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Ottawa's Pension Abyss: The Rapid Hidden Growth of Federal-Employee Retirement Liabilities

Recent reforms will do little to reduce the ballooning cost of pension promises to federal-government employees. Further reforms should raise ages of entitlement, share the risks that taxpayers as underwriters of these plans now bear alone, and give all Canadians better opportunities to save for a comfortable retirement.

William B.P. Robson

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is President and CEO
of the C.D. Howe Institute.

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Finn Poschmann
Vice-President, Research

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The Study In Brief

As Canadians saving for retirement are becoming painfully aware, rates of return on investment are much lower than they used to be. As a result, providing a given income in retirement now requires much more saving. Low returns are depressing incomes from RRSPs and defined-contribution pension plans, and causing target-benefit pension plans to reduce their promises. But defined-benefit pension plans cannot adjust their promises, and are showing large deficits.

The largest and richest defined-benefit pensions in the country are those of federal government employees, and their situation is especially daunting. Despite recent high-profile changes to the pension plans of federal public servants, uniformed personnel and MPs, a critical flaw remains: the contributions to these plans, even after the changes, come nowhere close to covering the rocketing cost of their promises.

Official figures on the current cost of these plans and their accumulated obligation use notional interest rates. Because their pension promises are guaranteed by taxpayers and indexed to inflation, the appropriate discount rate is the yield on federal-government real-return bonds, which is much lower than the assumed rate in official figures.

A fair-value calculation shows that the values of different federal employee pension entitlements grow at rates from near 50 percent to more than 70 percent of pay annually. Even after the recent reforms, taxpayers will bear by far the greatest part of these costs.

More startling yet is the accumulated unfunded liability of the plans, which at fair value stood at $267 billion at the end of March 2012, almost $118 billion worse than shown in the Public Accounts. The reforms did nothing to reduce the burden of this liability on taxpayers – who will have to fund most of these pensions as they become payable, even as they must save more to fund their own, less comfortable, retirements.

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Despite recent high-profile changes to the pension plans of federal public servants, uniformed personnel and MPs, a critical flaw remains: the contributions to these plans, before and after the changes, come nowhere close to covering the rocketing cost of their promises.

As other Canadians saving for retirement are becoming painfully aware, rates of return on low-risk investments are much lower than they used to be. Therefore, the amount of savings needed to achieve a given level of retirement income is much higher than it used to be.[1]

The threat of soaring contributions is leading many target-benefit pension plans, which have flexible benefit provisions, to scale back their promises. The price of annuities from insurers has skyrocketed. And individual savers are working longer as their nest eggs have become inadequate to their hopes.

Defined-benefit (DB) pension plans – plans with benefit formulas that reference such variables as years of service, age and salary, but take no account of funding status – are brittle in this environment.[2] In the private sector, they have become rare – the rising cost of funding them has sometimes threatened the viability of their sponsors, and in some cases they have failed to pay the promised benefits.

For government-run DB plans in Canada, however, the collapse of investment returns has up to now appeared to be a theoretical problem. Many of these plans were already badly underfunded, although laxer accounting standards than apply in the private sector have hidden the scale of the problem. But a belief that "governments don't go bankrupt" because taxpayers can always be forced to cover shortfalls has muted any urgency about ensuring that actual assets backed their promises.

In fact, this relaxed attitude means a growing – and now huge – problem for taxpayers. Someone will have to cover the cost of these promises, and without a rapid scaling back of promises and/or much larger hikes in contributions from government employees themselves, the people who

I thank Alex Laurin for his suggestions and for his collaboration in previous work on this topic. Several members of the C.D. Howe Institute Pension Policy Council – notably Keith Ambachtsheer, Bob Baldwin, Leo de Bever, Barry Gros, Malcolm Hamilton, James Pierlot and Fred Vettese – also provided helpful comments. I take full responsibility for any errors and for the conclusions.

1 For a man who expects to retire at age 65, a dollar of single-life annuity pension (no guarantee period) indexed to 2 percent inflation requires about $12 in assets with real returns of 5 percent. With real returns of 1 percent, he needs $17 of assets. With real returns of 0 percent – which is roughly what a retail investor buying federal-government real-return or nominal bonds would get now – he needs nearly $19 of assets.

