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Public Sector Pensions:
Options for Reform from the Saskatchewan NDP

by Mark Milke, PhD, and Gordon B. Lang, FCIA, FCA

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Executive summary

This paper examines two sets of data: 1) registered pension plan coverage in Canada between 1974 and 2011, and 2) the record of major provincial pension plans since the year 2000 concerning contribution rates and plan-specific bailouts.

On the first set of data, there is an obvious divergence between developments in the private sector and the public sector status quo, both in the provision of such plans but also in the type (i.e., defined benefit or defined contribution). For example:

- In 2011, just over six million Canadians were enrolled in some type of registered pension plan (RPP). In the public sector, 87.1% of employees were covered by an RPP, up from 75.5% in 1978. In the private sector, just 24.4% of employees were enrolled in an RPP in 2011, down from 35.2% in 1978.

That divergence only reveals part of the story. A significant difference is also evident in the type of registered pension plan offered to those still in such plans.

- In 1974, of those enrolled in a registered pension plan, 98.8% of public sector workers were in a defined benefit plan, which had decreased to 94.0% by 2011. In the private sector, 88.0% of private sector workers were in a defined benefit plan in 1974 but that declined to 52.3% by 2011. In the private sector, significant growth has occurred in defined contribution and "other" registered plans.

On the second set of data, a look at major provincial public sector pension plans since 2000, it is clear that earlier actuarial assumptions contained in public sector pension plans were too optimistic, and that had consequences for public treasuries. As the second set of data shows, increased contribution rates and/or bailouts for public sector pension plans have been the norm among the major plans and not the exception.

Since the year 2000, taxpayers in most provinces have seen repeated increases in the contribution rates to public sector pension plans, this to ameliorate pension fund shortfalls. Specifically:

- Taxpayers in Alberta, British Columbia, Manitoba, Newfoundland & Labrador, Nova Scotia, and Ontario have seen significant increases in contribution rates to defined benefit public sector pensions;
- Increases in Prince Edward Island and New Brunswick have been modest;
- Quebec's Public Accounts do not list details about increased contributions;
- Saskatchewan created a different public sector pension model, a defined contribution plan, starting in 1977 (and which will be examined later in Part 3).

In addition, taxpayers have also been required to bail out the public sector pension plans through special payments. Some examples include:

- In Alberta, in 2002/03, the province made what was supposed to be a "one-time" payment of $60 million towards what is known as the "pre-1992" Teachers' Pension Plan liability. It made another payment of $1.2 billion to the same fund in 2009/10.
- In Newfoundland & Labrador, several pension plans have required "topping up." They include a $2 billion special payment into the Teachers' Pension Plan in 2006 and, for the Public Service Pension Plan, a $982 million special payment in 2007.
- In Ontario, the province has made special payments totaling $418 million towards the funding shortfall in the Public Service Pension Plan since 2007. The province is scheduled to make payments of $142 million per year for 15 years to pay down the remaining shortfall.
- Of note to Ontario, outside experts have complained of opacity in the province's books and assert that the province's pension risks are not fully disclosed. The Commission on the Reform of Ontario's Public Services, chaired by economist Don Drummond, summarized the problem in February 2012 when the Commission urged Ontario to "clarify who bears the ultimate responsibility for funding deficits of the public-sector pension plans as the Commission encountered considerable confusion on this issue."

A remedy from the Saskatchewan NDP: Move the public sector to defined contribution plans

Given the tight connection between the cost of public sector pension plans and the public treasury—and thus taxpayers—one notable Canadian-made option for reform comes from Saskatchewan. There, the province stopped adding to pension liabilities and did so with foresight over three decades ago. The NDP's 1970s-era reforms can serve as a useful model for long-term reform to any government, provincial or federal.

