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Chair

Mr. Pat Martin

Standing Committee on Government Operations and Estimates

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● (1100)

[*English*]

The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)): Good morning, ladies and gentleman. We'll convene our meeting of the Standing Committee on Government Operations and Estimates.

As one aspect of our mandate, we not only review the planned expenditures of various government departments and their estimates, but we also review the statutory programs. One of the recommendations made in a recent study we did as a committee was to do a better job of oversight as a committee; to commit to review all significant statutory spending at least once every four or eight years, I believe it was. Obviously, it's difficult to do more than that.

We're very pleased. This is the first attempt to provide this additional scrutiny to some of the statutory spending undertaken by the government, so we're very pleased today to welcome very much a blue ribbon panel dealing with the public service pension plan.

We're joined by representatives from the Treasury Board Secretariat: Ms. Kim Gowing, director of the pension and benefits sector; and Ernest Meszaros, senior adviser, pension and benefits sector.

Welcome, Ms. Gowing and Mr. Meszaros.

We also have, from the Office of the Superintendent of Financial Institutions, Jean-Claude Ménard, chief actuary.

Welcome, Mr. Ménard.

We also have Public Sector Pension Investment Board representatives Martin Leroux and Mark Boutet. I'll let them introduce their positions.

I understand that all three groups will have brief opening statements. I hope we have time for a thorough go-round to ask questions.

Proceeding in the order that we have them on our agenda, we'll invite Ms. Gowing, the director of the pension and benefits sector of the Treasury Board Secretariat, to make opening remarks.

Welcome, Ms. Gowing.

Ms. Kim Gowing (Director, Pensions and Benefits Sector, Treasury Board Secretariat): Thank you, Mr. Chair.

Thank you for the invitation to appear before your committee today. I'm here with Ernest Meszaros, a senior adviser within Pensions and Benefits at Treasury Board.

We'd like to provide you with an overview of the public service pension plan and the work we do with our partners to manage and administer the plan.

The public service pension plan has existed for over 100 years, since 1870, and in its current form is subject to the Public Service Superannuation Act. The plan provisions in this act have been amended from time to time, with the most recent changes coming last year with budget 2012. The plan is a contributory defined benefit plan covering most of the employees of the federal public service, territorial governments, and certain public service crown corporations. As of March 31, 2012, the pension plan had a total of 565,125 members, of which 313,652 are active contributors.

The President of the Treasury Board is responsible for the overall management of the public service pension plan. The Treasury Board Secretariat provides the president with operational support to manage the provisions of the pension plan, such as providing recommendations on contribution rates and the production of the annual report. The Treasury Board Secretariat also engages with partners such as the Office of the Chief Actuary and the Public Sector Pension Investment Board, both of which are represented here today, and provides them with policy and program advice.

Public Works and Government Services Canada is responsible for the day-to-day administration of the plan. The Public Service Pension Advisory Committee, composed of employee, employer, and pensioner representatives, is established under legislation to provide advice to the President of the Treasury Board on various matters relating to the plan.

Under the Public Service Superannuation Act, a member's pension benefit is determined as 2% times the number of years of service, up to a maximum of 35 years, times the average of the five highest-paid years of salary. Pension benefits are coordinated with the Canada Pension Plan and the Quebec Pension Plan, and indexed to the consumer price index.

The plan was most recently amended on January 1, 2013, to implement the following changes announced in budget 2012: employee contributions will be increased over a five-year period to reach a 50-50 current service cost-sharing ratio between government and employees by 2017; the government's share of the cost as of 2012 was 62%. New employees joining the plan after January 1, 2013, will be eligible for an unreduced pension at age 65 instead of age 60 for pre-2013 members; and other age-related retirement thresholds were also increased by five years for new employees. The Public Service Pension Plan Advisory Committee was consulted on these changes prior to their coming into effect. The chief actuary was also enlisted to provide expert advice.

Prior to 2000, employee and government contributions were not invested. In 2000, the government established the Public Sector Pension Investment Board, PSPIB, in order to invest pension contributions into the capital markets. Employee and government pension contributions, net of payments and expenses, are now sent to PSPIB and invested. The funding of the post-2000 pension liability is dependent on employee and government contributions and the returns achieved by PSPIB on the invested assets. The president is responsible to make certain funding decisions for the plan and relies on advice from the chief actuary.

The chief actuary generally provides this advice through actuarial valuations. The most recent valuation for funding purposes was completed as at March 31, 2011. This report was tabled in Parliament on June 21, 2012. The chief actuary also prepared an updated actuarial report for the public service pension plan to reflect the plan design changes outlined in budget 2012. This report was tabled in Parliament on March 25 of this year.

The president, based on advice from the chief actuary, recommends employee contributions to the Treasury Board for approval. The rates for 2013, 2014, and 2015 have been approved and implemented. Based on actuarial advice from the chief actuary, the president approves government contributions that are required in addition to the approved employee contributions to pay for the current service cost.

Pension costs and corresponding contribution rates have risen over the last 20 years due to many factors, such as low interest rates and increases in longevity of pensioners. For example, in 1980, employee contributions were approximately 5% of pensionable payroll and they are now closer to 9%. This trend is not unique to the public service pension plan, as all pension plans are faced with the same economic and demographic challenges.

● (1105)

In 2011 the actuarial valuation report valued the post-2000 liability at $46.8 billion while the actuarial value of assets were $42.4 billion, resulting in a deficit of $4.4 billion.

Pension plan surpluses or deficits occur when actuarial results vary from the projections that were set in the previous actuarial evaluation. There are many factors affecting the funding of the plan that explain the deficit as of March 31, 2011. Notably, liabilities were higher than anticipated for various reasons, including the fact that Canadians are living longer. Assets were also lower, as the return since the beginning of the funding of the post-2000 liability was lower than initially anticipated during the period that witnessed two of the worst market crises.

Legislation requires that the President of the Treasury Board fund this deficit over a period of no longer than 15 years. In 2012 the president approved special payments of $435 million annually to the plan over the next 13 years. These payments are expected to eliminate the deficit by 2026. The first payment was made as of March 31, 2013. These funds are transferred to the PSPIB and invested along with regular contribution amounts.

Thank you.

The Chair: Thank you, Ms. Gowing.

We'll invite Jean-Claude Ménard from the Office of the Superintendent of Financial Institutions to speak.

Mr. Ménard.

[*Translation*]

Mr. Jean-Claude Ménard (Chief Actuary, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions): Mr. Chair, honourable members of the committee, good morning. Thank you for the opportunity to appear before you today.

The primary role of the Office of the Chief Actuary is to provide actuarial services to the federal and provincial governments that are Canada Pension Plan stakeholders. While I report to the Superintendent of Financial Institutions, I am solely responsible for the content and actuarial opinions reflected in the reports prepared by my office.

The Office of the Chief Actuary conducts statutory actuarial evaluations—generally, every three years—on the Canada Pension Plan, the Old Age Security Program, and pension and benefits plans covering the federal public service, the Canadian Forces, the Royal Canadian Mounted Police, federally appointed judges, and members of Parliament. In addition, whenever a bill is introduced before Parliament that significantly impacts the financial status of a public pension plan under the statutory responsibility of the Chief Actuary, the office must submit an actuarial report to the appropriate minister.

Following the passing of Bill C-45, the Public Service Superannuation Act was amended to increase the pensionable age—from age 60 to 65 in the case of new participants—for contributors entering the plan after January 1, 2013. Member contribution rates will be increased to bring their share of the plan's current service cost from 35% to 50%, thereby splitting the cost 50/50 between the members and the government. The President of the Treasury Board, the Honourable Tony Clement, submitted an actuarial report on March 25, 2013.

In the second half of the 21st century, we experienced remarkable gains in life expectancy and highly decreased mortality rates. In 1965, average life expectancy at age 65 was another 15 years. This means that someone who was 65 years old back then could hope to receive their benefits for 15 years, on average, until the age of 80. At that time, women lived slightly longer than men.

Today, 65-year-old retirees can hope to live another 20 years on average—with women still living slightly longer than men. However, the gap between the two sexes is narrowing quickly. According to projections, taking into account future mortality improvements—that is, future gains in life expectancy resulting from decreasing mortality rates—we could expect an additional three to four-year gain in life expectancy at age 65. Around 2050, based on our projections, people will reach the age of 88—people who were 65 years old 23 years earlier. Canadians are living longer, healthier lives and are working to a more advanced age.

● (1110)

[*English*]

According to the most recent labour force survey from Statistics Canada, the number of Canadians between the ages of 65 and 69 who are working has more than doubled over the last 10 years, increasing from 144,000 in 2002 to 374,000 in 2012. The number of those aged 60 to 64 who are still working also increased significantly to reach one million in 2012. Overall, the number of workers between ages 60 and 69 has more than doubled over the last 10 years, increasing from 600,000 to 1.4 million.

In any case, whether the focus is on a pay-as-you-go plan or a fully funded plan, a defined benefit or a defined contribution solution, or a public or private sector pension plan, it's clear that increased longevity will continue to put pressure on pension plan financing.

Thank you very much again for the opportunity to appear before the committee.

I will be happy to answer any questions you might have.

[*Translation*]

The Chair: Thank you, Mr. Ménard.

