QUESTIONS AND ANSWERS

The Public Service Pension Plan: Sustainable, Cost-effective, Fair, Good Value

Sustainability

1. Is the PSPP financially sound and sustainable?

Yes. The past decade or so has been a very challenging one for pension plans, and for all investors and savers. Nonetheless, the PSPP has proven to be financially stable. The funding history below demonstrates how the PSPP's finances have been affected through this period of economic volatility.

The Public Service Pension Plan's funding ratios over the past decade have been:

- 2017 - 108 per cent
- 2014 – 101 per cent
- 2011 – 98 per cent
- 2008 – 103 per cent

The bond rating agencies that establish credit ratings for governments appreciate the value of BC's strong public sector pension plans. They cite this strength as a factor supporting BC's triple-A credit rating.

2. How does the PSPP monitor and manage its sustainability?

The pension plan's valuation process monitors and manages its sustainability. An actuarial valuation is performed at least once every three years. The intent of this process is to keep the plan fully funded to meet its current and future liabilities. If the valuation reports an unfunded liability, plan member contribution rates and employer contribution rates are increased equally to pay off the unfunded liability over 15 years.

3. British Columbia's population is aging demographically. Won't the PSPP pensions place a growing burden on the next generation of BC workers, employers and taxpayers?

No, the PSPP is a pre-funded pension plan. In a pre-funded pension plan (unlike in a pay-as-you-go pension plan) each generation pays for its own basic lifetime pension benefit by pre-funding them. The PSPP's funding policies and actuarial methods strive to maintain stable contribution rates so that each generation will receive comparable value from the plan.

Cost-effective

1. Are the PSPP's pension benefits "gold plated"?

No. The PSPP's pension benefits are designed to help provide an adequate retirement income when combined with CPP benefits and other potential sources of retirement income. The table below shows what pension amounts BC's public sector pension plans were paying out as of their last fiscal year (all figures are annual figures).

Annual BC public sector pension payment amounts (dollars per year)

	Municipal Pension Plan for the year ended December 31, 2017	**Public Service Pension Plan** for the year ended March 31, 2018	**Teachers' Pension Plan** for the year ended December 31, 2017	**College Pension Plan** for the year ended August 31, 2018
Median annual pension	$12,400	$17,900	$30,500	$19,800
Average annual pension	$17,500	$21,700	$30,500	$22,200

(Average pensions reflect the total of all pensions paid for the plan, divided by the total number of recipients in the plan. In the case of median pensions, half of the pensions paid are greater than this amount and half of the recipients receive less. All figures include the bridge benefit.)

2. Is the PSPP burdened by high administration and financial management costs?

No. The Public Service Pension Plan is efficient and well administered. Its large scale and professional management enables it to operate very efficiently. The total cost of investment management and pension administration for this plan is about one half of one per cent. Individual investors frequently pay between one per cent and 3.5 per cent for investment management fees.

3. Is the PSPP a costly benefit for the taxpayers to provide?

Not really. In the Public Service Pension Plan, investment returns pay for most of the pension benefits. During the course of a member's career, the contributions paid by the plan member and by the employer will together account for about 25 per cent of the pension benefits that are eventually paid out. About 75 per cent of the pension payments are provided from the investment returns. By funding public service pensions in this manner, it is a very cost-effective use of taxpayer funds and member contributions.

Fairness

1. Is the PSPP a fair arrangement for the taxpayers?

Yes. One third of Canadian seniors currently receive the Guaranteed Income Supplement (GIS) which is an income-tested pension paid from federal tax revenues. Most PSPP members will have enough PSPP pension income to lift them above the range of eligibility for GIS. Rather than being supported by taxpayers, their incomes will be generated by their own prior contributions, by matching contributions from their employers and by investment returns on those contributions. In contrast, employers who do not provide pension benefits to their employees are effectively relying on future taxpayers to support those employees in their old age.

2. Is the PSPP a fair arrangement between the older generation and younger generations?

Yes. Because the PSPP is pre-funded, each generation pays in advance for its own basic lifetime pension benefit. The PSPP's funding policies and actuarial methods strive to maintain stable contribution rates so that each generation receives similar value.

