HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Public Accounts

PACP • NUMBER 031 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Wednesday, June 4, 2014

Chair

Mr. David Christopherson

Standing Committee on Public Accounts

Wednesday, June 4, 2014

● (1650)

[*English*]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I call this 31st meeting of the Standing Committee on Public Accounts to order.

Welcome to our guests. Our apologies for the inconvenience. I want to let you know that there's another bell coming in about a half an hour. It doesn't necessarily mean we have to rise. It does mean we will need the unanimous consent of the committee to continue.

I also need to advise colleagues that we need at least a five-minute committee meeting to talk about the next steps; otherwise, we don't have any. We do need a couple of minutes. If the bell is going to happen in a half an hour, and it is a half-hour bell, we could go until the regular time of 5:30, with unanimous consent. We could then shave off between five and ten minutes before that so that we could do committee business. We can either decide that now or I can bring it to your attention as we get closer to the end of the meeting.

Mr. Albas.

Mr. Dan Albas (Okanagan—Coquihalla, CPC): Mr. Chair, I really want to get to the witnesses so I'll be brief.

I like the second suggestion where you bring it up at that time. The reason is that we have a number of members who would like to ask questions and I'd like that to be the focus for today. If that means letting all the time expire, that's fine with me. We could always look to Monday as a time to do some planning for other activities. This is the Conservative choice and we asked specifically so many people to come here. I'd like the focus to be on the witnesses and their testimonies today.

The Chair: Agreed. I hear you. I would mention that we don't have a lot.... The only real committee work that we have is planning our business where we're caught up on the drafts. I leave that with you. I agree that we can go that second way.

Let's get going. Is everybody ready to get into a round of questioning?

Some hon. members: Agreed.

The Chair: Okay good. There is one last thing before I do. I have the pleasure to bring to the attention of colleagues that Assistant Commissioner Gilles Moreau will be celebrating his 35th anniversary with the RCMP tomorrow. Congratulations, sir. Well done.

A/Commr Gilles Moreau (Director General, Workforce Programs and Services, Royal Canadian Mounted Police): Thank you.

The Chair: It's good news. Take it because you never know how the rest of the meeting is going to go.

A/Commr Gilles Moreau: I'm only costing you 30% of my salary.

The Chair: Colleagues, we will begin. Mr. Falk, I'll look to you for leadoff. We'll give you a moment to get yourself up to speed.

Mr. Falk, you have the floor, sir.

Mr. Ted Falk (Provencher, CPC): Mr. Chairman, thank you for your patience with my delinquency. I'd like to direct my questions to Mr. Watson.

Mr. Watson, one of the questions I have to start off with is, how much will future taxpayers have to pay with respect to the pre-2000 pension liability?

Mr. Daniel Watson (Chief Human Resources Officer, Treasury Board Secretariat): The pre-2000 liability, I believe, is $150.1 billion. The chief actuary is nodding his head. There are contributions that have already been made against that. My colleague from the Department of Finance could talk about the specific treatment of it. Those are the total liabilities that are there today. There are contributions that have been made against those liabilities that point to the past before 2000.

Mr. Ted Falk: What kind of consequences could that create for taxpayers going forward?

Mr. Daniel Watson: One of the things the Government of Canada has done, and been a leader on, is ensuring that those liabilities are clearly understood and that they're fully stated in all our public accounts. There are no surprises there at all. My colleague from the Department of Finance could provide a little bit more detail on that front. We collected contributions on that and the liabilities are well established and in the public accounts.

Mr. Ted Falk: Okay. Thank you.

As far as the plan, how are the investment returns for the plan and when does the plan expect to return to a surplus position?

Mr. Daniel Watson: The plan has been performing very well over the last 10 years. It beat the target rate considerably. The target rate, as we talked about last week, was 4.1% on an actuarial basis in real terms. It has performed at approximately 6.1% over that time period, including in one of the most significant meltdowns in the recent history of the stock market.

Mr. Ted Falk: That's a very good return.

Can you also tell me if all three pension plans are lumped together as far as looking at it as an investment is concerned?

Mr. Daniel Watson: From the post-2000 period, yes, they are. They are all managed by PSPIB. My colleague Mr. Valentini would be able to speak to some of the specifics there, but yes, they're all invested in the same accounts—

● (1655)

Mr. Ted Falk: As far as investment.... Okay.