[*English*]

From the Public Sector Pension Investment Board, we have Martin Leroux, vice-president of policy portfolio and asset liability management.

[*Translation*]

Mr. Martin Leroux (Vice-President, Policy Portfolio and Asset Liability Management, Public Sector Pension Investment Board): Thank you and good morning.

My name is Martin Leroux. I am the Vice-President of the Policy Portfolio and Asset Liability Management for PSP Investments—known more formally as the Public Sector Pension Investment Board. Joining me is my colleague Mark Boutet, Vice-President of Communications and Government Relations.

We are pleased to appear before the committee today to answer your questions. I will start with a quick overview of who we are and what we do, but I will be brief to leave as much time as possible for your questions.

[*English*]

PSP Investments is an arm's-length crown corporation that was established back in 2000 to invest the amounts transferred by the Government of Canada for the funding of the post-2000 obligations of the pension plans of the Public Service of Canada, the Canadian Forces, and the RCMP. Since March 2007 we have also invested amounts for the reserve forces pension plan. With more than 400 employees and $64.5 billion in assets under management as of March 31, 2012, PSP Investments is one of the largest pension fund managers in Canada. We've experienced a very rapid growth in assets fuelled by strong positive inflows of about $4 billion to $5 billion over the past few years, and also by our strong investment returns. Our assets under management are expected to exceed $450 billion by 2035.

Our mandate is to manage the funds in the best interest of the contributors and the beneficiaries of the plan and to invest with a view of achieving a maximum rate of return without undue risk of loss, having regard for the funding policies and requirements of the plans and their ability to meet their financial obligations.

● (1115)

[*Translation*]

More simply stated, this means that PSP Investments' mandate is to ensure that, given the current level of contributions, we earn sufficient return, so that there will be enough assets to cover pension benefits—that is, in the absence of other factors affecting the funding of the plans.

Currently, the Chief Actuary has determined that this requires achieving a 4.1% rate of return after inflation.

[*English*]

One can appreciate that achieving a 4.1% return after inflation is not risk-free. There is no single risk-free asset class or investment strategy that would deliver such a return year after year. This is particularly true in today's low interest rate environment, so at least a minimum amount of investment risk must be taken in order to achieve the desired level of return. In other words, PSP Investments must invest in the financial market to achieve its legislated mandate.

Let me give you an overview of how we achieve that. The blueprint for how we invest in the financial market to achieve the 4.1% rate of return is what we call the policy portfolio. It is basically our long-term strategic asset allocation. It dictates where every dollar we receive will be deployed in the market—in Canadian equity, foreign equity, bonds, real estate, and so on. This asset allocation strategy is the key determinant of risk and returns over time.

You will see that our current policy portfolio goes beyond public asset classes like stocks and bonds, and we do include a significant allocation to less liquid private asset classes, namely, real estate, private equity, infrastructure, and renewable resources. Those asset classes involve ownership interests in assets that do not trade on public exchanges, such as an equity stake in private companies or in an office tower.

Why are we doing this? If you look at the way the obligations of the plan are funded, we expect PSP Investments to continue receiving strong and positive inflows of capital until 2030. In other words, we won't need to sell assets to pay benefits for a long period of time. This puts us in a unique position where we can have a very long-term view with respect to our investments. It thus provides us with the opportunity to invest in assets that are private and less liquid.

[*Translation*]

Of course, we expect to be rewarded for doing so by receiving some excess returns or “illiquidity premiums”, which investors typically demand for taking on illiquidity risk—risk that we can afford given our special circumstances.

We also invest in what we call “real return” asset classes—such as real estate, infrastructure and renewable resources. Why? Because, in addition to capturing illiquidity premiums, these types of assets are considered a good match for the inflation-sensitive nature of the plans' liabilities.

[*English*]

As a result, the policy portfolio is expected to provide for a better return than a portfolio invested only in public markets such as bonds and equities. It is also expected to provide a better match with the pension obligations, the pension liabilities, and how they are funded, thereby reducing the risk associated with the funding of the plans and thus contributing to their sustainability.

You may ask how we have done so far. Have we achieved the actual rate of return of 4.1% after inflation? Since we started our diversification strategy of investing in less liquid private assets back in 2004, PSP has recorded a compounded rate of return of 7.6% after expenses. This compares to an actual rate of return of 6.2% over the same period. That is the actual rate plus inflation. So we have exceeded the actual rate of return, despite the fact that this period included one of the worst market meltdowns since the Great Depression.

This concludes my remarks today.

We look forward to your questions.

● (1120)

The Chair: That makes me feel like handing you my portfolio to manage, Monsieur Leroux.

My thanks to all of you. That's a really interesting introduction and overview.

We are going right away to questions. For the official opposition, the NDP, we have Ms. Linda Duncan.

Ms. Linda Duncan (Edmonton—Strathcona, NDP): Thanks, Mr. Chair.

I have one question and then I'll turn it over to my colleague, Irene Mathyssen.

It's been suggested that the costs of managing the federal pension fund are much higher than the costs of comparable pensions at the provincial level. I'm wondering what is being done to benchmark the costs of administering the pension fund against the costs of other jurisdictions. How do you ensure that the fund is well managed and that the cheques are delivered in a timely fashion? I noticed in looking at the budget that at least in one fund there is a reduction of about $20 million in administration and $1 million in the public service pension fund account.

Whoever is appropriate can speak to that.

Ms. Kim Gowing: It's important to understand that there are different types of structures when you're comparing us to other public sector plans. Our plan is in legislation, so we are tied to specific rules that are in there as well.

With respect to administering the plan, we've just gone through the transformation of bringing it online with the new pension platform. We are working towards finding efficiencies as we move forward with the new platform.

The Chair: Ms. Duncan is going to be sharing her time with Irene Mathyssen.

Welcome, Irene. You have the floor.

Ms. Irene Mathyssen (London—Fanshawe, NDP): Thank you very much.

Welcome to the committee. I appreciate all the information you bring. I have a number of questions. I'll just ask whoever feels most comfortable answering to proceed.

The first has to do with contribution holidays. Does the Treasury Board participate in contribution holidays? if so, what is the rationale? We all know that markets go up and down and that we should contribute more when times are good to ensure there's enough when times are not.

Could you tell me about contribution holidays?

Ms. Kim Gowing: Our pension plan does not normally have contribution holidays.

Ms. Irene Mathyssen: Lower administrative costs are expected after pension modernization is completed.

How many years will it take to offset the costs of implementing the modernization project, and how much money is expected to be saved in that modernization?

Ms. Kim Gowing: I would have to get back to you with the answer to that question. It's Public Works.

Ms. Irene Mathyssen: I would appreciate that.

My office has had some complaints from the public service pension group in regard to delayed pensions and benefits to people with a disability due to computer problems. Does this have anything to do with the modernization plan? Can you tell me if the problem is resolved, and how were people compensated for the delay in receiving their pension?

Ms. Kim Gowing: I will have to work with Public Works to get you an answer to that question.

Ms. Irene Mathyssen: I would appreciate that.

On June 12 of this year, the modernization disability management in the FPS was announced. At that point, it was said that the current sick leave credit system discriminates against newer and younger employees, yet in Bill C-45 there was the introduction, as you pointed out, of the first two-tier pension system in the history of FPS providing hirees after January 1, 2013, with a reduced benefit.

How do you explain and reconcile these two contradictory positions, that it's been modernized and it's going to be better, yet there's going to be this reduced pension benefit?

Ms. Kim Gowing: This is a decision of the government to move towards an age 65 retirement benefit.

Ms. Irene Mathyssen: According to the most recent actuarial report of the supplementary death benefit plan, such as the life insurance for FPS employees and retirees under part II of the Public Service Superannuation Act filed by the chief actuary in March 2011, there's a $2.4 billion surplus in the supplementary death benefit account. The federal public service employees and retirees pay approximately 100% of the premiums for the SDB.

What are the intentions in regard to the disposition of this surplus? Have you any idea how that $2.4 billion will be treated?

● (1125)

Mr. Jean-Claude Ménard: I can confirm that the amount you mentioned is right, and indeed the actuarial report has shown a surplus. I would say it's inevitable in a sense. People are living longer, which means they are dying later.

It's clear that the insurance plan might develop surpluses over time. It's not for me to answer what the government could do with this notional surplus.

The Chair: I'm afraid, Irene, your five minutes has expired. It goes very quickly with five minutes for questions and answers.

Ms. Irene Mathyssen: Thank you very much, Mr. Chair. Perhaps there will be time later.

The Chair: Yes, absolutely.

Ms. Irene Mathyssen: Thank you.

The Chair: We do know what Marcel Massé did with the surplus of the general fund in 2000.

We'll go to Peter Braid.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you, Mr. Chair.

Thank you very much to all of our presenters for being here this morning. They are very helpful presentations. This really helps to demystify the public service pension plan for committee members.

Ms. Gowing, I want to start with a couple of questions for you. You mentioned in your presentation that contribution rates are set for 2013, 2014, and 2015. They've been approved and implemented.

Is it typical that contribution rates are set three years out?

Ms. Kim Gowing: Yes, they are. We've set the contribution rates based on the most recent actuarial evaluation, which determines the funding requirements for the plan. We normally set the rates for a three-year period.

