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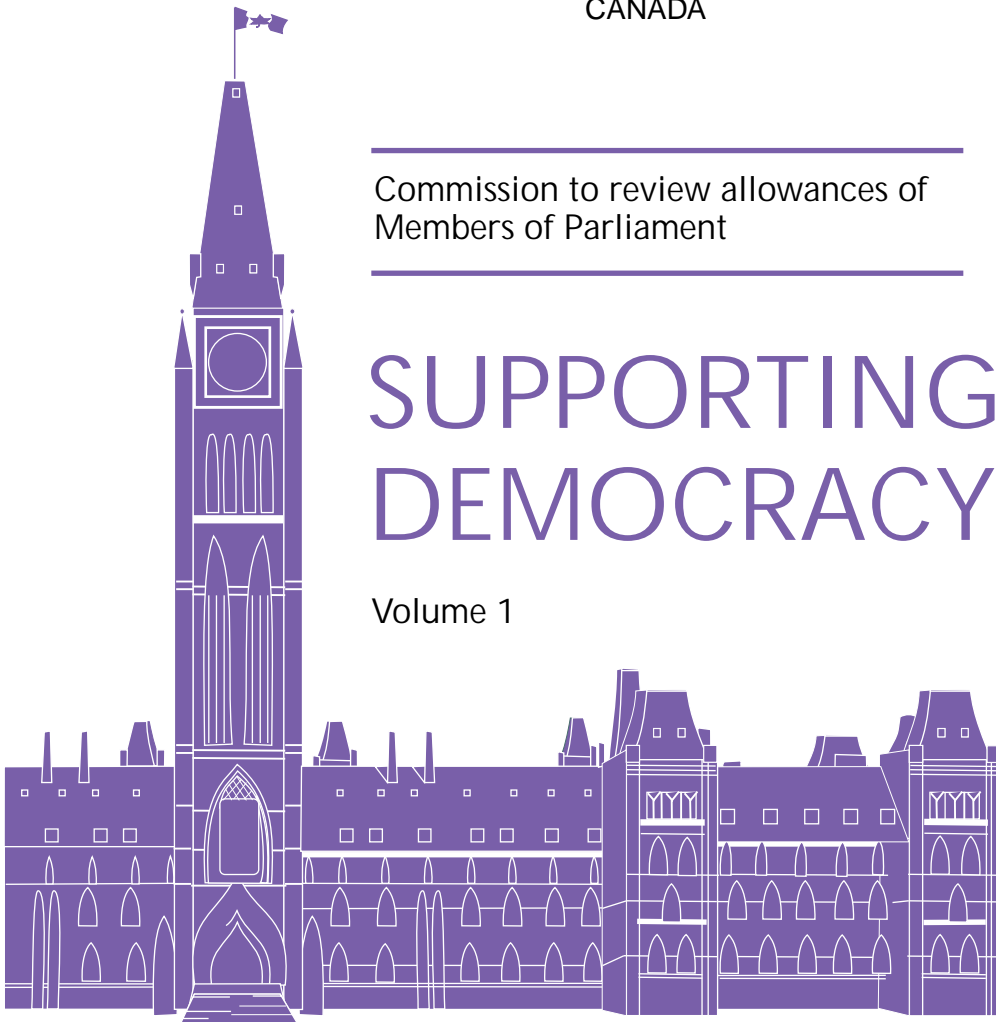
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Commission to review allowances of  
Members of Parliament

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# SUPPORTING DEMOCRACY

Volume 1





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Commission to review allowances of  
Members of Parliament

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# SUPPORTING DEMOCRACY

Volume 1  
Commissioners' Report

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Commission to Review  
Allowances of  
Members of Parliament



Commission d'étude  
des indemnités  
des parlementaires

Commissioners  
The Hon. Jean-Jacques Blais, P.C., Q.C., Chairperson  
Monique Jérôme-Forget  
Raymond A. Speaker

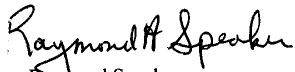
Commissaires  
L'hon. Jean-Jacques Blais, c.p., c.r., Président  
Monique Jérôme-Forget  
Raymond A. Speaker

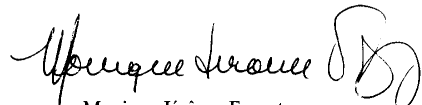
January 30, 1998

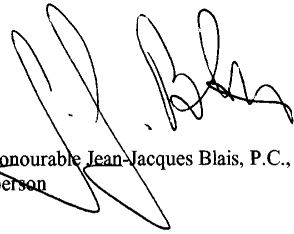
To His Excellency  
The Governor General in Council

May it please Your Excellency:

We, the Commissioners, appointed in accordance with the terms of the Order-in-Council, P.C. 1997-1101, dated July 31, 1997, to report upon the adequacy of the annual variations of sessional allowances payable to the Members of the Senate and the House of Commons and other allowances payable to them, have the honour to submit our Report in both official languages.

  
Raymond Speaker  
Commissioner

  
Monique Jérôme-Forget  
Commissioner

  
The Honourable Jean-Jacques Blais, P.C., Q.C.  
Chairperson

SUPPORTING DEMOCRACY

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*Mr. Raymond Speaker and Mme Monique Jérôme-Forget, commissioners, and the Hon. Jean-Jacques Blais, chairman.*

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# Introduction

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The mandate of this Commission to Review Allowances of Members of Parliament was straightforward but not simple. The straightforward question was this:

Are Members of Parliament adequately compensated for the job they do?

The answer is not as simple as it appears, however, for the job of members is difficult to categorize, and it is not easily compared with the jobs other people do. Moreover, unlike most jobs, establishing the relationship between recruitment and retention of qualified and competent members and the amount they are paid is difficult if not impossible, given the widely varying circumstances and motivations of individuals seeking public office.

What is the job that Members of Parliament<sup>1</sup> do? Together with the monarch, members of the House of Commons and the Senate constitute the Parliament of Canada. Parliament is the supreme law-making body of the country; to become law, proposed legislation must withstand the scrutiny of both chambers and their respective committees before being presented for royal assent. Parliament also acts in an oversight capacity, examining the performance of the government of the day and calling it to account for its use of the public funds allocated by parliamentary vote. In addition, Parliament is the nation's forum for debating matters of public concern; by offering an opportunity for all sides of an issue to be aired, Parliament is the voice of the national will and has the moral authority to act on issues of national importance.

The broad responsibilities of Parliament translate into dozens of activities for individual members: participating in debates in the chamber or in committee; conveying their constituents' views and advocating on their behalf; acting as an ombudsman, providing information to constituents and resolving problems; developing specialized knowledge in one or more of the policy areas dealt with by Parliament; working with other members of their party to develop

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<sup>1</sup> Throughout this report, we use 'Members of Parliament' as the collective term for members of the Senate and the House of Commons.

policy positions and legislative strategies; participating in visits and delegations to represent the Parliament of Canada at home and abroad.<sup>2</sup>

Although we considered MPs' job content and the correlation between it and compensation, and while we attempted to discern whether Canadians think MPs are paid too much, not enough, or just the right amount, in the final analysis, we believed that the central question we had to answer was of a different order entirely. As suggested by the title of our report, the fundamental issue for Commissioners was how best to ensure that the foundations of our democratic system remain solid and secure. In our view, supporting democracy means holding Parliament safe from harm to its stature and capacities. We saw our task as determining how to ensure that Members of Parliament are compensated in such a way that the efficacy and integrity of Parliament as an institution are preserved — in so far as it is possible to do this by making appropriate arrangements for members' compensation.

As our central democratic institution, Parliament sets the tone for civic conduct and public discourse and helps to create the conditions for prosperity. The willingness of companies and individuals to invest in our economy and make a life for themselves within our borders depends in significant measure on the credibility and stability of our institutions, as does our position in the international community of nations. Through the business it conducts and the way it goes about that business, Parliament can create and bolster this confidence. Respect for Parliament can translate in turn into respect for other institutions, including the law, helping to promote a safe and well ordered society. In short, the job MPs do — and the manner in which they do it — is a crucial if often underestimated part of making Canada a peaceful and prosperous country and an effective participant on the international stage.