2 Confusingly, many people refer to all pension plans with benefit formulas that reference years of service and salary as defined-benefit plans, even though many of them – the target-benefit or shared-risk variety – have provisions to adjust benefits if assets are below certain thresholds. It makes more sense to distinguish the plans with even small amounts of flexibility – which include many of the plans covering the broader public sector in Ontario, Alberta and British Columbia – from pure defined-benefit plans such as the federal plans that have no benefit flexibility at all.

Table 1: Federal Pension Plans Balance Sheet at 31 March 2012		
	Public Accounts	**Fair Value**
	$ billions	
Assets (a)	62.5	64.5
Liabilities (b)	230.8	331.1
Unamortized Estimation Adjustments	-19.4	
Balance	***148.9***	***266.6***

Notes:
a. Includes investments and contributions receivable for past service.
b. Fair value estimated using methodology found in text.

Sources: Public Accounts 2011/12; author's calculations.

will have to cover them will be largely the same people who are now postponing and scaling back their own retirement expectations.

The Value of Ottawa's Pension Promises

In this context, by far the most problematic government DB plans are those covering federal government employees. There are many such plans: the Public Service (PS), the Canadian Forces (CF) and the Royal Canadian Mounted Police (RCMP) plans cover the largest numbers of employees and are the most financially important, while that for Members of Parliament (MPs) has special salience. Since 2000, some of these plans have been partially funded. Others hold no assets at all – these include the plans for MPs and federal judges and the special retirement compensation arrangements that provide benefits above the limits the *Income Tax Act* imposes on tax-deferred retirement saving generally.

The Reported Numbers

The numbers Ottawa reports for these plans are large. The Public Accounts for the 2011/12 fiscal year reported that their accumulated obligation was $230.8 billion at March 31, 2012. After allowing for recorded assets of $62.5 billion and an "unamortized estimation adjustment" of $19.4 billion, the balance – an unfunded liability that is part of the net federal debt Canadian taxpayers underwrite – was $148.9 billion (shown in the first column of Table 1).

Even when scaled to the size of the federal government and the Canadian economy, $148.9 billion is a big number – more than one-quarter of Ottawa's reported debt[3] and more than $17,000 per Canadian family of four. Yet the truth behind Ottawa's unfunded pension liability is worse. This is not readily apparent on the asset side – Ottawa reports a "smoothed" asset value that on March 31, 2012 was actually slightly less than the estimated market value of plan assets (shown at the top of the

3 The reported accumulated deficit stood at $582.2 billion as at March 31, 2012.

second column of Table 1) – but on the liabilities side, the size of the pension obligations.

Calculating the Fair Value of the Liabilities

A critical step in valuing a pension liability is choosing the discount rate that converts future payments into a present value. Ottawa does not use actual market yields when converting projected pension payments to the number published in the Public Accounts. That $230.8 billion figure is a product of two notional interest rates. One, a legacy from the days when federal pensions were completely unfunded, is a moving average of past nominal yields on 20-year federal bonds, currently 2.8 percent in real (inflation-adjusted) terms. The other is an assumed return on fund assets for benefits earned since 2000, currently 4 percent in real terms.

Weighting these two returns respectively by the unfunded and funded shares of the pension liabilities produces an average real return of 3.1 percent. This notional rate is much higher than anything currently available on assets that match the plans' obligations. So discounting using that rate understates the value of these promises to federal employees and the corresponding cost to taxpayers.

Suppose someone not employed by Ottawa wanted a nest egg that would provide retirement income similar to that promised a federal employee – or, alternatively, wanted to save enough to cover the higher federal taxes she or he expects to pay personally to cover her or his share of those pensions. That person would need to buy securities backed by taxpayers and indexed to inflation.

The federal government's real return bond (RRB) is such a security. The amount this person would need to put aside to achieve his or her goal – leaving aside retail costs and ignoring for the moment the tax limits on individual tax-deferred saving that would obstruct the project – would be a function of the yield on the RRB.[4]

On March 31, 2012, the RRB yield was not the 3.1 percent rate used in the Public Accounts, but a mere 0.5 percent. Using that yield as a discount rate shows the nest egg required to pay Ottawa's pension promises would not have been the reported $230.8 billion in Table 1's first column, but the $331.1 billion in its second column.