Mr. Peter Braid: Great. Thank you.

I have a question about the current deficit as well. In your presentation you describe the deficit as a post-2000 pension liability.

When did the deficit first occur? When was it first reported?

Ms. Kim Gowing: I'll pass this on to Jean-Claude.

Mr. Jean-Claude Ménard: It's a very good question.

It was first reported in the 2011 actuarial report. Before that there was a small surplus.

Mr. Peter Braid: Thank you for that clarification.

With respect to the changes that our government has made to the pension plan, effective January 1, 2013, could you speak to how those changes will favourably impact the deficit? In other words, if those changes weren't made, I presume the deficit would grow over time and would be worse.

I realize that life expectancy is a separate issue. But with respect to the changes to the plan, could you explain how those may favourably impact the deficit?

Mr. Jean-Claude Ménard: First, because the changes are looking forward, it means the balance sheet as of March 31, 2011, is not impacted, so the deficit is exactly the same.

Over time, employees will pay a bit more than they previously paid and the government will pay a bit less.

As the total current service cost—that is, actually about 20% of the pensionable payroll—this number is about 17% for what we call the group 2 contributors. It's the people who will join the plan after January 1, 2013. So going forward, the current service costs will be lower for those people, and of course the employees will pay a lower contribution rate as well as the government for these employees.

It will take some time—I would say at least a couple of actuarial reports—before we will see the impact on liabilities going forward.

Mr. Peter Braid: Thank you.

Monsieur Ménard, you're at OSFI, of course. I presume you have a bit of a viewpoint of the pension landscape across the country, being at OSFI.

Could you speak to how the recent changes to the government pension plan are similar to trends we're seeing in the pension industry in Canada generally?

Mr. Jean-Claude Ménard: There has been a trend in other jurisdictions where the objective is to share what we call the current service costs 50-50. In the most recent Ontario budget, I think they mentioned that, as well as in Quebec.

This trend of sharing the current service cost in equal parts between the plan members and the government, or the plan sponsor, is a trend that is not unique to the federal level.

● (1130)

Mr. Peter Braid: Thank you very much.

Do I have any time?

The Chair: You have about a minute and a half left, Peter.

Mr. Peter Braid: Excellent.

Monsieur Leroux, it was a very interesting presentation with respect to how the assets in the plan are invested. I was very interested to learn that not all the assets are actually invested in the markets.

What percentage are invested in the markets and what percentage are invested in other areas, like real estate and private equity infrastructure?

Mr. Martin Leroux: As of today, we have about a 30% allocation to private asset classes, but our target is to increase this allocation over time to reach 42%.

Mr. Peter Braid: With respect to that private investment percentage, how do you make those decisions? Do you help to fulfill any other government objectives, in terms of investing in infrastructure or in hi-tech startups in the riding of Kitchener—Waterloo, for example?

Mr. Martin Leroux: As I mentioned in my introductory remarks, we are at arm's length from the government. Our mandate is strictly to invest with the aim of maximizing the return without the risk of loss. A key input in this mandate is basically the actual rate of return of 4.1%, which is required to sustain the plans over the long haul.

The Chair: Monsieur Ravignat.

[*Translation*]

Mr. Mathieu Ravignat (Pontiac, NDP): Thank you, Mr. Chair.

I want to thank the witnesses for joining us today.

[*English*]

In my opinion, there's kind of an elephant in the room at this meeting when we talk about pensions. Most Canadians and most pension holders are wondering whether the finance minister is still scheduled to meet his provincial counterparts to discuss expanding the CPP and QPP.

Are you getting signals or signs that the government is still committed to negotiating, with the provinces and territories, the retirement security for all Canadians, or are they not?

Ms. Kim Gowing: I cannot answer as to what the Department of Finance is going to do.

Mr. Mathieu Ravignat: Does anybody else want to give a response?

Mr. Mark Boutet (Vice-President, Communications and Government Relations, Public Sector Pension Investment Board): I don't think we can answer either. We are at arm's length.

Mr. Mathieu Ravignat: Fair enough. Thanks for the answer.

[*Translation*]

Did TBS make the planned savings of $20 million in 2012-2013 as a result of the recent changes to the Public Service Pension Plan?

[*English*]

Ms. Kim Gowing: Currently at this time, because the public accounts for 2013 aren't out yet, we can't answer that. We expect that in the coming months, though, we'll be able to determine what savings have been—

Mr. Mathieu Ravignat: Are we expecting that those savings will hit $20 million?

Ms. Kim Gowing: That's the expectation.

Mr. Mathieu Ravignat: So you're still on target?

Ms. Kim Gowing: I can't say exactly. I'm waiting until the accounts come out, but that's the target.

[*Translation*]

Mr. Mathieu Ravignat: Does TBS expect the cumulative savings to reach $2.075 billion by 2017 and 2018, as projected?

[*English*]

Ms. Kim Gowing: I'm sorry....

[*Translation*]

Mr. Mathieu Ravignat: I can repeat the question if you like.

[*English*]

Ms. Kim Gowing: The $2.1 billion, I apologize.

[*Translation*]

Mr. Mathieu Ravignat: Okay.

[*English*]

Ms. Kim Gowing: Again, we're targeting to reach the savings by 2017, and we're monitoring the contribution rates over the....

[*Translation*]

Mr. Mathieu Ravignat: Thank you very much.

Of course, some public servants are worried about the changes being made to the plan. As you know, the employee contribution rate to the Public Service Pension Plan will steadily increase until the employer and the employees are splitting the plan's cost 50/50.

Will employees have more of a say in the plan's management, or will they continue to have their voices heard through their representatives within the Public Service Pension Advisory Committee?

What is the plan in terms of public sector unions' involvement?

● (1135)

[*English*]

Ms. Kim Gowing: Currently, employees will be engaged through the Public Service Pension Advisory Committee, through their representatives.

[*Translation*]

Mr. Mathieu Ravignat: In other words, they will pay more, but they will not have more of a say in the process.

[*English*]

Ms. Kim Gowing: Again, the pension advisory committee will....

[*Translation*]

Mr. Mathieu Ravignat: So no changes will be made in that area.

[*English*]

Ms. Kim Gowing: No change to the....

[*Translation*]

Mr. Mathieu Ravignat: Okay.

Do I have any time left, Mr. Chair?

[*English*]

The Chair: You have two minutes.

[*Translation*]

Mr. Mathieu Ravignat: Does the Chief Actuary provide actuarial estimates of the costs and obligations stemming from the changes made to the contribution rates of the Public Service Pension Plan?

Mr. Jean-Claude Ménard: The answer is yes.

Mr. Mathieu Ravignat: Do the actuarial evaluations stem from the changes to the contribution rate coming into effect?

Mr. Jean-Claude Ménard: That answer is also yes.

Mr. Mathieu Ravignat: Could you describe how that worked?

Mr. Jean-Claude Ménard: First off, we received the proposal contained in Bill C-45 . In some ways, it's a fairly easy change to make because the total cost of the plan stays the same as far as we're concerned, except for new contributors. That cost, however, will materialize over time.

For the first five years, then, the change affecting new contributors isn't as significant as the change in the cost-sharing ratio, which will go from 35/65 to a 50/50 split. We carried out the evaluations that were asked of us.

Mr. Mathieu Ravignat: Very well.

Mr. Jean-Claude Ménard: They appear, by the way, in the report that was tabled in Parliament.

Mr. Mathieu Ravignat: The compensation package will change because the public service pension plan amounts are changing. Will that have an impact on the public service's appeal as an employer? It is seen as an employer of choice, after all.

[*English*]

Ms. Kim Gowing: I would have to say the public service pension plan is still a very good pension plan, and I believe it will continue to attract employees.

[*Translation*]

Mr. Mathieu Ravignat: Thank you.

[*English*]

The Chair: Thank you, Mathieu. That concludes your time.

We'll now go to the Conservatives.

[*Translation*]

Mr. Gourde, you have five minutes.

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Thank you, Mr. Chair.

I want to thank the witnesses for being with us this morning.

Mr. Ménard, earlier, you explained that the number of years during which a beneficiary could draw on the pension plan had gone up. Basically, those who retired before 2012 could receive benefits at 60 years of age. You said it was possible for them to receive benefits for 20 years after turning 65, so until the age of 85. Can people expect to receive benefits for about 25 years?

Mr. Jean-Claude Ménard: Yes, exactly. Those who retired at 60 will receive benefits for an average of 25 years.

Mr. Jacques Gourde: My next question is for Ms. Gowing.

When a pensioner dies, does a portion of the pension benefits always go to the spouse? Is it 50% or 60%?

[*English*]

Ms. Kim Gowing: Do you wish to have an explanation of survivor benefits?

When an individual passes away, there are survivor benefits for the spouse, and child benefits as well.

Mr. Jean-Claude Ménard: And the amount is...?

Ms. Kim Gowing: It's 50% of the amount of the benefit at retirement.

[*Translation*]

Mr. Jacques Gourde: There is no time limit, even if the spouse is 20 or 25 years younger than the participant. That means that the benefits for the same employee could be paid out for 45 years.

