

Intelligence MEMOS



From: Keith Ambachtsheer and Jim Leech

To: The Hon. Bill Morneau, Federal Minister of Finance

Date: March 14, 2017

Re: **TIME FOR INNOVATION IN FEDERAL GOVERNMENT-SPONSORED WORKPLACE PENSION PLANS**

A recent [Globe and Mail article](#) quoted Minister Bains as saying “Innovation is about making things better in ways that benefit everyone,” suggesting the best way to get Ottawa’s attention today is with ‘innovative’ ideas. Our \$118B idea to modernize pension management set out in this Memo proposes to transform federal employee workplace pension plans into transparent, sustainable partnerships between Ottawa as an employer and its employees.

To bring about this change, Ottawa must accept the need for careful oversight and modern risk management tools since affordable, income-for-life pension plans involve considerable taxpayer-supported risks. Otherwise, these plans might become the Titans of the 21st Century. Canada’s Auditor General alluded to this problem in his [2014 Report](#) noting Ottawa’s lack of state-of-the-art risk management procedures for public sector pension plans.

The lack of clear funding and investment policies and processes, and clear, logical, consolidated reporting of financial information negatively impacts Ottawa’s responsibility of equal fair treatment of current and future plan-members and taxpayers. According to a 2016 [C.D. Howe Institute report](#), Ottawa continues to fully underwrite all risks in the pension plans it sponsors. The undisclosed market value of those obligations and public net debt were estimated to be \$118B higher than the reported value at the end of 2015.

In contrast, provincial governments have been actively facilitating the transition to pension plans jointly-sponsored by provinces and their agencies, with various forms of risk sharing. For example, Ontario and the Ontario Teachers’ Federation began this process decades ago through the creation of the OTPP and an arms’ length organization to manage it.

These ‘partners’ are jointly responsible for the ongoing sustainability and fairness of the plan, separate from the broader collective bargaining process and the adversarial atmosphere surrounding it. Once the partners agree on the framework, they turn to the OTPP to implement consistent funding and investment policies, using risk monitoring and management tools that are widely envied and imitated. These jointly-sponsored, funded shared-risk plans are now the rule rather than the exception in the provincial public sectors. Their success has made the “maple leaf pension plan” a premium brand around the world.

The recent debate over pension design and governance at Canada Post has created an opportunity for Ottawa. The recent [OGGO report on Canada Post](#) specifically recommended Ottawa working with Canada Post “to modernize Canada Post’s defined benefit pension plan”. This should include studying the feasibility of moving to a jointly-sponsored, shared-risk pension model.

Ottawa should consider that recommendation as it starts modernizing all pension plans it sponsors. Giving management and labour joint fiduciary responsibilities would produce more cost-effective and fair pension plans. Importantly, it would give federal workers a meaningful role in the stewardship of their financial future and pre-empt any unilateral move by a future government to far inferior defined contribution plans. Paraphrasing Minister Bains, the pension innovations proposed here would make things better for pensioners, federal workers, and taxpayers.

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