The final step in converting the reported values for Ottawa's pension balance sheet to a market, or fair-value, equivalent is removing the "unamortized estimation adjustments" in the first column of Table 1. This number represents changes in asset values and liability estimates (using the government's accounting) that are not yet reflected in the Public Accounts. Since the market, or fair-value, approach to determining what assets and liabilities are worth recognizes all such changes immediately, this figure has no counterpart in the second column.

The fair-value approach thus puts Ottawa's unfunded pension liability at almost $267 billion at the end of 2011/12. That is almost $118 billion more than reported – nearly $31,000 per family of four.

4 While acknowledging difficulties with using RRB yields to value government pensions (see, for example, Baldwin 2012), I feel that the challenge the non-federal employee faces obtaining the same retirement income, or hedging against the higher taxes the unfunded liability will necessitate, makes their applicability clear. (In fact, actually buying annuities akin to those federal employees get would cost *more* than the RRB-based valuation indicates.) It would be an interesting experiment to offer those federal employees who defend the 3.1 percent real discount rate used in the Public Accounts a buyout of their pension valued at that rate. If they accepted, the taxpayer's actual liability would fall. However, I expect they would turn the offer down, realizing their pensions are actually worth far more than stated.

Figure 1: Net Federal Pension Obligation, 2000/01 to 2011/12: As Reported versus Fair-Value Estimate

Sources: Public Accounts; author's calculations as described in text.

The Growth of the Unreported Liability over Time

This startling difference between the reported and fair-value tallies of Ottawa's unfunded pension liability has been growing for more than a decade (Figure 1), because the gap between the notional interest rates used in discounting these liabilities in the Public Accounts and the actual yields of RRBs has been widening. Table 2 shows the key numbers from the Public Accounts since 2000/01, the annual difference between the government's discount rate and RRB yields, the sensitivities of the reported liabilities to different discount rates, and the fair-value numbers for assets, liabilities and the unfunded liability.[5]

5 In 2012, for example, the weighted average of the discount rates for the unfunded and funded portions of federal pension plans was 3.12 percent and the RRB yield at March 31 was 0.51 percent: the gap between them was 2.61 percentage points. The Public Accounts for 2011/12 show that a single percentage-point decrease in the discount rate increases the pension obligation by $38.4 billion (RGC 2012, p. 2. 21). Multiplying the gap between the two yields by the per-percentage-point sensitivity raises the fair value of that year's pension obligation by $100 billion.

Table 2: Fair-Value Adjustments to the Federal Pension Balance Sheet, 2000/01 to 2011/12

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	($ billions except where otherwise indicated)											
Assets as Reported	2.8	5.9	8.9	13.4	18.3	24.9	31.6	38.7	37.2	44.9	53.5	62.0
Assets at Fair Value	2.5	5.6	8.1	14.2	19.4	27.6	35.0	38.9	33.8	46.3	58.0	64.5
Obligation as Reported	124.0	125.9	134.3	142.4	145.3	155.8	168.3	178.6	190.3	201.4	213.3	230.8
Estimated Effective Discount Rate Used in Public Accounts (%)	3.52	3.54	3.47	3.49	3.52	3.31	3.34	3.37	3.15	3.19	3.23	3.12
Real Return Bond Yield (%)	3.51	3.68	3.05	2.39	2.03	1.58	1.76	1.60	1.81	1.56	1.15	0.51
Sensitivity of Liabilities to 1 Percentage Point Lower Discount Rate	18.6	18.6	17.5	22.6	22.7	24.9	27.0	28.1	31.1	32.6	34.6	38.4
Obligation at Fair Value	124.3	123.2	141.7	167.3	179.1	198.8	210.9	228.3	232.1	254.5	285.2	331.1
Unamortized Estimation Adjustments	8.3	7.3	0.7	-0.9	3.1	0.7	-1.3	-1.7	-12.6	-13.2	-13.2	-19.4

Sources: Public Accounts of Canada, Office of the Chief Actuary, Bank of Canada, author's calculations.