As the essential participants who make the institution work, individual Members of Parliament must be able to act as autonomous representatives, free to concentrate their time and attention on the vital issues of the day. This means that compensation should adequately reflect the actual expenses associated with a life of seven-day work weeks, frequent and often long-distance travel, family separation, and required attendance at public events and ceremonial occasions. We must also guard against what one of our correspondents referred to as

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<sup>2</sup> The content of the MP's job is examined in detail in Research Paper 4, "Job Content and Value", in Volume 2 of this report.

“the potential for corruption that can invade the life of a person who holds a public office.” As this same correspondent pointed out, “I also have greater expectations and demand more accountability from a member of the House or the Senate when they are adequately compensated”.

We approached our mandate through three principal means: by commissioning research, by seeking input from current and former parliamentarians and experts in governance, as well as from the general public, and by bringing to bear our own experience and judgement in deliberations among ourselves. In the next chapter, we begin by outlining the current situation with regard to the principal components of the compensation package of Members of Parliament: the sessional indemnity, the incidental expense allowance, and the pension plan.

Chapter 3 reviews what we learned from the seven research papers prepared to assist Commissioners’ deliberations. In Chapter 4, we look at what Canadians told us, through written submissions, responses to our website, a televised panel discussion, and more informal avenues, about MPs’ compensation and what changes they would like to see. Finally, we set out our conclusions in Chapter 5, making our recommendations in light of the research conducted for us, what Canadians told us, and our own judgement about what is appropriate in the current circumstances.



## The Current Situation

The compensation package for Members of Parliament consists of three main components:

- a sessional indemnity
- an incidental expense allowance
- a pension plan

In addition, members have available to them various other benefits and allowances related to travel between Ottawa and the constituency and within the constituency, a budget to staff a Parliament Hill office and operate constituency offices (for members of the House of Commons), and goods and services provided by Parliament for members' use. These allowances and services are detailed in Volume 2 of this report.<sup>1</sup> Here we concentrate on the three main components of the package.

### The Sessional Indemnity

The sessional indemnity — which is the equivalent of a salary, in that it is stated as an annual amount and paid monthly — has been set at \$64,400 since 1991. Members who hold certain positions — including the prime minister, the speakers of the House of Commons and the Senate, ministers of the Crown, party leaders, and various caucus positions — receive an additional indemnity (which varies with the position) for the extra responsibilities involved (see Tables 2.2 and 2.3).

### The Incidental Expense Allowance

In addition to the sessional indemnity, members of the House of Commons receive a housing allowance of \$6,000 annually and an incidental expense allowance of between \$21,300 and \$28,200 (depending on the size of the constituency they represent; see Table 2.1), while members of the Senate receive a similar allowance of \$10,100. The incidental expense allowance is non-accountable — members do not have to document their use of the allowance with

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<sup>1</sup> See Volume 2, Research Paper 2, “The Allowances and Benefits of Members of Parliament: Current Amounts and a Brief History”.

receipts — and is not subject to income tax. Receipts are required to document the housing allowance.

Amounts for the sessional indemnity and the incidental expense allowance are established by the *Parliament of Canada Act*. The expense allowance is sometimes included in statements about the salaries paid to members, but in fact this amount is provided under a separate section of the law and is not officially part of the salary.

The law also provides for annual cost of living adjustments to the indemnity and expense allowance (according to a formula set out in the act), but as noted earlier, no adjustment has been made since 1991, when the amounts were frozen, parallelling the freeze on public service wages and salaries.

In the absence of the freeze, the indemnity and expense allowance would be adjusted on January 1 each year, by an amount calculated as the lesser of the change in the Industrial Aggregate minus one per cent or the change in the Consumer Price Index minus one per cent. This formula — designed to compensate for a portion of the loss of real income because of inflation — provides insignificant increases in a period of low inflation, such as the one Canada is in now.

To illustrate this point, Table 2.5 shows how much the indemnity and the allowance would have risen between 1991 and 1996 had the freeze not been in place. Over this five-year period, the indemnity would have increased by 4.9 per cent, or \$3,190, from \$64,400 to \$67,590, while the allowance would have increased to \$22,360 from \$21,300.

## The Pension

A full picture of the compensation package for members must include the benefits available to them at retirement. Former members of the House of Commons receive a pension (or ‘retirement allowance’) at age 55, provided they have served at least six years in the House. Former members of the Senate also have access to a pension after six years’ service. The retirement allowance for former members of the House of Commons consists of 4 per cent of their pre-retirement earnings (defined as the average of their best six consecutive years’ earnings) per year of service, to a maximum of 75 per cent of pre-retirement earnings. A member who had served for 19 years or more would be eligible for this amount. The retirement allowance for former members of the Senate is 3 per cent of pre-retirement earnings per year

of service, to a maximum of 75 per cent of pre-retirement earnings after 25 years of service.

To fund the pension plan, MPs contribute 9 per cent of their sessional indemnity; senators contribute 7 per cent. Members of both chambers who receive an additional indemnity for extra responsibilities can also contribute 9 per cent of that amount. The employer (that is, the government) also contributes to the plan. This contribution is estimated on the basis of an actuarial projection of the benefits payable under the plan and varies from year to year, but it is consistently much higher than the employer contribution under other employer-sponsored pension plans.

Pensions are indexed to reflect changes in the Consumer Price Index. Indexation is delayed until the pension recipient reaches age 60, at which time the pension is increased to reflect CPI increases since the date the member left Parliament.

If a pension recipient dies, the surviving spouse is entitled to a survivor benefit equal to 60 per cent of the member's pension, with up to an additional 30 per cent payable to eligible children.

Pension payments are suspended if a former member wins re-election to the House of Commons or is appointed to the Senate. Retired members who earn more than \$5,000 per year from federal employment (including order-in-council appointments and personal service contracts) accepted after 13 July 1995 have their pensions reduced by the amount by which remuneration from that employment exceeds \$5,000 in any 12-month period.

Participation in the pension plan was optional for members serving in the 35th parliament (1993-97). In the current parliament, participation in the plan is mandatory, as it was in earlier parliaments.

## Summary

The three main components of the compensation package for Members of Parliament are summarized in the accompanying tables. Also included is a table showing the effects of the current freeze on the sessional indemnity and incidental expense allowance (Table 2.5). The last two columns of that table show what the indemnity and the expense allowance would have been if the freeze had not been in effect.

**Table 2.1**  
**Sessional Indemnity, Incidental Expenses**  
**and Housing Allowance**

	<b>Members of the House of Commons</b>	<b>Members of the Senate</b>
<b>Sessional Indemnity</b>	\$64,400	\$64,400
<b>Incidental Expense Allowance</b>	\$21,300 \$26,200 <sup>1</sup> \$28,200 <sup>2</sup>	\$10,100
<b>Housing Allowance</b>	\$6,000 <sup>3</sup>	none

*Notes:*

The sessional indemnity is subject to income tax, while the incidental expense and housing allowances are not. Receipts are required to document use of the housing allowance but not the incidental expense allowance.

- 1 Members representing large and/or remote constituencies (this applies to 24 members at present).
- 2 Members representing the two constituencies in the Northwest Territories.
- 3 Although this is commonly referred to as a housing allowance, in fact it is a travel status allowance, which entitles members to claim reimbursement for the cost of accommodation, meals and incidental expenses incurred while on official business more than 100 kilometres away from their principal residence.



**Table 2.2**  
**Indemnity for Additional Responsibilities**  
**(House of Commons)**

<b>Position Held</b>	<b>Additional Indemnity</b>
Prime Minister	\$69,920
Minister of the Crown	\$46,645
Secretary of State	\$34,984
Leader of the Official Opposition	\$49,100
Leader of recognized party*	\$29,500
Government House Leader	\$46,645
House Leader of the Official Opposition	\$23,800
House Leader, recognized party*	\$10,100
Chief Government Whip	\$13,200
Deputy Government Whip	\$ 7,500
Chief Whip, Official Opposition	\$13,200
Deputy Whip, Official Opposition	\$ 7,500
Whip, recognized party*	\$ 7,500
Speaker	\$49,100
Deputy Speaker	\$25,700
Deputy Chairperson (committee of the whole)	\$10,500
Assistant Chairperson (committee of the whole)	\$10,500
Parliamentary Secretary	\$10,500

\* Recognized parties are those with 12 seats or more in the House of Commons.

