisfaction of
    all rights of the payee in or
    under the fund or plan, or
(C) to which the payee is entitled
    by virtue of an amendment to
    the plan although he continues
    to be an employee to whom the
    plan is applicable,

(ii) upon retirement of an employee in recog-
    nition of long service and not made out
    of or under a superannuation fund or plan,

(b) a payment or payments made by an employer to an em-
    ployee or former employee upon or after retirement
    in respect of loss of office or employment, if
    made in the year of retirement or within one year
    after that year, or

(c) a payment or payments made as a death benefit, if
    made in the year of death or within one year after
    that year,

the payment or payments made in the taxation year, at the option
of the taxpayers by whom it is or they are received, be deemed
not be income of the taxpayer for purposes of this section, in
which case the taxpayer shall pay, in addition to any other tax
payable for the year, a tax on the payment or aggregate of the
payments equal to the proportion thereof that

(i) the aggregate of the taxes otherwise
    payable by the employee under this Part
    for the three years immediately preced-
    ing the taxation year

is of

(ii) the aggregate of the employee's incomes
    for those three years.
Section 36 (2)

Employee not resident during year and two immediately preceding years—Where a taxpayer has elected that a payment or payments of one of the classes described in Section 36 (1)(a), (b), (c) in respect of an employee or former employee who was not a resident in Canada throughout the whole of the three years referred to in paragraph (ii) of subsection (1) shall be deemed not to be income of the taxpayer for the purpose of this Part, the tax payable under this section is that portion of the amount on which the tax is payable that

(a) the aggregate of the taxes that would have been payable by the employee under this Part for the three years referred to in paragraph (ii) of subsection (1) (before making any deduction otherwise allowable in computing taxable income) if he had been resident in Canada throughout those years and his incomes for those years had been from sources in Canada,

is of

(b) the aggregate of the employee's incomes for those three years;

and, in such a case the election is not valid unless the taxpayer has filed with his election, a return of the employee's incomes for each of the three years in the same form and containing the same information as the return that the employee, or his legal representative, would have been required to file under this Part if he had been resident in Canada in those years.

Section 139 (10)

Contract under pension plan—For greater certainty it is hereby declared that, where a document has been issued or a contract entered into (either before or after the coming into force of this subsection) purporting to create, to establish, to extinguish or to be in substitution for, a taxpayer's right to an amount or amounts, immediately or in the future, out of or under a superannuation or pension fund or plan,

(a) if the rights provided for in the document or contract are rights provided for by the superannuation or pension plan or are rights to a payment or payments out of the superannuation
or pension fund, any payment under the document or contract is a payment out of or under the superannuation or pension fund or plan and the taxpayer shall be deemed not to have received, by the issuance of the document or entering into the contract, an amount out of or under the superannuation or pension fund or plan, and

(b) if the rights created or established by the document or contract are not rights provided for by the superannuation or pension plan or a right to payments out of the superannuation or pension fund, an amount equal to the value of the rights created or established by the document or contract shall be deemed to have been received by the taxpayer out of or under the superannuation or pension fund or plan when the document was issued or the contract was entered into.

V. TAXABILITY OF DEATH AND WIDOWS' BENEFITS FROM PRIVATE PENSION PLANS

Section 36 (4)

(4) Amount to be subtracted from payment as death benefit--In determining the amount of any payment or payments made in a taxation year as a death benefit that shall be deemed, for the purpose of this section, not be income of the taxpayer by whom it is or they are received, there shall be subtracted from the amount of the payment or payments so made any amount deductible under paragraph (v) of subsection (1) of Section 11 by reason of that payment in computing his income for that year.

Section 11 (1)(v)

(v) Estate tax and succession duties applicable to certain property--(a tax deduction is allowed up to) that proportion of any superannuation or pension benefit, death benefit, benefit under a registered retirement savings plan (other than the refund of premiums) or benefit under a deferred profit
sharing plan received by the taxpayer in the year, upon or after the death of a predecessor, in payment of or on account of property to which the taxpayer is the successor the value of which was required to be included in computing the aggregate net value of the property passing on the death of the predecessor for the purpose of Part I of the Estate Tax Act (or would have been so required to be included if the predecessor had been domiciled in Canada at the time of his death), that

(i) the aggregate of

(A) such part of any tax payable under the Estate Tax in respect of the death of the predecessor as is determined under that Act to be the part thereof applicable to the property in payment of or on account of which the benefit was so received, and

(B) such part of any succession duties payable under a law of a province in respect of the death of the predecessor as may reasonably be regarded as attributable to the property in payment of or on account of which the benefit was so received,

is of

(ii) the value of the property in payment of or on account of which the benefit was so received, computed as provided for the purpose of subsection (4) of Section 58 of the Estate Tax Act.

Section 139 (1)(j)

(j) "Death benefit"—"Death benefit" for a taxation year means the amount or amounts received in the year by any person upon or after the death of an employee in recognition of his service in an office or employment minus
(i) where the amount or amounts were received by his widow, the lesser of

(A) the amount or amounts so received, or
(B) an amount equal to the employee's salary, wages and other remuneration for the last year in that office or employment for which he received any such remuneration or $10,000, whichever is the lesser, minus amounts deductible in computing for previous years the death benefits received in respect of his service in that office or employment, or

(ii) where the employee died without leaving a widow or where no amount is deductible in computing for any year the death benefits received by his widow in respect of his service in that or any other office or employment, the lesser of