Because the unfunded pension liability is part of Ottawa's debt, this adjustment raises the debt by $118 billion – one-fifth higher than officially reported at the end of 2011/12. And because the gap between the reported and fair-value pension liability has been widening, the fair-value approach negatively affects Ottawa's annual budget balances (Figure 2). In fact, the surpluses reported from 2001/02 to 2007/08 were smaller or were deficits. And the deficits since 2008/09 were larger. In 2011/12 alone, the deficit was not less than $32 billion, as reported, but more than $69 billion.

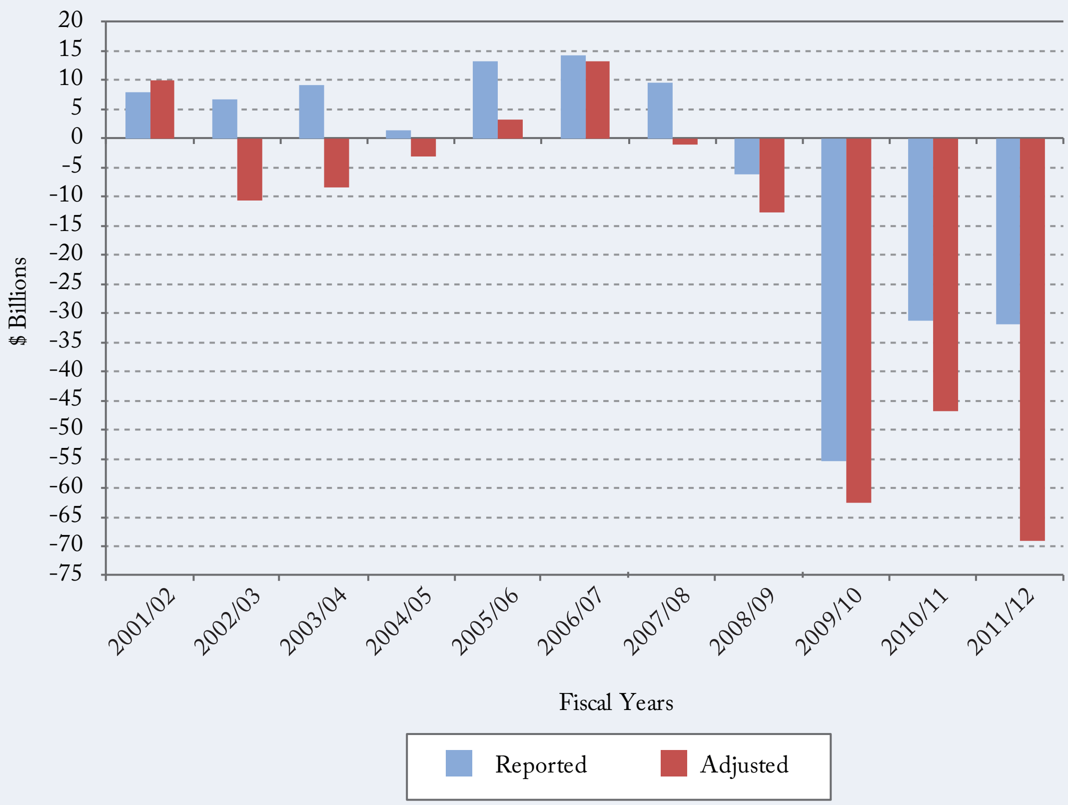
Retirement Wealth of Federal Employees versus Other Canadians

Returning to the non-federal employee seeking retirement income to match her or his federal-employee counterpart, the fair-value approach puts the discrepancy between their opportunities into stark relief.

The recent changes will increase the contributions made by members of the PS and MP plans to 50 percent of the current service cost of the plans. Meanwhile, contributions from members of the CF and RCMP plans will go to about 43 percent and 44 percent of the current service cost of their respective plans. The current service cost of these plans is equal to the average increase in retirement wealth per participant, expressed as a percentage of their pensionable pay. The current service costs for each plan as calculated by the Chief Actuary in his most recent reports (OCA 2011a, 2011b, 2012a, 2012b) were 19.8 percent for the PS plan, 22.5 percent for the RCMP plan, 23.1 percent for the CF plan and 51.5 percent for the MPs' plan (first column of Table 3).