**Table 2.3**  
**Indemnity for Additional Responsibilities**  
**(Senate)**

<b>Position Held</b>	<b>Additional Indemnity</b>
Leader of the Government*	\$46,645
Deputy Leader of the Government	\$14,900
Leader of the Opposition	\$23,800
Deputy Leader of the Opposition	\$ 9,400
Government Whip	\$ 7,500
Opposition Whip	\$ 4,800
Speaker	\$31,000

\* A cabinet position.

**Table 2.4**  
**Members' Retirement Allowance**

	<b>Members of the House of Commons</b>	<b>Members of the Senate</b>
<b>Begins at Age</b>	55	60
<b>Members' Contribution</b>	9% of sessional indemnity + 9% of any indemnity for extra responsibilities	7% of sessional indemnity + 9% of indemnity for extra responsibilities
<b>Amount</b>	<ul style="list-style-type: none"> <li>• 4% per year of service, based on average of 6 best consecutive years' earnings</li> <li>• maximum: 75% of pre-retirement earnings after 19 years' service</li> </ul>	<ul style="list-style-type: none"> <li>• 3% per year of service, based on average of 6 best consecutive years' earnings</li> <li>• maximum: 75% of pre-retirement earnings after 25 years' service</li> </ul>
<b>Vested After*</b>	6 years	6 years

\* Vesting refers to the minimum amount of service as a Member of Parliament needed to qualify for a pension.

**Table 2.5**  
**Projected Changes in Sessional Indemnity and Incidental**  
**Expense Allowance in the Absence of the 1991 Freeze**

Year	Consumer Price Index		Industrial Aggregate Annual Index		Projected Indemnity	Projected Allowance
	Index	% change year over year	Index	% change year over year		
1991	126.2	5.6	124.5	4.6	\$64,400	\$21,300
1992	128.1	1.5	128.9	3.5	\$66,720	\$22,070
1993	130.4	1.8	131.2	1.8	\$67,050	\$22,180
1994	130.7	0.2	133.7	1.8	\$67,590	\$22,360
1995	133.5	2.2	134.9	1.0	\$67,590	\$22,360
1996	135.6	1.6	137.8	2.1	\$67,590	\$22,360

*Note:* Under the statutory formula, changes in the indemnity and expense allowance are calculated as the change in the Consumer Price Index or the change in the Industrial Aggregate minus 1 per cent, which ever is less, so in years of low inflation, there might be no adjustment (see 1995).

*Source:* House of Commons, Financial Services.



## What the Research Told Us

To establish a context for our deliberations, the Commission gathered facts and examined issues concerning remuneration for members of the House of Commons and the Senate by inviting public input, consulting current and former Members of Parliament, holding a public panel discussion (later televised), and conducting or commissioning research using Commission staff and outside consultants. This chapter summarizes the results of the research.<sup>1</sup>

Five commissions and three independent reviews of MPs' compensation preceded this one, and the work of each was available in published reports and archival records.<sup>2</sup> With five commission reports in the past 18 years, as well as books and articles by political scientists and other academics, much of the subject matter had already been covered thoroughly, providing ample material from which the Commission could draw information and opinion.

The work of previous commissions is reviewed in Research Paper 1, "Previous Commissions to Review Allowances of Members of Parliament: Recommendations and Results", which looks at the research they undertook and their main findings and recommendations. The second paper, "The Allowances and Benefits of Members of Parliament: Current Amounts and a Brief History", presents available information on current and previous remuneration of all types. The third paper looks at the remuneration of Canada's MPs compared with that of legislators elsewhere in Canada and abroad and that of senior public servants in Canada.

"Job Content and Value", the fourth study, moves away from 'hard' research to consider the value of the job MPs perform — the nature of their responsibilities and activities and the role of these activities in the functioning of democratic institutions. The fifth paper, "The Value of

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- 1 The seven studies prepared for the Commission are published in Volume 2 of this report.
  - 2 For a list of previous commissions and studies, see the appendix to Research Paper 1, in Volume 2.

MPs' Compensation Over Time and Compared With That of Other Occupations" looks at changes in the relative value of the remuneration MPs have received over the years by converting the amounts to 1996 dollars and comparing them to average salaries in other professions. Paper 6, "The Effect of Service as an MP on Members' Financial Situation", assesses the financial consequences for elected persons of service in Parliament. Finally, "Review of Pensions and Benefits for Members of Parliament" contributes the analysis of William Mercer Ltd., actuarial consultants, with respect to the question of what constitutes a reasonable pension. This report updates a 1994 report to the Treasury Board on parliamentary compensation by Sobeco Ernst & Young.

As this brief summary shows, the research consisted of two kinds of studies:

- papers that took an analytical approach to the facts about members' pay and benefits, how they compare with the compensation paid to others, and how they have evolved over time, and
- papers that sought answers that lie outside the realm of objective research, where the evidence is often anecdotal, value is measured subjectively, and decisions must be based on reflection and judgement.

Even in the realm of analytical research, caution is needed in interpreting results, for example, when the situation of Canadian parliamentarians is compared with that of legislators in other jurisdictions. Comparisons can be misleading, because one legislature may provide a single amount intended to cover both salary and expenses, while others provide separate amounts for each purpose. Similarly, one legislature may exercise more authority or hold longer sittings, with consequences for the responsibilities and time demands on members that are reflected in their compensation. To the extent possible, we have taken these differences into account in our analysis of comparative information.

## The Seven Research Papers

The key questions addressed by the research are these: What is the value of the work MPs do? Is the pay MPs receive for it reasonable? Have pay and benefits kept pace with those of other Canadians in professional occupations and those of legislators here and abroad? What are the major issues to be dealt with in the areas of salary, allowances, benefits and pensions?

## Research Paper 1

Since 1975, the law has required that a commission be appointed after each election and report within six months. Commissions to review members' allowances (the all-encompassing term used to refer to salary, expense allowances, pensions and other benefits) are generally known by the name of their chairperson or members. Thus, reports have been received from the Hales commission (1979), the McIsaac-Balcer commission (1980), the Clarke-Campbell commission (1985), the St. Germain-Fox commission (1989), and the Lapointe commission (1994).

The purpose of this paper was to report the findings and recommendations of these commissions as set out in their reports. The goal was to make use of existing material that was still relevant for commissioners' deliberations, so as not to duplicate work already done.

Although previous commissions worked in different times and political circumstances, they touched on common themes and reached some common conclusions:

- Parliament is a valuable institution and should be maintained in a manner that ensures it functions independently and effectively. To do this requires, among other things, the election and retention of competent, qualified people, and good pay is required to attract good people.
- It is difficult to compare MPs' work with that of other professionals. Like many senior executives, MPs work long hours and have many demands and pressures on them; they are also subject to public criticism in a way few others are. MPs should not be expected personally to cover all the expenses occasioned by a life of public service.
- MPs should not profit financially from public service, nor should MPs see their pay increase when other Canadians are suffering financial hardship.
- Regardless of any determination of what constitutes fair compensation for the value of the work they do, MPs' remuneration must be consistent with public expectations, and public expectations may in fact require that MPs be paid less than a fair amount. The fact that MPs must decide on their own remuneration adds to the complexity of the issue, although in our view, this arrangement is necessary to respect our system of government, in which Parliament is supreme.

All previous commissions recommended an increase in the sessional indemnity, but they differed on how increases should be determined. The incidental expense allowance was treated differently by each commission, however, with no consensus emerging on the amount, its status (taxable or non-taxable, accountable or non-accountable), or how it should change over time.