What would your views be on the C.D. Howe Institute's criticism of the government's accounting standards used to report pensions?

Mr. Daniel Watson: I'm working hard on managing the plan that I am managing and working with folks on that. I would say that we follow all of the required standards for reporting. I would note that the Auditor General has seen fit to give us an unqualified opinion 15 years in a row of the *Public Accounts of Canada*, which, to the best of my knowledge, no other major country in the world has come close to.

Mr. Ted Falk: Okay, Mr. Chairman. I'm satisfied.

The Chair: Thank you.

Monsieur Giguère, you have the floor, sir.

[*Translation*]

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): Thank you, Mr. Chair.

My apologies to all the witnesses for the vagaries of the votes here on Parliament Hill.

My first question is essentially about your overall view. When I read the document that was submitted, I noticed that the studies were all done with a view to the short term. It would have been useful to see objectives for the very long term, especially since we're dealing with pension funds.

What would have been the macroeconomic benefit of investing the full $151 billion in obligations and transferring them to the pension fund post-2000?

As far as the Department of National Defence is concerned, it is currently facing problems related to veterans. Is it a structural problem or purely a temporary one that can be fixed with a few administrative reforms? Should the responsibility for veterans pensions have been returned to the Department of National Defence?

Funded pension obligations apply to crown corporations such as Canada Post, the Canadian Mortgage and Housing Corporation, VIA Rail Canada and CBC/Radio-Canada. Would it have been preferable to put them all in the public service pension fund?

If we look 20, 30 or 40 years down the road, what is your objective for the fund from a macroeconomic standpoint, in order to support Canadian investments? Is that kind of information relevant? If so, can we expect that kind of research to be done at some point?

On the subject of the RCMP, what would the long-term consequences be of police officers unionizing?

In short, talk to us about your plan for 15, 20 or 30 years down the road, when those pension obligations will need to be used.

Mr. Daniel Watson: I'll start with the question on the crown corporations. Some 40 crown corporations are part of our plan. So the connection in that respect is already quite strong.

As for the post-2000 fund, we are precisely in the midst of planning for the next 15 to 20 years or so. My colleague Mr. Valentini could talk about that.

It really changes the kinds of investments those people have to make. In fact, they haven't yet begun to pay out of the fund because the first ones go back just 14 years, to 2000. That means an entirely different strategy can be used, as opposed to what would have been necessary if they had to start making monthly payments as of today.

That is mainly what I have to say on the subject. Mr. Valentini may wish to speak to how the fund is structured, since he knows he has another 20 or so years before having to make payouts.

Mr. John Valentini (Executive Vice President, Chief Operating Officer and Chief Financial Officer, Public Sector Pension Investment Board): I want to start by pointing out that our investment strategy is really focused on the long term. As far as what we manage post-2000 goes, we won't be paying out any pensions before 2030, I believe. That gives us the ability to adopt a diversified investment strategy as far as certain types of assets are concerned.

For example, in private markets, we have asset classes that are more liquid. Not having to sell assets gives us a competitive edge. I should tell you that our liquidity gives us one of the biggest competitive advantages we have.

We invest with a very long-term view. I think the fund's value will be much greater than $200 billion by the time we have to start paying out the first dollar in pension benefits. So we can benefit from what we call illiquidity premiums. They give us an advantage. They have already brought us some returns, as the results we just mentioned show. That's an important element as far as our performance management goes.

I'm not sure whether that answers your question.

● (1700)

Mr. Alain Giguère: If, every year, you continue to exceed by 2% your 4.1% target, the rate of return you need to meet your obligations, you'll have a tidy actuarial surplus in 30 years' time.

Mr. John Valentini: Indeed, a 2% surplus for 10 years would be considerable. Our real target is 4.1% given the risk level we assume in our portfolio. And if we do better than that, well that's great.

By the way, on the subject of the existing deficits, I should say that the most recent actuarial valuations are a few years old. Markets have been very kind over the past two years. Our actuarial valuations reflect numerous assumptions and factors, but if we take into account only the investment assumption, keeping all the others static, so at the level they were at two years ago, the deficit should virtually disappear. We estimate that our portfolio investment strategy should allow us to achieve a rate of return of 4.1%.

As for the $150 billion in unfunded obligations, it is our view that that will prove favourable. But that's not for PSP Investments to decide.

[*English*]

It's a policy issue.

