CAAT Welcomes Vancouver-based Not-for-profit SHARE

BY: **DEREK DOBSON**

The CAAT Plan opened its doors to employers outside the Ontario college sector about 2½ years ago. New employers include the Royal Ontario Museum (ROM), Youth Services Bureau of Ottawa, and Torstar Corporation.

SHARE, the Shareholder Association for Research and Education, becomes the first employer to join CAAT with primary operations outside Ontario. SHARE has employees from the not-for-profit sector with its primary operation in Vancouver, BC, and an office in Toronto, ON.

It is a leader in responsible investment services, research, and education, working with institutional investors to help them develop and implement responsible investment policies and practices, so understandably they took great care with a rigorous due diligence process. They chose CAAT.

Robust Selection

After that careful and robust selection process, SHARE provided an opportunity for its employees, represented by the United Steelworkers, to vote for what was best for them and CAAT received unanimous endorsement. They joined under the plan's DBplus design, effective January 1. The new members and employer each contribute five per cent of pay and there is a provision to accommodate individual employees with an optional gradual contribution phase-in period.

SHARE met CAAT's application criteria and satisfied the due diligence process. The CAAT Plan Board of Trustees and Sponsors' Committee evaluates every prospective employer against the principles it has set. Those principles say that any type of membership growth must be mutually beneficial. For the CAAT Plan, growing and diversifying the membership makes the plan stronger and more secure.

SHARE was contributing five per cent of their employee's pay to a group RRSP. By joining CAAT, the employer is contributing the same amount, but providing employees with a predictable, secure lifetime pension without the challenges and costs of running a traditional Defined Benefit pension plan. It is a more efficient and less stressful way to generate income in retirement for both employees and employers.

A recent study by Common Wealth, HOOPP, and National Institute on Ageing, 'The Value of a Good Pension,' quantifies the efficiency of retirement savings programs. The study shows that a dollar contributed to a typical individual retirement savings program, such as a group RRSP, will generate about $1.70 in retirement income, while a Canada-model pension plan, such as CAAT, will yield $5.32.

High Endorsements

Canadians want sustainable, lifetime pensions, while employers want cost certainty and valuable benefits that attract and retain employees. In addition to a secure lifetime pension, the features of DBplus include inflation enhancements during retirement, a survivor pension at no additional cost, and fixed contribution rates for members and employers. These CAAT Pension Plan features receive extremely high endorsement levels from employees, unions, CFOs, CHROs, CEOs and boards.

DBplus is available to all organizations with employees in Canada.

Earlier this year, Postmedia Network Inc. and Canadian Press Enterprises entered into agreements to merge their pension plans with CAAT. Subject to necessary consent from their plan members, the mergers would be effective July 1, 2019. The mergers are also subject to review by the pension regulators. In total, about 4,000 new members would join CAAT.

As at January 1, 2019, the CAAT Plan is 120 per cent funded on a going-concern basis with $10.8 billion in net assets available for the benefits of 50,000 members. It has 50 participating employers.

The CAAT Plan's '2018 Annual Report' will be available at the end of April. **BPM**

Derek Dobson *is CEO and plan manager of the CAAT Plan.*

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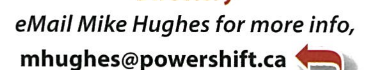


mhughes@powershift.ca

Governance at core of success in CAAT plan's shift to private markets

Yaelle Gang, the Canadian Investment Review | May 10, 2019

Strong governance allowed the Colleges of Applied Arts and Technology pension plan to find success in private markets, according to Julie Cays, the plan's chief investment officer.

Before the CAAT plan hired its first CIO in 2004, it was using an outsourced chief investment officer-type model — although it didn't use this term at the time — and investments were largely run by consultants.

Since the plan introduced the CIO position, the role of the board's investment committee has shifted from focusing on day-to-day tasks, like selecting investment managers, to focusing on investment policy and risk, says Cays.

Read: CAAT wins pension performance award for membership growth strategy

"The day-to-day management and selection of managers, for the most part, and allocation within the asset classes is done by my team. And so the big risk, which is the investment policy and the mismatch with the liabilities, is where the investment committee and the board are focused."

In 2005, the CAAT plan made its first foray into non-public markets.

"[The first CIO] took a scan of private equity, hedge funds, real estate [and] infrastructure, and determined that infrastructure was the place to start, largely because the U.S. plans hadn't discovered it," says Cays. "Definitely, it was being done in Australia. Definitely, other Canadian plans had been doing it. But the Americans, which is such a huge mass of capital, hadn't really discovered it."

The plan started its private investments with infrastructure funds and then broadened that out to private equity and real estate a few years later.

Its infrastructure investments are fairly global while the private equity side has been more focused on Organisation for Economic Co-operation and

Getting to know: Julie Cays

Job title: Chief investment officer of the CAAT pension plan

Joined CAAT: 2006

Previous experience: Various roles at the Canadian Imperial Bank of Commerce and the Healthcare of Ontario Pension Plan

Development countries, says Cays.

What keeps her up at night: Continuing to find opportunities with a competitive edge

Out of the office she can be found: Cooking

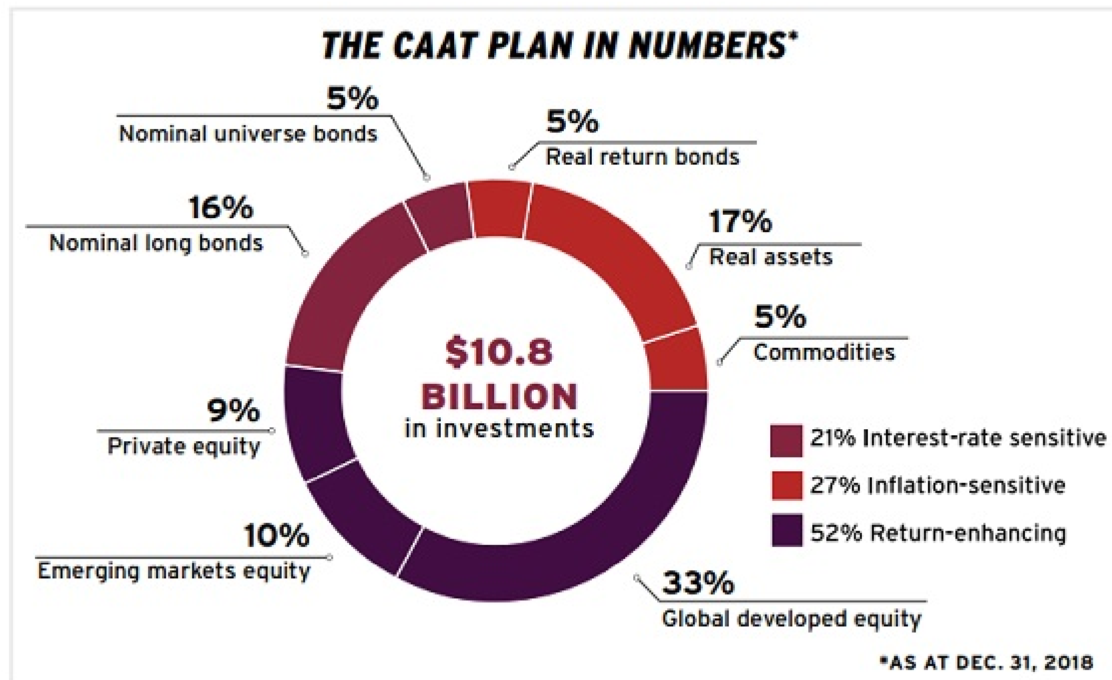
Read: Global investors turn to infrastructure, real estate as interest rates normalize: report

In 2005, the plan's initial allocation to infrastructure was three per cent, but now it has combined real estate and infrastructure into a real assets portfolio targeting 20 per cent. For private equity, the plan initially started with a five per cent allocation, but is now targeting 15 per cent.

"So total in non-public markets is going to be 35 per cent and we've probably got another five years before we actually get to target, particularly on private equity," adds Cays.

These allocations are largely coming from public equity, she says, noting total equity allocation, including private equity, has been reduced from 57 to 52 per cent. Real estate, however, took a piece from both equity and fixed income.

"I'm still such a believer in the private markets because they are actually an increasing proportion of the equity capital markets out there because there are fewer companies going public over time," says Cays. "So it's such a huge opportunity set and an opportunity to really think long term and really get good managers changing companies up and adding value."



When it comes to private equity and real estate, the CAAT plan is a co-investor. "We are not the lead or majority owner of any of the assets in our co-investment portfolio, but we're over a third in co-investments in infrastructure and approaching that in private equity," says Cays.

And the board has played a huge role in this success, she adds, highlighting that it's been nimble because it needs to approve co-investments above a certain percentage of assets and look at the due diligence process on new general partners in the private markets space. "And where we need to have a quick turnaround, they get on the phone for an investment committee conference call."

Read: Canadian pension funds embracing co-investments in real estate

Particularly on the co-investment side, the CAAT plan's board has been key, says Cays. "A lot of investors say, 'Yeah, we want to co-invest because we don't have to pay the fees that we do in the funds.' But once push comes to shove, they

haven't been able to transact because their governance is getting in the way. Ours has not gotten in the way at all, and so we do get the calls now on co-investing."

Yaelle Gang *is the editor of the* Canadian Investment Review.

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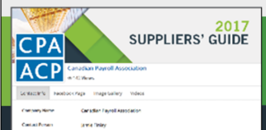

EFFECTIVE PLANNING

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Modern Defined Benefit pensions can substantially improve outcomes for businesses

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By Derek W. Dobson

Anxiety about an uncertain financial future in retirement can lead to missed days of work and reduced productivity.

In a global survey, Willis Towers Watson found that employees with financial worries report worse health, higher stress, more absences and lower engagement levels than did employees without financial concerns.

Contributing to the financial wellness of employees has been a challenge for employers for decades. The main choices that were available (such as traditional Defined Benefit or Defined Contribution plans) pushed major risks and costs onto either the employee or the employer.

Fortunately, the expanded availability of Modern Defined Benefit (MDB) pension plans provides an elegant and cost-effective solution to all workplaces in Canada. These innovations meet the most important objectives of *both* employees and employers – secure, efficient, risk-managed pension plans with stable and affordable contributions and no accounting risks.

Jointly sponsored multi-employer MDB pension plans are independently administered and governed, removing all pension risks from the employer. Employers

simply match employee contributions; that's it!

With MDB, employers are not responsible for day-to-day administration of the plan or the risks that come with traditional pension plans. These plans operate and invest efficiently to provide a higher lifetime pension at a lower risk and cost than other retirement savings vehicles. In other words, more benefits per contributed dollar. At the same time, they charge no extra cost or effort for running a pension plan.

MDB plans address the core needs of an organization's stakeholders:

- They tackle employee financial stress, which can be a drag on productivity and engagement and can result in higher benefit costs.
- They act as a valuable attraction and retention benefit, meeting a key need of human resources professionals in a tightening job market. They also better manage presentism by giving employees the confidence to retire when the time is right.
- They operate efficiently and without cost volatility to align with the objectives of chief financial officers. Savings from the conversion of current pension programs can be reinvested in the business and jobs.