- The Saskatchewan NDP government under Premier Allan Blakeney recognized how defined benefit pension plans can lead to shortfalls.
- In the 1976/77 Public Accounts, the province was clear who would pay for such shortfalls: taxpayers. "Payments required… are recorded as expenditures for the year. These plans are therefore on a current cost basis…" noted the writer.
- In Saskatchewan's case, the NDP government enacted legislation to move much of that province's public sector from defined benefit plans to defined contribution plans for the general civil service. The change took effect October 1, 1977, and new civil servants were automatically enrolled.

The result: soon-declining pension obligations in Saskatchewan

The annual cost of defined benefit promises has continued to grow in Saskatchewan even though the plans were closed over three decades ago; that was expected given how Saskatchewan grandfathered existing employees in 1977. However, the shift to defined contribution plans clearly affected the potential for future pension shortfalls given that defined contribution plans by design cannot create a gap between promises and assets, as payouts result from contributions and the rate of return. Thus, the potential for new shortfalls in Saskatchewan's public sector pensions ended in the 1970s. As Saskatchewan's auditors-general have observed, future cash flows needed to fund defined benefits plans will continue to increase until 2021, then decline thereafter on a path that will permanently extinguish Saskatchewan's obligations to the long-closed public sector pension plans that presumed upon the tax dollars of future generations.

Summary of recommendations

Maintaining the status quo on public sector pensions presumes upon future generations. To avoid such a continued scenario, five recommendations are, in order:

Recommendation 1: Where missing, require and publish more transparent discussions about public sector pension risks for taxpayers

As the Drummond Commission found concerning Ontario, retirees, employees, and taxpayers rely on governments to be clear. Thus, accuracy and transparency are the first necessary reforms.

Recommendation 2: Publish total salary, benefit, and pension costs, in dollars and as a percentage of total revenues and total expenditures

Governments do not always make clear in their Budgets or Public Accounts their wage, benefit, and pension costs. Taxpayers should be able to open federal and provincial budgets, and later, the public accounts, and see what portion of each government's budget is dedicated to wages, pensions, and other benefits, both in real dollar terms and as a percentage of total expenditures.

Recommendation 3: Commission a review of public sector pensions

Following an example from New Brunswick, each government should announce a panel to review public sector pension liabilities. To avoid a conflict of interest, all panelists should be independent and not stakeholders in the pension funds.

Recommendation 4: Grandfather existing defined benefits accrued to date, but over time renegotiate aspects of such agreements to match private sector norms

Canada's governments should examine all options on both sides of the ledger—benefits as well as contributions. The goal here is to three-fold:

- to allow existing enrollees the choice to stay in existing plans, though not without reasonable reforms;
- to restore fiscal balance to provincial and federal budgets;
- to reform existing defined benefit plans to make them more similar to those in the private sector. (To use just one example, pension benefit calculations could be modified to reflect career-average earnings instead of, as is often the case, the average of the best five years.)

Recommendation 5: Move new employees into risk-managed, mandatory, defined contribution plans

- Moving new employees to a defined contribution model will end the potential for new long-term shortfalls to be created, as defined contribution plans by design cannot create shortfalls. Similar to how the Saskatchewan NDP ended the entry of new hires into public sector, defined benefit plans in 1977 and 1980, and thus moved much of the province's public sector to defined contribution pension plans, other governments should use enabling legislation to move new hires to mandatory defined contribution pension plans. The plan should be a pooled pension plan and risked-managed by the entity that already manages the existing defined benefit plans.

Introduction: Two important sets of data

This paper examines two sets of data—registered pension plan coverage in Canada between 1974 and 2011, and the record of major provincial pension plans since the year 2000 with regards to contribution rates and plan-specific bailouts by respective provincial governments.

As will be shown, two conclusions from the data stand out. First, on registered pension plans and over the last three decades, there is an obvious divergence between developments in the private sector and the status quo in the public sector. That is evident in both the provision of registered pension plans and in the type of plans offered (i.e., defined benefit or defined contribution). Second, it is clear that earlier actuarial assumptions contained in public sector pension plans were optimistic, which had consequences for taxpayers. As the second set of data shows, there has been a consistent need for contribution rates to increase and/or for governments to bail out public sector pension plans since 2000. From the taxpayer's point of view, that matters, because taxpayers pay extra when governments (or more broadly), the public sector, turn out to be incorrect on such matters.