[*Translation*]

As a corporation, we have the resources to manage those funds in the event the government decides to transfer them.

The Chair: Thank you.

[*English*]

Time has expired.

Before I go to our next speaker, I do want to ensure that we have it on the record that all of our guests and witnesses are the same, with the exception of Major-General David Millar from the Department of National Defence. He could not make it, so in his stead we have Commodore Lynn Bisson, the assistant chief of military personnel.

Welcome, and thank you for filling in for the Major-General.

Cmdre Lynn L. Bisson (Assistant Chief of Military Personnel, Department of National Defence): Thank you very much, sir.

The Chair: It's my understanding that Mr. Aspin and Mr. Carmichael would like to split their time.

Mr. Aspin, you have the floor.

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

Welcome to our guests.

In the past couple of years, our government has made some changes to the public sector pension plans, for example, raising the eligibility for full benefits from 55 to 60, and evening out the contributions at fifty-fifty.

Ms. Cheng, after reviewing the administration of these pension plans, would you say the government's changes would have a positive effect for taxpayers?

Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chair, the exercise we undertook was to see whether there has been an assessment of the sustainability of the public sector pension plans, including all three plans: the public sector, the RCMP, and the DND.

What was shown to us was the result of what came out from the analysis that supported the two measures the member has mentioned. They both have a positive impact on the liability moving forward. They alone, though, do not support the fact that there has been a full assessment of sustainability.

That was the observation we made in the chapter, along with the recommendation to suggest that a regular assessment be undertaken periodically.

Mr. Jay Aspin: Thank you.

The Chair: Mr. Carmichael.

Mr. John Carmichael (Don Valley West, CPC): Thank you.

Welcome back to our witnesses.

Ms. Cheng, I'm following up on my question to you from our last meeting, which seems like a long while ago. In your answer to me we agreed that the returns we were hearing about in this pension program, or series of pension programs, was pretty strong. But I notice that in your early chapters of this report, in paragraphs 1.11 and 1.12, you talk about “strong volatility and a prolonged period of very low interest rates” and about how the “longevity of Canadians has increased” and some of those issues.

From the perspective of our pension plans, are you finding, or do some of your colleagues have any information, that what we are experiencing is common globally, let's say, or throughout the world, in other areas where you might be able to compare like plans? Do we have any data as to how we compare with others in terms of our productivity?

● (1705)

Ms. Nancy Cheng: Thank you, Mr. Chair.

Thank you for the question from the member.

The scope of the audit relates to assessment of the administration of the three main pension plans we've outlined. It does not include an element of benchmarking. So as a result of the audit, we have not gone out to compare our plans and our situation with other plans.

Mr. John Carmichael: Okay. Thank you.

Mr. Watson, do you have any thoughts on that same question?

Mr. Daniel Watson: In terms of the assessment that we do regarding long-term sustainability and the comparisons to others, certainly PSPIB benchmarks itself against other pension plans in Canada. When it comes to questions of longevity and turbulence, these are all very much factored in as part of the work we do with the office of the chief actuary.

The PSPIB spends a lot of time working on these things. You'll find in their reports issues related to changes in salaries. I know the member had asked earlier about impacts of different labour relations issues. We factored in differences in salaries, differences in rates of return, differences in longevity. I think the last time we talked about the fact that there's a $7.7 billion cushion in there to deal precisely with questions like longevity. So these are all considered.

Mr. John Carmichael: Are your comparatives strictly within Canada as a rule?

Mr. Daniel Watson: The biggest ones we look at are the ones in Canada. We certainly follow trends from around the world. It gets very difficult to compare very different plans under different sets of circumstances, but we compare closely what's going on in the rest of the country.

Mr. John Carmichael: Great. Thank you very much.

The Chair: Thank you, Mr. Carmichael and Mr. Aspin.

Moving along, we're back to Monsieur Giguère.

You have the floor again, sir.

[*Translation*]

Mr. Alain Giguère: Thank you, Mr. Chair.

We're dealing with a governance framework that doesn't set out a funding policy. Usually, of course, a very long-term view is adopted. You don't build a pension fund in two or three years. The average public servant has about 36 years of service, I believe. So you have to have a planning framework that more or less reflects that 36-year period.

To what extent will you be able to correct that effect quickly and to bring us a funding policy plan?

Mr. Daniel Watson: The work on that will begin this year. We hope to receive approval in the next fiscal year. A lot of work has already been done in this connection.