Improving business outcomes

As noted earlier, an employee's personal financial anxiety can negatively affect the bottom line. Multiple surveys confirm that Canadians are stressed about retirement (and many should be). In September 2018, the Canadian Payroll Association reported that:

- Forty-six per cent of Canadians said financial stress is impacting their workplace performance.
- Seventy-two per cent said they have only saved a quarter or less of what they feel they will need to retire.

A nearly 75 per cent savings gap does not bode well for workplace productivity and a 2016 survey of Canadian attitudes toward retirement bears this out. The Canadian Public Pension Leadership Council (CPPLC) found that over half of all Canadians (51 per cent) said that retirement-planning stress has a medium-to-high impact on their work. In addition, employees who have to manage their retirement account are more likely to see stress affect their work:

- Sixty-nine per cent of group RRSP members said retirement-planning stress impacted their work.
- Forty-nine per cent of Defined Contribution (DC) plan members said

retirement-planning stress impacted their work.

MDB plans deliver highly desired, predictable and secure lifetime retirement income. Members are not required to make investment decisions, decide how to time their retirement to the market cycle or decide how to withdraw their savings in retirement. With fewer decisions, plan members are less stressed.

MDB plans also support the needs of HR professionals as they search for new talent and look to reduce training and recruitment costs by retaining existing employees. A 2012 McKinsey & Company survey found that there is an 800 per cent productivity gap between average performing employees and high performing employees in very high complexity work. It is imperative to attract and retain high performers to succeed.

Canadians want the features typically found in MDB plans. The CPPLC survey found that the majority of Canadians, across all ages and income levels, want predictable, lifetime retirement income and they are willing to contribute meaningfully to achieve it:

- Ninety-seven per cent of the survey respondents said that a predictable retirement income was desirable.

- Over 70 per cent said that they were willing to pay five per cent or more of their income for these benefits.
- Other case studies validate these survey findings and show that employees are willing to pay 10 per cent or more of their salary to participate in a Modern Defined Benefit pension plan.

When talent is in short supply, MDB could be the differentiator for new talent or the main reason existing employees decide to stay. A McKinsey Global Institute study predicts that attraction and retention will become more important in years to come as, “employers in Europe and North America will require 16 million to 18 million more college-educated workers in 2020 than are going to be available.” With only one in 10 private sector workplaces offering a Defined Benefit (DB) pension, providing a more cost-effective MDB plan can be the key differentiator to attract employees from all age groups, without putting the organization’s finances at risk.

MDB plans also help the HR department with workforce management. Employees with DB pensions are more confident about retiring than those who participate in other types of retirement plans. The CPPLC study found that DB plan members were the most likely to have a written retirement plan even though

they are the least in need of one because they cannot outlive their pension:

- Only 16 per cent of group RRSP members said they have a written plan (and they are most in need of a plan).
- Only 21 per cent of Defined Contribution (DC) plan members said they have a written plan (and they are more in need of plan).

MDB pension plans require regular employee and matching employer contributions over the employee's career to fund an adequate retirement income. This structure ensures their long-term retirement goals are met when the time is right to retire. For the HR professional, this helps minimize more costly severance payments or presentism by employees unable to retire with confidence or maintain a reasonable standard of living.

MDB plans address employee financial stress and offer attraction and retention benefits to the HR professional, but how do they align to a chief financial officer's objectives? In short, perfectly! Employers simply expense contributions such as normal pay. Also significant to CFOs, MDB is structured, meaning there is no pension liability recorded on an employer's books. Employers simply match employee contributions. There is no

balance sheet risk and contributions rates are fixed.

Are MDB better than DC plans? Most MDB plans are jointly-sponsored multi-employer plans. Multi-employer plans are more efficient than individual DC plans because they pool longevity and investment risks, they are invested in broader and higher returning asset categories and they have lower investment fees. They are independently administered with low operating costs. This means that more of the contributions made go to pension benefits, not overhead. This should be the goal of every workplace benefit program.

Robert L. Brown, Professor Emeritus of the University of Waterloo (Actuarial Science and director of the Institute of Insurance and Pension Research), has written that defined benefit plans are, “the most efficient and effective means of delivering retirement income.” He notes that a 2011 Texas study found that 92 per cent of its defined benefit members would do worse in a DC plan, with two-thirds receiving substantially less. In Canada, MDB plans perform better and mutual fund fees are higher – suggesting that MDB would have an even better advantage for Canadians.

The recent expanded availability of MDB pension plans means that more workplaces

can meet the needs of their employees, HR departments and CFOs with a valuable, attractive and sustainable pension plan at fixed costs and without the risks of traditional pension plans. Addressing employee financial stress, attraction and retention issues and CFO concerns via a Modern Defined Benefits pension plan can substantially improve outcomes.

Derek W. Dobson is the CEO and plan manager for CAAT Pension Plan.

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A prayer or a promise?

From guarantee funds to disclosable events regimes, the Sears Canada collapse has renewed the debate about the policy options available to ensure pensioners get their dues

By *Michael McKiernan*

Ken Eady understands the challenges a defined benefit pension plan can present for plan sponsors, particularly when they find themselves in financial difficulty.

"Healthy companies aren't always too crazy about the liability, so it can become a heavy weight to carry when there is trouble maintaining financial status. That's why they seem to generally be in decline. Nobody is starting new DB plans," says Eady, who sits on the board of the Store and Catalogue Retiree Group, an independent organization representing the interests of Sears Canada Inc. pensioners.

"But on the other side of the ledger, there are the promises these companies made," he adds. "A pension is not some gift you got for being a nice guy or a good employee. From the beginning of your employment, it was part of the deal that when you retire, the pension would be there for the rest of your life."

Eady knows the ins and outs of the pension promise better than most people. By the time he retired in 2003, he had made his way up to becoming a senior executive in Sears' human resources department, working out of its downtown Toronto headquarters. For much of his 30 years of service, the features of the company pension and benefits plans formed a key part of his pitch to new and prospective hires.

"It was to attract people, and for most companies at that time, not just Sears, it was a cost of doing business," says Eady. "But never in all the time that I spoke about that promise did it occur to me that it might not be kept. Maybe I'm naive, but if that's the case, then I'm not the only one."

With the company having entered bankruptcy protection in June 2017, Eady and 17,000 fellow defined benefit plan members are now staring at a potential 19 per cent cut to their future pension payments as a result of a $267-million deficit.

"If laws can't protect against that, then they need to be strengthened," says Eady.

The Sears saga

Eady joined the company in happier times. By the early 1970s, Sears was thriving, with two decades of history already behind it in Canada. Its U.S. parent company had teamed up with a local retailer, Simpsons, to bring its department store and mail-order catalogue business north of the border in 1953.

Eady says he had few concerns when he retired. Despite a reported drop in same-store sales starting in 2005, the pension plan appeared insulated from the trouble. As recently as 2008, Sears Canada's annual report disclosed a $219-million surplus in the main defined benefit plan. That was the year the company closed the plan to new members.

That surplus would be the last, with the global financial crisis gobbling it up and spitting out a $48.5-million deficit the following year. The figure piqued the interest of the retiree group, which stepped up its advocacy as the writing began to appear on the wall for Sears Canada in the subsequent years.

With the group having predicted the company's demise in 2013, it began urging both Sears Canada and the Financial Services Commission of Ontario to wind up the pension plan before things got worse. In the meantime, it started writing to politicians of all stripes about the retirees' concerns.

Despite those concerns, the company took advantage of Ontario's solvency relief measures in 2016 to reduce the amount — to $13.9 million that year from $20.2 million, with further reductions in 2017 and 2018 — of the special payments it was making to cover the pension shortfall. At the same time, a new management team attempted an ultimately unsuccessful reinvention strategy before Sears Canada finally sought protection under the Companies' Creditors Arrangement Act and announced a plan to shut 60 stores and lay off nearly 3,000 workers in June 2017.

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In line with an order of the Ontario Superior Court of Justice, the company suspended its special payments at the end of September 2017, while the restructuring process played out, and ceased providing post-retirement benefits, which included life insurance, medical and dental coverage. In the meantime, Morneau Shepell Ltd. took over administration of the pension plan.

A look at the guarantee funds

In March 2018, Sears Canada retirees got a measure of good news in the provincial budget, when Ontario's governing Liberals announced that the pension benefits guarantee fund, a government-run insurance program for plans with insolvent sponsors, would boost its monthly coverage limit by 50 per cent to $1,500 from $1,000. It also backdated the change to ensure Sears pensioners would be eligible for the extra money.

Assuming the predicted Sears figures turn out to be accurate, the fund would cover the 19 per cent shortfall for the first $1,500 of every pensioner's monthly cheque. For those receiving larger payments, anything over $1,500 would still be subject to the 19 per cent reduction.

"It's a worthwhile investment, but the weakness of it is that it only applies in Ontario, whereas the Sears collapse has had an impact on people from coast to coast. There were stores in Victoria, B.C., St. John's, Newfoundland, and everywhere in between," says Eady, noting no other province has a similar scheme.

Wanda Morris, vice-president of advocacy at CARP, a national retiree organization, says Ontario's pension guarantee fund is a worthy idea.

"The problem is the order of magnitude," she says, pointing to the U.S. equivalent, the Pension Benefit Guaranty Corp., whose maximum guarantee is US$5,420 per month for someone aged 65. The limit is on a sliding scale, depending on retirees' ages when they begin receiving benefits, such that younger people receive a smaller guarantee.

Britain's Pension Protection Fund, set up in 2004, says it generally covers 100 per cent of the pension for those who had already retired when the plan sponsor went bust. For those who retired early or are yet to stop working, the fund guarantees 90 per cent of their promised value, up to a cap of 3,250 pounds per month (about $5,700).

At a minimum, Morris says the British and U.S. examples should inspire every Canadian jurisdiction to cover at least the year's maximum pensionable earnings, which for 2018 is $55,900 or $4,658 per month.

But Norma Nielson, a recently retired professor of insurance and risk management at the University of Calgary's Haskayne school of business, warns against any clamour for guarantee funds.

By creating its pension guarantee fund in 1980, the Ontario government undertook a natural experiment in the area, she says. In a 2007 study, Neilson found that the existence of the fund was either the cause of, or showed high correlation with, lower solvency funding levels in that province in comparison to other Canadian jurisdictions.

"Sponsors were basically able to get away with investing less in the plan, which is what we describe as a moral hazard," says Nielson.

She notes such funds often start with a flat-fee levy on defined benefit plans based on the size of their membership but says most, including Ontario's guarantee fund, have switched to a risk-based assessment in the interest of fairness.

Malcolm Hamilton, a senior fellow at the C.D. Howe Institute, sees guarantee funds as a form of political cover for governments that want to minimize the appearance of a taxpayer bailout for failing private plans.