3. Are the costs of the PSPP shared fairly between employers and employees?

Yes. The PSPP is jointly funded, and employers and employees make approximately equal contributions to the PSPP. These contributions are invested over a very long timeframe. When the benefits are eventually paid out, they come approximately 75 per cent from the investment returns and 25 per cent from the contributions that were paid into the plan by the employees and employers. Both the employers and employees benefit from the very efficient and professional management of the plan.

In private sector pension plans, a common arrangement is that the employer makes all of the contributions and bears all of the costs of the plan.

4. Are the financial risks of the PSPP shared fairly between employers and employees?

Yes. Overall, the employees actually bear more than 50 per cent of the PSPP's risks. If funding for the PSPP's basic pension benefit falls below what is required by the plan's funding policy, then both plan members and plan employers equally bear a temporary contribution rate increase that will amortize the shortfall over 15 years. If actuarial surpluses subsequently arise, then contribution rates can be reduced more quickly. The risk of contribution rate increases is shared equally. For the other (contingent) benefits offered by the PSPP (inflation adjustments and some retirement group health benefits), adjustments required for financial sustainability are made by limiting the benefits. The plan members bear all of the risk associated with these contingent benefits.

5. Do the PSPP's governance arrangements contribute to the overall fairness of the plan?

Yes. Since moving to joint trusteeship in 2001, the plan is governed by the Public Service Pension Board of Trustees. The trustees are obliged by law to act evenhandedly with respect to the interests of different members, and to give consideration to the interests of all members when making decisions. The trustees themselves reflect in their backgrounds the various employer and member groups participating in the PSPP. They bring diverse perspectives to the board table, but they must act together in the best interests of all members.

The PSPP is a recognized leader with respect to plan governance arrangements.

6. Are the current pension arrangements in Canada fair to private sector workers?

No. The Public Service Pension Board of Trustees (PSPBT) would like to see private sector employees also having access to adequate and efficient occupational pension plans. Canada's retirement income system has been built on a foundation of having three roughly equal "pillars" supporting the system (1. Old Age Security and the Guaranteed Income Supplement; 2. the Canada Pension Plan and the Quebec Pension Plan; and 3. personal pensions including occupational/workplace pensions and registered retirement savings plans). It is unfortunate that part of the third pillar has been failing due to the erosion of occupational pension plan coverage in the private sector. Occupational pension plan coverage in the private sector has fallen to 25 per cent of employees. The PSPBT strongly believes that all Canadian workers should have access to adequate and efficient pension coverage. The PSPBT actively pursues this objective by making submissions to pension policy reviews when appropriate, and sharing its experience and expertise on pension plan design and governance.

Value

1. Do PSPP members get good value from the plan?

Yes. As members of the PSPP, employees can provide for their retirement income needs much more efficiently and effectively than they would be able to individually. They benefit from matching employer contributions, from the pooling of risks across a large group, long-term investment returns, and from being able to access large-scale, very efficient, professional investment and administration services.

2. Do PSPP employers get good value from the plan?

Yes. The PSPP is a valued employee benefit that assists employers with employee recruitment and retention. By participating in the PSPP, employers can provide a good pension benefit at lower cost and with less risk exposure, less administrative burden, less need for pension expertise and less distraction from their core mission, than if they were to provide their own single-employer pension plans. This valued benefit becomes a cost-effective component of the total compensation package that they provide to their employees.

3. Does the PSPP provide good value to taxpayers?

Yes, membership in the PSPP is a very cost-effective component of the total compensation package provided to many public sector workers. Alternate forms of compensation required for recruitment and retention could be more costly.

In addition, most PSPP members will have enough PSPP pension income to lift them above the range of eligibility for GIS. Rather than being supported by taxpayers, their incomes will be generated by their own prior contributions, by matching contributions from their employers and by investment returns on those contributions.

4. Is the PSPP also good for the economy?

Yes. Together, BC's public sector pension plans form one of the best-funded systems of public sector pension plans in Canada. The international bond rating agencies cite the strong public sector pension plans as a significant factor supporting BC's triple-A credit rating.

The PSPP and the other public sector pension plans in BC also serve as a major source of patient long-term capital, and they provide stable reliable incomes for many British Columbians. This helps stabilize consumption and demand during challenging economic times.