



## *StraightTalk*

# British Columbia's Public Sector Pension Plans: A source of strength for the economy

BC's public sector pension plans are good for the BC economy, communities and individual plan members. The international bond rating agencies cite BC's strong public sector pension plans as a significant factor in supporting the province's triple-A credit rating.

One out of every nine British Columbians is a member of a BC public sector pension plan. In 2013, (the most recent year data is available), BC's four multi-employer public sector plans collected more than \$3 billion in contributions from members and employers, and paid almost \$3.5 billion in benefits. Investment income for 2013 was about \$10.9 billion, though it's important to note that contributions are invested over the life of plan members.

These pensions help the BC economy by supporting consumer spending and through investment of capital, according to a 2013 Conference Board of Canada report on the economic impact of BC's public sector plans.



Income and spending in BC is about \$1.3 billion higher each year because of the savings in the BC public sector pension plans. Investments and benefits paid from the plans create approximately 8,000 jobs a year – enough to support a city the size of Cranbrook.

The plans in BC also serve as a major source of long-term capital, and they provide reliable incomes for many British Columbians. This helps stabilize consumption and demand during challenging economic times. Between 2012 and 2035 the higher savings rate of BC's public sector plan members is expected to result in around \$60 billion more investment in real estate, infrastructure, and private equity, and just over \$85 billion (\$65.6 billion in 2012 dollars) in the gross domestic product (GDP).

And there's evidence that BC public sector pension plan members tend to have increased financial security. Most plan members will have enough pension income to lift them above the range of eligibility for



Investment returns



the Guaranteed Income Supplement (GIS), a supplemental payment to the Old Age Security (OAS) pension that is provided by the federal government to low-income seniors. The Boston Consulting Group recently reported that defined benefit pensions reduce the annual GIS payout by approximately \$2 to 3 billion annually. While only 10 to 15 per cent of defined benefit beneficiaries collect GIS, between 40 to 45 per cent of other retirees collect GIS.

Plan members' own contributions, their employer's matching contributions and investment returns on those contributions will generate their income rather than having to receive support directly from taxpayers.

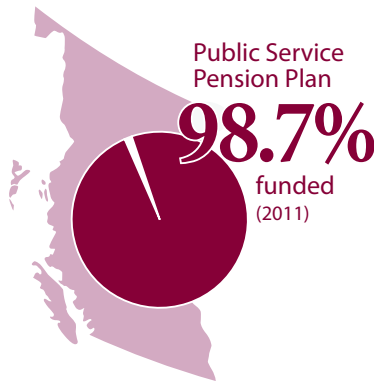
Up to 75 cents of each pension dollar paid out comes through investment returns, which in turn comes from sound funding policies and "best in class" investment returns at home and abroad.

Plan members make contributions to their plans throughout their careers, and those contributions are invested by some of the world's top investors. A study by the Boston Consulting Group found that at the end of 2011, more than 35 per cent of the retirement assets in Canada, then totalling upwards of \$714 billion, were directly invested by Canada's top 10 public pension plan funds. The investment manager for BC's public sector plans, the British Columbia Investment Management Corporation (BCI), is among the top 10.

BC's public sector pension plans are well funded according to the most recent actuarial assessments.

The funded status on a going-concern basis for all the BC public sector pension plans exceeds 95 per cent.

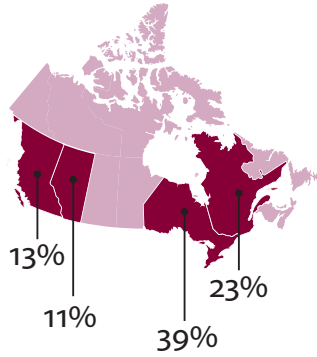
In its 2011 review of 451 American and Canadian pension plans, the rating agency DBRS found that more than two-thirds of plans reviewed were underfunded by a significant margin (which it defines as a funding level less than 80 per cent of pension liabilities, or the money promised to retirees).



## Who belongs, who benefits

BC's public sector pension plans have approximately 525,000 members, including 157,000 retired members as at December 31, 2013. Total membership has remained stable over the past decade; and it has slightly increased as a percentage of total population, according to data from Statistics Canada.

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BC has the third highest defined benefit membership in the country. Of all Canadian employees who are members of defined benefit pension plans, 13 per cent live in BC. Echoing population, Quebec has 23 per cent, Ontario 39 per cent and Alberta 11 per cent of defined benefit membership in the country.

When combined with the Canada Pension Plan, OAS and individual RRSPs, defined benefit pension earnings constitute about 18 per cent of all earnings in small towns. This is particularly important to the economies of smaller communities, especially those whose populations are demographically skewed toward older Canadians (such as Parksville) and whose local economies benefit from their expenditures on goods and services.

## Benefits reinvested into the economy

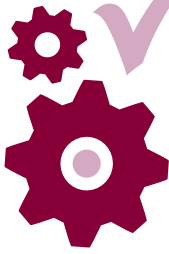
BC public sector pension plan members have more income in retirement and this leads to a larger economy. The benefits paid out to public sector members flows back into the BC economy in the form of consumer spending and taxes, generating business growth and employment, and generating revenues for the provincial government. The Conference Board estimates that the increased spending in retirement generates about \$60 million (2012 dollars) per annum in higher provincial income tax revenues through the savings effect (how members' improved asset position in retirement leads to greater spending).



For 2012, the savings effect in BC meant that retail sales increased by \$591 million. Payouts of public sector plans to members are reinvested in the provincial economy.

### Small towns, big benefits

The smaller the community, the larger the impact of pension benefits on the local economy, according to a study from the Boston Consulting Group. For towns like Nanaimo, defined benefit pensions form on average nine per cent of the total earnings in the community. Larger metropolitan areas like Vancouver have an average of six per cent.



### Key success factors of the BC model:

#### Valuable, cost-effective, sustainable and fair

BC's public sector pension plans are efficient, well administered, well structured and well governed. Clear legislation, policies, plan design and governance assist the BC public sector pension plans in facing unforeseen challenges that occur in today's world.

#### Pre-funded

##### *The BC plans are pre-funded.*

They are designed so each generation pays in advance for its own pension benefits. Investment returns pay for most of the pension benefits. The investments are managed by professional investment managers that take a long-term investment approach.

#### Shared costs

##### *Any increases in costs are shared*

and are not borne exclusively by either the employer or employee.

#### Efficient

##### *The large-scale and professional management enable the plans to operate efficiently.*

The total cost of investment management and pension administration for the BC plans is about one quarter of one per cent—significantly less than the 1 to 3.5 per cent in investment management fees that individual investors commonly pay.

#### Sustainable

##### *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.

#### Prepared

##### *Plan members are financially better prepared for retirement.*

They are less likely to cost the public purse through social programs and income assistance.

#### Increased savings

##### *Only one quarter of employees who do not have a trustee pension plan contribute to RRSPs.*

Through pension contributions and investment earnings, BC public sector plan members accumulate \$2.2 billion more every year than typical RRSP savers in the province.