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# The Outlook for Canada's Public Sector Employee Pensions

Silvana Pozzebon  
HEC Montréal

# Outline

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- ▶ **Broad context: Canada's retirement income system**
- ▶ **Specific context: Public sector employee pensions**
- ▶ **Plan characteristics**
- ▶ **Challenges facing public sector pension plans**
- ▶ **Conclusion**



# Broad Context: Canada's Retirement Income System

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## A multi-pillar system

- ▶ **Social Security Pension Scheme**
  - **Old Age Security Program (quasi-universal flat benefit + low-income supplement)**
  - **Canada/Quebec Pension Plan (contributory, earnings-based program, partially funded)**
- ▶ **Employer-sponsored pension plans**
  - **Traditional : *Registered Pension Plans* (voluntary, subject to pension legislation, represented 38.5 % of Canadian paid workers in 2005, 81% of members in DB plans)**
  - **Growing : *Group Registered Retirement Savings Plans* (voluntary, individual savings vehicles, DC, not subject to pension legislation)**
- ▶ **Private savings**

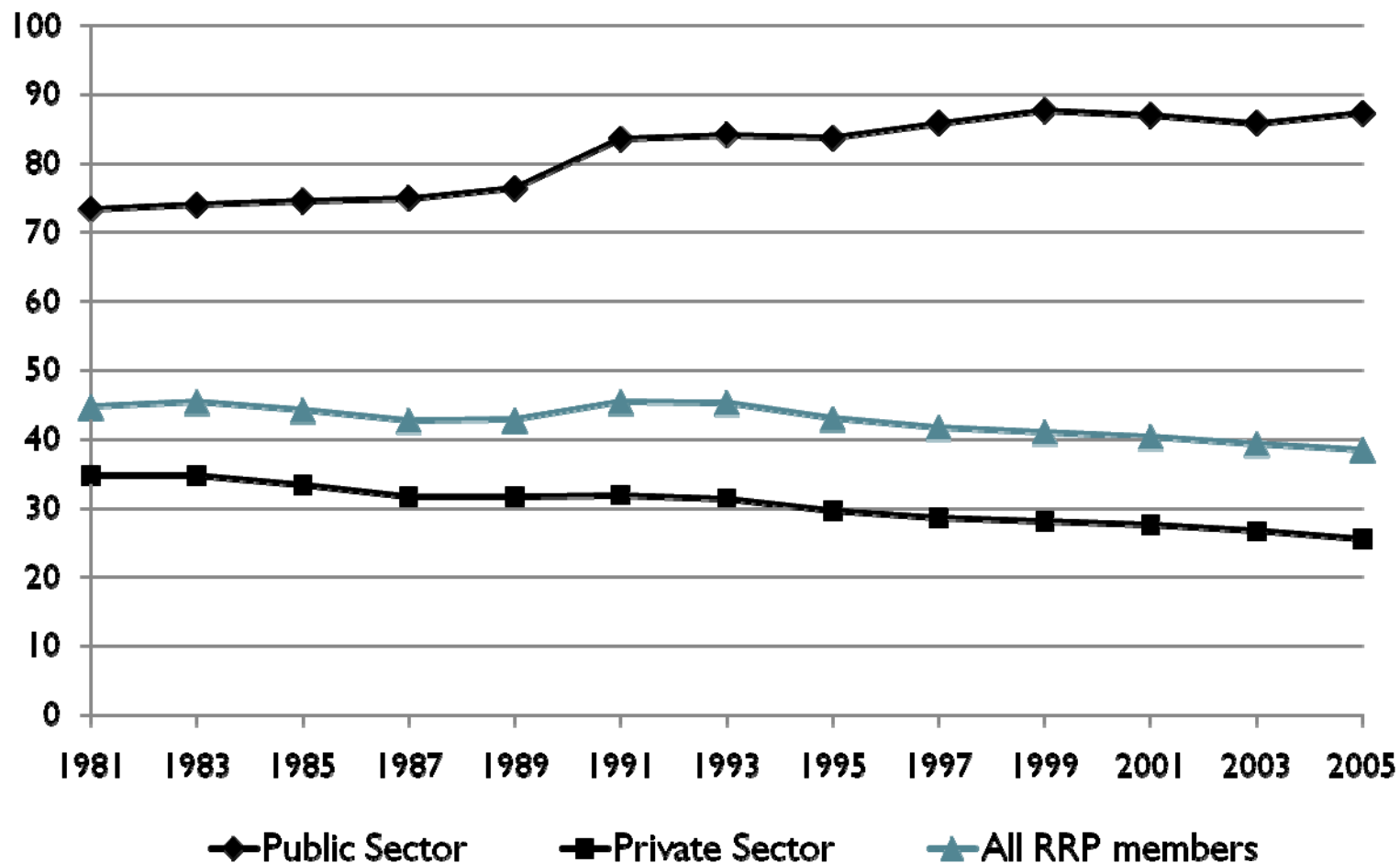


# Specific Context: Public Sector Employee Pensions

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- ▶ **Public sector**
  - ▶ **21% Canadian paid labor force**
  - ▶ **Includes public servants at federal, provincial and municipal levels, as well as employees of government enterprises, public education and health institutions**
  - ▶ **75% unionized**
- ▶ **Public sector employee pensions**
  - ▶ **Traditional, Registered Pension Plans (RPPs)**
  - ▶ **87% coverage**
  - ▶ **2.7 million members (47% of total RPP membership)**
  - ▶ **59% female membership**
  - ▶ **72% in plans with  $\geq 30,000$  members**

# Percentage of paid workers covered by a Registered Pension Plan, total and in sector, Canada 1981-2005



Source: Author's calculations based on Statistics Canada data.