Mr. Jean-Claude Ménard: I would like to add a piece of information, if I may. What you're saying is true. The actuarial report contains an assumption. Again, it's an average, because the total cost is evaluated using averages. On average, the surviving spouse is three years younger than the plan participant. So yes, the spouse will receive benefits for a slightly longer period of time because of their age, but a scenario like the one you're describing would still be the exception.

Mr. Jacques Gourde: It does happen, though.

Mr. Jean-Claude Ménard: Yes.

Mr. Jacques Gourde: The potential is there.

My next question is for Mr. Leroux.

You said that you invested in real estate, publicly traded companies and private companies. Is it more complicated with private companies? Is it more direct with large companies and small ones?

Mr. Martin Leroux: There is a certain level of complexity. And that is why we developed our own expertise internally. It's important to be very familiar with the management of organizations. That gives us an edge. We have much tighter control over investments. As I said in my statement, we expect to receive illiquidity premiums, in other words, a slightly higher return than if we had simply invested in public assets.

● (1140)

Mr. Jacques Gourde: So you hold shares in private companies.

Mr. Martin Leroux: Yes.

Mr. Jacques Gourde: Sooner or later, be it in 15, 20 or 30 years' time, you will have to resell those shares, under the terms of your contracts.

Mr. Martin Leroux: That's right.

Mr. Jacques Gourde: You will resell those shares to the company itself or other parties.

Mr. Martin Leroux: That's right.

Mr. Jacques Gourde: Does it work fairly well? Is the return higher than the market rate?

Mr. Martin Leroux: That is the case.

Since these companies' shares are not public and are not traded, the return on the investment should be higher because, as an investor, we are assuming a greater risk since we're dealing with illiquidity. We expect to receive a higher return.

Mr. Jacques Gourde: They aren't easy to sell off quickly, but eventually, that will be necessary.

Mr. Martin Leroux: The thing to understand about illiquidity is that, if we decide to sell, we couldn't do it tomorrow morning as though it were the stock market. It takes some time. We have to find a buyer and follow certain steps. That doesn't mean they can't be sold, just that steps have to be taken and the right buyer has to be found. It's a rigorous process.

Mr. Jacques Gourde: It can be a way for those companies to obtain funding for five or ten years, in the medium term, basically. Selling their shares to a pension fund gives them liquidity to grow their business and make strategic investments.

Mr. Martin Leroux: Exactly.

Some organizations look very favourably on these investments because they aren't required to meet with shareholders every quarter, for example, which they would have to do on the public market. Given that we have a very long-term view as far as our investment horizons go, we are a very patient investor. That very long-term outlook is an advantage for some organizations.

Mr. Jacques Gourde: When you say real estate assets, do you mean residential buildings, shopping centres and land?

Mr. Martin Leroux: The real estate portfolio is extremely diversified.

Mr. Mark Boutet: It covers all kinds of buildings, including Canadian office buildings. We have real estate assets in 28 countries, and they run the gamut from residential and retail property to office buildings.

Mr. Jacques Gourde: Do you deal with realtors or do you deal directly with the companies and governments in question?

Mr. Mark Boutet: In most cases, we deal with realtors.

Mr. Jacques Gourde: Thank you.

[*English*]

The Chair: Merci, Jacques.

Now we welcome Judy Sgro for the Liberal Party. Welcome, Judy.

Hon. Judy Sgro (York West, Lib.): Thank you very much. I'm very glad to be here.

We thank you all for being here.

To Mr. Leroux first. You know we have a huge challenge when it comes to infrastructure in Canada—transit, bridges, roads, and all the things that many of our municipalities are facing. In your asset allocation strategy, how much do you allocate for infrastructure, public infrastructure in particular?

Mr. Martin Leroux: The target allocation for infrastructure is currently set at 13% of our portfolio, but right now the allocation is probably closer to 5%, I think, so it's really in a ramping-up phase. In terms of the allocation, it's diversified in many regions of the world. I think we do have a presence in Canada.

Mr. Mark Boutet: Yes, we do. I would say that when you look at our peers in Canada—whether it's us, the CPPIB, or the teachers—we are renowned around the world as some of the most sophisticated infrastructure investors, but unfortunately we don't find many assets in Canada. For all of us, we are mostly invested in infrastructure outside of Canada. We own airports in Australia, we own ports in the U.K., and we own pipelines in Norway, but we find there is a very limited supply of attractive infrastructure assets in Canada.

Hon. Judy Sgro: As an example, if you're going to get up to 13% in infrastructure, and I appreciate the fact that you're investing the money wisely, I hope, in many of these other countries.... We have a huge challenge here when it comes to our own infrastructure needs. How would our municipalities approach you for an investment? Through which division would they be applying for the partnership in P3s and those kinds of things in Canada? Do you get involved in those at all, whether it's a hospital being built or some other part of the infrastructure system?

● (1145)

Mr. Mark Boutet: I think we are most attracted to assets in infrastructure such as ports, airports, those types of assets.

Hon. Judy Sgro: What's the difference, if we want to fix that?

Mr. Mark Boutet: Overall, we find that with those types of assets the cashflow is very predictable; they are recession proof. That's why those assets are most coveted by infrastructure investors.

Hon. Judy Sgro: How are the decisions made as to your investments? I'm still back on infrastructure.

Mr. Mark Boutet: Yes.

Hon. Judy Sgro: You're trying to ramp up to 13%. I'm very interested in reallocating money that's put into pensions back into our own country. You have a board of directors, I assume, that does all that analysis and then comes forth with a recommendation as to where it's a good investment for your money—our money.

Mr. Martin Leroux: For all of our private investments we have a dedicated team for each asset class. In the case of infrastructure, we have a team of about 20 people who are dedicated to finding the investment opportunities, whether in Canada, the United States, or in Europe.

Larger deals need to be presented to the board, where they will be accepted or.... The board needs to basically decide on the investment.

Hon. Judy Sgro: That would be the final decision-maker?

Mr. Martin Leroux: Yes.

Mr. Mark Boutet: That's right.

Hon. Judy Sgro: Mr. Ménard, on the unfunded liabilities of obligations from the Government of Canada, can you tell me what the amount is?

Mr. Jean-Claude Ménard: As stated by Kim Gowing earlier, the public service pension plan deficit as at March 31, 2011, is $4.4 billion.

Hon. Judy Sgro: Was there ever a surplus in the pension plan?

Mr. Jean-Claude Ménard: In the previous report, in 2008, there was a small surplus of about $1 billion.

Hon. Judy Sgro: Okay—

Mr. Jean-Claude Ménard: And if you...oh, sorry.

Hon. Judy Sgro: Continue.

Mr. Jean-Claude Ménard: If you look at how the situation evolved from 2008 to 2011, you will see in our report that many factors have affected the funding status of the plan. One item was, of course, the investment losses of 2008 and 2009. But another aspect of it is...I changed the assumptions of the real rate of return. In the 2008 report, it was 4.3% in real terms; now it's 4.1%. Obviously the minute you reduce the expectation on the discount rate, you increase the liability. This also explains the size of the deficit.

Moreover, for the first five years of the projections, we recognize that interest rates are very low, and we have an assumption that is lower than the 4.1% we had for the first five years. There are all these factors, plus of course since the past decade, let's say, public servants are living longer. Even if in previous reports we had improved our future longevity, we still have more than what we expected in the past. This has also contributed to a higher deficit.

Hon. Judy Sgro: Do you anticipate—

The Chair: Thank you, Judy. Actually, you're well over your time.

Next, for the Conservatives, Bernard Trottier.

Mr. Bernard Trottier (Etobicoke—Lakeshore, CPC): Thank you, Mr. Chair.

And thank you, guests, for being here today.

The first question is for Ms. Gowing.

You described the pre-2000 regime and the post-2000 regime, and credit where credit is due, I think there was a recognition at that time under the Liberal government that we needed to have a different set-up for funding public sector pensions.

In the post-2000 plan you mentioned that there's a deficit of $4.4 billion. I'm wondering if you could talk about the special payments to make up for that $4.4 billion. In a way, we have a certain generation that signed up well before 2000 that was entitled to certain benefits, but now, based on the deficit, there's an inability to make those payments, so the current taxpayers have to top that up.

What other options did the Treasury Board have in terms of addressing that pension fund deficit that was there?

● (1150)

Ms. Kim Gowing: The pension deficit had to be addressed by the government. They're responsible for the deficit, as the legislation lays out. So the government assumes full responsibility for that.

Mr. Bernard Trottier: So out of the general revenues that the government receives, about $435 million will be paid for the next 13 years to address that deficit. Is that correct?

Ms. Kim Gowing: Yes. But I also think it's important to note that based on the next actuarial evaluation, there's a possibility that the deficit could be reduced or, in and of itself, eliminated, depending on the results of the next actuarial evaluation.

Mr. Bernard Trottier: Is there a provision that if that deficit is addressed by a higher-than-expected return on investment, the $435 million a year could also be reduced?

Ms. Kim Gowing: It would either be reduced or disappear or cease.

Mr. Bernard Trottier: Okay, very good.