The changes just legislated will raise the age at which new hires and newly elected MPs will qualify

Figure 2: Federal Budgetary Balance as Reported versus Adjusted with Fair-Value Pension Accounting



Sources: Public Accounts; author's calculations as described in text, and explained in Laurin and Robson (2009).

Table 3: Current Service Cost for PS, RCMP, CF, and MP Pension Plans, 2012

Pension Plan	Reported Current Service Cost	Contributions: Employees	Contributions: Taxpayers	Current Service Cost at Fair-Value
	(percent of pensionable pay)			
Public Service (PS)	19.8	6.7	13.1	47.7
Royal Canadian Mounted Police (RCMP)	22.5	6.9	15.5	56.9
Canadian Forces (CF)	23.1	6.5	16.6	60.2
Members of Parliament (MP)	51.5	7.1	44.5	72.1

Note: Contributions and current service costs are for 2012 before the proposed changes.

Source: Author's calculations based on OCA 2011a, 2011b, 2012a and 2012b, and as explained in text.

for unreduced pensions. Over time, those changes will help stabilize costs. But their impact is tiny compared with the difference between these costs as calculated using the government's notional interest rates and when calculated using the actual yield on the asset that best resembles the pension promise, the RRB.

The Chief Actuary's valuations provide sensitivities of the current service costs to different assumptions about rates of return. With logic similar to that underlying our calculations of fair value for the pension balance sheet – those sensitivities permit an estimate of what the current service cost of these plans would be using the RRB yield as a discount rate. The resulting figures – the actual retirement wealth accruing to the average participant in each plan – are far higher: about 48 percent for the PS plan, 57 percent for the RCMP plan, 60 percent for the CF plan and at least 72 percent for the MPs' plan.[6]

A non-federal employee cannot hope to achieve retirement wealth on a similar scale. Even if an individual's life circumstances permitted saving rates this high, the *Income Tax Act* prohibits annual contributions to defined-contribution pension plans and registered retirement savings plans greater than 18 percent of pay. So her or his pre-tax saving rates would need to be even higher than these current-service costs. Compounding the injury is that, other things equal, people saving in these arrangements will also need to save more merely to prepare for the higher taxes required to service the badly underfunded federal pension obligations.

Recommendations for More Sustainable and Fairer Pensions

Having expended political capital, and sacrificed personally, to make the pension-plan changes just legislated, federal MPs likely want to close this file and move on. However, the size of Ottawa's unfunded pension liability and the rate at which it has grown make further steps necessary. The spectacularly different treatment of federal employees and other Canadians when it comes to retirement saving opportunities also cries out for attention. So the file should stay open.

Fair-Value Pension Figures Belong in the Public Accounts

A key first step in addressing a problem is to acknowledge that there is one. The fact that the Public Accounts show artificially low figures for pension obligations to federal employees and the amount by which they increase every year hides the problem. Official numbers understate the actual cost of federal government employment. As a result, they understate the net federal debt and distort the annual bottom line, which – given the centrality of these numbers in budget planning – likely encourages laxer fiscal policy than would otherwise occur. And they mask the unlevel playing field between the people who make and enforce the rules that constrain other Canadians' retirement saving and those other Canadians who must abide by those rules.

The stock response to demands for more market-based financial reporting by governments is that public-sector accounting standards do not require it. The first counter-argument to this is that public-sector accounting standards should change. Private-sector accounting no longer permits discounting with high, notional interest rates because the damage done by underfunded pension plans in

6 Because the RRB yield is currently well below the range the Chief Actuary presents in his sensitivity analysis, different methods for extrapolating current service costs to such low yields produce quite different results. Of the various straightforward methods for extrapolating, the log linear gives higher estimates while the polynomial and exponential methods give similar and lower numbers. I present the polynomial estimates here.

the private sector has become obvious, and public-sector pension defaults south of the border show that the same can happen to government plans. Therefore, government pension plans should have to report using market-based discount rates, as private-sector plans must now do.

Meanwhile, pending changes to public-sector accounting standards, the federal government should report fair-value numbers for its pensions – either as additional figures in the Public Accounts or straightforwardly as the main figures. Current public-sector accounting standards may permit misleading numbers, but they do not force them, and a government dedicated to meaningful financial statements would not use them as an excuse to present only numbers that are out of line with economic reality.