"They can pretend it's all self-sufficient and that public support

TOP 10 | FASTEST GROWING PENSION FUNDS (%)

ASSETS (MILLIONS) AS OF DEC. 31, 2017

	Company	2017 Pension Assets	2016 Pension Assets	Variance
1	Costco Wholesale Canada Ltd.	$2,073.0	$1,766.1	↑17.4%
2	BCE Master Trust Fund	$24,244.0	$20,843.0	↑16.3%
3	Public Service Pension Plan (federal)	$98,447.0	$84,723.0	↑16.2%
4	Royal Canadian Mounted Police Pension Plan	$9,835.0	$8,483.0	↑15.94%
5	Canadian Forces Pension Plan*	$26,653.0	$22,999.0	↑15.89%
6	Alberta - Local Authorities Pension Plan	$43,326.5	$37,652.5	↑15.1%
7	Colleges of Applied Arts & Technology Pension Plan	$10,786.2	$9,388.2	↑14.9%
8	Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	$2,447.9	$2,134.0	↑14.7%
9	Nova Scotia Health Employees' Pension Plan	$8,182.0	$7,146.0	↑14.5%
10	Magna International Inc.	$2,077.0	$1,818.0	↑14.2%

Notes: *2016 figure has been restated.

Source: Figures in the report are based on the top 100 plans participating in the 2018 Canadian Institutional Investment Network pension fund survey or annual reports. The table encapsulates organic growth, new mandates and returns, not growth due to mergers and acquisitions.

TOP 100 PENSION FUNDS

TOTAL PENSION ASSETS (MILLIONS) ARE REPORTED AS OF DEC. 31, 2017, UNLESS OTHERWISE INDICATED
PA = Pension Assets ↑↓ Indicates an increase or decrease in total pension assets from 2016

Rank	Fund	Rank 2016	Change	2017 CPA	2016 CPA
1	ONTARIO TEACHERS' PENSION PLAN	1	↑7.7%	$185,352.0	$172,082.0
2	PUBLIC SERVICE PENSION PLAN (FEDERAL)[1]	3	↑16.2%	$98,447.0	$84,723.0
3	ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM	2	↑11.5%	$95,000.0	$85,200.0
4	HEALTHCARE OF ONTARIO PENSION PLAN	4	↑10.5%	$77,755.0	$70,359.0
5	GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN	5	↑7.6%	$68,462.0	$63,604.3
6	B.C. MUNICIPAL PENSION FUND	6	↑11.2%	$51,491.9	$46,319.6
7	ALBERTA - LOCAL AUTHORITIES PENSION PLAN	7	↑15.1%	$43,326.5	$37,652.5
8	B.C. PUBLIC SERVICE PENSION PLAN	8	↑10.4%	$31,243.2	$28,309.5
9	B.C. TEACHERS PENSION FUND	9	↑10.0%	$28,069.4	$25,519.4
10	CANADIAN FORCES PENSION PLAN*[1]	13	↑15.9%	$26,653.0	$22,999.0
11	ONTARIO PENSION BOARD	10	↑8.8%	$26,481.9	$24,349.1
12	CANADA POST CORP.	11	↑8.2%	$25,017.0	$23,117.0
13	HYDRO-QUÉBEC	12	↑7.7%	$24,706.0	$22,935.0
14	BCE MASTER TRUST FUND	14	↑16.3%	$24,244.0	$20,843.0
15	QUEBEC CONSTRUCTION INDUSTRY	15	↑8.0%	$22,345.8	$20,688.5
16	OPSEU PENSION TRUST	16	↑6.5%	$20,290.0	$19,045.0
17	AIR CANADA PENSION INVESTMENTS	17	↑7.9%	$19,470.0	$18,037.0
18	CANADIAN NATIONAL RAILWAY CO.	18	↑4.1%	$18,321.0	$17,591.0
19	ALBERTA TEACHERS' RETIREMENT FUND BOARD	20	↑10.5%	$14,768.2	$13,361.4
20	ONTARIO POWER GENERATION INC.	19	↑5.6%	$14,157.0	$13,410.0
21	ROYAL BANK OF CANADA	22	↑11.4%	$13,565.0	$12,178.1
22	ALBERTA - PUBLIC SERVICE PENSION PLAN	24	↑13.6%	$13,506.1	$11,886.6
23	CANADIAN PACIFIC RAILWAY	23	↑7.2%	$12,957.0	$12,083.0
24	REGIME DE RENTES DU MOUVEMENT DESJARDINS*	25	↑12.3%	$12,854.0	$11,447.0
25	COLLEGES OF APPLIED ARTS & TECHNOLOGY PENSION PLAN	27	↑14.9%	$10,786.2	$9,388.2
26	ROYAL CANADIAN MOUNTED POLICE PENSION PLAN[1]	30	↑15.9%	$9,835.0	$8,483.0
27	THE PUBLIC EMPLOYEES PENSION PLAN (SASKATCHEWAN)	28	↑8.3%	$9,711.0	$8,967.4
28	TELUS CORP. PENSION PLAN	29	↑3.6%	$9,195.0	$8,873.0
29	CITY OF MONTREAL	31	↑6.9%	$8,447.7	$7,900.6
30	NOVA SCOTIA HEALTH EMPLOYEES' PENSION PLAN	33	↑14.5%	$8,182.0	$7,146.0
31	NEW BRUNSWICK PUBLIC SERVICE SHARED RISK PLAN TRUST[2]	32	↑9.4%	$7,893.6	$7,215.4
32	HEALTHCARE EMPLOYEES' PENSION PLAN (MANITOBA)	35	↑9.8%	$7,636.5	$6,956.0
33	THE CIVIL SERVICE SUPERANNUATION BOARD	34	↑6.8%	$7,575.0	$7,090.0
34	HYDRO ONE	36	↑5.9%	$7,277.0	$6,874.0
35	SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN	40	↑13.5%	$7,224.8	$6,365.8
36	IMPERIAL OIL LTD.	37	↑6.5%	$7,105.0	$6,670.0
37	CANADIAN BROADCASTING CORP. PENSION PLAN	38	↑7.6%	$7,078.1	$6,578.5
38	THE WINNIPEG CIVIC EMPLOYEES' BENEFITS PROGRAM	39	↑8.1%	$6,929.8	$6,410.9
39	RÉGIME DE RETRAITE DU PERSONNEL D'ENCADREMENT[3]	26	↓-37.7%	$6,859.0	$11,011.7
40	CANADIAN IMPERIAL BANK OF COMMERCE	41	↑7.3%	$6,742.0	$6,282.6
41	LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA	48	↑13.0%	$6,740.9	$5,966.7
42	NEWFOUNDLAND AND LABRADOR PUBLIC SERVICE PENSION PLAN FUND	46	↑9.8%	$6,727.5	$6,128.9
43	TORONTO TRANSIT COMMISSION	45	↑8.3%	$6,646.3	$6,135.8
44	TEACHERS' RETIREMENT ALLOWANCES FUND BOARD (MANITOBA)	44	↑6.3%	$6,589.0	$6,196.0
45	SCOTIABANK GROUP MASTER TRUST FUND	43	↑5.3%	$6,565.2	$6,233.5
46	RIO TINTO ALCAN INC.	42	↑4.4%	$6,555.0	$6,277.0
47	BANK OF MONTREAL	47	↑7.8%	$6,481.0	$6,014.0
48	BOMBARDIER TRUST (CANADA)	50	↑9.9%	$6,313.0	$5,744.5
49	NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND	49	↑5.4%	$6,175.8	$5,861.9
50	NEW BRUNSWICK TEACHERS' PENSION PLAN[2]	51	↑9.4%	$5,999.8	$5,484.3
51	ABRPPVM - MONTREAL POLICE PENSION FUND	52	↑8.4%	$5,880.0	$5,426.0
52	NAV CANADA	54	↑11.1%	$5,865.0	$5,281.2
53	SASKATCHEWAN TEACHERS' RETIREMENT PLAN	58	↑11.6%	$5,308.4	$4,757.6
54	TD BANK GROUP - PENSION FUND SOCIETY	57	↑7.1%	$5,130.0	$4,789.0
55	NOVA SCOTIA TEACHERS' PENSION FUND	55	↑4.3%	$5,099.1	$4,889.5
56	ALBERTA - MANAGEMENT EMPLOYEES PENSION PLAN	59	↑9.9%	$5,063.8	$4,606.3
57	MONTREAL TRANSIT CORP.	60	↑8.7%	$4,997.0	$4,595.0
58	UNIVERSITY OF TORONTO	62	↑13.0%	$4,987.0	$4,414.0
59	B.C. COLLEGE PENSION FUND	61	↑10.7%	$4,912.5	$4,436.1
60	RESOLUTE FP CANADA INC	56	↑0.6%	$4,854.0	$4,824.0
61	ALBERTA - UNIVERSITIES ACADEMIC PENSION PLAN	N/A	↑11.5%	$4,851.1	$4,349.3
62	SUNCOR ENERGY INC.	65	↑9.9%	$4,695.8	$4,271.5
63	CO-OPERATIVE SUPERANNUATION SOCIETY PENSION PLAN	66	↑8.1%	$4,599.0	$4,254.9
64	ENBRIDGE INC.	64	↑5.2%	$4,501.8	$4,280.0
65	TELECOMMUNICATION WORKERS PENSION PLAN	63	↑1.7%	$4,392.6	$4,317.7
66	UNIVERSITY OF QUÉBEC*	68	↑9.2%	$4,235.1	$3,879.1
67	IBM CANADA LTD.	67	↑3.0%	$4,133.0	$4,014.0
68	PULP & PAPER INDUSTRY PENSION PLAN*	69	↑5.4%	$4,082.0	$3,874.0
69	UNIVERSITY OF MONTREAL	71	↑8.0%	$4,035.9	$3,737.9
70	IWA-FOREST INDUSTRY PENSION PLAN	72	↑8.6%	$3,990.0	$3,673.0

