



C.D. Howe's argument against federal pensions is flawed and biased

The C.D. Howe Institute released its most recent edition of *Pension Papers*, “*Ottawa's Pension Gap: The Growing and Under-Reported Cost of Federal Employee Pension Plans*,” on 13 December 2011. The paper, written by Alexandre Laurin and William Robson, does not provide an accurate view to Canadians on the state of public sector pensions. The authors allege that the average tax-paying, retirement-saving Canadian will eventually have to “bail out” the federal pension plans with the funds they had saved for their own retirement. However, the report neglects to cover several aspects that are critical to a balanced and objective assessment of public sector pensions.

- The paper uses fair value to estimate assets and liabilities. Using fair value means determining the value of assets and liabilities at their current market values. This method is used to value private-sector pension plans, where many employers have had to face insolvency and the winding-up of their pension plans. This is a controversial methodology at the moment: critics of the method hold that it is inappropriate to use fair value in the illiquid and volatile markets we have experienced since 2008. Such an assessment of pension assets and liabilities can produce exaggerated, overly-pessimistic results. Further, the fair-value method uses current market values to measure assets and liabilities, in order to assess the impact of the hypothetical, immediate insolvency of the employer. It is highly unlikely that the Government of Canada will become insolvent and be required to wind-up the public sector superannuation plans in the near future. In effect, the Institute has inappropriately applied a short-term principle to a long-term vehicle.
- In the 1990s, the government of the day took steps to seriously reduce the public service as a means of reducing the deficit. At the same time, \$30 billion of the pension surplus funds in the PS, CF and RCMP superannuation accounts were removed by the employer and applied towards the national deficit. During this time, public sector employees continued to make full contributions to their pensions. In 1999, FSNA and fourteen other plaintiffs filed a claim with the Ontario Superior Court of Justice to challenge the federal government's appropriation of the pension fund surplus. The Ontario Superior Court decision in 2007 was unfavourable to the plaintiffs who have brought the matter before the Supreme Court of Canada, which has tentatively agreed to hear the case in February 2012. The C.D. Howe Institute neglects to note this serious breach of trust between the employer and its employees, and its impact on the bottom line for sustainability of the federal superannuation plans.

- The Public Sector Pension Investment Board (PSP Investments) has been in operation since 2000 as an arms-length public sector pension fund manager. It is mandated to invest superannuation contributions received after April 1, 2000, from the pensions plans of the federal public service, Canadian Forces and RCMP and after March 1, 2007, of the Reserve Force “with a view to achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the pension plans... and the ability of those plans to meet their financial obligations.” The pension funds managed by PSP Investments were among the most profitable pension funds in Canada in the fiscal year 2010, and the portfolio was the fifth largest in Canada – and growing each year. Further, PSP Investments’ rate of return demonstrates growth of pension dollars each year. For example, in the fiscal year 2011, the actuarially-determined investment rate of return was set at 6.1%. PSP Investments achieved a total portfolio return of 14.5% during that period. The fund’s healthy investment returns aim at assuring the viability of the federal pension plans. Again, the Institute makes no note of the impact of PSP Investments on the sustainability and overall health of the pension plans. This is an essential component of a balanced examination of the federal pension landscape.

FSNA is aware that the pension landscape in Canada is changing rapidly. Robson and Laurin state that federal government defined-benefit (DB) pension plans must be converted to some form of defined-contribution (DC) plan. However, there are weaknesses in DC plans. For example, DC plans typically achieve lower investment rates of return than DB plans. This can be compounded by the fact that investments can become the responsibility of individual plan members, most of whom are not investment experts. Finally, upon retirement, DC plan members run the added risk of having to convert the funds accumulated in individual accounts into a pension-producing product at a time when market conditions may have significantly reduced the fund’s value. Defined-benefit plans offer the best guarantee of retirement income security, when well-funded and well-managed, as the federal public sector pension plans are.

The pension plan is one part of the public sectors’ total compensation package. Compensation goes beyond salary and the more tangible benefits – it includes a future promise of stability, for which employees pay during their working years. These employees include our public servants and members of the RCMP and the Canadian Forces. people who dedicated their careers to serving Canada with loyalty and distinction, some of them making the supreme sacrifice on behalf of Canadians. Canadians know that public sector employees are full participants in the economy as taxpayers, and that they make significant contributions to the success of this country during their working years and in retirement.

The *Pension Paper* has presented a flawed and biased argument in an effort to turn public opinion firmly against those who have served the government of Canada with loyalty and commitment. In 2012, FSNA will organize information sessions to better inform Canadians of the role of the public sector in a democracy and the realities of their pension plans.