Employee Contributions Must Rise Further

Fair-value reporting that was reflected in the current service costs of the federal plans would make contributions from employees – which the reforms will already increase – much larger. The reforms will raise employees' share, but the total cost from which that share is calculated should be based on fair values, not on assumed returns. So employees should be contributing more on an annual basis – but that is not the end of the story.

The problem from the taxpayer's point of view is that getting employees to contribute more of the annual cost of the federal plans mutes the impact of increases in plan costs on only part of the liability. Taxpayers must still pay the rest of the annual increases and are – far more important – exposed to the entire impact of changes in the value of past promises. A better approach would cap taxpayer contributions at a fixed share of current-service costs and make plan participants responsible for paying not just whatever it takes to cover the rest of each year's current-service cost, but also amounts to amortize past obligations that experience has shown will cost more to cover than was thought at the time.[7]

Plans Need Proper Funding

The PS, RCMP and CF plans are badly underfunded for two reasons. They held no assets at all prior to 2000. Since then, they have charged contributions that are below fair-value current-service costs. Other federal plans, including the MPs' plan, are still completely unfunded – all contributions, like the notional plan balance in their actuarial reports, are simply bookkeeping entries.

In the case of MPs, this "pay as you go" approach to pensions must end. Taxpayers who have nowhere close to the same retirement saving opportunity as is provided automatically to MPs will have to pay each dollar of MPs' pensions as it becomes payable, because nothing has yet been set aside to cover those promises. The MPs' plan should invest in actual assets from now on and adjust contributions, and ideally benefits as well, as necessary when the returns on those assets are different from what was expected. The PS, RCMP and CF plans require contributions beyond what would cover current-service costs to amortize their already existing unfunded liabilities – which otherwise, like the obligations in the MPs' plan, will need to be funded by taxpayers, who do not know they will take this hit when the payments are due.

7 In many target-benefit or shared-risk plans such as the Ontario Teachers' Pension Plan, participants share the cost of funding past benefits, and therefore the risk that they may turn out to be more expensive than expected. The federal arrangement that insulates plan participants from this large risk, imposing it entirely on taxpayers instead, increasingly stands out as anomalous.

Federal Pension Benefits Need Further Reform

Harder to accomplish, but vital, are further changes to the benefit structure of these plans. The changes in retirement age just legislated were actually very modest.[8] Twenty-five-year-old public servants hired this year will still be able to draw PS pensions at age 55. In the late 2020s, when recent changes will have pushed the age of entitlement to Old Age Security benefits up to 67, federal employees hired before age 30 will still be able to retire at age 60 with unreduced pensions.

With longevity continuing to rise, those eligibility ages will look even more unrealistic in two or three decades' time than they do today. Other pension plans have increased the eligibility ages of people who are already members; there is no reason to regard as untouchable the parameters of plans that, in aggregate, have the largest unfunded liabilities in the country. Ensuring that the eligibility ages for the federal plans move with changes in the eligibility age for OAS, both those now planned and further ones that may occur in the future, is an attractive idea.

Equally deserving of consideration is switching the basis for calculating plan benefits from final-salary to career-average. Why should a pension plan aim to replace a share of a person's purchasing power right at the end of her or his career rather than reference average living standards during her or his work life? The final-salary structure redistributes wealth inside pension plans away from those with relatively flat career earnings profiles, such as administrative staff, and toward those with steep earnings profiles, such as senior executives (Young 2012). This redistribution may be tolerable to plan participants with relatively flat career earnings as long as contributions are low compared to the actual value of the pensions, but will be less so if contributions rise to cover average costs as calculated using fair-value principles. In that case, total contributions made by and for those with relatively flat earnings will be more than their pensions are worth.

