Serial No. 113 B

INTERNATIONAL COMMISSION FOR THE NORTHWEST ATLANTIC FISHERIES

Document No. 44

THIRD ANNUAL MEETING

Superannuation

(Prepared for the Committee on Finance and Administration)

Superannuation was discussed at the Second Annual Meeting. This problem was postponed pending further investigation.

The Commission's position relative to the establishment of a security plan for its employees is a particular one and different from that of other international organizations, governments or business concerns.

Group Plans or Pension Funds have been studied. They have to be disregarded because the Commission does not meet any of the basic requirements relative to such plans. To be actuarially sound, no less than 25 persons should be covered. These persons should be of such an age distribution that they could be covered at a reasonable cost. They have to work for a growing concern whose existence is considered as almost perpetual.

It is easily seen that the Commission and also its staff have to face important and unfavourable actuarial factors that spell for both parties a higher cost of accumulation of security.

This means that the Commission would have to participate to a higher amount than its employees. It also means that employees will have, aside from joint participation, to allocate for more security a far greater part of their income than is usual for employees of organization with group plans.

It is felt that at this stage, the problem of what should be the contribution of the Commission and its employees should be stated, keeping in mind that both the employees and the Commission have to counterbalance through higher contributions, that part of security which is guaranteed by a Group Plan based on sound actuarial principles. The employees alone cannot counterbalance completely the fact that Group Plan or Pension Fund are impossible to set up.

For that reason, it is suggested that the contributions be 21% of the salaries, 7% contributed by the employees, and 14% contributed by the Commission. The Commission contribution seems to be high, but when it is considered that each employee if he wants to accumulate enough security to counterbalance the effect of having no Group Plan would have to use more than another 14% out of his taxable income, the Commission contribution is reasonable.

For example, a federal civil servant whose earnings for the last ten years of his 35 years of service, were at an average of $5,000 receives a pension of about $3,500 until death. If he leaves a widow, she continues to receive 50% of her husband's pension until death.

If such person would have to accumulate the same amount of security, when not covered by a Group Plan, such person would have to save a capital of about $70,000 which would give $3,500 invested at 5%. (He would be, however, the sole owner of that capital.) It is impossible that such savings can be made out of an income of $5,000 when no Group Plan is provided.

The employee's contribution of 7% and the Commission contribution of 14% cannot over the years accumulate half of that $70,000 in the case chosen as an example. The amounts would be proportional to income or age for each employee. In all cases, the employees would have, as mentioned earlier, to allocate a much larger part of their income to add to the 7% and 14% than an employee covered by a Group Plan has to. As a matter of fact, the savings of the latter would be a surplus over the security a Group Plan offers, a surplus used for housing, etc. It means that the Commission employee has to contribute his share (7% of his annual income) plus likely more than double that amount for accumulating more security, plus at the same time savings for housing, etc.

It is unlikely that there are other alternatives than participations of 7% and 14% as indicated earlier. It is certain that the employee would have on his own to make savings of more than 14% of his taxable income for the same purpose.

The other problem is - what to do with the 7% and 14% of income?

Employee's contribution to a Group Plan is deductible from taxable income. It is therefore suggested that employee's contribution be made each year by a decrease in salary corresponding to his annual contribution.

Each employee being a different case and due to the fact that in a small group individual cases cannot be disregarded, it is suggested that the 21% of annual income (7% and 14%) be transferred outright to each employees savings account in such a way that it could not be considered as income. The Commission not being a profit organization can do that.

According to such plan, the Commission would be contributing its fair share to its employees security and the employees would be free to arrange individual plans suiting their circumstances.

It might seem that such a procedure would be the equivalent of an increase in income. In the present circumstances, such a narrow definition of salaries is hardly possible.

The above plan is a rather peculiar one arising from circumstances that allow for hardly any other alternative.

The peculiarity of this plan lies in:

(1) The bigger amount contributed by the Commission compared with the smaller amount contributed by employees.

(2) The fact that contrary to Group Plans an employee who leaves at any time has been receiving each year both participations.

(3) The whole aspect of it is just the equivalent of a transfer of funds contrary to usual business practice.

(4) That the Commission would pay for security and would have to make the hypothesis that the employees use the amount of money for that purpose.

What is suggested, however unbusinesslike it may appear, is less costly for the Commission than if a Pension Fund or Pension Plan would be established on a sound basis overcoming unfavourable actuarial factors.

Initially, the cost to the Commission would be as follows:

Employee's Actual Income	Commission Partic-ipation	Employee's Partic-ipation	Total
2,640	369.60	184.80	554.40
2,700	378.00	189.00	567.00
5,000	700.00	350.00	1,050.00
8,500	1,190.00	595.00	1,785.00
$18,840	$2,637.60	$1,318.80	$3,956.40

Basing our calculations on actual incomes and on insurance plans submitted by "Confederation Life Association", each employee could buy with 21% of his present annual income:

$554.00 would buy a little less than $15,000 of insurance which would provide at the age of 60, $1,800 a year with no refund in case of death - $1,584 a year with refund in case of death - $1,729 guaranteed for 10 years.

$1,050.00 would buy $21,000 of insurance which would provide at the age of 60, $2,520 a year with no refund - $2,094 a year with refund - $2,346 guaranteed for 10 years.

$1,785.00 would buy about $15,000 of insurance which would provide at the age of 65, $1,800 a year with no refund - $1,425 a year with refund - $1,600 guaranteed 10 years.

All three plans include 15, 21 and 15 thousand dollars in case of death at any time.

However, it is possible that each employee would not want to be bound by an insurance contract and would prefer the monies in more liquid assets or just leave it in their savings account.

The whole aspect of the problem has been studied in all its angles and no other issue can be seen for either parties except of course the one of not providing at all for security.

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