For instance, PSP Investments has a document on its risk tolerance, which we are very familiar with. In it, the chief actuary has defined a number of risk elements that he examines on a very regular basis. The legislation itself refers to undue risk.

And clearly, we have established our own policies. We're almost ready to formalize that work. We'll be able to make some proposals in the next year. If approved, all that will happen in the next fiscal year.

Mr. Alain Giguère: I am going to echo what my colleague Mr. Carmichael said.

I've done comparisons with other plans, both public and private. Overall, Canada's plan is especially stable. Just think of the crisis in Europe. In many cases, the debt hadn't been taken into account in the budget. That wasn't the case here. A significant percentage of the post-2000 obligations are fully funded, which is really the way to go.

Generally, I am of the view that, despite the major corrections that need to be made, Canada's plan is quite sound. If I'm mistaken or if there are holes in my assessment, do not hesitate to correct me. However, generally speaking, it is my view that Canada has taken a very disciplined approach to its public pension fund.

● (1710)

Mr. Daniel Watson: Yes, I tend to agree with you there.

I would add one thing, if I may, coming back to a previous question of yours about the deficit.

The last financial evaluation dates back to March 31, 2011, and in the markets, we've seen a major change for the better since then. So we are hopeful that the deficit will have improved by the next evaluation. Clearly, we will have to wait for the formal evaluations and figures, but that is our expectation.

[*English*]

The Chair: You have two minutes.

[*Translation*]

Mr. Alain Giguère: My next question is for the official from the Office of the Superintendent of Financial Institutions.

When actuaries forecast average performance results, they usually expect some years to be good and others to be bad.

We have come through a tough period. Over 40 years, is it likely to bring things down or to even out as far as long-term actuarial studies go?

Mr. Jean-Claude Ménard (Chief Actuary, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions): Thank you, Mr. Chair.

The actuarial report provides a number of scenarios. Stocks can generate additional returns, but they're volatile. Different scenarios show that, to the extent that future asset class correlations are consistent with what we've seen in the past, there could be a negative return of 10%, for example, once in 10 years, but there could also be a positive return of 22.6% another year.

Our assumption as far as achieving a real rate of return of 4.1% is consistent with Canada's top ten pension funds, including the Ontario Teachers' Pension Plan and Quebec's Government and Public Employees Retirement Plan, known as RREGOP.

What's more, as the Auditor General mentions in his report, current interest rates are quite low. We take that into account, such that, over the next 5 or 10 years, we aren't projecting 4.1%, but rather 3.3%, which is even lower. So we recognize that interest rates are low and that our assumptions could be more difficult to achieve in terms of capital markets. That could, however, also lead to an increase in liabilities. Obviously, if you compare 3.3% with 6.1% and PSP Investments continues to see good returns, the deficit will disappear much more quickly.

The Chair: Thank you kindly.

[*English*]

That's our time. Thanks to both of you.

Mr. Hayes, you have the floor, sir.

Mr. Bryan Hayes (Sault Ste. Marie, CPC): Thank you, Mr. Chair.

This is going to focus on the pension buyback.

Mr. Watson, I'm looking at the AG report and paragraph 1.20 states:

> According to the Secretariat, the government could generate significant savings if service buybacks were reviewed. The Secretariat believes that the current method of costing them (based on contributions and interest) does not provide an accurate reflection of the true cost of the liability of the service being bought.

For the RCMP, according to their plan, their service buyback provisions “better reflect the true cost of the liability”.

I'm trying to understand why the two plans are different. Is there an intention to align these? I would think that all buyback plans would be identical. I would appreciate your comments on that.

Mr. Daniel Watson: I think this goes to the governance questions that were raised in the report and that we agree with fully.

Over time, plans developed in different ways and there were different practices historically. It's time now that we accept what the Auditor General has recommended and improve some of the governance issues. Buyback would be a good example of the type of thing where we need to look at the best practices across all of the different plans that we've had over time. It's a situation where we had a particular approach that might have been fine at the time, but strategies change, and understandings of how best to do it change. It's time for us to get to that work, and we will go ahead and do that.

I don't know if my colleague Ms. Gowing has anything to add to that.

Ms. Kim Gowing (Director, Pensions and Benefits Sector, Treasury Board Secretariat): With respect to the service buybacks, yes, we're aware that we need to bring how we do the methodology in line with the RCMP and the Canadian Forces. However, we wish to look at it from a holistic approach, that all the plans are aligned that way, and we're going to get that work done.