After presenting the data, the third section of this paper highlights how one province, Saskatchewan, chose a different course on public sector pensions, and did so with foresight almost four decades ago. Under the 1970s-era New Democratic Party government of Allan Blakeney, the reforms enacted by the Saskatchewan NDP allowed the province to directly control how much taxpayers would contribute to public sector pension plans in the ensuing decades. Simply put, in defined benefit plans, governments guarantee pension benefits decades later and must hope contribution rates and returns on investments are adequate. Instead, with the introduction of defined contribution plans for new members of Saskatchewan's civil service, the NDP government was able to decide in advance how much public sector pensions would cost taxpayers: the cost is a function of how much the government decides to contribute in any given year and is clear at the outset. No long-term hidden costs that are dependent on a variety of assumptions are thus incurred.

Part 1: Trends in private and public sector registered pension plans

Pensions and retirement

Working Canadians save for their retirement in a variety of ways: mandatory contributions to the Canada Pension Plan/Quebec Pension Plan (CPP/QPP); employer-sponsored pensions; tax-sheltered retirement accounts (registered retirement savings plans); accounts exempt from tax (tax-free savings accounts); other assets such as housing, or holdings in publicly traded or private companies. All of the foregoing can and do provide retirement income for Canadians.

This paper will concentrate on one aspect of retirement income, registered pension plans, defined as "an employer-sponsored plan registered with Canada Customs and Revenue Agency and most commonly also with one of the pension regulatory authorities. The purpose of such plans is to provide employees with a regular income at retirement" (Statistics Canada, undated).

Defined benefits plans and defined contribution plans: definitions

Where registered pension plans are provided, employers offer one of two main types: a defined benefit plan or a defined contribution plan. A "defined benefit" plan "specifies either the benefits to be received by employees after retirement or the method for determining those benefits" (CICA, 2013: sec. 3250, Glossary). A "defined contribution" plan is one where "the employer's contributions are fixed, usually as a percentage of compensation, and allocated to specific individuals" (CICA, 2013: sec. 3250, Glossary). Simply put, defined benefit plans are designed to deliver a specific benefit in retirement and contributions are adjusted accordingly. The benefits of defined contribution plans, on the other hand, are determined by the accumulation of savings in the pension through both contributions and investment returns. In the latter type of pension, higher contributions and/or better rates of return mean higher benefits in retirement. Conversely, lower contributions and/or lower rates of return result in lower benefits in

retirement. (Other types of pension plans exist. This study and Statistics Canada group them in the "other" category.[1])

Both types are described in detail in the footnote below.[2] Critically, a key difference is that in defined benefit plans, retirement benefits are guaranteed no matter the contribution rates or investment returns. In contrast, in defined contribution plans, benefits depend on contributions and investment return.

A discussion of risk—including risk for taxpayers

In any discussion of pensions, the risk must be properly understood for eventual recipients, but also and critically, for governments and thus for taxpayers. On defined *benefit* plans, the Canadian Institute of Chartered Accountants notes the following: "When a government provides benefits under a defined benefit plan, it is at risk with respect to the amount of the benefit that each employee will receive (actuarial risk) and with respect to the investment returns on any assets set aside to pay for the cost of these benefits (investment risk)" (CICA, 2013: sec. 3250, para. 11).

On defined *contribution* plans, CICA notes that when a government provides benefits under a defined contribution plan, "it does not assume the actuarial and investment risks inherent in a defined benefit plan… [Instead, a government is only] required by the plan to make a specific fixed contribution each period [and] if that contribution is made, no additional government contributions are required now or in the future for the related service" (CICA, 2013: sec. 3250, para. 12).

1 One type of registered pension plan that falls into the "other" category is the "targeted" variety. It is described in more detail at the end of this report in an addendum.

