National Pensioners and Senior Citizens Federation Annual Convention
Travelodge Hotel Ottawa and Conference and Convention Center
Speech by Diane A. Urquhart
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Stop Asking Seniors and the Disabled to Make Sacrifices to Clean Up the Mess of Governments' Own Making

Thank you Art Kube for inviting me to speak to the National Pensioners and Senior Citizens Federation today.

Retirement financial security remains a top public policy issue throughout the world. The 2007 to 2009 financial crisis has left pension funds, personal retirement savings and even government budgets in tatters.

Pension funds and personal retirement savings are being stressed at both sides of the balance sheet. First, pension fund and retirement account asset values are well below their 2007 peak.

Weaker pension funds like the Canadian Commercial Workers Industry Pension Plan have a wind-up funding ratio of just 42%. This is Canada's largest multi-employer pension plan for the employees of the grocery stores, like Loblaws and Canada Safeway. Thousands of grocery store workers soon face future benefit cuts of 15 to 50 per cent depending on negotiations with the member companies. The CWIPP already cut its benefits by 20 per cent in 2005.

The Nortel Pension Plan has a wind-up funding ratio of 64%. The Ontario Government Pension Benefit Guarantee Fund is making a top-up payment of $250 million so that the average Ontario Nortel pensioner is getting 90% of their pre-bankruptcy pension income. This $250 million was a grant paid for by the Ontario taxpayers. People in Ontario have their pension income guaranteed to $12,000 per year. In the land of free enterprise, America, pensions are guaranteed up to $54,000 per year.

In addition to asset values being down, pension fund managers, and you in the room who saved for your own retirement, face a wall of low interest rates.

5 year GIC interest rates are under 2.75% today.

Non-indexed group life annuities have a yield of about 3.65% today. The annuities move up and down at a spread of roughly 0.35% relative to the yields on GOC long-term bonds. 10 year government bonds have a yield of only 3.30% today.

A long time ago Pharaoh asked Joseph to interpret a dream about seven fat and seven scrawny cattle, and--about--seven fat and seven skimpy heads of grain. Joseph described the dream as a warning to make preparations for seven years of hardship, to act pre-emptively, during seven years of plenty. He ordered the granaries filled so that people would not starve when crops failed and famine hit.

I and many investment experts are not optimistic that the next seven years will bring plenty after seven years of famine. The outlook for long term interest rates and for the stock market are very subdued. Consumers and governments did not save in the good years. Rather they borrowed money at record levels. Now consumers and governments face years of paying down their debt. The money used to pay down debt is not going into new cars, new houses and the economy in general.

There will not be a feast after the recent famine. At the Investment Committee of the United Church of Canada Pension Fund we think that the total investment return for the next ten years will be no better than the past ten years. The median Canadian pension fund only made a return of 5% over the past ten years as the result of two stock market crashes _ the first one from a technology bubble and the second one from widespread fraud in the debt markets.

I am very concerned about pension funds and seniors themselves wanting to take steps to make up for their losses from the financial crisis. The investment industry wants everyone back into the higher return asset classes, like stocks, and structured credit products offering the hope of better retirement income in the future. The high end Nortel pensioners are asking the Ontario Government not to wind-up their pension plan. Rather they want the Ontario Government to partner with a financial institution in a Financial Sponsorship Model for their pension plan

over the next five years. Investors are speculating again, believe it or not, in subprime mortgages and subprime car loans. These are loans to people without assets or income. Will people never learn from the past mistakes of others?

I received a call just last week from a law firm who is asking me to help with a group of Barrie, Ontario residents that have collectively lost $500 million due to the reckless advice of financial planners at Investia, the mutual fund arm of Industrial Life Insurance. Industrial Life Insurance is a very large Quebec based diversified financial institution. The financial planners in Barrie convinced people that the way to increase their retirement nest egg was to borrow money and to buy mutual funds. Then to give some level of comfort that the loan would not burden their loved ones if they were to die, these financial planners sold seniors life insurance on loans of up to $1 million. Needless to say, this ill-conceived plan did not end well for seniors in Barrie. My work to stop toxic investment products and ill-conceived investment advice never ends. Court efforts to get remedy for these atrocities are time consuming and emotionally draining for both the victims and the professionals helping them.

How did we get into this corner with so little flexibility to grow our pension funds and retirement savings? In a nutshell, we allowed the investment banking industry to control our governments and to deregulate their industry and its toxic product innovations. The investment industry exploits the financial illiteracy of its consumers and most importantly it exploits your trust in banks and insurance companies and their good brand names. The investment industry and Bay Street law firms have the ear of government through their political donations and funding raising machine.