● (1715)

Mr. Bryan Hayes: Is there an anticipated timeline when something like that might be considered and implemented?

Ms. Kim Gowing: We're looking to get something in line probably in the year 2015-16.

Mr. Bryan Hayes: Mr. Moreau, do you have any comments? I expect you probably agree with what's being said, but you might like to add something.

A/Commr Gilles Moreau: Absolutely. I think the plan needs to be aligned. Of course, our pension buyback provisions have been changed, about three years ago. That's why they're perhaps more reflective of today's reality compared to others that were older. We used that opportunity to put them into today's reality. We did that with the Treasury Board Secretariat, in consultation with them.

Mr. Bryan Hayes: Thank you.

Ms. Cheng, you mention this in paragraph 1.17: “For the purpose of this audit, we examined selected responsibilities assigned through legislation.”

For me as a legislator, or for all of us on this committee, would you recommend that legislation be amended in any way to change the responsibilities of the President of the Treasury Board, the Minister of National Defence, and the Minister of Public Safety? Was that a recommendation that came out, that as legislators we should be looking at changing the legislation in some way?

Ms. Nancy Cheng: Mr. Chair, the recommendation we made was to the departments and agencies involved, the entities involved, to see how they can work together within the current legislative framework. Now, if the legislators see fit to streamline that and make it easier for the various departments and agencies to do so, so much the better, but the recommendation wasn't begging for legislative change.

I think that in the responses you see good agreement from all parties involved. They feel that they have the mechanisms and ways in which to work within that legislative framework. We're not prescriptive in terms of suggesting that legislation needs to be amended.

Mr. Bryan Hayes: Mr. Ménard, how many of you actuarial folks exist in Canada? Do you meet on a regular basis to kind of compare notes?

I mean, you bring forward different scenarios, and plans are built around those scenarios. We need, obviously, a level of confidence that the scenarios you're bringing forward are realistic. I don't doubt that they are, but what can you tell me in terms of your field and how you determine different scenarios?

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

I am a member of the Canadian Institute of Actuaries, which has more than 2,000 members across Canada.

Perhaps I can use your question to explain this. Of course when we do assumptions, for example, we have to consult with experts and with our colleagues in Canada, but for the Canada pension plan, an independent peer review was put in place in 1999. It's three actuaries from the private sector, and sometimes they're academics, who look at the most important assumptions.

I want to talk about two assumptions that have an impact on the Canada pension plan and/or the public service pension plan: one is longevity improvements, and two is the real rate of return on investment. In the most recent peer review report, which was published in May of this year, they said, “Well, mortality, fine; but if we were the guys who'd selected the assumptions, maybe we'd have used a different assumption.” They were looking at more improvements, something that was raised in the report of the Auditor General. On the other hand, for the real rate of return, they looked at our assumptions and they said, “Well, in our reviews, maybe you are too prudent.”

Among the ten major assumptions, for three they would have selected a different assumption. For inflation, they would have selected 2%; we have 2.2%. For mortality, the improvements were as I said, and the rate of return on investments.

This process is extremely important for us to recalibrate, let's say, and consult more when there's a need for that.

The Chair: *Merci.*

The time has expired.

Madam Jones, you have the floor.

Ms. Yvonne Jones (Labrador, Lib.): Thank you again to our guests, not just for your information, but for your patience as well.

My question is relative to paragraph 1.12. It's interesting when you look at the longevity piece and what's happening in Canada with regard to the pension plan. You start making a comparison. As you noted in your report, in 1970, for instance, in the public service, a normal person had 41 working years and 14 retirement years. In 2010 that was 39 working years and 23 retirement years.

It's amazing and startling when you look at those numbers and you start realizing the impact they have on the pension plan in the country and the challenges of ensuring the sustainability of that plan.

I realize that the decisions in the 2012 budget were made obviously to maintain the sustainability of the plan and, hopefully, to increase the savings over a period of time. I think the year you quoted was the 2017-18 fiscal year.

I have two questions. One thing you note in your report is that while there is a trend for longevity to increase, and you expect it to continue into the future, you're expecting it to increase at a slower pace. I'd like to know which indicators allowed you to draw that conclusion.

