**SCAN OF PUBLIC SECTOR PENSION PLANS**

**SUMMARY**

**Focus and Scope**

The focus of the scan is on workplace registered pension plans (RPPs) in the public sector. The scan includes the federal government and provinces. The primary focus is on public service pension plans, which are usually the largest plans within these jurisdictions and often cover a wide range of public sector employees. Some information is included on other public sector plans, such as teacher plans, but they are not covered in any comprehensive way.

**Types of Plans**

The two most common types of Registered Pension Plans are the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan. The Target Benefit Plan (TBP) is a newer variation on the defined benefit plan that has gained some prominence in recent years. The following definitions are from a 2014 article by Jana Steele and Ian McSweeney in Canada Pensions and Benefits Law:

**Defined Benefit Plans (DB):** DB plans provide a pension payable for life at retirement and the employer is responsible for funding the benefit, subject to any fixed required employee contributions. Where there are funding deficits in the plan, the employer is required to make additional payments to address the deficiency.

*[Note: There are jointly sponsored DB plans in which the employer and employees/union(s) share responsibility for the plan, including funding of deficits.]*

**Defined Contribution Plans (DC):** DC plans are similar to group RRSPs and provide a capital accumulation savings-type vehicle. Employer contributions (along with any employee contributions) are fixed, but the ultimate benefit for the employee is uncertain, being subject to contributions and investment performance. Because longevity risk is not pooled and each individual has to rely on his or her own savings account, there is a risk of a member outliving his or her retirement savings.

**Target Benefit Plans (TBP):** Like DC plans, contributions to a TBP are fixed (or variable within a narrow range). Like DB plans, target benefit plans provide a DB-type pension at retirement and pool both longevity and investment risks. However, under a TBP, benefits may be adjusted, up or down, in response to the plan’s funded position from time to time. The goal of TBPs is to deliver the targeted benefit, but at the same time ensure sustainability and maintain intergenerational fairness. If there are insufficient funds in the plan to deliver the targeted benefit, the benefits may be decreased. Allowing benefit adjustment is another lever in addition to payment of additional contributions where there are funding concerns.

(Steele and McSweeney 2014)

Changes to pension standard legislation may be required to allow target benefit plans in single employer settings. Most current benefit legislation does not allow plan administrators to adjust benefits downward if the funded status of a pension plan declines. (Steele et al. 2014, p. 7)

**Context**

Demographic and economic trends have impacted pension plans in both the private and public sectors. The demographic aspect is characterized by increasing numbers of baby boomers reaching retirement age, longer life spans leading to longer retirements, and fewer younger workers to pay into pension plans. On the economic side, interest rates have been low and investment returns less stable, particularly since the economic downturn of 2008, making it more difficult to manage pension funds to ensure future benefits.

There have been changes to workplace pension coverage, particularly in the private sector. Statistics Canada data indicates:

* Only 38% of Canadian workers have workplace pension plans, and coverage has been decreasing over the years. In 1991, 45% of workers had plans.
* Only 24% of private sector workers have workplace pension plans, compared to 87% of public sector workers.
* There has been a shift from defined benefit (DB) plans to defined contribution (DC) plans in the private sector. Defined benefit plans now account for only 45% of worker coverage in the private sector, but still account for 87% of coverage in the public sector.

(Statistics Canada 2016) (Morissette & Zhang 2004)

Concern about these trends is a factor behind recently announced reforms to the Canada Pension Plan. It is also driving federal and provincial efforts to encourage more and better private sector pension coverage through regulatory reform. While most public sector plans are still defined benefit plans, governments have moved to address any unfunded pension liabilities and reform plans to ensure long term financial sustainability.

**Public Sector Pension Plans**

Overall, Canada’s public sector pension plans appear to be well funded by international standards. A 2016 report from Moody’s Investor Services cites Canada as having the lowest unfunded liability burden for its government employee pensions among developed countries. (Kennedy 2016). Moody’s “preferred metric for making international comparisons is the total of all public sector pension plan unfunded liabilities in a country divided by its gross domestic product.” (Ibid.)

The biggest changes to public sector plans in recent years have occurred in the Maritimes where all four provincial governments have paid down liabilities and introduced comprehensive reforms to their public service pension plans since 2008. With the exception of Saskatchewan which introduced a defined contribution (DC) plan in 1977, public service pension plans in most other provinces appear to have evolved more slowly over a longer period of time.

***Public service pension plans in British Columbia, Alberta, Manitoba, Ontario, Quebec, Prince Edward Island and Newfoundland and Labrador remain defined benefit (DB) plans, as does the federal government public service plan.*** All of these defined benefit plans have instituted reforms over time to ensure sustainability and protect defined benefits for their members.