To the extent that earlier commissions looked in detail at pension arrangements for members, three main issues emerged: the age of pension eligibility; the practice of double-dipping (receiving both a parliamentary pension and remuneration from a federal appointment, contract or employment); and severance pay for members not eligible for an immediate pension. Changes were made to address the first two issues after the report of the Lapointe commission in 1995: the age of eligibility was raised to 55, instead of the date of a member's resignation or defeat, and parliamentary pensions are now reduced by the amount by which remuneration from a federal appointment, contract or employment accepted after 13 July 1995 exceeds \$5,000 in any 12-month period, as described in Chapter 2. The third issue — severance pay for members with more than six years' service who have not yet reached age 55 or who opted out of the pension plan — remains unchanged.

### Research Paper 2

This paper reviews the remuneration, allowances and benefits available to members of the House of Commons and the Senate. The study details the amounts at a member's disposal, including the sessional indemnity, the incidental expense allowance, retirement benefits, the housing allowance, office budget, departure benefits, and services provided to members by Parliament.

The paper looks at how the remuneration package has evolved since Confederation and compares its relative purchasing power over time to that of the remuneration received today. Finally, the paper looks at the effects of the current freeze on the sessional indemnity and expense allowance, projecting what they would be if they had not been frozen for the past six years.

The conclusion is that members' income has not maintained its position over the years. In 1980 the value of the sessional indemnity (expressed in 1996 dollars) was \$81,117.86. Its real value has declined steadily since then.



Even in 1867, for example, a Member of Parliament received \$600 for three to five week's work. (The paper also charts the length of parliamentary sessions since Confederation.) In today's dollars, this would be worth about \$9,000, a rate of remuneration far higher on an annualized basis than what they received in 1997.

In the absence of the 1991 freeze, the sessional indemnity would have risen by 4.9 per cent, to \$67,590, by the end of 1996 (instead of remaining at \$64,400), while the expense allowance would have been \$22,360 (instead of \$21,300). The annual adjustments provided for in the *Parliament of Canada Act* would not have eliminated the decline in real income.

### Research Paper 3

Acknowledging that the responsibilities of Canadian MPs are unique, making exact comparisons difficult, this paper shows the compensation received by Canadian MPs and the remuneration of provincial legislators in Canada and legislators in other western democracies, as well as the salaries of senior officials in the federal public sector (the public service and Crown corporations).

MPs' compensation is compared with that of legislators in most of the other G7 countries, as well as Australia, New Zealand, Sweden and Norway. This comparison was considered relevant because all the countries cited are prosperous liberal democracies and all have vigorous national legislatures. Pension arrangements for legislators in Norway, Sweden, France, Australia, the United Kingdom, and the United States are also discussed.

Information on the compensation package for provincial and territorial legislators includes current amounts for base salary and expense allowances, along with the percentage change in these amounts since 1981.

Finally, MPs' remuneration is compared with that of federal governor-in-council appointments and senior executives in the public service.

The conclusion is that the remuneration MPs receive is not excessive when compared with that received by people who work in similar areas or have similar responsibilities.

The paper shows that relative to other federal or national legislators, Canadian MPs' remuneration ranks ninth among the ten countries

compared. In the comparison with provincial legislators, MPs' sessional indemnity is higher. On the other hand, since 1981 the remuneration of federal parliamentarians has increased at the second lowest rate among all Canadian legislatures.

The comparison with governor-in-council appointments showed that heads of large agencies and deputy ministers receive more than MPs, as might be expected owing to their significant responsibilities, involving large budgets and often thousands of employees. What is notable, however, is that even governor-in-council appointees with less responsibility, such as heads of minor agencies and members of small commissions or tribunals, are also paid more than MPs. In fact, the majority of governor-in-council appointees receive as much as or more remuneration than MPs, even if the incidental expense allowance is added to the sessional indemnity.

#### Research Paper 4

This paper examines the intrinsic value of the responsibilities and activities of Members of Parliament, based on a literature review and interviews with MPs and knowledgeable observers.

The paper takes the position that comparing MPs' remuneration with that of other professions is difficult if not impossible, because many aspects of the member's role — such as ombudsman and advocate on behalf of constituents — are unique. Similarly, the motivation for seeking public office and the personal satisfaction members derive from public service have few parallels in other lines of work. In members' eyes, money is neither the principal motivation for seeking office nor the main reward for service in Parliament.

Treating the job of MPs as a category of its own reflects the current thinking among compensation experts. At the same time, however, standard methods of determining what constitutes 'fair' compensation for members (job content analysis, market value, etc.) can help us determine, within a broad order of magnitude, whether the salaries paid to our elected representatives are reasonable and whether pension and benefits packages are comparable to those designed for similar purposes.

The approach in this paper, however, was to look at the job itself and to reflect on the significance and value of the activities it involves from the perspective of the well-being of Canadians and the vitality of our democratic institutions.

Eight areas of responsibility were identified: caucus work, constituency work, committee work, duty in the House of Commons, assigned portfolios, party work, work on individual policy interests, and the role of national representative at home and abroad.

That Canadians value the role of their elected representatives is evident in the extent to which MPs are expected to be available to their constituents at all times and to be working on their behalf. Although polls show that many Canadians mistrust politicians as a group, this opinion seldom extends to their own MP. Moreover, our system of government enjoys broad support; as a consequence there is a healthy respect for Parliament. Members carry out several vital functions within the parliamentary system, helping to ensure its continued effectiveness.

The job of MPs is diverse and very challenging, and it is crucial that it be discharged well for the health of public institutions and the nation. Our system depends at several key points on the contribution of and vigilance by those who hold elected office. Members of Parliament combine personal, regional and national perspectives. They embody both the co-operation and the competition that make the system work. They defend both individual and collective rights and freedoms. They balance state and private responsibility.

Canadians depend on the vigilance of Members of Parliament, individually and as a group, to protect the parliamentary system and preserve against the arbitrary use of government power. Our system of government is stable precisely because of its ability to reconcile conflicting or competing points of view, bringing them into functional harmony. Our capacity to do this as a country has much to do with Canada's prosperity and quality of life, and Members of Parliament are a crucial part of maintaining that capacity.

## Research Paper 5

This study shows how the remuneration of Members of Parliament has varied over time by converting earlier rates of compensation to today's dollars and comparing them with remuneration for other professionals.

On the basis of this comparison, MPs received the highest relative compensation in 1974, when their sessional indemnity was the equivalent of \$81,563.91 in 1996 dollars. Since 1980, the sessional indemnity has declined steadily relative to average incomes in other professions. MPs placed third in a group of nine selected occupations in

1980, but since then their rank has slipped to eighth. In 1980, the sessional indemnity was 103 per cent of the average salary of a lawyer or notary; in 1995, it was 68 per cent. The change relative to other occupations was similar: MPs received 159 per cent of a high school teacher's salary in 1980, compared to 115 per cent of the average teacher's salary in 1996; 120 per cent of a school administrator's salary in 1980, and 75 per cent of a high school principal's salary in 1996; and 150 per cent of an army major's salary in 1980, compared to 99 per cent in 1996.

A decline can also be observed if the incidental expense allowance is added to the sessional indemnity. This decline is not as significant, however. Instead of falling from third place to eighth, the rank of MPs' total income slipped from first to third.

## Research Paper 6

This study looked at the effects of holding elected office on the ability to accumulate assets while holding office and to make a living after leaving the House of Commons. The purpose was to provide a context for considering whether MPs' salaries and retirement benefits are fair in terms of ensuring that parliamentary service does not require unreasonable financial sacrifices on the part of members.

Before being elected, many MPs work in one of three professions — lawyer, teacher, or administrator. On average, these occupations are compensated at rates similar to the remuneration of Members of Parliament (if both the sessional indemnity and the incidental expense allowance are taken into account). Election therefore constitutes neither a windfall nor a substantial financial loss. While they hold office, many MPs find that extensive travel and the need to maintain two residences ensures that current and continuing expenses consume most of their indemnity and allowance. Since few MPs have the time or means to generate other income, accumulating assets and building equity is often difficult.