Also, do you think the government's raising the pensionable age by five years and increasing the employee's share of contributions to 50% will be adequate in terms of sustainability, or will we be looking at further changes that could come within the next few years?

● (1720)

Mr. Daniel Watson: Mr. Chair, thank you to the member for the question.

I'll start with the second question. It's not the type of thing you can simply do once every five, 10, or 35 years to make sure the plan is working. You have to look at it on a constant basis. There's everything from the 90-day reports we get from PSPIB to look every 90 days at how the funding is working to the work we are constantly doing with the office of the chief actuary to revisit not only the assumptions we've made but whether or not there are other assumptions we haven't thought of yet that we should bring in. There is constant analysis and review of changes in things like longevity or mortality rates, morbidity rates, and other things like that. There is the type of work the chief actuary has talked about in terms of working with his peers to make sure the analysis that his office brings to it is constantly as up to date as possible.

Then we also look at the nature of the plan itself, which goes to the work, for example, that we need to do on the funding plan that recognizes the cycle of life that the pension plan is in. Obviously our obligations in the post-2000 plan are very different from what they were in the pre-2000 plan. Bringing all of those things together is part of the key work we do to ensure sustainability. Again, you do that constantly, not just sort of periodically.

I'll let my colleague *l'actuaire en chef* talk to the longevity issues, because he's the real expert there.

Mr. Jean-Claude Ménard: I would like to raise three issues.

First, you mentioned the slower pace. We mentioned that there's already a provision of $7.7 billion to take into account the expected future improvements. Behind that number is that we are projecting a reduction of 40% in the mortality rates for those between the ages of 15 and 84, almost the same as over the last 40 years.

If you look at the work done, let's say at the international level, the country that is the most aggressive in terms of longevity improvements in the future is the U.K. It's doing that through what they call the continuous mortality investigation project. Although we are projecting that there will be almost the same number of people reaching age 90, the number of people reaching 100 will be very different. In other words, they have much more aggressive reduction in mortality rates for those between 85 and 100.

The point here is that it's very difficult for doctors and humanity to reduce mortality rates significantly at age 95. It's much more difficult than it is at age 65.

● (1725)

The Chair: Thank you.

Madam Cheng, I know you wanted to get in—you're anxious—so I'll give you 30 seconds to get your message in.

Ms. Nancy Cheng: Thank you, Mr. Chair.

To address the second question from the member with regard to the adequacy, the audit did not try to assess whether it was adequate. We asked the government officials to be able to show us, to demonstrate, that they assessed the sustainability. They showed us two measures whereby they made changes. They said there was additional work done, but we were not able to see that.

We received a management representation, but we cannot give you the assurance that the information has been audited.

The Chair: Very good. Thank you.

We have enough time now for a four-minute round from Mr. Albas.

At the conclusion of that, colleagues, I will adjourn. We do have at least one other piece of business, as well as future business, to look at between now and the rising. When Mr. Albas concludes, I will thank our guests and adjourn the meeting.

You have the floor, sir.

Mr. Dan Albas: Thank you very much, Mr. Chair.

Thank you to our guests.

Mr. Watson, we were talking last time about the secretariat improving its capacity by hiring staff. I'd like to go to paragraph 1.49: “The issue of intergenerational fairness was also addressed in the draft policy”—going back to what Mr. Hayes was discussing —“and in later documents. However, at the time of our audit, the policy had yet to be completed.”

Can you let us know whether or not this has been looked at, and worked on, by the secretariat?

Mr. Daniel Watson: Yes, and we will continue to work on it. It was something that was part of our earlier work. Again, we haven't completed it, but we continue that work. That is a very important part for us, to make sure that you don't have one generation paying for another in an unfair way. In fact, we're trying to set up the plan so that each generation pays for itself as it reaches retirement.

Mr. Dan Albas: I think that's very, very important to note, especially considering that people who are working today are paying more into their pensions. That they will be paying, effectively funding half of their retirement, I think is a good thing.

To Assistant Commissioner Moreau, congratulations on 35 years.

A/Commr Gilles Moreau: Thank you.

Mr. Dan Albas: I'm very happy that you got some kudos earlier from my colleague; however, I just wanted to add my congratulations.

In regard to the obligations vis-à-vis pension plans, there's a comment in paragraph 1.68 that states: “The RCMP, for example, argued that it would be risky to implement governance principles that are not specifically set out in legislation.” What we heard from Ms. Cheng earlier was that there was agreement from all parties that different departments....