The financial crisis has put new pressure on employee benefits in the workplace. Corporate bankruptcies spiked in 2009 and 2010. Canada's antiquated bankruptcy laws are allowing employers to walk away from their employee benefit promises, even where there are billions of dollars in the bankruptcy estates.

Bill C-501 is a private members bill tabled by Thunderbay NDP MP John Rafferty. It is expected to be before the House of Commons Finance Committee sometime in November. The purpose of this bill is to put pension deficits and unpaid

severance at a higher priority than the creditors at bankrupt corporations. I support Bill C-501 as an investment expert, for many reasons. Most importantly we need to stop the incentive for a new investment product, called credit default swaps, to promote business failures as a for profit strategy. In my opinion, giving preferred status for employee benefit claims in bankruptcies, is good economic policy, as well as good social policy. Preferred status for employee benefits encourages good funding behaviour and the restructuring of corporations as ongoing concerns. This bankruptcy policy change will create a strong deterrent to corporate liquidations, that are very damaging to Canadian jobs and incomes of retirees, severed and disabled employees.

The preferred status change for employee benefits is necessary to protect Canadian taxpayers from the downloading of pensioners, severed and disabled employees onto social security programs.

Former Deputy Prime Minister John Manley published his Opinion on Bill C-501 in the Financial Post on May 21 and June 9, 2010. He says that the preferred status for defined benefit pension plans in bankruptcy laws will raise the cost of credit and damage the availability of credit. He says this will hurt the Canadian economy and jobs.

It makes limited sense to me that our politicians listen to the crying of wolf on preferred status for employee benefits raising the cost of credit by John Manley. He is now the CEO of the Council of CEO's. John Manley and the investment bankers and debt players are lobbying Industry Minister Tony Clement and Finance Minister James Flaherty to not pass Bill C-501. These experts have not produced any research studies to support their rhetoric on cost of credit.

I have determined that the maximum impact on the cost of credit from the preferred status for all types of employee benefits would be about 0.90% for junk bonds and about 0.20% from investment grade bonds, at corporations that have large employee benefit deficits. The impact on the cost of credit in the whole economy as a whole is much less than these already small maximum impacts.

Many of these fixed income experts providing secret advice to our politicians were the designers, distributors and/or buyers of toxic structured credit products that caused the financial crisis, both in Canada and around the world. The gross

negligence or alleged fraud of many of these fixed income players caused the cost of credit to rise by over 2.50% for investment grade bonds and over 13.50% for junk bonds during 2008 and 2009.

Senator Art Eggleton has another private member's bill underway called Bill S-216. This one provides for the preferred status of LTD Benefits in Bankruptcy. This bill is before the Senate Banking Trade and Commerce Committee next month. Bill S-216 provides a targeted solution for latent defects in self-insured long term disability income benefits that have a catastrophic impact on Canadians with serious injuries or illnesses when their employers go bankrupt. An analogy for this problem would be car manufacturers selling new cars with air bags, and you, the consumer, not learning about the defects in certain brands of air bags until you have a head on collision, when the air bags fail to inflate. The ideal solution is to stop the manufacture of defective air bags. Bill S-216 does not prevent unsafe self-insured long term disability income benefits, but it does make financial amends for their misrepresentation and latent defects at the time of the employer's bankruptcy.

1.1 million Canadian employees are covered by self-insured long term disability income plans in the workplace. One in ten employees with long term disability benefits at work are covered by the unsafe self-insured kind. Self-insured means that the corporation or government employer is paying for these benefits out of their operating income. Usually employers play the role of an insurance company by making employer contributions into a Health and Welfare Trust so that these contributions combined with investment income will pay for future LTD income and medicines. In the current era of corporate executive greed the trust accounts for the disabled are being raided without legal consequences.

To learn more about toxic self-insured long term disability benefits go to www.protectourtomorrow.com and see the videos there. They are heartbreaking stories of how the Nortel disabled have been treated by their employer and by the key players in the bankruptcy court room.

I would like all of us in this room to tell the Federal Government. Canada's seniors, and long term disabled employees cannot be asked to pay for the bailout of corporations unable to raise debt financing in the aftermath of the financial crisis. The financial crisis was caused by the investment industry itself.

Governments allowed themselves to be controlled by the investment industry. The financial crisis was not caused by Canada's seniors and the long term disabled. Stop asking seniors and the most vulnerable in Canadian society, the disabled, to make sacrifices to clean up the mess of your own making.