The average age of members of the House of Commons is about 50 (51.5 years in the previous parliament, 49.4 in the current one), and their average length of service is just 4.6 years. As a result, many MPs find themselves — voluntarily or involuntarily — on the job market again, seeking a second career or continuation of an interrupted career, in middle to late-middle age. A separation package provides a small

financial cushion for some, but only enough to cover about six months of unemployment. For MPs who have served six years or more, the pension plan (with benefits available when they reach age 55) is of sufficient value to compensate, at least partially, for the loss of seniority, experience and earning years in their pre-parliamentary occupation. Still, most MPs are likely to lag behind their colleagues in their previous occupations in terms of accumulating assets. In short, even where salaries are roughly comparable (and as the previous paper showed, this has become less likely in the past decade or more), serving in Parliament has financial drawbacks for most members, because of the more limited opportunity to accumulate assets and the difficulty of re-entering the regular work force after a period of public service.

## Research Paper 7

The actuarial consulting firm William M. Mercer Ltd. was commissioned to prepare a report on the pension arrangements and benefits available to Members of Parliament. The report reviews the existing arrangements and comments on alternative designs that might respond to frequently stated concerns about the plan while still meeting the needs of members. It also compares the parliamentary benefits package with those provided by other employers in the public and private sectors.

The report's central suggestions are that the incidental expense allowance, which is now exempt from income tax, be added to the sessional indemnity for both tax and pension purposes; that the pension contribution and accrual rates be adjusted in consequence; and that the current defined benefit plan be retained, but with the accrual rate reduced to provide the same benefit accrual as at present.

The report notes that although the current plan seems generous, it is appropriate, compensating for certain negative financial consequences of service as an elected official. The report suggests that members who are uncomfortable with the terms of the current plan should be able to opt out of the plan and into an alternative plan designed to be more in line with private sector plans.

The report also recommends that the severance allowance (half the amount of the annual sessional indemnity) be delinked from the pension plan. At present, the severance allowance is available only to members leaving the House of Commons with less than six years' service (that is,

the vesting period for the pension plan). This means that some MPs (for example those who have not yet reached age 55) receive no immediate severance payment on leaving the House, a situation that can create financial hardship. The report therefore recommends that severance be paid to all departing MPs unless they are entitled to an immediate pension.

With regard to the benefits package for members (health and dental care, disability and life insurance, and so on), the report concludes that the benefits available to MPs are on the whole comparable to public sector plans, although the package lags behind a private sector trend toward greater choice, flexibility and tax-effectiveness. Efforts could also be made, the report states, to make the benefits package more comprehensible to members through clearer communication materials.

## Main Observations

Although the traditional approach to job content analysis is less than completely satisfactory in determining what MPs' compensation should be (because of the lack of private- or public-sector equivalents suitable for comparison purposes), the commission immediately preceding this one (the Lapointe commission) conducted such an analysis, reaching the conclusion that MPs' work is undervalued and that they are underpaid when compared with the private sector and the senior public service.

Moreover, our review suggested that there is another dimension to MPs' activities — and a value inherent in it — that is not easily captured. The job has virtually no borders, ranging from largely ceremonial duties to the minutiae of a wide range of policies and programs, from community spokesperson and leader to ombudsman and social worker on behalf of individual constituents. MPs work long hours, travel extensively, and are on duty seven days a week; constituents do not always observe office hours when they need their MP's help.

The job sometimes requires MPs to exercise the highest degree of responsibility on very substantial issues: one unconvinced MP can shatter the unanimity of caucus, one thoughtful member of a parliamentary committee can ensure passage of a crucial amendment to proposed legislation affecting all Canadians, and often a few members can determine the fate of a government.

These aspects of an MP's job may not translate easily into precise dollar figures, but they do suggest that the relatively modest ranking of MPs' salaries shown by the research means that their current pay is probably the minimum acceptable.

Service as a Member of Parliament is public service, and members should not and do not expect compensation that would amount to a financial windfall. But by the same token, no one should be required to face financial hardship as a result of a term of elected office. Pay and benefits should therefore be reasonable, should be realistic in terms of the actual demands on members, and should keep pace with trends in society generally — or at least not lag behind them significantly.

The total compensation package received by Members of Parliament is within a reasonable range, but it is losing ground. The research showed that the value of MPs' remuneration has declined in relative terms over time, by comparison with other occupations, and in relation to what most members could have been earning if they had remained in their pre-parliamentary profession. As we will see in the next chapter, however, these facts about MPs' compensation do not necessarily correspond with public perceptions about how much MPs should be paid.





## What the Public Thinks

Commissioners acquired information about public attitudes toward compensation for Members of Parliament from a range of formal and informal sources. We did not engage polling organizations or other public opinion analysts to undertake new studies of Canadians' views on parliamentary pay. Nevertheless, we had little difficulty discerning the general attitudes of the public.

Our information came from the following sources:

- About 500 Canadians responded to the question posed on the Commission's website: How much do you think parliamentarians should earn? The website provided information on current levels of compensation for MPs, summaries of previous commissions' recommendations, and a brief description of Parliament's role in Canada's system of government. Although some responses were terse, and a few seemed motivated by a desire to punish those holding elective office because of real or perceived problems affecting the nation (the economy, national unity) or the individual respondent (employment, financial difficulties), the overwhelming majority of responses were thoughtful, informed and often nuanced. Some of these are quoted throughout this chapter.
- Close to 100 other Canadians took the trouble to write to the Commission, expressing their views on the subject of MPs' compensation.

### What Canadians Told Us

"Compensation should be tied to participation. In today's economy, any raise should reflect what is happening to the average wage earner."

— Website response

### What Canadians Told Us

"I feel that parliamentarians should be compensated fairly for what they do, as any employee should. However, considering that most members of the public service have also received no increases of any kind since prior to 1991, I would expect that any increase in compensation for MPs should reflect the increases provided for public servants and vice versa."

— Website response

- Many Members of Parliament, including members from each of the political parties represented in the House of Commons, provided the Commission with insightful analysis of the views of their constituents.
- Members of the general public did not hesitate to express their opinions directly to Commissioners, whether the occasion arose at a grain elevator in Alberta, a barber shop in Ottawa, or a restaurant in Montreal.
- Finally, polling organizations such as Angus Reid Inc., Compas Research and Ekos Research were kind enough to share the results of their own earlier but still relevant research on the subject, including feedback obtained through focus groups and general polling.

**What Canadians Told Us**  
 “One of the major problems I have with MP compensation, whatever the actual amount, is my inability to compare their overall compensation with mine. And a prominent contributor to this non-comparability is the inclusion of allowances and tax-free status.”  
 “I would have no problem with MPs receiving \$80,000 or even \$100,000 a year so long as that was a ‘normal’ salary like everyone else is paid and subject to all the tax laws that we have to cope with annually.”  
 — *Website response*

What made this information about public attitudes compelling was its consistency. By and large, Canadians do not favour increasing MPs’ compensation. Moreover, they find certain aspects of the current compensation scheme particularly objectionable:

- the idea that certain components of the compensation package are exempt from income tax;
- the public cost of providing the pension plan for retired Members of Parliament; and
- the lack of accountability respecting attendance and participation in Parliament by members of the Senate.

**What Canadians Told Us**  
 “Transparency — the system is too complicated and muddy for the average guy to understand. Nature of the work — this is an important job, and we should pay people accordingly. Otherwise talent will never contemplate going into politics.”  
 — *Website response*

These central points emerged strongly from all the public opinion information sources listed earlier.

What lies behind the general resistance to any suggestion that MPs' compensation should be increased? Commissioners believe, and a number of public opinion analysts concur, that four observations help to explain antipathy toward adjusting MPs' remuneration at this time.

First, Canadians remain anxious about their own financial prospects. Although they sense a general improvement in the economy, they remain uncertain about whether economic growth will translate into their own financial well-being; many have not yet felt any benefit in terms of their own job or salary situation. In this context, there is a feeling that any improvement in MPs' compensation at this time would be premature and unfair — it would be seen as an attempt to 'cash in' on the improved economic situation when others are not able to do so.