In this day and age, moreover, the essence of these federal plans – benefits that are defined by age, salary and years of service, with no reference to cost and funded status – look outmoded. Such plans have all but disappeared in the private sector as it became clear that they were brittle: the temptation to underfund was huge and when the full cost of these promises became known, sponsors reneged, sometimes with the acquiescence of employees. They are no longer even common in Canada's public sector, where far larger numbers of employees participate in target-benefit plans that take funding levels into account in their benefit formulas. The province of New Brunswick has just passed legislation – with official opposition and union support – that sets the key precedent of allowing the conversion of previously earned defined benefits into target benefits. Ottawa should do the same.[9]

Even the more radical option of phasing out existing defined-benefit plans and enrolling new employees in defined-contribution plans should not be ruled out. Defined-contribution plans can include options for annuitization and other features that pool risk and contain costs. Their key virtue is that they drastically reduce the scope for intentional understating of costs – even more than target-benefit plans do – since the benefits they will pay are straightforwardly a function of the money that goes in and the assets they hold. Saskatchewan's government employees, for example, transitioned to defined-contribution plans in the 1970s, and there is no evidence that the change hurt the quality of people or services in that province's public sector. To the extent that defined-contribution plans'

8 I thank Malcolm Hamilton for discussion of these points.

9 Baldwin (2112) argues for a number of changes to the PS plan, including risk-sharing by participants.

disadvantages, such as obstacles to annuitization and limits on tax-deferred saving, are the result of federal policies, a cynical observer might expect that moving federal employees into such a plan might hasten the day when these policies will improve.

Federal Employees and Other Canadians Should Have Equal Retirement Saving Opportunities

Since current low yields on low-risk securities, particularly on the RRB, affect everyone trying to achieve a comfortable retirement, these calculations also highlight the desirability of increasing the tax-deferred saving room available to the rest of the population so that it matches the entitlement of Ottawa's employees. Two routes, not mutually exclusive, could take us toward that goal.

One is raising the annual limits on tax-deferred saving so that everyone can save similar amounts. Very few people would actually be able to do it on an annual basis, but the opportunity would be valuable to some, such as immigrants with only a few years of earnings in Canada, artists, athletes and others with volatile incomes, as well as people in their peak saving years whose nest eggs suffered from career or investment setbacks. Moreover, higher limits across the board would eliminate the special retirement compensation arrangements and other vehicles that some high earners – notably MPs and senior public servants – use to fund benefits higher than the *Income Tax Act* otherwise allows and create more commonality of interest among retirement savers at all income levels.

A second route would be to establish a uniform, lifetime limit for accumulated retirement wealth for all Canadians (see Pierlot 2011). Calibrating that limit to what senior public servants now get would make it very high – at least $2.4 million.[10] But that is no reason to reject the idea. While not everyone would be able to take full advantage of higher limits, they would serve people in special circumstances. To the extent that such opportunities to accumulate retirement wealth appear excessive, limits on tax-deferred saving should apply equally to all Canadians, federal employees and others alike.

Conclusion

It is high time that the federal government reported its pension obligations at fair value. Doing so would reveal that federal finances are in worse shape than official figures suggest, because the value of Ottawa's pension promises to its employees is almost $118 billion higher than reported, and the corresponding obligation to taxpayers – which amounts to almost $276 billion, or $31,000 per Canadian family of four – is badly understated.

It would also reveal that the retirement wealth that federal employees accumulate automatically is more than double – even triple in some cases – what the *Income Tax Act* allows most other Canadians to achieve. With returns on investment low and likely to remain low for some time, all Canadians need to work longer and save more. Federal employees should work longer, and Ottawa needs to make further changes to their pensions to encourage them to do that. Federal pensions – preferably benefits earned in the past, as well as those yet to be earned – should be on a target-benefit basis with flexibility depending on cost. Federal employees should also pay more for their pensions through higher contributions to cover benefits as they accrue and additional contributions to fund past obligations. Meanwhile, other Canadians need more generous limits on their tax-deferred saving.

An economically meaningful look at Ottawa's pension obligations shows that, despite recent progress, we have much more to do.

10 I thank Faisal Siddiqi for this figure, calculated using the approach described in his work with James Pierlot (Pierlot 2011).

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The Pension Papers Program

The C.D. Howe Institute launched the Pension Papers in May 2007 to address key challenges facing Canada's system of retirement saving, assess current developments, identify regulatory strengths and shortfalls, and make recommendations to ensure the integrity of pension earnings for the growing number of Canadians approaching retirement. The Institute gratefully acknowledges the participation of the Policy Council for the program.

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