2 ***Registered pension plans***
Explanations and definitions
A **defined benefit plan** is one in which members are promised a defined pension income upon retirement. This benefit depends on factors such as years of membership in the pension plan and the member's salary, but not the investment returns of the plan fund (Office of the Superintendent of Financial Institutions [OFSI], 2009: 3). Importantly, regardless of the exact formula and contributions to the plan in question, the retirement benefits are fixed and thus guaranteed.

In contrast, in a **defined contribution plan**, both employer and employee contribute to the plan. Retirement benefits result from those contributions combined with subsequent investment returns. By design, there is no promised level of guaranteed benefits (OFSI, 2009: 2).

Statistics Canada tracks both of the above and also records a third variety of pension plan that includes separately-named **hybrid plans, composite or combination plans, defined benefit and defined contribution plans (together), and "other" plans** (Statistics Canada, 2011). In this study, those additional four plans are grouped together as "Other."

The accounting description should be supplemented with an explanation about where revenues for governments are derived. While in many defined benefit plans, employees also contribute (and this is the case in the public sector, regardless of whether the government is the sole sponsor or jointly sponsors the plan[3]), public sector employee salaries originate in government coffers which exist because of taxation. While for accounting purposes defined benefit plans for public sector workers are usually described as ones that "share" risk between employers/governments and public sector workers, the inescapable budget reality is that any public sector pension risk, whether held solely by government or shared with employees, must always be paid for out of the public treasury and thus by taxpayers. Even the distinction between employee and employer contributions, so long as employee salaries are paid out of the public purse, is artificial. The fiscal "string" always ties back to taxpayers.

Trends: Registered private sector pensions are increasingly unlike public sector pensions

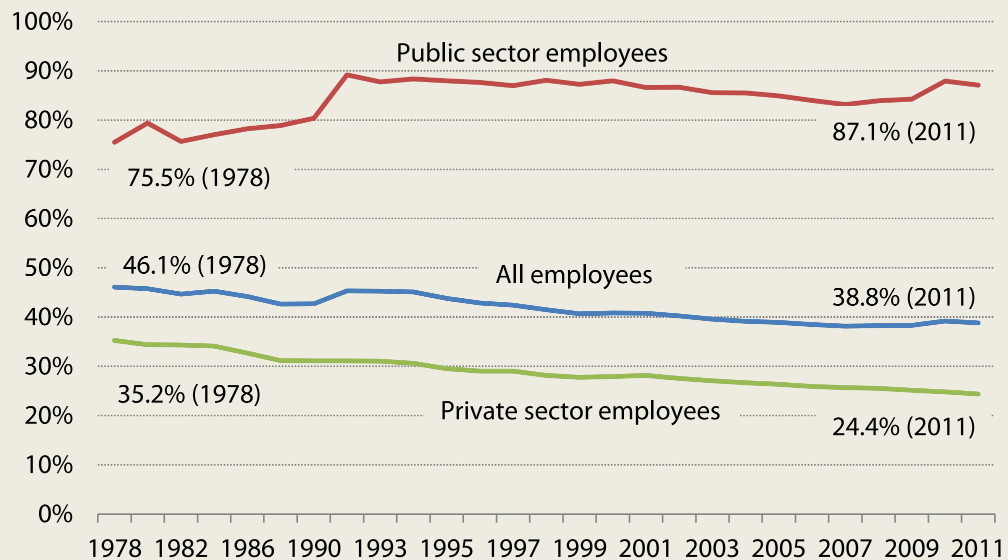
This taxpayer reality matters, given the increasing divergence between pension provision in the private sector and in the public sector over the past three decades. In 2011, just over six million Canadians were enrolled in some type of registered pension plan (RPP). In the public sector, 87.1% of employees were covered by an RPP, up from 75.5% in 1978. In the private sector, just 24.4% of employees were enrolled in an RPP in 2011, down from 35.2% in 1978 (see figure 1).

That divergence in registered pension plan coverage reveals only part of the story. A significant distinction also exists in the type of registered pension plan offered to those still enrolled in registered plans, and here, too, there has been a divergence over the decades. (Detailed data for this measurement is available back to 1974.)