- The second observation is an outgrowth and reinforcement of the first. The salaries and wages of Canada's federal public servants are frozen at 1991 levels. This has had a significant impact well beyond the 225,000 or so employees affected directly. When their immediate families and other dependants are taken into account, the salary freeze has an important bearing on perhaps one million Canadians, with ripple effects on businesses and communities going well beyond that. Irrespective of the merits of the freeze itself, many Canadians seem to feel that MPs' compensation should not rise unless and until the freeze on public service salaries has been removed.
- Third, Canadians seem to draw a connection between improvements in MPs' compensation and improvements in the government's financial health. In other words, people might be at least a bit more willing to contemplate a pay increase for MPs if they had clear confirmation that the annual deficit had been eliminated.

#### What Canadians Told Us

"Considering the restraints that have been put on all Canadians, MP salaries are reasonable."

— *Website response*

#### What Canadians Told Us

"Before they run for office, I am sure they know what salary and tax-free allowances are available to them [but] what about the average worker who has had his wages frozen for a number of years now.... If any increase is granted, the tax-free allowance should be done away with, added to their salaries and taxed like any other citizen on the whole amount."

— *Website response*

Even more Canadians might agree to a raise once the size of the national debt was reduced.

- Finally, an attitude of negativity ran through many of the comments we received. Many Canadians have a disapproving view of what Parliament does and how it functions; this opinion is apparently based on a perception of Parliament as little more than a forum for negative comment and partisan sparring designed to score cheap points rather than provide good government. This appreciation of Parliament leads to a correspondingly low opinion of parliamentarians as a group, which in turn may leave little taste for contemplating increases in parliamentary compensation.

There is no doubt that some members go too far in their attempts to embarrass the government or discredit the opposition and that the prominence of such tactics in the daily business of Parliament can be exaggerated by media attention. Yet a full understanding of Parliament's role in our system of government means recognizing that confrontation and criticism are inherent and indeed essential in fulfilling Parliament's responsibilities, including holding government to account for its decisions and actions and ensuring disclosure of information important to the public interest, allowing parliamentarians — and all Canadians — to reach informed opinions and decisions on matters of public policy.

#### What Canadians Told Us

“The degree of responsibility, the breadth of knowledge, their absence from their regular professions while acting as members of Parliament, their status in society, and the fact that they have been chosen by the majority of voters from a constituency to represent our interests in a national forum and/or make decisions on our behalf. Responsibilities like these cannot be underestimated.”

— Website response

#### What Canadians Told Us

“I admire an individual who would enter the realm of public office and uproot their family without any certainty of maintaining the position for more than 5 years because the person believes strongly in the democratic system and wishes to ensure it continues. I feel that adequate remuneration is essential to prevent the individual from succumbing to the potential for corruption...”

— Website response

If Canadians judge parliamentarians harshly, it may be precisely because MPs are exhibiting one of the fundamental characteristics of the institution and fulfilling one of its

fundamental purposes — as a forum for political adversaries, a place of systematized confrontation, in which governments are required to justify their conduct and performance, while the opposition parties have an opportunity to demonstrate to voters that they could do a better job of steering the ship of state. We return to this theme as we set out the rationale for our recommendations in the next chapter.

**What Canadians Told Us**

“Salaries should stay frozen... You don’t deserve a salary increase because the national debt is \$600 million... Adjust your priorities!” [translation]

— *Website response*



## Conclusions and Recommendations

As outlined in the introduction to this report, we adopted three objectives for our recommendations:

- to ensure that MPs not unduly preoccupied with personal financial matters by seeing that the legitimate costs associated with being a Member of Parliament are covered by the compensation package available to members;
- to address the main public concerns we heard about the compensation package; and to
- ensure that our recommendations were fair in light of the economic situation facing many Canadians, including unemployment, pay freezes, and general economic insecurity.

Our recommendations address these criteria to the best of our ability under the terms of our mandate.

### The Sessional Indemnity and Incidental Expense Allowance

As detailed in Chapter 2, members of both the Senate and the House of Commons receive \$64,400 per year as a sessional indemnity. In addition, members of the House of Commons receive an incidental expense allowance ranging from \$21,300 to \$28,200; for senators, the expense allowance is \$10,100 per year. We refer to these two payments — the indemnity and the allowance — as parliamentarians' remuneration.

When the incidental expense allowance was introduced in 1945, its purpose was to reimburse members for expenses incurred in the discharge of their duties. The allowance was payable at the end of the calendar year and was subject to deductions in respect of non-attendance at sittings. It was taxable in the case of ministers, the leader of the opposition, and senators. Today, the allowance is tax-exempt for all recipients, is not subject to deductions for non-attendance, and is payable monthly in the same manner as the indemnity.

Perhaps largely because it is paid regularly and automatically, together with the fact that receipts are not required to document its use, the incidental expense allowance has come to be regarded by most members as part of their income. In our view, this situation should be reflected in the way members' remuneration is structured.

**1. We recommend that the incidental expense allowance for Members of Parliament be eliminated and that their sessional indemnity be increased by an equivalent taxable amount.**

This recommendation will not increase members' after-tax or take-home pay. To establish the amount by which the sessional indemnity should be increased to produce this result, we took the example of a member of the House of Commons resident in Ontario, with a spouse and two dependent children. We calculated how much income tax (federal and provincial) that member would pay after allowable deductions and credits were taken into account. This enabled us to determine that the annual before-tax salary for a member of the House of Commons should be \$106,010; for members of the Senate it would be \$83,806. As stated, however, after taxes and other payroll deductions are made, MPs' take-home pay will be roughly the same as it is now.

The advantages of implementing this recommendation are twofold:

- It would establish greater transparency in members' remuneration by providing a single sum, instead of a sessional indemnity and an incidental expense allowance, and making the entire amount subject to income tax.
- It would improve comparability between members' remuneration and that of other Canadians, thus responding to one of the principal objections we heard from Canadians — that provision of a tax-free expense allowance gives Members of Parliament an unfair benefit that is not available to other Canadians.

**2. We recommend no increase in the total value of the remuneration provided to Members of Parliament.**

Although members' current remuneration is by no means excessive or extravagant — indeed, when compared with that of some of their international and provincial counterparts, it might be considered modest



— our judgement is that it is adequate. Moreover, despite the fact that in recent years parliamentary salaries have declined in real terms, we are of the view that increasing members' pay at this time would be inappropriate.

Employees in the federal public service, the armed forces and the RCMP have endured, along with Members of Parliament, years of pay freezes. Similarly, for some years now, Canadians who rely on a host of federal payments and programs to sustain their standard of living have seen such support stagnate or even diminish. These years may soon be over. The imminent elimination of the federal deficit and forecasts for a continued strong economy may mean an end to the current situation of freezes or roll-backs for those on the federal payroll or dependent on federal assistance. Even so, we do not believe that Members of Parliament should be among the first to benefit from a more dynamic economy and a sounder federal fiscal framework.

Historically, there has been a relationship between remuneration for parliamentarians and salaries in the federal public service. Parliament may wish to take this into account when warranted by changing circumstances.

An important caveat is necessary in respect of members of the Senate. Canadians have been deeply disturbed by recent media accounts of the attendance record of some senators. Their concern is compounded by the absence of constitutional means to remove senators from office for such unsatisfactory performance. We note the intention of the Senate to introduce new rules and procedures that would result in substantial loss of pay and services for members who are not carrying out their duties; a subcommittee of the Senate's board of internal economy and its rules committee is in the process of examining what reforms are required. We believe strongly that any increase in remuneration for members of the Senate that might arise from changing circumstances must be contingent on the establishment of effective rules in regard to attendance and performance of duty and that there should be rigorous procedures to enforce these rules. Even in the absence of an increase, such rules and procedures are necessary.