TOP 100 PENSION FUNDS

Rank	Pension fund	Rank 2016	Change	2017 CPA	2016 CPA
71	National Bank of Canada	70	↑ 5.4%	$3,979.0	$3,776.0
72	B.C. Hydro & Power Authority Pension Fund	73	↑ 7.6%	$3,637.5	$3,379.5
73	TransCanada Corp.	75	↑ 7.6%	$3,451.0	$3,208.0
74	Province of Newfoundland and Labrador Pooled Pension Fund	76	↑ 8.0%	$3,398.1	$3,146.9
75	Pratt & Whitney Canada*	87	↑ 12.9%	$3,349.6	$2,966.4
76	Teck Resources Ltd.	80	↑ 8.1%	$3,273.3	$3,028.6
77	ATCO Pension Funds*4	81	↑ 5.3%	$3,269.0	$3,104.3
78	Great-West Life Assurance Co.	79	↑ 6.0%	$3,217.4	$3,034.0
79	Laval University	82	↑ 8.7%	$3,214.6	$2,958.6
80	Workplace Safety & Insurance Board Employees Pension Plan	83	↑ 9.3%	$3,211.0	$2,937.0
81	Glencore Canada	77	↑ 2.1%	$3,208.1	$3,141.4
82	Syncrude Canada Ltd.	84	↑ 10.8%	$3,139.0	$2,833.0
83	Manulife Financial	78	↑ 3.1%	$3,130.0	$3,037.0
84	Province of Prince Edward Island	86	↑ 8.4%	$3,000.0	$2,767.0
85	Alberta - Special Forces Pension Plan*	88	↑ 12.1%	$2,909.7	$2,596.5
86	George Weston Ltd.	85	→ 0.0%	$2,804.0	$2,804.6
87	York University	91	↑ 10.4%	$2,557.6	$2,316.8
88	Canadian Commercial Workers Industry Pension Plan	93	↑ 10.2%	$2,508.7	$2,276.8
89	Saskatchewan Municipal Employees' Pension Plan	92	↑ 7.6%	$2,458.5	$2,285.4
90	Sun Life Assurance Co. of Canada	95	↑ 9.1%	$2,448.5	$2,244.4
91	Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	98	↑ 14.7%	$2,447.9	$2,134.0
92	VIA Rail Canada Inc.	94	↑ 6.1%	$2,382.0	$2,245.3
93	United Food and Commercial Workers Union Pension Plan	99	↑ 10.2%	$2,339.3	$2,122.4
94	Régimes de retraite de la Ville de Québec	96	↑ 7.7%	$2,317.9	$2,151.6
95	University of Ottawa	N/A	↑ 11.0%	$2,308.0	$2,079.4
96	University of British Columbia Faculty Pension Plan	97	↑ 7.1%	$2,290.0	$2,139.0
97	Intact Investment Management Inc.	N/A	↑ 8.0%	$2,248.2	$2,081.1
98	Sobeys Inc.	100	↑ 3.4%	$2,158.0	$2,087.0
99	Magna International Inc.	N/A	↑ 14.2%	$2,077.0	$1,818.0
100	Costco Wholesale Canada Ltd.	N/A	↑ 17.4%	$2,073.0	$1,766.1

2017 TOP 100 TOTAL:	$1,342,173.2
2016 TOP 100 TOTAL:	$1,227,131.9
VARIANCE:	9.4%

Notes: *2016 figure has been restated. **1.** Pension assets reported as of March 31, 2017. **2.** The New Brunswick teachers' and public service shared-risk plans were unable to participate in the survey this year due to timing. Their totals are an estimate reflecting the average growth across the top 98 pension funds in 2017. **3.** The decrease is due to a transfer in 2017 from the pension fund to the Fonds d'amortissement des régimes de retraite. **4.** Canadian Utilities Ltd. pension plan, ranked at No. 81 last year, and ATCO Structures and Logistics were consolidated as ATCO Pension Funds.

Source: Figures in the report are based on the top 100 plans participating in the 2018 Canadian Institutional Investment Network pension fund survey or annual reports. *Benefits Canada* assumes no responsibility for the accuracy of the data provided. All totals are subject to +/- variance due to rounding. If you would like to participate in future surveys, contact CIIN at soo.kim@tc.tc or 416-847-5119.

isn't inevitable," says Hamilton.

But Hamilton says the charade is harder to keep up as the number of defined benefit plans dwindles while the premium levied on those remaining surges.

"The bottom line is that there is no viable way for healthy pension funds to support unhealthy ones, so eventually some public subsidy is going to be required. If you look at the U.K. and the U.S. ones, they're all basically insolvent," says Hamilton, who spent most of his 40-year career as an actuary at Mercer.

In 2017, Britain's Pension Protection Fund reported a 120 per cent funding ratio, or a surplus of six billion pounds ($10.5 billion), for plans currently under its control for which it's already paying benefits. While that looks promising, its PPF 7800 index, which tracks the funding position of all of the roughly 5,600 plans that are potentially eligible for future entry, recorded a total deficit of 115.6 billion pounds ($200 billion) as of March 2018. The fund, then, could face a significant challenge if it started to see a significant number of new claims.

In the United States, the Pension Benefit Guaranty Corp. reported a US$65.1-billion deficit in its multi-employer plan and a US$10.9-billion shortfall in its single-employer insurance program at the end of the 2017 fiscal year.

Hamilton says Ontario's less generous version could allow the province to muddle through what he sees as the dying days of private sector defined benefit plans.

"With any luck, there won't be too much money taxpayers have to throw at it," he says. "There aren't that many DB plans left, and they could get lucky if higher interest rates take the pressure off. In any case, it'll be minor compared to government subsidization of public sector plans."

Disclosable events and other interventions

In another apparent nod to Sears pensioners, Ontario's budget also promised to develop a so-called disclosable events regime that would force plan sponsors to alert regulators to certain corporate developments. The note about the issue in the budget referred to events "such as significant asset stripping or the issuance of extraordinary dividends."

PUTTING A RING ON IT

Faced with a large pension deficit, U.S.-based Sears Holdings Corp. entered into an agreement with the Pension Benefit Guaranty Corp. in March 2016 to take a number of actions to shore up its plan. The agreement provided for a ring-fencing arrangement that meant the company couldn't sell or encumber 140 Sears properties without the U.S. federal agency's approval. In November 2017, the federal agency released the 140 properties from the ring-fencing arrangement. In exchange, Sears agreed to pay US$407 million into the pension fund from proceeds derived from selling or encumbering the properties. The 2017 agreement provided Sears with relief from contributions to the pension plans for two years, other than a US$20-million supplemental payment due in the second quarter of 2018.

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> ***"Instead of fighting so hard as unions and employees for DB plans, we should realize they're not really guaranteed.***

Sears Canada retirees have hired a litigation investigator to explore the possibility of claims linked to almost $3 billion in dividends paid by the company to shareholders as it sold off many of its key Canadian assets between 2005 and 2013, which continued even as the pension plan slipped into the red. Sears Canada has insisted that all of its transactions were within the law.

Eady hopes the regime that emerges will mirror the one in the United States, which allowed the Pension Benefit Guaranty Corp. to negotiate a veto over the sale of certain properties held by Sears' U.S. parent company in 2016. When the U.S. federal agency finally gave the green light to the sale of the assets, it did so in return for a US$400-million cash injection into the company's underfunded U.S. pension plan.

"Earlier intervention is necessary and desirable," says Eady.

Jeff Sommers, a partner in the pension and benefits practice group at Blake Cassels & Graydon LLP, says the government plan is light on details at this stage but notes his clients, which include both public and private plan sponsors and administrators, will be watching developments closely.

"I can see the logic, but imposing those kinds of obligations is not going to be well-received by many sponsors," he says.

At the federal level, Prime Minister Justin Trudeau has remained noncommittal about legislative responses to the Sears Canada situation, but two members of Parliament are trying to force his hand with private member's bills aimed at boosting the priority of pension plan members in bankruptcy proceedings.

The law as it stands classifies the unfunded portion of a pension plan as an unsecured debt, putting pension plan members behind secured creditors such as banks and bond holders. Bloc Québécois MP Marilène Gill wants to create a super priority for pensioners that places them at the front of the queue, while New Democratic Party MP Scott Duvall's less radical proposal suggests putting them on par with secured creditors.

Ian Lee, an associate professor in the Sprott school of business at Carleton University, says either version risks reducing the availability of capital to companies with defined benefit pension plans and, therefore, hastening their decline in the private sector.

"As a former banker, I can tell you that banks are not in the business to give away money. If they thought their collateralized loans were not, in fact, going to be as secure because of a change in the Bankruptcy and Insolvency Act, then clearly, they will become more conservative in their lending," he says.

"The knock-on consequences would be horrific."

CARP doesn't believe the repercussions of a priority change would be quite so dramatic. In Morris' view, the current law doesn't do enough to account for the needs of shortchanged pensioners.

"These people are vulnerable, and they're not at an age where they can simply go back to work or cut back on their spending. They've planned around what they were promised," she says.

"Banks and other investors are in a position to absorb more risk."

In the meantime, Sears Canada retirees are placing their hopes in complicated arguments about whether the pension liability amounts to a deemed trust, which may elevate their priority in the CCAA proceedings.

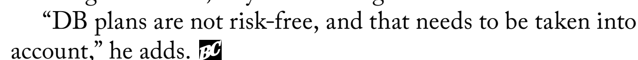
Questioning the DB guarantee

Michael Armstrong, an associate professor at Brock University's Goodman school of business, says the Sears Canada situation and the others that will inevitably follow should prompt a shift in the way employers sell defined benefit pension plans to employees. Workers also need to educate themselves about the realities of the pension promise, he suggests.

"Instead of fighting so hard as unions and employees for DB plans, we should realize they're not really guaranteed," he says.

That goes for public plans as well as private ones, he says, pointing to the City of Detroit's decision to cut pensions as part of its bankruptcy proceeding. In fact, he has performed a risk assessment of his own pension at Brock. "It's likely universities are going to be around for a long time. But on the other hand, if they ever did run into trouble, they can't hike their prices or dig into profits. It's not as insecure as if I worked for an auto manufacturer, but it's also not as solid as if I worked for the federal government," says Armstrong.

"DB plans are not risk-free, and that needs to be taken into account," he adds.



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CANADIAN PUBLIC PENSION LEADERSHIP COUNCIL

Canadians with DB plans provide economic benefits to many

(Toronto: February 7, 2019) In his new report commissioned by the Canadian Public Pension Leadership Council (CPPLC), professor emeritus Dr. Robert L. Brown, offers a compelling synthesis of evidence on the broad benefits of workplace pensions.

The advantages, as presented by Dr. Brown in his report entitled, *The Social Implications of Pensions*, include better labour force management, lower job stress, improved worker health and lower use of government-funded assistance programs, such as Old Age Security (OAS) and Guaranteed Income Supplement (GIS).

"This analysis shows these plans are not just better for Canadian workers, but for the Canadian economy overall, with cost savings to employers and governments," says Dr. Brown. "Canadian pensioners with stable, predictable Defined Benefit (DB) retirement income are less dependent on government assistance, and they spend their pension dollars in local businesses."

The report, and other studies commissioned by the CPPLC, is available at www.cpplc.ca.

Key advantages of workplace pensions Dr. Robert L. Brown, *The Social Implications of Pensions*	
Greater retirement saving efficiency	• 78% of retirement benefits come from investment returns • Those participating in large DB plans can get 2.2 times as much retirement income from the same contribution amount because of lower fees, fewer liquid assets, and advantages regarding life expectancy risk
Improved retirement readiness among workers	• Employees with a workplace pension save more money through RRSPs and TFSAs • Those with workplace DB plans have the highest income replacement rates in retirement
Fiscal benefits for government	• Pension income is taxable and spent in local communities (14% of income in Ontario communities comes from pensions) • Retirees with pensions rely less on government benefits such as Old Age Security (OAS) and Guaranteed Income Security (GIS)
Labour force management	• 52% of employees surveyed say a DB plan is a factor in choosing a job and 69% say it is a reason to stay in a job • DB plans increase job tenure by four years over having no plan • Stable retirement income helps employers match retirements with economic conditions • Employees with DB plans have higher confidence and less stress
Economic impacts	• Canadian public-sector plans are among the world's largest • Pension funds invest for the long term and help stabilize the financial system

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CANADIAN PUBLIC PENSION LEADERSHIP COUNCIL

About the CPPLC

The Canadian Public Pension Leadership Council is a non-partisan group of public pension plans from across the country. Our mission is to promote thoughtful, evidence-based national pension policy discussions through in-person events and the production of new research. Formed in 2013, the CPPLC participating organizations represent a total of more than 1.4 million plan members and $277.5 billion in pension plan assets.