# Characteristics of Public and Private Sector Pension Plans, Canada, at January 1, 2006

(percent of members in sector or category)

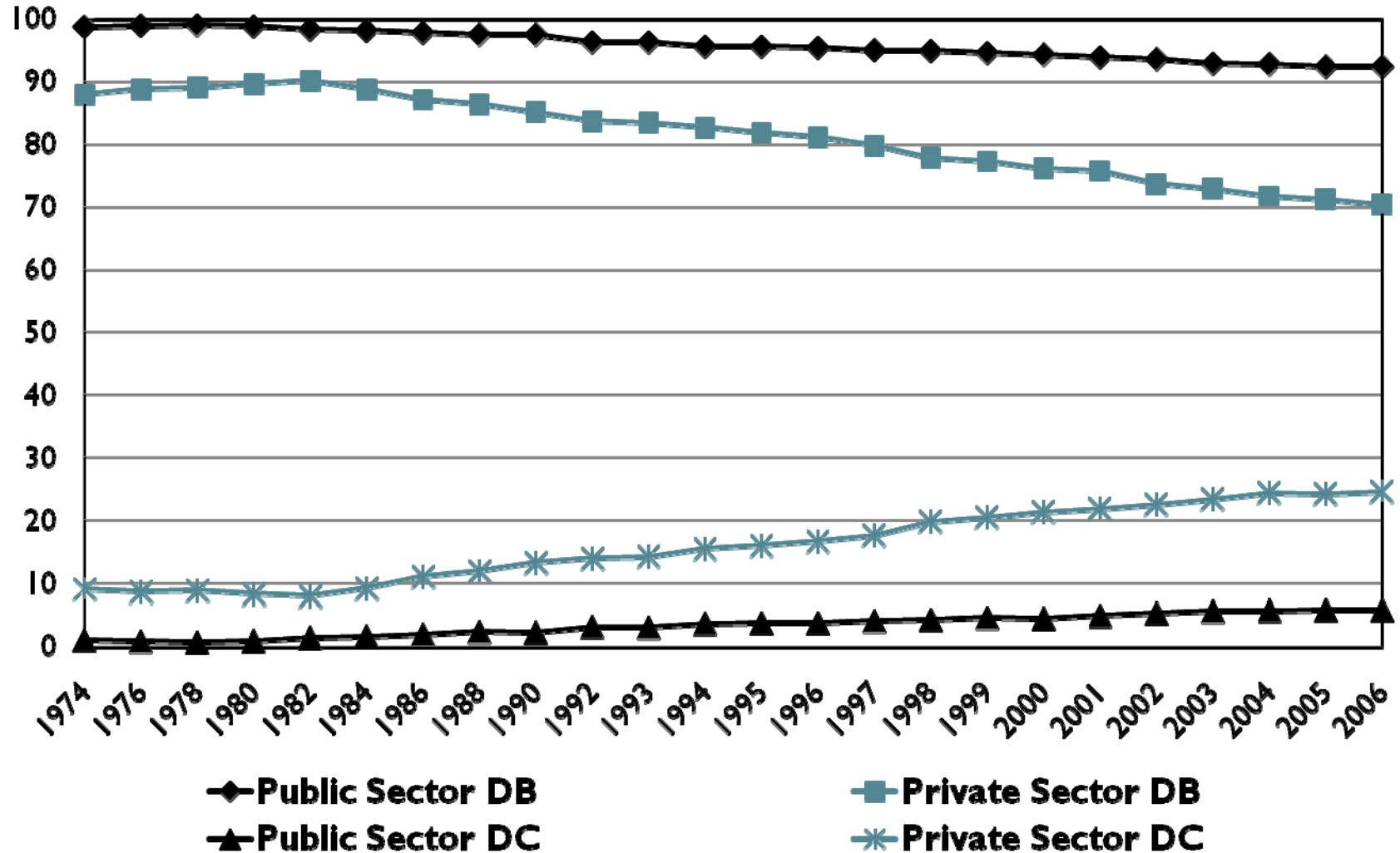
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<u>Characteristic</u>	<u>Public Sector</u>	<u>Private Sector</u>
<b>Defined benefit plan</b>	<b>93 %</b>	<b>70 %</b>
<b>Single employer plan</b>	<b>88 %</b>	<b>61 %</b>
<b>DB Plans</b>		
<b><u>Benefit formula</u></b>		
• <b>Earnings-based: average best earnings*</b>	<b>99.9 %</b>	<b>60 %</b>
• <b>Benefit based on % earnings:</b>	<b>93 %</b>	<b>66 %</b>
• <b>2% of earnings*</b>	<b>99 %</b>	<b>50 %</b>
• <b>97 %</b>	<b>97 %</b>	<b>50 %</b>
• <b>Automatic adjustment to CPI</b>	<b>77 %</b>	<b>19 %</b>
• <b>Integration with C/QPP</b>	<b>97 %</b>	<b>75%</b>
<b><u>Contributory plan</u></b>		
• <b>Rate: 5.0-6-9*</b>	<b>99.6 %</b>	<b>61 %</b>
• <b>Rate: ≥ 7.0*</b>	<b>39 %</b>	<b>50 %</b>
	<b>59 %</b>	<b>3 %</b>