(A) the amount or amounts so received, or
(B) that proportion of any amount determined as provided in clause (B) of subparagraph (i) that the amounts so received are of the aggregate of all amounts received in the year, by each of the persons who received any such amount or amounts, upon or after the death of the employee in recognition of his service in that office or employment,

except that where any death benefits were received in the year in respect of the services of an employee in more than one office or employment,

(iii) this paragraph shall be read as requiring a separate determination of the death benefits received in respect of his service in each particular office or employment, and

(iv) there shall be substituted for the amount determined under clause (B) or subparagraph (i)
or clause (B) or subparagraph (ii), as the case may be, in respect of each particular office or employment an amount equal to that proportion of the amount otherwise determined thereunder that the employee's salary, wages and other remuneration for the last year in that particular office or employment for which he received any such remuneration is of the aggregate of his said remuneration for the last years in each of the said offices or employments from which he received any such remuneration.
APPENDIX E

BREAKDOWN OF SURVEY QUESTIONNAIRES TO
LIFE INSURANCE COMPANIES AND TRUST COMPANIES
IN CANADA IN 1966

527a
I. GENERAL INFORMATION ON INSURED PENSION PLANS

(Not including Segregated Accounts or Variable Annuity Contracts)

1. Approximate number of group annuities under your administration at December 31, 1965
2. Approximate number of plans in which both employers and employees contribute
3. Approximate number of plans in which only employers contribute
4. Approximate number of employees covered under group annuity pension plans under your administration at December 31, 1965
5. Approximate dollar value of group annuity plans you administer
6. Does your Canadian operation hold sole responsibility for the investment of the pension fund monies in terms of the securities (bearing in mind the limitations set forth in different government regulations)? If not, who makes these decisions?

7. From the list given below, what would you consider the top three objectives sought through the investment of the pension funds of your company? (Please number your selection in terms of "1" for most important; "2" for next important; etc.).

- Safety of Principal
- Capital Appreciation
- Stability of Income
- Income comparable at least to cost-of-living increases
- Adequacy of Income
- Diversification of risk
- Liquidity
- Other (Please mention)

8. Has this investment policy changed in the last decade?

If so, what formerly were the top three objectives sought?

(1) (2) (3)


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10. Method of calculating yield on investments.

11. What effect do you think the Canadian Pension Plan will have on the growth and the design of private pension plans under your administration in the future?
II. GENERAL INFORMATION ON SEGREGATED PENSION ACCOUNTS

1. Number of Segregated-Account pension plans under your administration:
   December 31, 1965  December 31, 1964  December 31, 1963
   December 31, 1962  December 31, 1961

2. Dollar value of Segregated-Account pension plans under your administration:
   December 31, 1965  December 31, 1964  December 31, 1963
   December 31, 1962  December 31, 1961

3. Average annual yields on each classification of Segregated account:
   Government Bond Account
   Corporate Fixed Income Account
   Common Stock Account
   N.H.A. Mortgages
   Conventional Mortgages

4. Method of calculating yields on investment of Segregated pension fund monies: (Use back of page if necessary.)

III. GENERAL INFORMATION ON VARIABLE ANNUITY CONTRACTS

1. Number of variable annuity plans administered by your company:
   December 31, 1965  December 31, 1964
   December 31, 1963  December 31, 1962
   December 31, 1961

2. Dollar value of variable annuity plans administered by your company:
   December 31, 1965  December 31, 1964
   December 31, 1963  December 31, 1962
   December 31, 1961
I. GENERAL INFORMATION ON TRUSTED PENSION PLANS  
(Not including Pooled Plans)

1. Approximate number of private pension plans under your administration.  

2. Approximate number of plans in which both employers and employees contribute.  

3. Approximate number of plans in which only employers contribute.  

4. Approximate number of employees covered under plans which you administer.  

5. The responsibility for the investment of the funds accumulated under these pension plans rests with: (Please indicate numerically the most prevalent situations).
   a. your firm solely  
   b. the employer solely  
   c. your firm and the employer jointly  
   d. an investment advisor of the employer  
   e. a pension consultant of the employer  
   f. an individual trustee acting on behalf of the employer  

6. From the list given below, what would you consider the top three objectives sought through investment of pension funds by your firm? (Please indicate your selections in terms of "1" for most prevalent and so on.)
   ____Safety of Principal  ____Capital Appreciation  
   ____Stability of Income  ____Income comparable at least with Cost-of-Living increases  
   ____Adequacy of Income  ____Diversification of Risk  
   ____Liquidity  ____Other (Please explain)  

7. Has this investment policy changed over the last decade? If so, what formerly were the top three objectives sought?  

   (1)______________________ (2)______________________ (3)______________________  

   1965_________; 1964_________; 1963_________; 1962_________;  
   1961_________; 1960_________  


10. What effect do you think the Canada Pension Plan will have on the continued growth and the future design of pension plans under your administration? (Use back of page if necessary).  

   ____________________________________________________________
II. GENERAL INFORMATION ON POOLED PENSIONS

1. Number of companies utilizing pooled pension plan arrangements with your firm:
   1965_____________; 1964_____________; 1963_____________;
   1962_____________; 1961_____________; 1960_____________

2. Assets of the pooled pension plans administered by your firm at year end:
   1965_____________; 1964_____________; 1963_____________;
   1962_____________; 1961_____________; 1962_____________

3. From the list of investment objectives stated in Part I (6) what would you consider the objectives sought by each of the funds comprising your pooled pension program?
   ________________________________
   ________________________________
   ________________________________
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4. Average yields on different accounts comprising the pooled pension program?*

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5. Method of calculating the yields on the investment of pooled pension funds:

*These headings may not correspond with the pooled pension accounts of your firm. Should this be the case, please indicate the yields on your accounts disregarding those above.
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