Again, I liken it to a trustee position. Legislatively, you've been given the task of creating a pension for your members. It may not be spelled out in legislation that you have a trustee role. Would you say that the RCMP has taken a step back from this particular opinion and is moving more towards a trustee position when it comes to governance and working proactively with other members, such as the Treasury Board Secretariat?

A/Commr Gilles Moreau: Absolutely. We do have that role of the trustee and we have been working in that fashion for all the years we've looked after the plan. We are committed to participating very, very actively in any new structure that the TBS will put in place, as far as governance is concerned, and to make sure that the plan is sustainable in the long term, and not only to just administer the plan but to be responsible for that as well.

Mr. Dan Albas: Why was the RCMP cited out for this? Has your opinion changed since going through this process?

A/Commr Gilles Moreau: I think it's basically to make sure that.... You know, we want to stay within the framework of the act that governs our pension plan, and we want to make sure that we follow those rules in the administration of it. But of course we always look at it in making the changes that are necessary legislatively. For example, with pension portability, what we introduced is something that is perhaps more modern than the other two plans. We did that working with TBS officials and in consultation with DND, and we will continue to do that in the future.

Mr. Dan Albas: Great.

I'll go back to the Treasury Board Secretariat, to paragraph 1.70, which states, “...there is a risk that not all aspects related to the appropriateness of the design and funding are adequately considered in various decisions.”

Will the creation of a senior interdepartmental committee facilitate a better approach to dealing with these kinds of issues, on design, etc.?

● (1730)

Mr. Daniel Watson: Yes. This process will bring, I think, a different type of rigour to work that we were already doing. As I think I described earlier, we think this will much better ensure that nothing falls between the cracks. We will have formal meetings at very senior levels to make sure that we consider all these issues directly.

Mr. Dan Albas: How much time do I have, Mr. Chair?

The Chair: You have 25 seconds.

Mr. Dan Albas: I'd like to direct a quick question to Mr. Valentini.

When I was on the government ops committee, I had the good fortune of listening to your presentation on the PSPIB investment in infrastructure in various countries. Partly because of the returns on that, it seemed to make sense, given that you have a very strong mandate: you can't put people's money at risk, but you have to return the 4.1%, or at least now, as Mr. Ménard has said, the 3.1% ratio of real return.

Does part of that have to do with infrastructure typically having more of a monopoly type of situation? It's more recession proof. Are those the kinds of assets that perform well even when the economy isn't doing well?

The Chair: Very briefly, please.

Mr. John Valentini: Your question is on why we invest in infrastructure assets?

Mr. Dan Albas: Yes.

Mr. John Valentini: It's partly about overall diversification strategy in infrastructure as an asset class. We call it a real return asset. It has less volatility than equities do, and it is very much linked to inflation. It is very attractive in an asset mix, in a pension plan, because of its attributes. Not only is it linked to a real return asset like inflation, but it's also a private asset, so you capture what we call an illiquidity premium.

There are not many investors who have the capacity to invest in these types of assets, because they are big-ticket items. We've done transactions of over a billion dollars. It's a less competitive environment, and less crowded. We're able to invest in these assets and hold them for a long term because of our liquidity advantage. We don't have to sell assets or pay out liabilities before the year 2030. For instance, we've made major investments not only in infrastructure, but in renewable resources, in forests, where the holding period for those investments are well over 10 years.

These are assets that will not necessarily provide 20%-plus returns. They will provide stable returns. They are less volatile and basically fit well in an asset mix in the diversification strategy because of their attributes.

Mr. Dan Albas: Thank you. I appreciate all the work you do.

To all of the witnesses today, I do appreciate your patience and your testimony today.

The Chair: Thanks, Mr. Albas.

Indeed, thanks to our guests.

Commodore, you need to send an e-mail to Major-General Millar and let him know that you're not sure what the big deal was, that this was a piece of cake.

Voices: Oh, oh!

Cmdre Lynn L. Bisson: I'll make sure I do that, sir.

The Chair: Thanks for your presence today, Commodore, and to all of you, thank you for your indulgence. Our apologies for the inconvenience of interrupting this. It makes it no less important. Thanks very much to all of you for your fulsome answers.

Colleagues, we now stand adjourned until our next usual meeting, where we will be meeting to do business.

This meeting now stands adjourned.