One of the things that's special about Canada, when you look at debt-to-GDP ratios, is that we tend to focus on net debt to GDP, and it shows a much healthier fiscal situation of Canada compared to other countries. I'm not sure if you're an economist or can talk about this. With a net debt to GDP, we take out the fact that the pension liabilities are not coming out of general revenue. In many cases, things like the CPP, the current public sector pension plan...they're self-funded by investments, whereas in other countries they resemble our pre-2000 regime. So compared to the United States or other G-7 countries, Canada is in a much healthier fiscal situation.

Can you talk about that, why net debt to GDP is actually a pretty valid metric to look at when we compare Canada's fiscal situation to that of other countries?

Mr. Jean-Claude Ménard: Yes. I think you are right to say that, especially when we compare Canada's situation with those of OECD countries. In many other countries, the pension liabilities are not reported in their books.

In the case of Canada, we have been doing this for many decades now. Even then, we have started to back the pension liabilities with tangible assets, so to some extent, when we compare Canada to OECD countries, we are in a very favourable position.

[*Translation*]

Mr. Bernard Trottier: Thank you.

My next question is for Mr. Ménard.

You mentioned the fact that life expectancy is going up and the fact that the population is aging. Those are two trajectory forces. Today, there are fewer young people to pay the benefits, but more pensioners. To some extent, that reflects a transfer of wealth from one generation to the other.

I believe important steps have been taken such as raising the eligibility age from 65 to 67 and the contribution rate from 35% to 50%.

How do those measures—meaning the increases in the eligibility age and the contribution rate—compare to steps other countries are taking?

Mr. Jean-Claude Ménard: To answer that, I'd like to give you some information that is more relevant to the national level. As you know, the eligibility age for the old age security program went from 65 to 67. That change will start coming into effect in 2023 and be fully implemented by 2029.

As for what other countries are doing, the retirement age in 14 OECD countries is currently above 65 or between 65 and 67. That is the case right now or will be the case eventually.

On the matter of the aging population, I would put it in the context of the Canada Pension Plan because population changes are more significant in that regard. Ours is a nation of immigrants. We have welcomed a great many immigrants over the past 40 years, especially in English-speaking Canada. That is why our population will age, but at a much slower pace than in European countries.

[*English*]

Mr. Bernard Trottier: How much time do I have, Mr. Chair?

The Chair: Actually, your time is up, unfortunately, Bernard. Thank you.

We're just about to go to the second round. But if I could take one minute, I'm still curious about the changes made in Bill C-45, the two significant changes of 60 to 65 years old and the 35% contribution to 50%.

With regard to the $50 billion surplus we had in the year 2000 that was legislated away from the fund, if that had been invested at the 4% annual compounding interest, would either of these steps have been necessary if the workers' deferred wages had not been taken away from them in the year 2000 in the big scoop of Marcel Massé's final move as Treasury Board president? Has anyone ever extrapolated the position the fund would be in if we had not been denied that $50 billion actuarial surplus that existed in 2000?

Monsieur Ménard, you've been here since 1999. Has that study ever been done?

● (1155)

Mr. Jean-Claude Ménard: I would like to first correct the $50 billion. It was actually $28 billion, and it was a national surplus. The decision was taken at that time through Bill C-78 to finance the liabilities—the pension benefits and the pension promise going forward—by tangible assets. I cannot comment further on what you have said, but I can say that it was and still is a national surplus.

But what is important is that we have moved from national funding, from 1924, let's say, until 2000—because these superannuation accounts have existed since 1924—to real funding with tangible assets to back the pension promise. To some extent, we have strengthened the system by doing so.

The Chair: Okay. That's interesting. Thank you.

We'll go to the questioners.

Linda Duncan, please.

Ms. Linda Duncan: Thank you very much.

I want to follow up on this renewable portfolio. I have a series of quick questions on this.

Who is the Public Sector Pension Investment Board seeking advice from on selection for the renewable portfolio? When you're evaluating, are you also giving consideration to other externalities? In other words, some of the investments you may make in renewables may provide additional revenue through taxation and so forth to the Government of Canada. I'm particularly interested in the interest in investing in timber, and I'm wondering if preference is being given to those corporations that are dedicated to sustainable harvests, and some are also dedicated to setting aside caribou habitat.

My final question on this is about agricultural land. In your annual report of 2012, you say you are interested in moving toward the purchase of or investment in farmland. I find it odd that at the same time as the federal and the Saskatchewan governments are selling off the 80-year-old prairie pastures, which generate tens of millions of dollars in tax revenue for the Government of Canada, the pension fund is now interested in investing in agricultural land.

Mr. Martin Leroux: I'll try to address all of your questions.

In terms of decision-making, as with our other private asset classes, we have built an in-house team to make decisions. From time to time they will be seeking external advice to help them, but we see a lot of value in making those investments with in-house expertise.

To give you some background on why we've created this asset class called renewable resources, which include timberland and farmland, there are a few things that as an investment organization we want to make sure we're focusing on. The first thing is to recognize that we are funding liabilities, and thus we will be taking a close look at the nature of those liabilities. As I mentioned before, that means we will be favouring investment so that where we fail, there's an equity premium we can get that will also provide some inflation protection over time. One thing we need to keep in mind is that the pension obligations of the public service pension plan are highly sensitive to inflation. Those final average earnings are fully indexed in retirement, so we want to pay close attention to inflation. In our mind, timberland and farmland are definitely well geared to keep pace with inflation.

A third criterion that we look at is purely diversification. In our mind, investing in timberland and farmland is definitely a strong diversifier from the other investments in our portfolio, which will help us weather more volatile market conditions. A good example of that is when we invest in timber we buy into biological growth, which is not well correlated with the economy or where the stock market is going, so for us there are strong advantages in doing that.

I believe you had one question on the ESG. Mark, do you want to touch on that?

● (1200)

Mr. Mark Boutet: With regard to renewable resources, ESG is a factor that we take very seriously, and we are very conscious of the social licence to operate these types of assets. I would argue that in having an investor such as a pension fund—and you were referring to TimberWest, where we're partnering with BCIMC—you probably have the ideal owner for those types of assets because we're not focused on maximizing the annual cashflow from the assets. TimberWest was a publicly listed company that had a lot of debt. Because they had debt, they had to cut more trees to pay the interest on the debt. Obviously, as a pension plan with significant inflows, we don't have that issue.

So I think those types of assets have found the ideal owner in public pension funds in private hands.

Ms. Linda Duncan: Thank you.

The Chair: There's only a minute left.

Ms. Irene Mathyssen: I have a very quick question.

The average pension for plan members in the public service has been estimated at $27,135. We hear all kinds of statements about the gold-plated pension. That strikes me as hardly being gold-plated.

I wonder if you look at what is adequate in terms of a decent and secure pension. Is $27,135 an adequate pension for someone going into retirement?

Ms. Kim Gowing: The goal of the pension is not only to take into account the employer's benefits being provided, but also that the person is receiving a benefit from the Canada Pension Plan as well. We're trying to achieve the industry benchmark, which is to replace 70% of the income a person had at the time of retirement.

Ms. Irene Mathyssen: Are there any clawbacks?

Ms. Kim Gowing: No, there are no clawbacks.

The Chair: Thank you, Irene.

We'll go to Dan Albas.

Mr. Dan Albas (Okanagan—Coquihalla, CPC): Thank you, Mr. Chair.

I want to thank all of our witnesses for their testimony here today. This is actually a really interesting subject.

There is one thing in particular, Mr. Chair, that we should step back and take a look at. It is what Mr. Ménard originally voiced, and I think Ms. Gowing also mentioned it, which is that Canadians are living longer. I think that's a goal that most people would say government should have. We should have policies that encourage people to be educated. We should have proper health care, so that we have better health outcomes at the end of the day.

Now that being said, Mr. Chair, it's also our responsibility to make sure, of course, that they have a stable income. I want to applaud each of you for your efforts to make sure that for the people who work for the federal government who are entitled to their benefits... you're looking out to make sure those dollars are managed wisely and that they're kept supremely and paramount in mind.

I'm just going to step back, Mr. Chair, before I go to the PSP. There is one thing we all agree on...and maybe I should just ask the president himself about it.

Your purpose is to create a stable return so that there is stability in the actual pension plan itself and so that you are beating inflation without risking those dollars. Is that correct?

Mr. Martin Leroux: Correct, recognizing that our 4.1% target is a long-term target and therefore we cannot guarantee that we're going to achieve this target every single year.

Mr. Dan Albas: That being said, we've had.... I remember the Internet bust of 2000. There was a lot of angst there. I know many people lost 30% to 50% of their investment income, Mr. Chair. And then we also had the great recession in 2007-08, and it continued on for a few years after that.

For you to be maintaining that...it shows that obviously you are watching.

When you mentioned that you were investing in a lot of illiquid properties and shares in businesses, etc., outside of the country, a number of people seemed to murmur that that wasn't a good goal. We may have an infrastructure deficit in Canada, but if I were in your shoes, I would be asking how we are going to beat inflation and how we are going to diversify so that the Canadian economy, if it's having a hard time, will still have investment income coming in. To me, that means you would have to go outside of that.

I have a question on that. You said there are airports and ports. Did you also include bridges in the asset portfolio of the non-financial...?

● (1205)

Mr. Mark Boutet: I don't think we have bridges.