The co-chairs of the CPPLC are Derek W. Dobson, CEO and Plan Manager of the CAAT Pension Plan and Judy Payne, Executive Director, Municipal Pension Plan, B.C. For more information -- Derek Dobson: DDobson@caatpension.on.ca, Judy Payne: judy.payne@pensionsbc.ca

About Dr. Robert L. Brown[1]

Dr. Brown's research focus is the design of financial security programs in times of rapidly shifting demographics. In his 39 years at the University of Waterloo, Dr. Brown wrote seven books and over 50 refereed papers.

Dr. Brown was president of the Canadian Institute of Actuaries in 1990-1991, president of the Society of Actuaries in 2000-2001 and president of the International Actuarial Association in 2014.

He was Research Chair for the Ontario Expert Commission on Pensions in 2007-2008.

Dr. Brown retired from the University of Waterloo program in Actuarial Science in 2010 and now resides in Victoria, B.C.

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[1] Source: University of Waterloo website, Statistics and Actuarial Science

The future of pensions in uncertain times

2018 CPPLC Pension Forum Rapporteur's report

By Alex Mazer, Founding Partner, Common Wealth

About the CPPLC
The Canadian Public Pension Leadership Council (CPPLC) is a non-partisan group of public pension plans from across the country. Our mission is to promote thoughtful, evidence-based national pension policy discussions through in-person events and the production of new research. Formed in 2013, the CPPLC participating organizations represent a total of more than 1.4 million plan members and $277.5 billion in pension plan assets.

Please contact the CPPLC's co-chairs for more information.
Derek Dobson: DDobson@caatpension.on.ca | Judy Payne: judy.payne@pensionsbc.ca

About Alex Mazer
Alex is a Founding Partner at Common Wealth, a Toronto-based company dedicated to expanding access to good retirement plans and strengthening retirement security. In partnership with SEIU, Common Wealth recently created my65+, the first retirement plan for lower- and moderate-income workers in Canada. Alex recently co-authored a report for the World Bank on lessons learned from the evolution of the Canadian pension model. He is a regular speaker and commentator on pensions and retirement issues in both Canada and the US, including as part of such forums as the Brookings Institution, the Aspen Institute, Forbes, The Globe and Mail, the Association of Canadian Pension Management, and Pensions & Investments.

Introduction

On November 8, 2018, the Canadian Public Pension Leadership Council (CPPLC) held its second Pension Forum in Toronto. Attended by 60 leaders in the public pension field,[1] this year's forum focused on a broad and relevant topic: what is the future of pensions? It included five main sessions, including a new CPPLC-sponsored research report by Dr. Robert Brown:

- A panel on the future of pensions featuring the perspectives of two plan CEOs (Derek Dobson of CAAT and Hugh O'Reilly of OPTrust), two trustees (Paul Finch from the BC Target Benefit Pension Plan and Tom Vincent from the Public Service Pension Board), and one service provider (Alex Mazer from Common Wealth)
- A "world café session" led by Kelley Orban from SHEPP, a participatory exercise involving rotating, facilitated discussion of four topics: longevity trends, demographic shifts, rethinking retirement, and member communications
- A keynote address by Lynn Patterson, Deputy Governor of the Bank of Canada on managing macro operational risk
- A presentation by Dr. Robert Brown of new CPPLC-commissioned research on the social implications of pensions
- A question period and conference wrap-up led by Derek Dobson, co-chair of CPPLC.

This report aims to synthesize insights from the CPPLC forum, and expand upon these insights to help members of the public pension community to think about and plan for the future. Common Wealth, a Toronto-based advisory firm and plan administrator, was commissioned by the CPPLC to prepare the report. Common Wealth Founding Partner Alex Mazer attended and participated in the forum. In keeping with the forum's observance of Chatham House Rules, the report does not attribute comments to specific participants in the forum. Although the report draws heavily on the content presented at the forum, and discussion flowing from it, it also includes additional observations and commentary.

Thinking about the future

How should pension organizations and stakeholders think about the future? This is a broad, almost overwhelming, question. But it is one worth asking before planning for the future, as all organizations must do, especially long-time-horizon organizations such as pension plans.

One way to think about the future is to divide the world into things that are likely to change and things that are likely to remain the same. Often planning includes a lot of thinking about the things that we expect to change, but less about the things that are likely to remain the same, even though the latter are arguably easier to predict. The ancient Greek philosopher Heraclitus is often quoted as having said that "change is the only constant," but even if you believe this, it is hard to plan for the future without holding at least some variables stable.

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[1] See the Appendix for a full list of attendees.

Below is an attempt, based on the discussion at the forum, to assess which factors relevant to pensions are likely to change in the future, and which are likely to remain more or less constant.

What is likely to change

- **Ageing.** As actuaries can attest, longevity has changed dramatically over the past hundred years. Life expectancy has increased by about a quarter-century since the 1920s.[2] Although predictions about future longevity are likely to be wrong, it seems likely that life expectancy will continue to increase. It also seems likely that longevity will look different for different segments of the population, driven by factors such as income, race, gender, and public health crises[3]. The aging process too is likely to change. We are living longer, but not necessarily better.[4] The risk of developing a severe disability increases sharply with old age. With changes in the aging process come changes in post-retirement spending, as we will discuss below.
- **Work**. "The future of work" has been a hotly-debated topics of the past several years. This conversation combines some long-term, well-established trends – such as the decline of permanent, full-time jobs and the growth of the contingent, part-time, contract, and self-employed workforces – with an admixture of fears and prognostications -- for example about the potential impact of artificial intelligence and automation on jobs for humans. What gets discussed publicly does not necessarily correspond to what is going on. For example, for all the discussion of the "gig economy," gig jobs such as driving for Uber still represent only a tiny percentage of the overall workforce, and are heavily outweighed by much larger trends relating to the rise of non-standard work. The pensions industry is tied tightly to a particular view of work and of the employer-employee compact. As such, no matter how work changes, pension institutions will want to pay attention.
- **Retirement**. It is easy to forget that retirement is a social and economic construct, not something that is hard-wired into human nature. As a human institution, retirement is relatively young and particular to more affluent societies. As such it is subject to change. Many of the most frequently discussed changes to the institution of retirement can be considered somewhat micro: there has been a gradual trend toward later retirements, and more Canadians are working part-time after they end full-time work (a phenomenon often referred to as "phased retirement" in the pension world). But it is also worth contemplating more fundamental changes to retirement. What if our working lives were broken up by a number of sabbaticals or "mini-retirements" that lasted one or two years each?[5] What if life in our older years were defined by something we did, rather than by something we stopped doing (working)? What if the social norms relating to what people do after full-time work were to change dramatically, becoming looser, more rigid, or just

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[2] Statistics Canada, "Ninety years of change in life expectancy" (2014).
[3] Canada's top public health official recently predicted that the opioid epidemic, which killed nearly 4,000 Canadians in 2017 alone, could cause a drop in Canada's overall life expectancy (CBC News, "Life expectancy in Canada may be decreasing as opioid crisis rages on" (October 23, 2018)).
[4] Jane Barratt, "We are living longer than ever. But are we living better?" Stat (February 14, 2017).
[5] The term "mini-retirement" was coined by writer Tim Ferriss in his book, *The 4-Hour Workweek* (2009).

different? All of these changes would affect how people finance retirement and how they spend their money after they stop working.[6]

- **Technology**. Beyond its impact on jobs, discussed above, technology is likely to have a large impact on the core business of providing retirement benefits. The impact can come in the form of risks. Cybersecurity, for example, featured prominently in the discussion at this year's forum and is being treated as one of the top risks facing pension plans. It can come in the form of new competitors (or potential collaborators). Technology-driven startups, often backed by significant venture financing, are challenging traditional financial services business models in banking, insurance, wealth management, and investment management – a model usually referred to by the somewhat misleading moniker of "fintech."[7] New, technology-enabled business models are likely to affect pension plans as well, though these new entrants may look different from the startups that challenge incumbents in the retail or small-employer market. For instance, Microsoft recently announced a partnership with BlackRock on a new, workplace-based retirement platform.[8] Technology may also foster more fundamental changes to pensions and retirement systems. For instance, exploration is already underway about how blockchain or some other form of distributed ledger technology could be used to improve transparency, efficiency, and trust in pensions.[9]

What is likely to remain the same?

We have just reviewed four broad areas that are likely to experience significant change in the coming decades: aging, work, retirement, and technology. Processing all of the various predictions of tectonic shifts in these areas can be overwhelming, even paralyzing, and can prompt a dangerous "head in the sand" mindset. Hence the importance of anchoring ourselves to factors that are likely to be more constant. Here are three factors relevant to the pension community that counter the idea of a world in constant flux.

- First, even if they retire later, more gradually, or in fits and starts, people are likely to continue to have a desire to stop working full-time at some point. This may be because they can't find work, don't want to work, can't work, or some combination. To stop working requires income.
- Second, because stopping work requires income, people are likely to continue to value cost-effective ways of paying for retirement. With stagnating wages and rising concerns about affordability, the need for efficient retirement savings is arguably greater than ever.

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[6] For an accessible overview of recent research on retirement spending patterns, see Michael Kitces, "Estimating Changes in Retirement Expenditures and the Retirement Spending Smile" Kitces.com (April 30, 2014).

[7] The term is somewhat misleading because, as pension plan administrators know, technology has long been an important part of the delivery of financial solutions. What is different about technology-driven startups is arguably that software plays a larger role in their business model than it does in traditional financial services. "Techfin" may therefore be a better term, though it is admittedly less catchy.

[8] Microsoft News Center, "Press Release: BlackRock and Microsoft to reimagine retirement" (December 13, 2018).

[9] See, for example, Susanna Rust, "Bringing blockchain to pensions: How 'smart ledgers' could benefit CDC," Investment & Pensions Europe (July 30, 2018).

Retirement savings ranks with housing, transportation, and food as one of the most important lines in Canadians' household budgets.[10]

- Third, our retirement system is likely to remain a diversified, multi-pillar system that contains a mix of public and private provision, and mandatory and voluntary participation. While the balance among the pillars may shift somewhat – as in the recent enhancement to the Canada Pension Plan – all successful retirement systems in the world have maintained a diversified approach.

How will pensions fare in this environment?

In his famous 1960 article "Marketing Myopia," Harvard Business School professor Theodore Levitt encouraged business leaders to adopt a broader definition of the business that they are in.[11] Levitt argued that railroad companies, for example, had languished because they thought they were in the railroad business when in fact they were in the transportation business. There is no such thing as a "growth industry," argued Levitt. It is up to the businesses themselves to create customers and focus on satisfying their needs.

What business are public pension plans in? If we conceived this business as being the provision of DB pension plans, then it will appear public pension plans are in a shrinking industry, even if overall assets under management in public plans are growing. Whether we like it or not, the number of DB pension plans in the overall economy is shrinking, and private-sector DB plans continue to close. Equally, or perhaps even more importantly, the public perceives DB pensions to be a shrinking industry.