Many of the reforms to public sector pension plans have focused on changes in governance, risk sharing and plan design. Canadian public sector plans have also pioneered new approaches to institutional investing. (Kennedy 2016) These kinds of changes are especially important because benefits in a well run plan are largely paid from investment earnings (e.g. earnings fund 75% of benefits in the BC Public Service Pension Plan). (BC PSP Board of Trustees 2015, p.1) Following are some types of changes that have been made:

* Some plans have negotiated joint sponsorship arrangements in which government and members (through their unions) share both governance and funding risks. The Ontario Public Service Employees Union plan, BC’s Public Service Pension Plan, and the Newfoundland and Labrador Public Service Pension Plan have been jointly sponsored plans since 1994, 2000 and 2014 respectively. Most other public sector plans in Ontario are also jointly sponsored.
* Improving governance is an important focus in pension reform. Governance can be defined as ”the structure and processes for overseeing, managing and administering a pension plan to ensure the fiduciary and other obligations of the plan are met. (CAPSA 2004) Increasingly legislation and regulation prescribe minimum governance requirements for all pension plans. (Himmelsbach 2016)
* Plans increasingly define and adopt detailed risk management policies and procedures to ensure sustainability. Changes to contribution rates or to cost of living adjustments may be prescribed based on risk assessment. Some provinces have incorporated risk management policy into plan legislation (e.g. NB, NS).
* Specialized corporations have been established to administer programs and manage investments for most public service plans. Investment management corporations often pool funds from several public sector pension plans. Quebec’s CDPQ, for example, manages funds for 34 depositors and is one of the largest institutional fund managers in North America. (CDPQ – depositors 2017)

Other things that can be changed within the defined benefit model to ensure sustainability include contribution rates, retirement formulas and cost of living adjustments (COLA). Of these, only cost of living adjustments affect existing retirees. Cost of living adjustments are not always guaranteed in plan legislation and are sometimes considered to be ancillary benefits.

* Changes to contribution rates are a common adjustment. Risk may be shared between employer and employee by splitting any increases to contribution rates that are required in the future. Contribution rates can be set to fully pre pay for future benefits (as in BC). Sometimes rate changes are prescribed in risk management policies.
* Changes are sometimes made to retirement age and years of service requirements and/or to the number of earning years used to calculate benefits. Early retirement provisions may also be changed. Often these kinds of changes are applied only to new employees (e.g. 2010 eligibility changes in NS), but not always. Prince Edward Island included all active employees when it changed from a “best three years” to an “indexed average earnings” formula in 2014.
* Indexing provisions (COLAs) have been subject to change in many pension plans. Several plans have made indexing contingent upon the funded status of the plan (NB since 2012, NS since 2010, PEI since 2014) or on the performance of a separate index fund (MB since 1977, BC since the early 80s). Newfoundland and Labrador suspended indexing on future service in 2015, though existing retirees were not affected as indexing was continued on past service. Cost of living adjustments for Saskatchewan’s old defined benefit plan were inconsistently provided until 2007 when the Superannuation Act was amended to set them at 70% of the annual change in the rate of inflation based on the Saskatchewan All Items Consumer Price Index.

***Two provinces - New Brunswick and Nova Scotia - have established target benefit (TB) plans for their public service employees***. In both provinces the change from a defined benefit plan to a target benefit plan was accompanied by extensive reforms intended to ensure effective management and minimize risk for members. Nova Scotia’s target benefit plan was established in 2012 through legislation specific to the public service pension plan. No accrued benefits were reduced or changed when plan was established. New Brunswick’s public service pension plan was converted from a defined benefit plan to a ***shared risk plan*** (a type of target benefit plan) effective January 1, 2014. New Brunswick is the only province to pass legislation (2012) that permits accrued benefits to be converted to shared risk or target benefits when a plan is converted. (Steele et al. 2014) Though accrued benefits were not reduced when the new public service plan was established future benefits may be affected if plan targets are not achieved. Three lawsuits related to the New Brunswick conversion were launched –two involving arguments under the Charter of Rights and Freedoms and one seeking damages based on breach of fiduciary duty. (Melnitzer 2016)

No other governments have proposed converting public service defined benefit plans to target benefit plans, though some have amended (BC, AB) or are planning to amend (ON, NS) provincial benefit standards legislation to allow them in single employer situations. The federal government announced changes in 2016 that will allow federally regulated employers to offer target benefit plans, but they will not allow the conversion of existing defined benefit plans to target benefit plans. The Saskatchewan Teachers Retirement Plan (1991) is an example of a target benefit plan elsewhere in the public sector.

***Saskatchewan is the only province that has moved to a defined contribution (DC) plan for most of its public sector workers*** *(except teachers).* The DC plan was introduced forty years ago. The rationale at the time was related to long vesting times, though sustainability was also a factor. (Brown and McInnes 2014, p.32) As in all defined contribution (DC) plans, the investment risk in the new plan is borne by the plan member, and no specific benefit is guaranteed upon retirement. When the new plan was established in 1977, existing employees were given the option of remaining in the old defined benefit (DB) plan, which continues to operate in parallel. Only now can the province start to project a decline in annual benefit payments for the old plan. (Ibid. p.33).

Why have defined contribution (DC) plans not been widely adopted in Canada’s public sector? A recent study funded by the Canadian Public Pension Leadership Council examined the literature and experience in jurisdictions where large public sector DB plans have been converted to DC plans and modeled the potential quantitative impacts of such a conversion. (Brown and McInnes 2014) The study observes that the “perceived advantages to closing DB pension plans in the private sector do not translate directly into the public sector” where there are more stakeholders to consider and the primary focus is not profit. It also concludes that “shifting to a DC plan actually increases the cost of delivering a comparable pension benefit.” Furthermore, conversion to a DC plan does nothing to address an existing unfunded liability, instead making the old plan, which continues to run in parallel, more difficult and risky to manage. (Ibid. p.1-2)

**References (Summary)**

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