Mr. Dan Albas: One of the challenges we have here in Canada—and this is just me thinking here. If I knew there was public money—and I know this is actually private money, because at least half of it is being put forward by the employee, and the other half is from the government, to make sure it's there.... If, however, Canadians were being charged—and I think you know where I'm going here—for using an airport or a port, and that money was going back to this fund, I think some people would resent that. They'd say that part of that is government money and they should have it at no cost.

When you invest outside of Canada, you can suddenly charge what the services are worth, for a profit, to make sure a good investment is being made. Is that correct?

Mr. Martin Leroux: It is. Again, our mandate is strictly related to maximizing return for the benefit of the funding of the plan.

Mr. Dan Albas: Would your organization endorse this strategy of purchasing assets outside the country, for the reasons we've mentioned here—that you can make a profit and that you're also sheltering the money so that when the Canadian economy is turbulent, you'll have that diversification?

Mr. Martin Leroux: From a diversification standpoint, we would.

Mr. Dan Albas: I'd like to go back to the deficit of $439 million that Mr. Trottier mentioned.

You mentioned, Ms. Gowing, that with the actuarial reports coming out, that may change. Is that correct?

Ms. Kim Gowing: Yes.

Mr. Dan Albas: Okay. Now, with this 50-50 split that we've moved to, obviously that $439 million is in addition to the 50% the government will continue to put in. Is that correct?

Ms. Kim Gowing: Yes.

Mr. Dan Albas: And that's just because we've had more people living longer and drawing upon it than the actuarial report had forecast. Is that correct?

Ms. Kim Gowing: It would have been a change between the last actuarial evaluation and the most recent evaluation.

Mr. Dan Albas: So the government really is actually putting more than 50% in, at least on an interim basis, because it has to make sure that there is that stable funding for pensioners. Is that correct?

Ms. Kim Gowing: It has to ensure that there is enough money to pay for the benefits accrued.

Mr. Dan Albas: Okay. So again, the government is actually—I shouldn't say “government” because it really is the Canadian taxpayer backstopping those. Is that not correct?

Ms. Kim Gowing: Yes.

Mr. Dan Albas: Mr. Chair, I just want to sum up that I think these people are doing a fantastic job.

I commend you for what you do to make sure that those people have stability in their lives, and I think the public policy goals of stability and ensuring that those investments are being wisely accounted for are there, Mr. Chair. I'm very satisfied today.

Thank you.

The Chair: Duly noted, Mr. Albas.

Voices: Oh, oh!

The Chair: I should point out that I have just seen a graph here that shows that in the year 2009 they did have the obvious dip because of the 2008 crisis, but that in 2010 they spiked up. I don't know if you want to share, Monsieur Leroux, but you had a remarkable recovery in 2010 with a rate of return of 18%, was it?

Mr. Martin Leroux: You need to recognize that it's also the nature of the market. The market goes up, the market goes down. When there is a crisis, often it's followed by a strong return.

The Chair: Strong correction steps must have been taken.

Mr. Martin Leroux: I would say that one of the benefits of being in private asset classes is that some of those asset classes, such as infrastructure, have proven to be more resilient in times of crisis, and that definitely helped the organization weather the storm.

The Chair: That's interesting.

Mr. Ravignat.

Mr. Mathieu Ravignat: Monsieur Leroux, somebody should tell you to take credit when credit is due.

You'd be surprised that I'm not in fundamental disagreement with Mr. Albas's point of view, but I get a little bit nervous when you say that your only mandate is to maximize returns. I think Canadians and those who buy into this pension plan are naturally concerned about how and where their money is invested and whether or not they have a say. My NDP colleague talked about environmental sustainability, and I think the answer was that there is some consideration taken for that.

But what about companies that behave badly when we invest in them? What I mean by that is ethical issues. When we do invest in those companies, and something is found out about problems with their ethical practices, is that taken into consideration? Is that reviewed, and how?

● (1210)

Mr. Mark Boutet: I would say that we have had an environmental, social, and governance policy since 2002. We have processes that ensure that these considerations are taken into account in all of our investment decisions for all asset classes. We don't do stock screening, as many of our peers don't. The reason we don't is because we believe that engaging companies is a more productive way of effecting change, so we are very active on proxy voting on public companies. Last year we voted at about 3,000 annual meetings. We engaged this year and in the prior year directly with companies of—

Mr. Mathieu Ravignat: Thanks for that information. I understand by what you're saying that you don't punish companies you invest in by reviewing your stocks, but you try to pressure them in one way or another to change their behaviour.

Mr. Mark Boutet: That's correct.

Mr. Mathieu Ravignat: How do you go about pressuring them to change?

Mr. Mark Boutet: We have direct engagement with the companies, and those types of engagements can be, depending on the issues, one meeting or they can be meetings over several years. We do that with an external partner.

Mr. Mathieu Ravignat: In your opinion, has that method been successful in the past?

Mr. Mark Boutet: Well, if you look at our annual report of last year, you will see that we've been making progress on some of the issues that we've identified and the engagements that we've decided to pursue.

So yes, we are making changes.

Mr. Mathieu Ravignat: You'll excuse my scepticism, but it just seems to me that if you don't have an ultimate policy that you will act in a severe way, then the likelihood that behaviour will change is low—particularly when there's resistance; I'm sure not all companies are resistant.

Mr. Mark Boutet: As I say, I'm not the person responsible for responsible investing. Ultimately, do we decide to divest from a company...?

I would have to get back to you on that. But I know that we are very active—

Mr. Mathieu Ravignat: It would be interesting to know—you've kind of predicted what I'd like to know—when push comes to shove what you would do.

What would you do in the case where you're actually getting a pretty good return? It would be interesting; and I think Canadians and those who invest in this plan would sleep better at night knowing that at the end of the line, if a company is unethical, then their investment portfolio will reflect the ethical issues on that.

I'd like to go on to something that Mr. Albas made some reference to, and that's the aging population.

[*Translation*]

What's the percentage of working versus retired public servants? What's the ratio? Have you figured out how that ratio will change over the next 10 years? Have you done any estimates to that end? Does your plan take age changes into account? How do the ratio and fluctuations affect the financial sustainability of the pension plan?

Mr. Jean-Claude Ménard: Thank you for that question.

The annual Report on the Public Service Pension Plan indicates that the ratio of pensioners to employees has remained relatively stable over the past 10 years, at around 60%. That figure is expected to hit 65% in the near future, 76% in 5 years and 84% in 10 years.

I would like to take this opportunity to reassure the member that the actuarial report already takes that ratio into account. The most recent actuarial report also shows the progression of the public service. In the long term, the growth of the public service is expected to more or less mirror that of Canada's population. The period I'm referring to is 2018 and beyond.

● (1215)

[*English*]

The Chair: Thank you, Monsieur Ravignat.

Next, for the Conservatives, Kelly Block.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much, Mr. Chair.

I would like to join my colleagues in welcoming you all here today and echoing their sentiments that this has been very interesting and very informative.

I want to perhaps try to understand the history a little bit better. Obviously, we know that this crown corporation was created in 1999, and the pre-2000 contributions were not invested on....

Mr. Ménard, you were here in 1999. I'm wondering if you can help me understand, or describe for me, what was happening at that time, either in the industry or perhaps in other countries, that had our Government of Canada move to the changes and the creation of this crown corporation.

Mr. Jean-Claude Ménard: I will give you a bit of a comparison with the OECD countries. There are mainly three ways to recognize the pension promise or the liabilities related to public servants. First, in Mexico, for example, you pay the retirees and you don't necessarily book the liabilities before, when the service is rendered. Second, there's what we call notional funding, which is what we had in Canada before 2000. There were credits representing employee and employer contributions that went into the superannuation account through the Consolidated Revenue Fund. The third way is to back the liabilities by tangible assets, which is what has been done since 2000.

One thing particular to our plan is that when you start to finance years of service starting in 2000, 2001, and 2002, it means that the minute before, 100% of your liabilities are on the government books. As time passes, this liability is transferred and backed by tangible assets. As we speak today, 13 years after the implementation started on April 1, 2000, when we look at the total liabilities, about 30% for the public service is backed by tangible assets, and the remaining 70% for service before the year 2000 is still on the government books.

Going forward to 2050, because it takes that long to move the liabilities, because the pension plan is of a long-term nature, by 2050 almost all of the pension promise will be backed by tangible assets.

Mrs. Kelly Block: In other words, many OECD countries were moving towards this kind of pension plan.

Mr. Jean-Claude Ménard: In my view, there were not enough.

Mrs. Kelly Block: No?

Mr. Jean-Claude Ménard: That's right.

Mrs. Kelly Block: Okay, thank you.

My second question has to do with the relationship of this crown corporation to other crown corporations and what sorts of strategies you may be developing or have in place to ensure that these crown corporations move to a 50-50 sharing of costs. An alignment of the age of retirement has been built in, but I wonder about the changes that have been passed in Bill C-45.

Ms. Kim Gowing: We would have to get back to you with an answer on the crowns. We're here for the public service pension plan.

Mrs. Kelly Block: So you don't have a specific responsibility or working relationship with other crown corporations to help them move to the implementation of....

● (1220)

Ms. Kim Gowing: In the area that I'm with at Treasury Board, we do not.

Mrs. Kelly Block: Okay, thank you.