The reality and perception of being in a shrinking industry has little upside and a lot of downside, including negative consequences for organizational culture, recruitment and retention of talent, influence over the public policy environment, and access to the best vendors, partners, or investment opportunities.

Thankfully, there is a broader way to define the business that public pension plans are in: helping people finance their retirements. This defines the business according to the need it fulfills, rather than the instrument through which it fulfills that need. As discussed above, the need for money in one's older years is unlikely to go away, even if there are dramatic changes in retirement patterns, the nature of work, or longevity. If anything, the need for retirement finance is likely to grow, and along with it the need for *cost-effective* old-age finance.

Can pension plans survive and even thrive in an environment of rapid change, and rising demand for cost-effective old-age finance? In theory, the answer should be a resounding yes.

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[10] In 2016, Canadian households spent an average of 29% of pay on shelter, 19% on transportation, and 14% on food (see Statistics Canada, Survey of Household Spending (2016)). Assuming combined employer-employee contributions of ~20% (including CPP contributions), the cost of retirement savings is comparable to these line items.

[11] Theodore Levitt, "Marketing Myopia," Harvard Business Review (1960).

The two existing alternatives to pensions (and other collective retirement plans) are: (1) taxpayer-funded government programs, also known as PAYGO programs, such as OAS and GIS; (2) individual approaches to retirement finance, whether delivered through financial advisors, banks, online brokerages, or other retail channels. In a contest focused on retirement value for money – the ability to translate today's savings into tomorrow's retirement income – the evidence is quite clear that collective retirement vehicles, like pensions, are likely to be the winner, provided they are well-governed and well-run.

New CPPLC-commissioned research by Dr. Robert Brown underlines this efficiency advantage, as well as other benefits of large-scale pension plans. Entitled "The Social Implications of Pensions," Dr. Brown's research offers a compelling synthesis of evidence on the broad benefits of pensions, including rebuttals to the common arguments against pensions. The advantages, as presented by Dr. Brown, are summarized in the table below.

Key advantages of pensions *Source: Dr. Robert Brown, The Social Implications of Pensions*	
Advantage	**Evidence**
Improved retirement readiness	● Those with workplace DB plans have the highest replacement rates in retirement ● Near-retirement Canadians without a workplace pension have median savings of just over $3,000 ● Employees with a workplace pension save more money through RRSPs and TFSAs
Efficiency	● 78% of benefits come from investment returns ● Those participating in large DB plans can get 2.2 times as much retirement income from the same contribution amount because of lower fees, less liquid assets, and advantages regarding life expectancy risk[12]
Fiscal benefits for government	● Pension income is taxable and spent in retirees' local communities (14% of income in Ontario communities comes from pensions) ● Retirees with pensions rely less on OAS and GIS
Labour force management	● 52% say a DB plan is a factor in choosing a job and 69% say it is a reason to stay in a job ● DB plans increase job tenure by four years over having no plan ● Stable retirement income helps employers match retirements with economic conditions

[12] A study on a similar question by HOOPP, Common Wealth, and the National Institute on Ageing found an even greater difference in value for money -- an efficiency advantage of over 3x when comparing a typical individual approach with that of a "Canada-model" pension plan. See HOOPP, Common Wealth, and the National Institute on Ageing, "The Value of a Good Pension: How to Improve the Efficiency of Retirement Savings in Canada" (November 2018).

	● Employees with DB plans have higher confidence and less stress
Economic impacts	● Canadian public-sector plans are among the world's largest ● Pension funds invest for the long term and help stabilize the financial system

But the efficiency advantage of pensions and other collective retirement arrangements is not inevitable. The performance and global reputation of Canada's public pension funds has come as a result of a deliberate process of continuous evolution, one that has required leadership, innovation, and the building of trust among diverse stakeholders.[13] Pension organizations will need to continue to evolve and improve, all while remaining true to a set of foundational principles.

Distinguishing foundational principles from aspects that must evolve can be challenging. In the final section of this report, we review some ideas raised by participants in this year's forum about opportunities for evolution. What, then, are some of the foundational principles that must remain constant – or be rediscovered – even as the pension industry evolves? This is a conversation that deserves more prominence in our industry. Here are some initial ideas about what some of those principles might be:

1. Use the **power of the collective** to create the greatest retirement security for the greatest number
2. Efficiency: **Maximize net retirement income for every dollar of contribution**
3. **Stable** and appropriate contribution rates
4. Act as a **fiduciary** when serving plan members and other stakeholders
5. Think **long term**, with a long investment time horizon, planning for the entire retirement lifecycle, and aiming for durable sustainability
6. Strive to achieve **best-practices governance**

Navigating an uncertain future: ideas for pension organizations

This year's forum, particularly during the "world café" session, yielded a wide range of insights and ideas about how pension organizations can navigate an uncertain future. Five main categories of ideas emerged.

Growing the size of the collective retirement plan market

It is well documented that, over the course of the past several decades, Canada has seen a decline in pension coverage outside the public sector. Employees in the public sector are nearly four times more likely to have a workplace pension – and over eight times more likely to have a

[13] For an overview of this journey, and a framework for thinking about the evolution of pension organizations, see World Bank Group, "The Evolution of the Canadian Pension Model: Practical Lessons for Building World-class Pension Organizations" (November 2017).

DB pension – than workers in the private sector. Private-sector DB pension coverage today is less than a third of what it was in the late 1970s. As Robert Brown and many others have argued, the public-private pension coverage gap risks leading to pension envy, posing a political risk to public pension plans, even if they are efficient, well-run, and very expensive to convert to DC.[14]

Beyond pension envy, another consequence of the decline of private-sector pension coverage has been to shrink the size of the market for collective retirement plans relative to that for individual retirement vehicles. While this decline has been somewhat offset by asset growth in public sector funds – a consequence of investing more aggressively in markets and achieving strong returns – it still poses a threat to public pensions and is overall negative for the industry. As such, it is time for a more focused conversation about how to reverse the decline and grow the overall market for collective retirement plans. As demonstrated by the research from Robert Brown, there are strong economic and social arguments for such an expansion.

Growing the size of the collective retirement plan market would likely require greater collaboration between the sometimes-siloed parts of the market – DB and capital accumulation plan (CAP) providers, public- and private-sector plans, labour and employers. It would also require government support and intervention on a number of levels. But what if governments, labour, employers, and industry providers across plan types and sectors came together to commit to a goal of raising private-sector workplace retirement plan coverage to a certain level – say 10 or 20 percentage points – within the next decade?

Providing value beyond income replacement

Discussion at the forum generated a range of ideas for how public pension organizations could create more value for their members, beyond the core task of helping them to achieve a certain level of income replacement in an efficient manner. These ideas included:

- Providing a **financial planning and coaching service** to help members and their families access trusted, non-conflicted guidance about financial matters. Such a service could be restricted to issues related to the pension plan and it how that plan fits into a family's broader financial and retirement planning, as in the in-plan advisory service the Ontario Pension Board launched in 2015 to help members make informed decisions about their pension. It could also take on broader issues of financial and retirement planning.
- Assisting members with **other forms of savings**. To date, some pension plans have done this through Additional Voluntary Contribution (AVC) programs. For example, OMERS launched an AVC program in 2011 that takes advantage of OMERS' investment management and plan administration capabilities and, as of the plan's most recent annual report, had $817 million in member account balances and 18,500 members

[14] On the cost of shifting public-sector DB plans to DC – a notion can be counterintuitive to policy makers – see Robert L. Brown and Craig McInnes, "Shifting Public Sector DB Plans to DC: The experience so far and implications for Canada" (October 2014). This paper was the first piece of research commissioned by the CPPLC.

enrolled.[15] Plans could consider exploring options to provide their members with other savings options that leverage the plan's existing scale and capabilities, including Tax-Free Savings Accounts (TFSAs) and Registered Education Savings Plans (RESPs).

- Insuring members against the risk of sizeable **out-of-pocket health care costs**, such as home care and long-term care. The regular, steady payments of a DB plan may not be the most efficient way to finance such uncertain but potentially large costs, which tend to occur later in life and are correlated with the onset of disability in old age.[16] Some forum participants suggested that an insurance or insurance-like offering, provided within or alongside a public plan, could be considered to protect members against large home-care or long-term-care costs.
- Helping prepare members for **the social, emotional, and psychological elements of the transition from full-time work to retirement**. As author and former Russell Investments global consulting co-chair Don Ezra has pointed out, we as a society do relatively little to prepare people for the non-financial elements of what he calls "life two."[17] Pension organizations, which are already in the retirement-preparation business, may be one of the institutions best positioned to provide a broader education on retirement readiness. If they lack the capabilities to do so, they might partner with external organizations who specialize in education, coaching, and other relevant disciplines to deliver the service.

More flexible plan designs

Participants offered a number of ideas about making plan design more flexible. Demand for greater flexibility needs to be balanced against the value of simplicity and curated choice. The lack of member choice in large public pension plans can serve as an important driver of efficiency. Additional choice can add complexity, cost, and the need for higher-touch service models. On the other hand, ignoring demands for greater flexibility and choice can put pension organizations at risk of being out of touch with their members, and ill-equipped to deal with a changing external environment. In some cases greater flexibility will require legislative or regulatory change.

Suggestions for areas of greater flexibility include:

- Allowing **phased retirement**, accommodating members who want transition from full-time to part-time work rather than to directly to full retirement
- Improving the **portability** of pension benefits, for example by making it easier to transfer pension benefits from one plan or jurisdiction to another
- Making certain **enhanced benefits**, such as early retirement or post-retirement indexation, optional for members

[15] See OMERS 2017 annual report.

[16] For an overview of the implications for factoring out-of-pocket health care costs into an assessment of Canadians' retirement readiness, see HOOPP and the University of Toronto, "Health and retirement security research: Summary of findings" (October 2016).

[17] See donezra.com, "#61: Readiness for Life After Full-Time Work," https://donezra.com/61-readiness-for-life-after-full-time-work/.

Improved risk management

A more interconnected and rapidly changing world means that pension organizations face different kinds of risks, requiring them to develop new risk management approaches. There are also opportunities for pension organizations to collaborate on risk management, since they face many common threats and pooling resources can reduce the cost and improve the quality of risk management. Three kinds of emerging risk received a high level of attention from forum participants.

- **Political and regulatory risk.** Participants discussed the ongoing risk posed by "pension envy" and government fiscal constraint. They also focused on the issue of pension accounting, which has received greater scrutiny in recent years. The Ontario government, and that province's Auditor General, have conducted reviews of pension accounting standards, resulting a highly public debate about how public pensions show up on government books. The Public Sector Accounting Board's (PSAB) ongoing review of pension discount rates has also been the subject of concern and attention from public pension organizations. Critical commentary of the way public pensions are accounted for has gained some media attention, as in the recent Fraser Institute report by Malcolm Hamilton and Philip Cross.[18] This debate is likely to continue, and there is arguably a need for public-pension community participants to develop and build consensus on a principled approach that accurately reflects the realistic costs of pensions, while avoiding the kind of overly conservative approach that is currently causing disarray within the Dutch pension system.
- **Cybersecurity.** Many participants highlighted cyber threats as among the most important risks facing their organizations. One tool for mitigating cybersecurity risk that was discussed at the forum are simulations to test how an institution would react to events such as the halting of trading on markets or the settlement of transactions.
- **Financial system risk**. It is well established that the global financial system has grown more complex and interdependent. As increasingly important participants in Canada's financial system, pension funds have both the opportunity, and arguably the responsibility, to contribute to that system's stability and health. Regulators cannot manage macro risks to the financial system on their own. Instead, they rely on collaboration with market participants, and a broader set of financial market infrastructures. Over the past several years, regulatory authorities and central bankers have begun to engage more with large pension funds, and there appears to be openness to deepen this collaboration, including working together to prepare for the next major market downturn.