- 3. We recommend that unjustified absences from the Senate result in a penalty of 1 per cent of the sessional indemnity, or \$850 per day absent.**

Unjustified absences would include any time beyond an established number of days of sick leave each year not attributable to official public business. What constitutes public business should also be clearly defined. In our view, this would include the work of a committee of the Senate or a joint committee of the Senate and House of Commons; travel or preparation for a parliamentary delegation; and official representation work when asked to represent the Parliament or government of Canada. The Senate might also see fit to establish rules concerning other types of absences, such as religious holidays not covered by the parliamentary calendar. Justifiable absences should not include an individual senator's corporate work, charitable work, or personal employment.

## Travel Status Expense Allowance

In 1990, an accountable travel status expense allowance (often referred to as the housing allowance) was introduced for members of the House of Commons to compensate them for the cost of meals, incidentals and accommodation expenses while on travel status away from their principal residence. The maximum reimbursement in any year is \$6,000. The allowance exists primarily because members of the House of Commons work and live both in a constituency and in Ottawa. It was felt that MPs should not have to suffer the financial penalty involved in maintaining two households, since it was a necessary — in fact, vital — condition of their work. Members whose riding is in the National Capital region do not, of course, have to maintain two residences, but they are eligible for reimbursement, on presentation of receipts, when travelling on official business elsewhere in the country.

We agree with the basic reasoning behind the allowance, but we find that the maximum amount of \$6,000 is inadequate for the purpose intended. For most MPs, the current allowance works out to less than the daily amount — \$50 — that public servants receive for meals alone when travelling on work-related business. Since the allowance was intended to reimburse members for meals and accommodation, not to mention related expenses, its inadequacy is obvious.

- 4. We recommend that the accountable travel status expense allowance be increased to a maximum of \$12,000, recognizing that even with this increase, many MPs will still have to absorb some of the cost associated with staying in Ottawa.**

Members of the Senate receive no such allowance at present. Constitutionally, the Senate is an equal House of Parliament, and many senators also bear the financial burden of commuting and living part-time in Ottawa. At the same time, the burden on senators is arguably lighter, since the Senate normally sits three days a week, compared to five days for the House of Commons. On balance, therefore, our view is that a travel allowance for senators, set at half the amount provided to members of the House of Commons, is appropriate.

- 5. We recommend that members of the Senate be eligible for reimbursement, on presentation of receipts, for travel status expenses up to a maximum of \$6,000 annually.**

## Speaker of the Senate

Currently, the Speaker of the Senate receives an additional allowance of \$31,000 per annum; the annual allowance for the Speaker of the House of Commons is \$49,000 per annum. We note also that the Speaker of the House is provided with living accommodations on Parliament Hill and just outside Ottawa. No such provision is made for the Speaker of the Senate.

We certainly do not take issue with the remuneration or accommodations of the Speaker of the House of Commons, but we find that the Speaker of the Senate is under-compensated by comparison. The Speaker of the Senate fulfils an important role. Ranking fourth in the order of precedence, after the Governor General, the Prime Minister and the Chief Justice of the Supreme Court of Canada, the Speaker of the Senate is often called upon to assume a representative role on behalf of the government, receiving foreign delegations and travelling abroad on special missions. The Speaker of the Senate is as involved as the Speaker of the House of Commons in presiding over parliamentary proceedings and in representing Parliament to outside bodies. These duties can only increase as Canada's foreign and economic relations continue to expand and as Parliament establishes co-operative relationships with developing democracies around the world. This should be reflected in the Speaker's allowance.

- 6. We recommend that the allowance for the Speaker of the Senate be increased by \$5,000, to \$36,000.**

## Speaker *Pro Tempore* of the Senate

The Speaker *pro tempore* of the Senate (or deputy speaker) receives no allowance at present. By contrast, the deputy speaker of the House of Commons receives an allowance of \$25,700, and the two assistant speakers receive an allowance of \$10,500 each. We can see no reason why the comparable Senate position should go uncompensated.

- 7. We recommend that an allowance of \$10,500 be provided to the Speaker *pro tempore* of the Senate.**

## Ministerial Allowances

The importance of the relative relationship in compensation that exists generally between MPs and public servants (as noted earlier) is even more significant in the case of ministers and deputy ministers. While ministers are not expected to manage their departments on a day-to-day basis — this being the responsibility of deputy ministers — ministers are ultimately responsible for activities within their portfolios. They provide direction to deputy ministers not only in respect of policy but also in a wide variety of other circumstances, and in our view the ministerial allowance (which now stands at \$46,645) should reflect this reality. The current annual salary range for deputy ministers is \$117,000 to \$170,500.

- 8. We recommend that the additional indemnity for ministers of the Crown be adjusted so that, when combined with the other income ministers receive as Members of Parliament, ministers are paid as much as, if not slightly more than, those reporting to them.**

## Committee Chairs

At present, the chairpersons of Senate and the House of Commons committees receive no additional remuneration for their extra responsibilities. The work of committees is important in the parliamentary system and should be enhanced, as recommended, for example, by the Special Committee on Reform of the House of Commons (the McGrath committee) in 1985. Recognizing the role of committee chairs by providing them with some additional compensation is in keeping with the move to strengthen the role of committees.

**9. We recommend that the chairs of all House of Commons, Senate and joint standing committees receive an allowance of \$5,000 per annum.**

## Pensions and Benefits

The pension plan for Members of Parliament has attracted negative public reaction because of its apparent generosity. The fact is, however, that most people who run for federal office have to interrupt a career to do so, with consequences for their career development or seniority in a job and their prospects for future employment and earning capacity after service in the House of Commons.<sup>1</sup> Indeed, analysis conducted for the Commission demonstrated that the plan is comparable to pension arrangements in the private sector for executives hired in mid-career (see Research Paper 7).

Following the Sobeco Ernst & Young report on parliamentary compensation, submitted to the Treasury Board in 1994, changes were made in the pension plan, bringing it more into line with private-sector plans. The age of pension eligibility was raised to 55, as recommended by Sobeco, instead of pensions being payable immediately upon leaving Parliament. In addition, the pension accrual rate was reduced from 5 per cent of salary per year of service to 4 per cent. (Sobeco had recommended a reduction to 2 per cent.)

The current plan is also in line with those for legislators in comparable liberal democracies and plans for some provincial legislators, although some provinces have eliminated their defined benefit plans in recent years.

Thus the Commission concludes that the pension plan for Members of Parliament is not out of line with other plans designed for similar purposes.

The Commission also reviewed current benefit plans for members (medical and dental care, disability insurance, etc.), concluding that they are virtually identical to those for executives in the federal public service.

The Commission has five recommendations with regard to pension and benefit plans for Members of Parliament.<sup>2</sup>

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<sup>1</sup> This issue is discussed further in Volume 2, Research Paper 6.

<sup>2</sup> Further details on how the recommendations would work in practice can be found in Research Paper 7, “Review of Pensions and Benefits for Members of Parliament”, in Volume 2.

**10. We recommend that the pension accrual rate for Members of Parliament be reduced from 4 per cent per year of service to 2.5 per cent and that the member contribution rate be reduced to 5.5 per cent. The lower accrual and contribution rates are possible because they would be applied to a larger amount, consisting of the sessional indemnity and the expense allowance, as proposed in Recommendation 1.**

At present, members' pension accruals and contributions are based on a percentage of the sessional indemnity alone. Given our recommendation that members be accorded a single taxable salary, future pension accruals and contributions would be based on a percentage of that salary. With a higher taxable salary, accrual and contribution rates can be lowered.

Lower accrual and contribution rates, when applied to the salary we recommend, will result in pensions and member contributions similar to those under the current plan for members of the House of Commons. For members of the Senate, the percentages would have to be adjusted in a manner that would make the results consistent with those recommended for the House of Commons.

In addition, the recommended accrual rate is only marginally above that of regular pension plans (instead of being twice as high), thus addressing a significant public concern about the terms of the pension plan.

As the proposed parliamentary pension plan would be more comparable to regular pension plans, we recommend that members who had opted out of the current plan be able to opt back in to the proposed defined benefit plan, retroactive to the date of election. The exact terms of the buy-back of past service should be determined in an equitable fashion.

Also, the total cost to the government of sponsoring the members' pension plan will decline by 27 per cent. This reduction, from \$5.9 million to \$4.3 million annually, results from a larger proportion of the pension benefits being provided under the registered pension plan.