The Chair: We're going to Judy Sgro and the Liberal Party.

Hon. Judy Sgro: Thank you, Mr. Chair.

On the issue of the unfunded liabilities, Mr. Ménard, can you speak today to the total unfunded liabilities, not just the public service?

Mr. Jean-Claude Ménard: Well, there is a deficit of about $4.4 billion for the public service. I will have to get back—

Hon. Judy Sgro: I realize you might not have those numbers right —

Mr. Jean-Claude Ménard: Right in my head, no.

As a rule of thumb, when you look at the public service, it's about 70% of the total liabilities of the RCMP, the Canadian Forces, and the public service. So if you do the math, you could do $4.4 billion divided by .07 and you would have a sense of the current deficit of all the public sector pension plans, for service after the year 2000. The rest is still on the books of the government.

Hon. Judy Sgro: Yes.

Mr. Jean-Claude Ménard: It is the result of the credits made by employees and the government in the past.

Hon. Judy Sgro: When you've made the estimates of the contribution rates for 2013, 2014, and 2015 to the Treasury Board, I assume at that point they will be re-evaluated as to whether they need to be increased more at that time, depending on how things are going or the state of the economy.

Ms. Kim Gowing: When the three-year period is up, at that point in time, Mr. Ménard will have another actuarial valuation that will allow us to assess if we're on target for the 50-50 in 2017 and adjust our rates accordingly for 2016 and 2017.

Hon. Judy Sgro: There could be another increase coming in those two years—

Ms. Kim Gowing: Yes.

Hon. Judy Sgro: —in order to reach that. It's a fairly significant amount of money. It increased a lot after 2008. I mean, you had a small surplus in 2008—and you know we had a bit of a recession issue, a few things here and there, in spite of people denying we had one at one point—but it seems to have grown quite substantially. I don't know—you're doing the numbers—but it seems that it really grew a lot from 2008 to 2011. In three years it went from a small surplus of a $1 billion to a deficit of $4.4 billion.

Mr. Jean-Claude Ménard: Yes. There are two aspects to it, because you could say we had a small surplus in 2008. If I look at a longer period and I start with the 1999 report until now, at that time we projected that the life expectancy of public service men who were 65...that they would live until 85. In the most recent report, it's 87. So we have changed our assumptions, because people are living longer than expected. That's one aspect.

The other thing is that the 2008-09 crisis was a game changer. One difficult assumption to make, of course, is the discount rate or the expected rate of return on assets, and since then we have reduced our expectation from 4.3% to 4.1%, and this has also increased the liabilities. When I do that, first I compare the assumptions with my peers. At 4.1% it's well-aligned with the other public sector pension plans in Canada.

The other thing we are looking at is the work done by Credit Suisse. They released a report in February 2013. There's an interesting article about the “low-return world”. We have taken this into consideration and reduced accordingly the expectations on the assets side, which means that it increases the liabilities and therefore the deficit.

● (1225)

Hon. Judy Sgro: In spite of the fact that we expect that more people are going to be working longer—one of your comments earlier was about the number of people who are not retiring at 65, who are choosing to work to 69, or whatever the number.

Mr. Jean-Claude Ménard: In terms of this part of my statement, I will say that it has a much more positive impact on the financial sustainability of the Canada Pension Plan, the fact that people are working longer.

Hon. Judy Sgro: They are contributing more as well.

Mr. Jean-Claude Ménard: Yes, and the government has introduced, with the agreement of the provinces, what we call the post-retirement benefit. In 2012, the work cessation test was removed from the Canada Pension Plan. Therefore, all Canadians have the choice and the flexibility between retirement income and working earnings. If they ask for their CPP benefit, they are free to do so. If they continue to work, they contribute, and there's a post-retirement benefit that is helping them increase their benefits if they continue to work after they ask for their CPP benefits.

The Chair: Thank you, Judy. I'm afraid you're over your time.

Jay Aspin.

Mr. Jay Aspin (Nipissing—Timiskaming, CPC): Thanks, Mr. Chair.

Thanks to our guests. This has been a very enlightening morning, indeed.

As we know, these types of liabilities have to be closely monitored. They can get away on you quickly. By this morning's testimony, I have assurance that the situation is well in hand.

I have a question of possibly Mr. Leroux. You indicated in your brief that the chief actuary has determined that this requires achieving a 4.1% rate of return after inflation. Is that a real return? Is that 4.1% after inflation of 2%, or does that include a 2% inflation rate?

Mr. Martin Leroux: It's a real return, and if you were to include inflation, and it's only inflation at 2%, that would mean a return of 6.1%.

Mr. Jay Aspin: Okay, fine.

With that in mind, my questions are relative to asset mix or allocation and returns. You've indicated in your briefs that basically there are three classes of asset mix. There are equities, fixed investments, and real return investments. Are you able to break down, in terms of those asset classes, what the returns are?

Mr. Martin Leroux: Yes, historically, we provide this information in our annual report, but more importantly, for us to formulate our strategic asset allocation, we do develop expectations in terms of returns, but also in terms of volatility of returns, and that is basically what will drive how much will be allocated to each of those asset classes.

Mr. Jay Aspin: Could you give us a flavour maybe of the various returns in those three asset classes?

Mr. Martin Leroux: Do you mean going forward?

Mr. Jay Aspin: Yes.

Mr. Martin Leroux: In terms of expectations, bonds would be an easy one because there is some evidence that over time bond returns should be pretty close to their current yield, and the yield, as you know, is pretty low currently in the marketplace, so you should expect a return, given the yield environment, of about 3%.

In terms of equity, we do have a more favourable view toward the equity marketplace. We do expect that what we call the equity risk premium should be around 4% to 5%. That would be on top of fixed income, so it would be a return of 7% to 8%.

Mr. Jay Aspin: In terms of the class asset real returns, you've mentioned there are such investments as real estate, infrastructure, renewable resources. How are you able to determine a rate of return on these? How do you get a fix on that? You can't look it up on a stock chart. How do you do that?

● (1230)

Mr. Martin Leroux: That's a good question.

There is definitely less available information for those asset classes, but we do have a thorough understanding of how their returns should behave over time, and that's enabling us to basically formulate views on how they would be.... Real estate is an example. Although there is limited information for some asset classes, such as infrastructure, for real estate there is more information, and we're about to have a clear view of what the return will be with those asset classes.

Mr. Mark Boutet: If I may, I'm not sure if I understood the question correctly. Are you looking for valuation going forward or valuation in terms of returns for the year?

Mr. Jay Aspin: I'm looking for how you are able to determine a rate of return for those particular asset classes, like real estate, infrastructure, renewable resources. How do you determine how much you've made in a year?

Mr. Mark Boutet: You're talking about the rate of return. From that perspective, depending on the types of assets, we have external valuation committees where we review all of the different assets. These people are experts in the valuation field and they're external to PSP, so the returns of the private market asset classes are valued internally. They go to our finance and risk committee, and then they go to an external valuation committee. Following that, all of our returns are audited by the auditors of PSPIB, which are the Auditor General of Canada and Deloitte. All of our returns are audited.

The Chair: Jay, you're over time. If you have a brief summary question—

Mr. Jay Aspin: Is this subjective, then, because you're asking the opinions of some other people?

Mr. Mark Boutet: What we are doing is looking at indicative transactions in the market. For example, if we are present in real estate in New York City, we'll look at similar transactions in New York City. We'll have appraisals from experts in that field. It goes to different committees. There is a committee that is independent from PSP, and ultimately it is audited by the Auditor General of Canada.

Mr. Jay Aspin: Okay.

Thank you, Mr. Chair.

The Chair: Thank you, Jay.

That concludes the second round of questioning. We have time to get a little bit further into a third round.

I have two points for clarification. I don't believe I heard or saw in the report an estimate of the total amount of brokerage fees you might spend in an average year above and beyond your in-house costs.

Second, on the composition of your board of trustees, if you're moving to a 50-50 contribution rate, will you be moving to a 50-50 composition of the board, employer to employee? Even though some of us are of the view that all pensions are deferred wages of the employee, is that change in the composition of the board in the works? As well, give an idea of the broker fees paid for your investment.

Ms. Kim Gowing: I'll start first.

I'm not so sure that we're not mixing up two particular boards. There's the Public Service Pension Advisory Board, which is made up of employer and employee representatives and reports to the president. And there is PSPIB, which has a specific board appointed as governor-in-council appointees who are chosen through a nominating committee.

The Chair: I meant the actual investment board that would be making investment decisions more than policy guidelines.

Ms. Kim Gowing: Yes, they'd be specific to the investments.

Mr. Mark Boutet: With regard to your question, we disclose in the financial statements.... I won't quote the actual financial note because I don't recall the number by memory, but I know it is in the financial statement. I would say that for the fiscal year 2012, the transaction costs, which would include brokerage fees for the public market and all of the transaction costs related to private market assets, were roughly $64 million.

The Chair: Very good.

Is there talk about adjusting the composition of your board to have equal representation of employers and employees, or what is the composition of it now? If they're governor-in-council appointees, who is making these investment decisions on behalf of the employees currently?

Mr. Mark Boutet: I can try to answer that question.