Innovation and continuous improvement

Do pension plans have the right organizational design to thrive in an uncertain and rapidly-changing future? Are they well-equipped to manage the risks, and seize the opportunities, detailed above, all while remaining true to their core principles? Canadian pension organizations have shown an admirable ability to adapt, evolve, and continuously improve over the past several decades. Through that process they have deservedly earned the world's admiration. But

[18] Malcolm Hamilton and Philip Cross, "Risk and Reward in Public Sector Pension Plans: A Taxpayer's Perspective" (Fraser Institute, 2018).

past success is no guarantee of future success. For the “Canada model” of pension organization to continue to be seen as among the world’s best for decades to come will require grappling with some challenging questions.

These include:

- What is the optimal relationship between governments (as both sponsors and regulators) and public pension organizations? What is the right balance between operational independence, on the one hand, and political/regulatory accountability on the other?
- What is the optimal role of public pension organizations in addressing the critical issue of retirement plan coverage? Should public pension organizations try to serve more people? If so, how? Should public pension organizations be allowed to offer other financial or non-financial products and services to their members? What is the right balance between serving one’s existing stakeholders, and addressing new markets?
- Is the current structure for governing plan design – a plan text that must be approved by the sponsor – sufficiently compatible with the need for innovation and adaptation to changing member needs? Should pension organizations have the ability to pilot potential changes to plan design without time-consuming and costly changes to the plan text? Could they run experiments with small segments of their membership, before introducing a plan design change to the entire group? Should pension organizations develop more sophisticated and nimble product-management capabilities?
- What does world-class pension governance look like in the 21st century? Do we need to broaden our understanding of fiduciary duty to encompass the kinds of macro, strategic risks and opportunities discussed at this year’s forum, and detailed in this report?[19]

Conclusion

Public pension organizations face an uncertain and challenging future. Some of the key concepts on which pension organizations are built – our understanding of aging, retirement, and work – are likely to shift. Technology, which represents both opportunity and risk to pension organizations, is likely to become an even more important part of the pension business. Yet the core value proposition that pensions offer people – the ability to meet retirement income needs in an efficient manner – is likely to remain relevant and may well grow in relevance.

To survive and thrive in this environment, pension organizations need to balance adaptation to change with reliance on core principles. The forum highlighted five areas to help them do so: (1) collaboration to grow the size of the collective retirement plan market (2) providing value for members beyond income replacement (3) more flexible plan designs (4) improved management of complex emerging risks (5) organizational and structural changes to facilitate innovation and continuous improvement.

[19] For an argument that pension boards need to modernize and broaden their understanding of fiduciary duty, see Keith Ambachtsheer, The Future of Pension Management: Integrating Design, Governance, and Investing (2016), p. 81.

Appendix A: Forum agenda

Vantage Venues
Toronto
November 8, 2018

CPPLC Pension Forum

A National Discussion on the Future of Pensions

Speakers and topics

8:00–8:30 a.m. Registration and breakfast

8:30–8:45 a.m. **Welcome**

Weldon Cowan, trustee, College Pension Plan and
Chuck Bruce, CEO, Provident[10]

Opening remarks

Judy Payne, executive director, Municipal Pension Plan; co-chair, CPPLC

8:45–9:45 a.m. **Panel discussion:** the future of pensions

How can pension plans provide retirement income security in a way that is sustainable for the long term?

Moderator: **Barry Gros**, independent chair, UBC Staff Pension Plan

- **Derek Dobson**, CEO and plan manager, CAAT Pension Plan; co-chair, CPPLC
- **Alex Mazer**, founding partner, Common Wealth
- **Hugh O'Reilly**, president and CEO, OPTrust
- **Paul Finch**, chair, BC Target Benefit Pension Plan; treasurer, BCGEU
- **Tom Vincent**, trustee, Public Service Pension Board

9:45–10:15 a.m. Refreshment and networking break

10:15–12:30 p.m. **World café session**

Lead facilitator: **Kelley Orban**, chief people officer, SHEPP

Table topics:

- Longevity trends
- Demographic shifts
- Rethinking retirement
- Lessons learned: communicating with members

12:30–2:00 p.m.	**Lunch and keynote speaker:** Bank of Canada Deputy Governor Lynn Patterson Introduction: **Derek Dobson**, CEO and plan manager, CAAT Pension Plan; co-chair, CPPLC
2:00–2:10 p.m.	Break
2:10–3:30 p.m.	**Presentation:** the social implications of pensions **Robert Brown**, professor emeritus, actuarial sciences, University of Waterloo Introduction: **Douglas Moodie**, president and CEO, Nova Scotia Pension Services Corporation
3:30–4:00 p.m.	**Question period and conference wrap up** **Derek Dobson**, CEO and plan manager, CAAT Pension Plan; co-chair, CPPLC

Event sponsored by the CPPLC

Appendix B: List of attendees

Rachel Arbour – Healthcare of Ontario Pension Plan (HOOPP)
Susan Bird – World Pension Alliance
Ileana Brito – Ontario Pension Board
Christopher Brown – Local Authorities Pension Plan
Hillary Brown – BC Municipal Pension Plan Board
Robert Brown – University of Waterloo
Charles Bruce – Provident 10
Kathryn Bush - Blakes
John Cappelletti – Canadian Public Pension Leadership Council (CPPLC)
Weldon Cowan – Federation of Post-Secondary Educators of BC (FPSE)
Mike Darroch - Deloitte
Derek W. Dobson – Colleges of Applied Arts and Technology Pension Plan (CAAT)
Rasho Donchev – Centennial College
Nicole Dykema – BC Pension Corporation
Rob Field – British Columbia Investment Management Corporation (BCI)
Paul Finch – BCGEU
Mike Garneau – CIBC Mellon
Julie Giraldi - Colleges of Applied Arts and Technology Pension Plan (CAAT)
Murray Gold – Koskie Minsky
Izhak Goldhaber
David Gordon - Colleges of Applied Arts and Technology Pension Plan (CAAT)
Barry Gros – UBC Staff Pension Plan Board
David Haley - Colleges of Applied Arts and Technology Pension Plan (CAAT)
Andrew Hamilton - AON
Michel Jalbert – Association of Canadian Pension Management (ACPM)
Wayne Jefferson – BC Teachers' Pension Board
Patrick Kennedy - Colleges of Applied Arts and Technology Pension Plan (CAAT)
Hank Kim- National Conference on Public Employee Retirement Systems
David Larsen - AON
Darryl Mabini – Healthcare of Ontario Pension Plan (HOOPP)
Michael MacPherson – Government of Ontario
Kim Macpherson – Ontario Public Service Employees
Jeff Marcantonio – Public Service Pension Plan for Federal Employees
Claude Marchessault - Canadian Public Pension Leadership Council (CPPLC)
Dale Markewich - Saskatchewan Healthcare Employees' Pension Plan
Ian Markham – Willis Towers Watson
Ric Marrero - Association of Canadian Pension Management (ACPM)
Alex Mazer - CommonWealth
Karen McRae - Colleges of Applied Arts and Technology Pension Plan (CAAT)
Doug Moodie – Nova Scotia Pension Services Corporation
Laura Nashman – BC Pension Corporation

Michael Nicin – Ryerson University
Susan Nickerson – Torys LLP
Hugh O'Reilly - OPTrust
Michelle Oosterman - Colleges of Applied Arts and Technology Pension Plan (CAAT)
Kelley Orban – Saskatchewan Healthcare Employees' Pension Plan
Danelle Parkinson – Ontario Pension Board
Judy Payne – Canadian Public Pension Leadership Council (CPPLC)
Claire Prashaw - OPTrust
Alnasir Samji - Colleges of Applied Arts and Technology Pension Plan (CAAT)
Nicholas Sherwin – OPTrust
David Stevens – Public Service Pension Plan for Federal Employees
Keri Van Beek – BC Municipal Pension Plan
Tom Vincent – BC Public Service Pension Board
Jill Wagman - Eckler
Aaron Walker-Duncan – BC Pension Corporation
Jason White - OPTrust
Glenda Willis – City of Winnipeg
Sheri Wright – Alberta Local Authorities Pension Plan
Gary Yee – BC Municipal Pension Plan Board

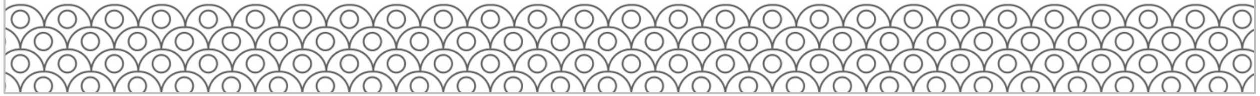
Appendix C: Presentation from Dr. Robert Brown

The social implications of pensions

Robert L. Brown, PhD

FCIA, FSA, ACAS

With: R. Shillington and R. Morrison



A more holistic view of public sector pensions

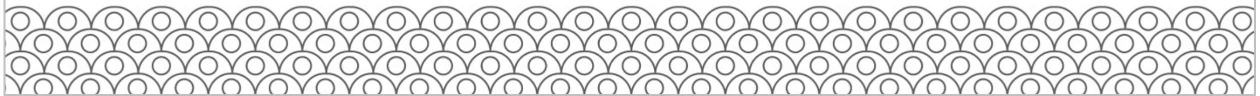
Only 23% of employees in private sector have a workplace pension

- Only 9.5% have DB Plans

88% in public sector have workplace pensions

- 80% have DB Plans

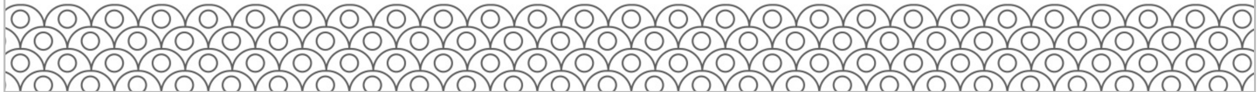
The gap leads to pension envy



Arguments against DB

- DB plans are expensive and risky for governments and current and future taxpayers
- Accounting rules and onerous regulation have caused their demise in the private sector
- Benefits are too generous or gold plated

"If I can't have a good pension, you shouldn't have one, either."

