CANADIAN PUBLIC PENSION LEADERSHIP COUNCIL

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.

[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

[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.

[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.

---

[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

cpplc
CANADIAN PUBLIC PENSION LEADERSHIP COUNCIL

CPPLC PENSION FORUM AGENDA 2018.10.16

Appendix B: 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 C: 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