If you look at the Public Sector Pension Investment Board Act, there is an independent nominating committee put in place, and that committee has the responsibility of proposing to the minister members to be directors of our board of directors. Ultimately, the minister would go through the process of accepting or not accepting, and asking the nominating committee to find other people and going through the process of the governor-in-council appointments.

● (1235)

The Chair: Are the directors trustees in the sense that they have a fiduciary obligation that trustees of benefit plans have, or are they a board of directors as are members of a corporate board?

Mr. Mark Boutet: They have the fiduciary duties of a board of directors. We are not a trust.

The Chair: You're not a trust.

Mr. Mark Boutet: No.

The Chair: These are not trustees.

Okay, that's helpful. Thank you.

Irene Mathyssen.

Ms. Irene Mathyssen: Thank you, Mr. Chair.

Again, thank you for your expertise.

I want to switch to more of a human relations kind of question.

In the brief, you've indicated, Madam Gowing, that of the 565,125 members, 313,652 are active contributors. We know there is downsizing going on in the public service, and I'm assuming that of the 12,000 to 13,000 jobs that will be eliminated, a number of those would be younger and contributing members of the public service.

How does that impact, first of all, the liabilities you've calculated? Second, what effect, if any, does it have in terms of the anticipated contributions? Has that work been done?

Mr. Jean-Claude Ménard: We don't have a precise number on the demographic composition of the downsizing currently under way. What we do have, however, is a projection of these contributors, and according to the most recent report, we are projecting about 300,000 contributors in 2016-17. That's the number we have in the actuarial report. As such, the liabilities are both related to these contributors and the pensioners, the disabled, the survivors, and their children who are receiving benefits.

Ms. Irene Mathyssen: When you were doing your calculations, you didn't have any concerns. Are you still on target?

Mr. Jean-Claude Ménard: We don't have precise numbers, but I'm ready to say that in 2014, in the next triennial report for the public service, we will take this into consideration and have more precise numbers in that.

Ms. Irene Mathyssen: We'll certainly look forward to that.

Again in terms of human resources, with regard to the changes that have been made, we're now going to have a two-tier system with respect to pensions and benefits for those who are hired after January 2013. Was any concern expressed about the impact of having a two-tiered system in regard to human relations—I guess the impact on the employees—knowing that an employee hired before the deadline has a different pension plan than one hired later? Was there any concern in that regard?

Ms. Kim Gowing: No, there wasn't really any concern. One of the things that we have noted over the years is that a person coming into the public service is older now, so to give them the opportunity to build up a longer service with us and reach the 30 years, age 65 is the consideration.

Ms. Irene Mathyssen: Why is it that they're older? Is it because a certain life experience is helpful in entering the public service? Do you look into that kind of human reality?

Mr. Jean-Claude Ménard: I think it's just a reflection of what is happening in the Canadian population. When you look at the composition of workers aged between 20 and 69, we have seen a shift to older workers. Right now the average age of a new person in the public service is 34. Ten years ago it was 32. Another ten years before that it was probably around 30 years of age. So it's just a reflection of the global aging that is occurring in the general population.

● (1240)

Ms. Kim Gowing: I think it would also be important to note that the new individuals coming in after 2013 are paying a different rate, to take into account a lower rate for their pension plan because they are going to age 65.

Ms. Irene Mathyssen: Finally, in the briefing notes from you, Mr. Leroux, you talk about the expectation that PSP investments will continue to be strong, with positive inflows of capital until at least 2030. That date struck me as rather interesting because we've heard a lot of gloom, doom, and predictions of a collapse in regard to so many seniors. There will be 9.8 million by 2036, as compared to 4.8 million now.

I recognize that it's the general population, but the fact is that there's this strong growth, this positive inflow, in terms of the public sector, so it seems to me that those predictions of doom and gloom may be a bit exaggerated. The course we're taking in regard to the future of pensions in this country may be rather overreactive than reasonable in regard to the numbers and the facts that you're presenting.

The Chair: A brief answer please, Mr. Leroux.

Mr. Martin Leroux: Briefly, this reflects basically how the liabilities are expected to grow over time. We do rely on numbers and projections provided by the office of the chief actuary.

Jean-Claude, do you want to comment?

Mr. Jean-Claude Ménard: Yes. A decision was taken to finance service after 2000. That means that even if it's an old plan, to some extent it's a very young plan for services after the year 2000, which means that in terms of cashflow, the contributions coming in are expected to be higher than the benefits—not the total benefits, but the benefits related to years of service after 2000. These contributions will be higher than these benefits until at least 2030 and maybe 2032.

The Chair: Thank you, Irene.

Ron Cannan.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

Thank you, lady and gentlemen, for an excellent presentation.

Following up from Ms. Mathyssen, I have a news alert: we're all getting older. The reality is that this is the demographic in Canada, but I guess it's like a fine Okanagan wine; we're getting better with age. Our workforce is in many cases working longer or living longer, so it's helping in that respect.

I have a couple of questions. One is to Mr. Leroux. First of all, you talked in your opening comments about the size of the pension fund. Is it one of the top three in Canada by size?

Mr. Martin Leroux: In terms of size, I believe we're number three?

Mr. Mark Boutet: No, we would be number five or six.

Hon. Ron Cannan: Okay.

Both Ms. Mathyssen and my colleague Peter Braid talked about trends within the industry. Mr. Ménard, you mentioned the trends. Maybe you could talk about industry trends from the private to the public sector. Either yourself or Ms. Gowing talked about how the pension plan is still very generous compared to what's happening within the industry and the private sector. Maybe you could compare the public and private sector and what's happening.

Mr. Jean-Claude Ménard: Well, the story is different, I would say.

Every year now, we are releasing on our website a fact sheet page on registered pension plan coverage. In that two-page fact sheet you can see that about 87% or 88% of public sector pension plans continue to be covered by defined benefit pension plans.

If you look at the private sector, and indeed if you look at the overall coverage first, about 6 million workers are covered by an employer pension plan, which is about 40% of the labour force. If you look at the trend now between defined benefit and defined contribution plans, you see that in the private sector about 24% of workers are covered by an employer pension plan.

It has been stable for the public sector, but it has decreased for the private sector.

● (1245)

Hon. Ron Cannan: Thanks for that comparison, because Chrysler announced on Friday that in both the U.S. and Canada they are moving to defined contributions, so there is a two-tier system happening within the private sector as well, which is of concern to some of the folks and a reality of what is happening in the industry.

I know that my colleague, Minister Menzies, has worked very hard also in coming up with another alternative for the private sector to try to come up with a registered pension plan. From your perspective, have you had any input in that, in the consultation process?

Mr. Jean-Claude Ménard: I didn't have any input on this. This initiative is called the pooled registered pension plan.

I have two observations to make. I would say the first is that size matters. Indeed, I think Bill Morneau released a report for the Ontario legislature and said in his report that in order to achieve efficiency, or in terms of returns, any fund lower than $40 billion might incur expenses that will be detrimental to the plan members.

To some extent, this idea, this planned pooled registered pension plan, is to permit all Canadians to pool their assets, to put their retirement savings together, and then achieve, first, better returns, and also lower administrative expenses.

Hon. Ron Cannan: So about $40 billion in Canada is the break point. Is that what you're saying?

Mr. Jean-Claude Ménard: According to Mr. Morneau's report, and based on his study, after $40 billion you start to get interesting returns with reasonable expenses.

Hon. Ron Cannan: Mr. Leroux, I think you said that $64.5 billion is what you're at right now.

Mr. Martin Leroux: Yes, it is.

Hon. Ron Cannan: Following up, maybe somebody can share with the committee the review of the governance structure as defined by the secretariat's oversight role as it relates to the public sector plan. It was recently reviewed. Maybe you could share the findings with the committee.

Ms. Kim Gowing: I'm sorry. Which report?

Hon. Ron Cannan: It was the review of the governance structure as defined by the secretariat's oversight role as it relates to the public sector pension plan.

Ms. Kim Gowing: I believe you're referring to the 2011 report on the—

Hon. Ron Cannan: That's correct.

Ms. Kim Gowing: Within that report, it was found that the overall governance in and of itself was well managed; however, there needed to be more of the defined roles and responsibilities within Treasury Board. We've currently struck an ADM governance committee to review the governance to enhance it even further.

The Chair: Ron, I'm afraid your time is.... Could you could wrap it up, please? You're over your time.

Hon. Ron Cannan: Sure. I just have a question.

In 2011-12, there was an audit of the Treasury Board of Canada Secretariat's management control framework of the public service pension plan. Can you tell us what the Treasury Board has been working on to continue to meet these requirements?

Ms. Kim Gowing: We're continuing to work at improving the control frameworks. We're currently doing a lot of process mapping and following the recommendations of the audit.

The Chair: Thank you, Ron.

Thank you, Ms. Gowing.

That actually finishes our time for questioning the panellists.

We want to sincerely thank all the panellists for their presentations. It was very interesting, and it's very helpful for us to get a better grasp of this significant area of statutory spending by the federal government.

Thanks to all of you.

We're going to suspend the meeting briefly and reconvene in camera for five minutes or so to discuss future business.

Thank you again, Ms. Gowing, Monsieur Leroux, and Monsieur Ménard.

[*Proceedings continue in camera*]