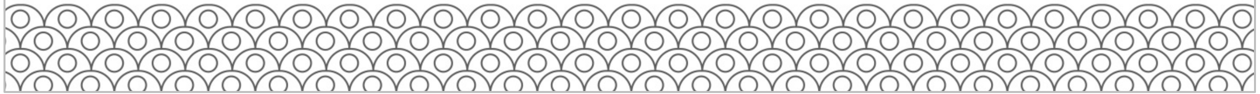


The counter argument for DB

- Large DB plans are more efficient at providing retirement income than smaller DC plans
  - efficiency of scale lowers costs
  - up to 78% of benefits provided by investments
  - large enough to carry longevity risks
  - they create large pools of patient capital
- Large 'pooled' DC plans do not exist in the private sector

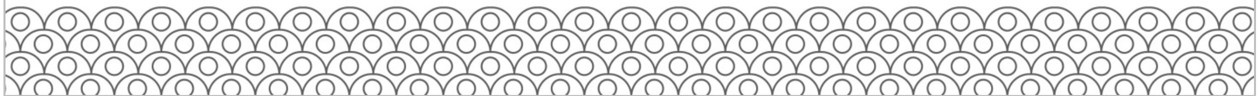
The counter argument for DB

- DB plans provide guaranteed retirement income that is
  - taxable
  - spent in retirees' local communities
- Retirees with DB pensions do not rely on OAS/GIS as much as those who do not have pensions
- Canadians are willing to pay more for a larger and guaranteed retirement income



The counter argument for DB

- DB Pensions are successful at attracting and retaining workers
- They reduce workplace stress, improve engagement and productivity
- They ease management workforce transitions



DB benefits are not gold plated

Examples: median annual pension in pay in 2017

- Municipal Pension Plan: $12,438
- Teachers' Pension Plan: $30,522

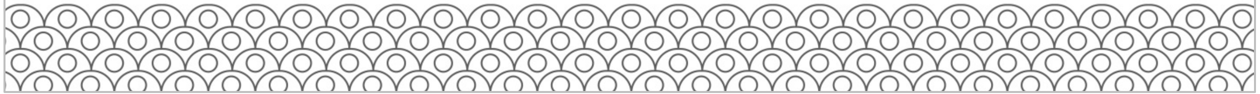
- Members and employers contribute approximately the same amount each paycheque
- Investment returns make up 75 to 80 cents of every pension dollar paid

Background and context

- DB plan coverage continues to decline in the private sector—even though these plans are effective and efficient
- private sector now offers Individual Account DC (all risk to individual worker) or nothing
- public sector has continued to offer DB
  - These plans are now almost all shared risk
  - Almost 50/50 cost sharing between member and employer
- But you need to look at the social impacts

What is the optimal outcome?

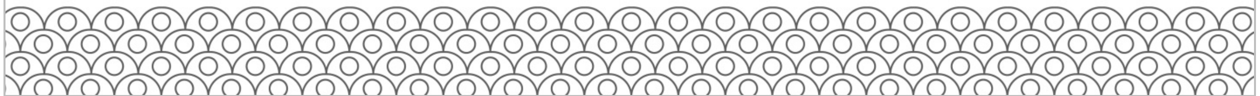
- The biggest bang for the buck—the biggest benefits per dollar of contribution
- A highly productive workplace
- Less reliance on systems such as GIS



Labour force: attraction and retention

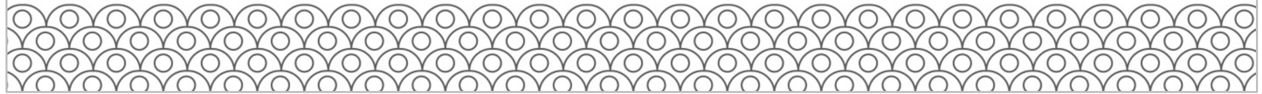
DB plans attract and retain good employees

- 52% of workers say a DB pension is a factor in choosing a job
- 69% of workers with DB plans say it is an important reason to stay (vs. 37% of those with DC plans)
- DB plans increase job tenure by four years over no plan and 1.3 years over a DC plan



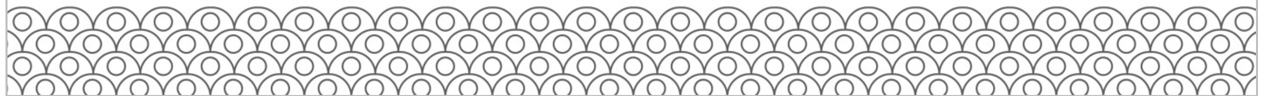
Labour force: managing retirement

- Can help employer manage job exit
- DC/RRSPs plans are perverse here:
  - hot economy workers can afford to retire
  - cold economy = workers want/need to work longer



Labour force: stress, health and productivity

- lack of confidence about retirement security leads to stress
- those with DB plans have higher confidence and less stress
- firms moving from DB to DC experienced productivity losses
- employees in DB plans are more committed to their work and invest more in skills crucial to work



Labour force: stress, health and productivity

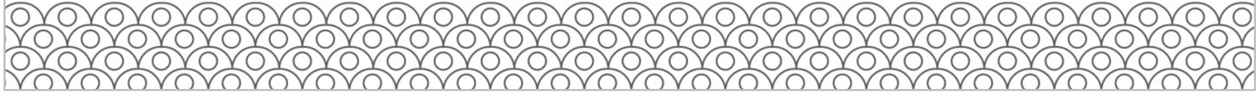
- Employees troubled by their finances are twice as likely to be in poor health
- They report higher stress levels, more absences and 'presenteeism'
- This results in a drag on productivity
- Those struggling with finances stay on the job longer—'hidden pensioners'

DB plans: impact on spending

- Guaranteed retirement income like DB pensions, OAS, and C/QPP help stabilize consumption during economic downturns
- DC/RRSPs are counter cyclic allowing more spending in good times and less in recessions
- Vast majority of Canadians without an employer pension plan have totally inadequate retirement savings—just over $3000.

DB plans: impact on communities

- 14% of income in Ontario communities comes from pensions—most from DB
- DB income is guaranteed, so seniors can spend more
- DB income is taxable income and creates sales tax revenues
- Less reliance on OAS and GIS

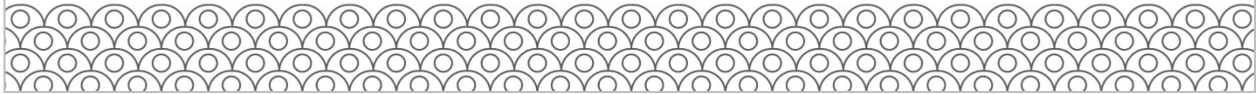


DB Plans: Other Economic Impacts

- Eight largest public sector plans manage more than $1 Trillion
- All in the top 100 pension funds in the world
- Invest long term thus stabilizing the Canadian financial system
- Take an active role in corporate governance practices
- Employ around 10,000 professionals
- Payroll of $1.5 B plus $2 B in fees

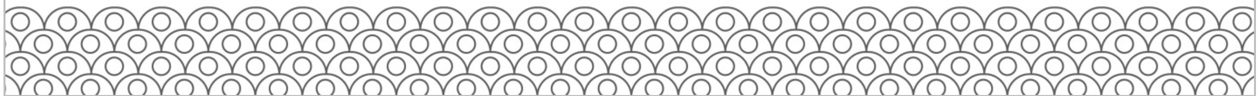
Concerns about Health and Long-Term Care

- Around 323,000 Canadians have inadequate retirement income if you factor in long-term care
- This could grow to 815,500 by 2038 because of population aging



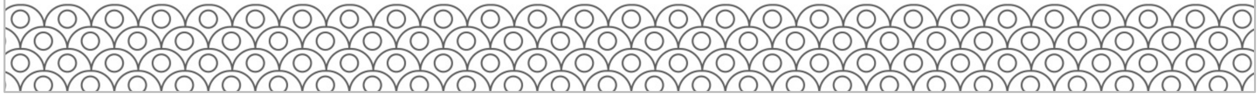
The Impact on OAS/GIS/Taxes

- Canadians 65+ who have had a workplace pension at some time have larger incomes
- Almost all is attributable to their pension
- 54% of workers with no pension get GIS
- 17% of workers with a pension get GIS
- Those with workplace pensions also save more in other vehicles (RRSPs/TFSAs)
- Those with pensions pay more taxes



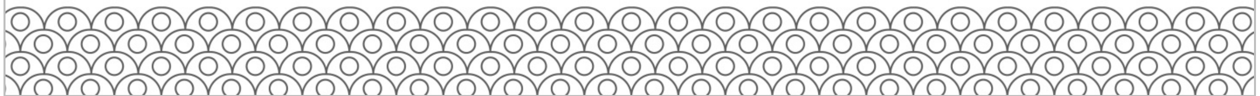
The Impact on OAS/GIS Taxes

- Recipients of income from large DB plans do far better than those in Individual RRSP accts
- Can get 2.2 times as much with the same contribution because of lower fees, less liquid assets and advantages re: life expectancy risk



The Impact on OAS/GIS/Taxes

- Those with workplace DB plans have the highest replacement ratios in retirement
- This makes them less dependent on OAS/GIS
- They also pay more income tax
- Their total 'outflows' are 2.5 times those of workers in a DC plan or RRSP
- Similar impact of new 2nd tier C/QPP—a mandated DB pension



The Impact on OAS/GIS/Taxes

- A DB pension creates a slow, stable extraction of the pension asset
- Can not be manipulated to maximize OAS/GIS
- Which is possible with RRSP assets
- TFSAs have no OAS/GIS 'Clawback'
- DB pensions save taxpayers millions of dollars

Conclusion

- Large DB Plans are effective and efficient
- Large DB Plans are good for the economy
- They lower workplace stress and improve productivity
- They improve human resource management
- They lower health-care costs
- DC/RRSP Plans, even if large, would cost more or provide lower benefits
- If DB eliminated, taxpayers would lose social impact of smaller OAS/GIS benefits and higher income taxes
- So why switch?

Questions/Discussion

Appendix D: List of CPPLC members and board members

Member plans

- CAAT Pension Plan (Ontario)
- College Pension Plan (British Columbia)
- LAPP (Alberta)
- Municipal Pension Plan (British Columbia)
- NS Pension Services Corporation (Nova Scotia)
- OMERS SC (Ontario)
- Provident 10 (Newfoundland and Labrador)
- Public Service Pension Plan (British Columbia)
- Saskatchewan Healthcare Employees Pension Plan (SASK)
- Teachers' Pension Plan (British Columbia)

Council members

- Derek W. Dobson, CEO and Plan Manager, CAAT Pension Plan, Ontario (Co-chair)
- Judy Payne, Executive Director, Municipal Pension Plan, British Columbia (Co-chair)
- Charles Bruce, Chief Executive Officer, Provident 10, Newfoundland and Labrador
- Weldon Cowan, Chair of the BC Pension Corporation Board of Directors
- Chris Vanden Haak, Director, Pension Policy and Communications, OMERS SC
- Claude Marchessault, Executive Director, Public Service Pension Plan, (BC)
- Alison McKay, Chief Executive Officer, Saskatchewan Healthcare Employees Pension Plan (SHEPP)
- Douglas Moodie, President and Chief Executive Officer, NS Pension Services Corporation
- Sheri Wright, Vice President, Stakeholder Relations, LAPP