▶ Note: \* percent within category

Source: Author's calculations based on Statistics Canada data.

# Percentage of Registered Pension Plan members in defined benefit and defined contribution plans by sector, Canada 1974-2006



Source: Author's calculations based on Statistics Canada data.



# Major Challenge: Funding

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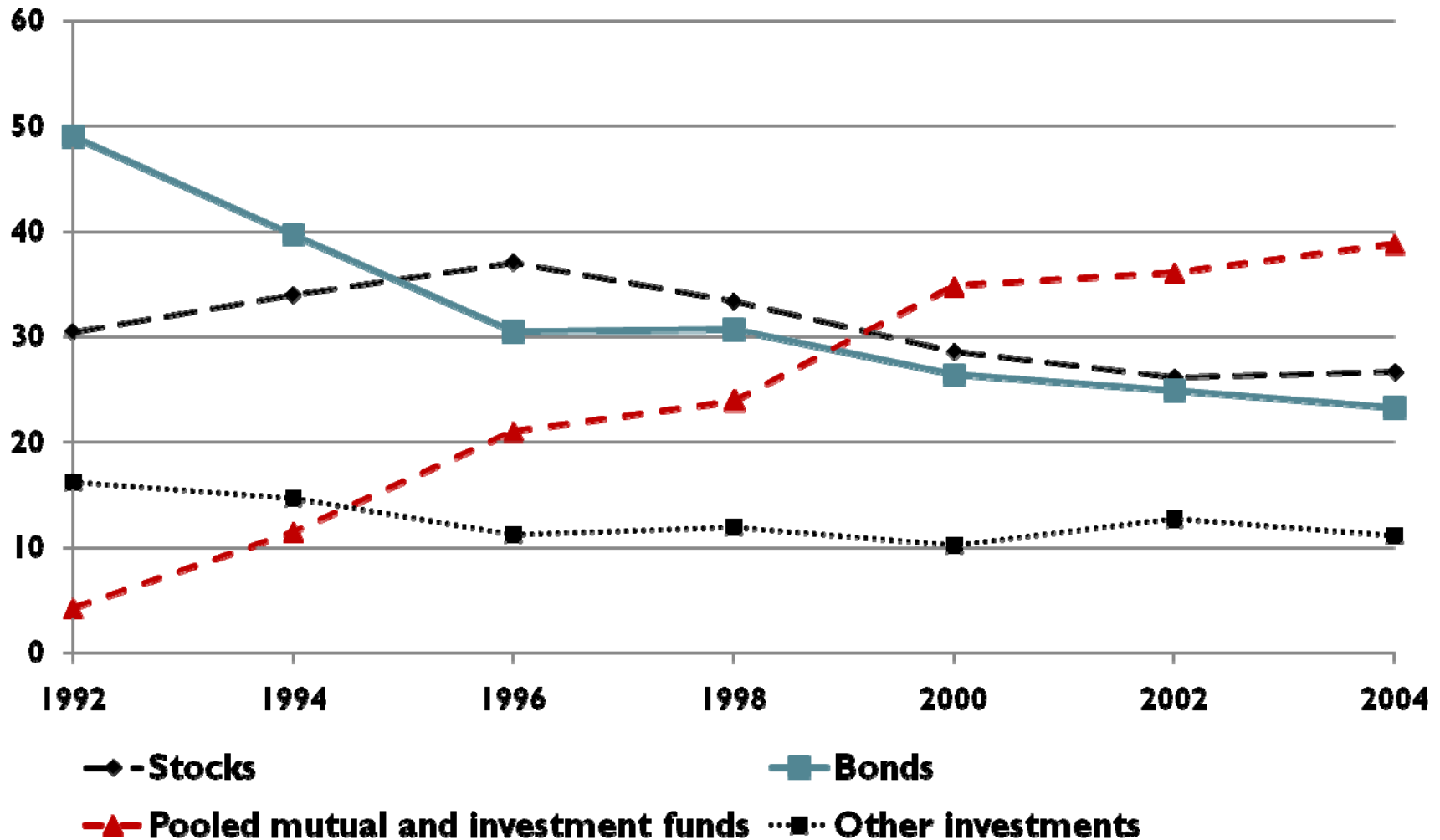
**Several avenues are being used to improve the financial health of public pension plans**

- ▶ **Creation of autonomous funding schemes**
    - **Movement to convert from non-autonomous unfunded schemes at the provincial level to independent investment entities since the early 1990s**
    - **Creation of the Public Sector Pension Investment Board in April 2000 for federal government public sector employees**
  
  - ▶ **Market based investment of plan assets**
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# Asset allocation of trustee public sector pension funds, Canada 1992-2004

(percentage of total assets at market value)



▶ N.B. Other investments include mortgages, real estate, cash, deposits, short-term funds, and miscellaneous assets.  
Source: Author's calculations, Statistics Canada, CANSIM Table 280-0005.

# Major Challenge: Funding

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- ▶ **Special payments are being made by provincial governments to reduce unfunded pension liabilities**
  - **Some are debt-financed and made possible by the improved budgetary positions of provincial governments (ex. Quebec government)**
- ▶ **Increases in contribution rates**



# Other Challenges

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## ▶ **Plan governance**

- **Movement towards joint trusteeship of public pension plans**

## ▶ **Demographic changes**

- **Decline in ratio of active members to pensioners implies future benefit reductions, increases in contribution levels and/or a decrease in investment risk**



# Conclusion

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- ▶ **Canada's public sector employee pension plans remain viable**
  - ▶ **Cover the vast majority of the sector's employees**
  - ▶ **Offer generous benefits**
  - ▶ **Movement towards increased funding**
  - ▶ **No evidence of a "backlash" against public plans; appear to be perceived as a means of attracting and retaining workers**
- ▶ **Funding risks persist**
  - ▶ **Market volatility and interest rate fluctuations**
  - ▶ **Raising already high contribution rates in some plans offers limited scope for financing funding shortfalls of mature plans**
  - ▶ **Large unfunded liabilities remain at both the provincial and federal levels**