Even after implementation of Recommendation 10, however, some members may still be uncomfortable belonging to a plan that appears more generous than those available to most of their constituents. An opting-out provision would accommodate these members.

**11. We recommend that the pension plan for Members of Parliament include a once-only opting-out feature for current members and all newly elected members in the future.**

Members of the 35th parliament (the one elected in 1993) were given an opportunity to opt out of the pension plan, but this option was not made available to newly elected members of the 36th parliament (the current one). The result of our recommendation would be to extend this option, once only, to all current and future Members of Parliament.

**12. We recommend that a separate plan be established for members who choose to opt out of the regular plan.**

Allowing opting out without providing some form of financial recognition of this choice could result in financial hardship for some members, given the challenge of accumulating assets for retirement if the member's salary is the family's only income. The alternative we propose is a defined contribution plan (see Research Paper 7). Under this type of plan, members' contributions of 5.5 per cent of the sessional indemnity would be matched by the government. The combined contribution would be invested in a fund to provide benefits to members after they left the House. Most of the terms of the proposed defined benefit plan would also apply to the defined contribution plan, such as pension commencement no earlier than age 55 and 60 per cent joint and survivor benefits. With regard to vesting, however, we recommend that the defined contribution plan be vested after two years, rather than the six-year service requirement under the current and proposed defined benefit plans.

In our view, the defined contribution plan represents a low-risk/low-reward plan, whereas the current plan represents a high-risk/high-reward plan. This is because, to be eligible for a benefit under the current plan, a member must be re-elected at least once, and experience tells that, on average, fewer than 60 per cent of members are returned to office. Under the alternative plan we propose, members would be entitled to benefits after two years and therefore would not need to be re-elected to be entitled to a benefit. The benefits available under this plan, however, would generally be on the order of one-third to one-half of those available under the current defined benefit plan. Unlike the current plan, however, accrued benefits under this plan should be portable to another pension plan when the member leaves the House.

It should be noted that the proposed level of government contribution to the alternative plan is in line with employer contributions to plans in the private sector.

Another compensation issue requiring attention is arrangements for financial assistance for the transition from service in Parliament to private life when a member resigns or is defeated at the polls.

**13. We recommend that the severance allowance for departing members of the House of Commons be delinked from the pension plan, so as to ensure that all departing members are entitled to either an immediate pension (if they are age 55 or older) or a severance allowance in the form of six months' salary.**

In our view, departing members should be entitled to either an immediate pension (if they resign or are not re-elected after age 55 and have at least six years' service in Parliament) or a severance allowance. At present there is a gap in the arrangements, a result of 1995 amendments to the plan. Departing members with six years' service who have not yet reached the age of 55 receive no severance allowance — they will receive a pension when they reach 55 but receive nothing in the meantime to cushion their departure (often involuntary) from Parliament. Under the current rules, members who opted out of the pension plan receive a severance allowance. Under our proposal for opting out, members who chose to opt out would receive a severance allowance only if they had not reached age 55 at the time of their departure from Parliament.

Providing severance pay for these members would result in only a minor increase in the cost of the severance allowance program, and we believe that this is reasonable. Departing members are entitled to a relatively financially secure transition from Parliament to the work force or to retirement, as the case might be.

Finally, we considered the benefits, such as medical and dental insurance, available to members.

**14. We recommend no change in members' benefit plans at this time.**

The analysis conducted for us determined that current benefit plans for members are in line with those in the private sector and elsewhere in the public sector, although they do lag somewhat behind the most recent private-sector trends, such as flexibility in benefits packages and provisions to ensure tax-effectiveness. At this time, however, we believe that it is important to maintain comparability between the benefits available to Members of Parliament and those available to senior executives in the federal public service.



# APPENDICES

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*Appendix 1*  
Commission Members and Staff

*Appendix 2*  
Acknowledgements

*Appendix 3*  
Order in Council (Commission's mandate)



APPENDIX 1

Commission Members and Staff

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## APPENDIX 2

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Réal Ménard, M.P.

Peter Milliken, M.P.

Dennis Mills, M.P.

Beth Phinney, M.P.

Jerry Pickard, M.P.

Nelson Riis, M.P.

Brent St. Denis, M.P.

Suzanne Tremblay, M.P.

Elsie Wayne, M.P.

Randy White, M.P.

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Finn Poschmann, Library of Parliament  
James R. Robertson, Library of Parliament  
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John McCrea, Comptroller, House of Commons  
Vincent MacNeil, office of Senator Milne  
Gary O'Brien, Director of Senate Committees  
Siroun Aghajanian, Director of Finance, Senate  
Luc Desroches, Finance Division, House of Commons  
Charles Robert, Deputy Clerk of the Senate  
Margaret Littlejohn, office of the Hon. Don Boudria  
Andrew Cameron, office of the Hon. John Manley  
Martin Carver, office of Dr. Carolyn Bennett, M.P.  
Darrick Lutz, office of the Hon. John Manley  
Martin Tremblay, office of the Hon. John Manley

The generosity and wisdom of six distinguished Canadians made possible the presentation of a panel discussion exploring the issue of MPs' remuneration from various perspectives. We learned much and, thanks to CPAC's television broadcast of the proceedings, we hope other Canadians were also enlightened and stimulated. Participating in the panel discussion were the following:

Professor Caroline Andrew, Dean of the Faculty of Social Sciences,  
University of Ottawa  
Jan Brown, former Alberta M.P. (Reform Party)  
Hon. John Crosbie, P.C., Q.C.  
Professor Desmond Morton, Director, McGill Institute for the Study of  
Canada  
Philippe Martel, M.Ps., M.B.A., Caron Bélanger Ernst & Young  
Laurier Lapierre, Moderator

The following members of CPAC staff ensured that the discussion was recorded and broadcast:

Ann Trueman, Producer

Richard Sinha, Director

Daniel Perras, Technical Services

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Phil Kinsman, Communications

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Ken Kritsch, Policy Analyst, Chief of Human Resources Office, Treasury Board Secretariat

James MacEachern

Pierre Martin

Tim McConnell, President, Canadian Human Resource Professionals

Kate Milloy

## SUPPORTING DEMOCRACY

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William P. Mitchell, Robert Joy and personnel of Canada  
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W. Saunders  
Shirley Segal, Treasury Board Secretariat  
James Shields



APPENDIX 3  
Commission's Terms of Reference



CANADA

PRIVY COUNCIL • CONSEIL PRIVÉ

P.C. 1997-1101  
July 31, 1997

His Excellency the Governor General in Council, on the recommendation of the Prime Minister, pursuant to section 68 of the *Parliament of Canada Act*, hereby:

(a) appoints the Honourable Jean-Jacques Blais, P.C., of Ottawa, Ontario, Monique Jérôme-Forget, of Montreal, Quebec, and Raymond Speaker, of Enchant, Alberta, as Commissioners to inquire into the adequacy of the annual variations of sessional allowances payable to members of the Senate and the House of Commons and other allowances payable to them and to report thereon to the Governor in Council, in both official languages, with such recommendations as they consider appropriate, within six months of the date of their appointment; and

(b) orders that:

(i) the Commissioners be empowered to engage the services of support and other staff as may be required to assist them in carrying out their work at rates of remuneration and reimbursement approved by the Treasury Board,

(ii) the Commissioners be assisted by the Privy Council Office, with the financial and administrative services necessary for the work of the Commission,

(iii) the Honourable Jean-Jacques Blais, P.C., be Chairperson of the Commission,

(iv) the papers and records of the Commission be deposited with the Clerk of the Privy Council as soon as may reasonably be expected after the conclusion of the work of the Commission, and

(v) the Commission be known as the Commission to Review Allowances of Members of Parliament.

CERTIFIED TO BE A TRUE COPY--COPIE CERTIFIÉE CONFORME

A handwritten signature in black ink, appearing to be 'D. G. ...', written over a horizontal line.

CLERK OF THE PRIVY COUNCIL--LE GREFFIER DU CONSEIL PRIVÉ