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QUESTION, *Professor King*: In terms of funding ESOP's and profit sharing plans, what are the various alternatives of keeping employees satisfied?

ANSWER, *Mr. McGrath*: What behavioral psychologists have done regarding benefits, at least for us in the business, is not a terribly motivating factor. Benefits do head off dissatisfaction, but their existence does not necessarily make me happy. What seems to do that is money.

When we look at the kinds of employee surveys that we have done, I can look at a company, and tell the benefit planners where they ought to be spending their benefit dollars based upon the age group of their employees.

Younger people want cash, time-off work with pay, defined contribution, defined pension plans and a savings plan that does not tie up their money. As they get older they are more interested in life insurance, and when it is too late, they become interested in pensions.

So, greater emphasis is being placed on both sides of the border for performance and pay for performance. For example, some kind of flexible benefit scheme. Pay for performance that generates cash which then can be used for other purposes. That is the motivator. People are not going to join TPF and CN because of our pension plan.

I do not think that the people coming into the work force are going to have these types of ambitions. They are going to be challenged by money, their environment and by the kind of quality circling the Japanese-style management where people are put into groups rather than a hierarchial structure.

COMMENT, *Mr. Napoli*: In general, I agree. However, when people have a lump sum available at retirement, they seem inclined to ask themselves, "If I stay another year, how much is my lump sum value in my pension claim?" They find that the lump sum value would actually decrease if they stay.

There is not much incentive for continuing to work with a defined contribution plan. A lump sum increases after the employee decides to take a money benefit. It actually is a much larger benefit because it is growing rather than declining in value. This may be more compatible with trying to retain people at retirement. A company might also find some way to allow defined medical plans to retain their value when employees reach later ages.

COMMENT, *Mr. McGrath*: Another reason this happens is because the value of a defined benefit pension decreases with age since it costs less to provide income. That is, the annuity value goes down as you get older because the pension is going to be paid for in a shorter period of time. The employee is still going to get the same number of dollars per month, but if he is watching his accounts, they are decreasing in value.

QUESTION, *Mr. Harwood*: Are we talking about a flex plan?

ANSWER, *Mr. McGrath*: The group benefit practice, except in Quebec, is indeed flex. The difficulties we have with flex are with smaller average-sized employers. With Medicare, an employer can not downsize its health program sufficiently to generate acceptable spending credit. So, an employer who wants a flex plan must invest some seed money to initially fund the spending account. There are a number of flex plans, and we are working on three right now in the Toronto office.

COMMENT, *Mr. Langmack*: We had a company with a staff union of four or five hundred employees, and we put in a profit sharing plan. The union did not like it, but we put it in anyway. Each of our employees knew this money was not available until they retired, however, the bank sent them a certificate each year stating how much money they had in their plan. Soon, they discovered that they had more money in the plan than they thought they would have.

In negotiating with the union, one of the main stumbling blocks was how to recoup the money from the profit sharing plan. Finally we made a suggestion: "We will give it to you on one condition, reduce the contributions from ten percent of our profits to five percent of the profits." The union took it like that. Of course, the older employees did not like it but the younger did. We had more younger employees. As a result, the profit sharing plan almost went out the window. In fact, it did. It went from ten percent to five percent without anyone's knowledge.

Each year we had the same argument. The union wanted to take that money out. Finally, we closed it out, and we paid them at five percent and forgot all about profit sharing. Again, the older employees realized that by being more productive, they increased the profits and got more money. The younger did not realize this so it was not an incentive. We thought it would do.

QUESTION, *Ms. Jensen*: Under ERISA, the state law really does not have much effect. I am intrigued by your description of the Canadian schemes. Is there any coordination among the provinces?

ANSWER, *Mr. McGrath*: That is one of the most interesting problems that we do have. A few years ago there was something called CAPSULE, which is the Canadian Association of Pension Superintendents. The idea was to bring a degree of uniformity to the provincial legislation. In addition to the provincial legislation, the federal government also has a Pension Standards Act which applies to the Yukon in the Northwest Territory, and to any industries which are regulated by the federal government, such as banks.

In fact, it is difficult to reconcile the differences between the ten pieces of provincial pension legislation. So, the national employer really has two choices: One is to treat its employees the same, no matter where they are employed in Canada. This will maximize cost because the employer is equalizing the provinces, taking the best pieces of legislation from each province.

The other choice is to follow only the requirements of the province where a particular employee is employed. This will reduce costs, but the employer is now treating its employees somewhat differently. Most companies struggle to find some point between these two extremes and that is not easily done.

QUESTION, *Professor King*: We live in a highly competitive world. We compete against Germany and Japan and other power houses. How do our costs stack up against these competitors?

ANSWER, *Mr. McGrath*: Much of their cost is hidden in things like "Medicare" type of programs. There are differences in the way the social benefits are delivered and financed. I suspect that European costs for benefits and pay for time not worked are greater than in North America.

Looking at Canada versus the United States, the U.S. Social Security costs must be put into the equation. Considering Canada's pension plan and our unemployment insurance, we are pretty close. There is a feeling, however, that U.S. Medicare is highly subsidized by eighty-four percent of government taxation; and our manufacturing industry is probably not subsidized because we are otherwise taxed to provide for it. Essentially, Canada and the United States are providing roughly the same kind of benefits, but in different forms.

QUESTION, *Mr. O'Grady*: The government has an incentive to encourage savings through pension plans. But, both Canada and the United States seem to grudgingly give tax support. Is the existing level of tax support for these programs sufficient?

ANSWER, *Mr. McGrath*: Certainly in Canada there is a lack of savings. Greater tax support could encourage more saving. However, we are in such miserable shape with the deficit that the government is attempting to increase taxation in order to increase revenue; one way is with tax support.

The Canadian government is caught in a bit of a bind. We have had tax support pension plans for a long time, and now other benefits are also being considered as a source of additional revenue.

QUESTION, *Mr. O'Grady*: Mr. McGrath, can you tell us how much $1000 of RRSP costs the federal government in overall revenue?

ANSWER, *Mr. McGrath*: No. At an average marginal rate of tax, forty percent, it will be $400 times the number of people who take it. There are a lot of people in this program.

COMMENT, *Mr. Napoli*: In the United States, the largest source of tax reductions, are deductions for pensions and medical benefits. Since it is the biggest source of deductions, it is hard for the government to ease up in this area.

QUESTION, *Ms. Jensen*: Corporate America has been attempting to have more say in how it is governed. I wonder if you were experiencing any of this in Canada?

ANSWER, *Mr. McGrath*: No. Some corporations move towards the ethical kind of investment because of employee pressure. For example, employee pressure has persuaded some companies to discontinue investment in South Africa. Someone always turns up at annual meetings of large banks with their small share of pension funds, and attempts to actually influence the corporation.