In the private sector, membership in defined benefit plans peaked in 1990 at just over 2.4 million members, but by 2011 had declined to just over 1.5 million members (figure 2) (Statistics Canada, 2012b). Meanwhile, figure 4 illustrates the share of different types of pensions for public sector workers covered by registered pensions for the years 1974 and 2011, the latest year for which data were available at the time of writing.

3 In the case of defined benefit plans where governments and employees are joint trustees (the latter through their union, for example), CICA notes, "Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors." In addition, "funding contributions are shared mutually between the government and the plan members" (CICA, 2013: sec. 3250, paras. 79 and 80). In addition, CICA notes, "When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan (CICA, 2013: sec. 3250, paras. 79 and 80).

Figure 1: Proportion of Employees Covered by a Registered Pension Plan, 1978-2011



Source: Statistics Canada, 2012a.

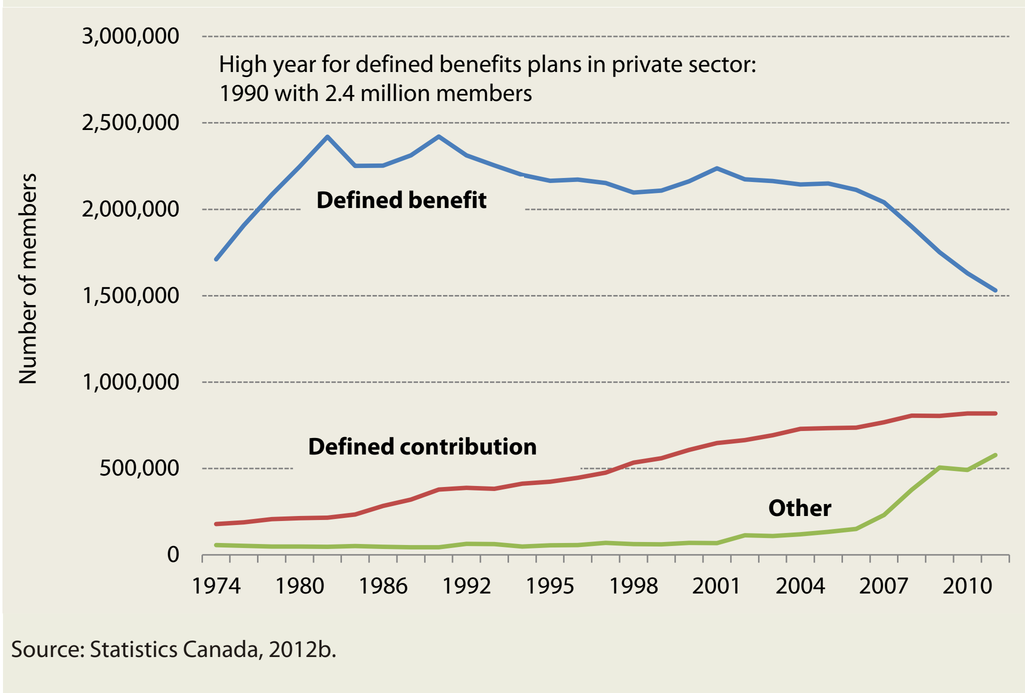
Two clear trends emerge with respect to the types of pensions used in the private sector. First, there has been a marked decline in the use of defined benefit pensions in the private sector, falling from 88.0% in 1974 to 52.3% in 2011. At the same time, the share of workers covered by defined contribution plans (again for those covered by registered pensions) increased from 9.1% to 28%. Simply put, there has been a shift from defined benefit plans to defined contribution plans in the private sector.

In contrast, the number of public sector employees in defined benefit plans doubled from 1.5 million in 1974 to almost 3 million in 2011 (figure 4) (Statistics Canada, 2012b). More telling of the marked divergence in pension trends between the private and public sector, however, is the share of workers covered by different types of pensions.

In 1974, of those enrolled in a registered pension plan, 98.8% of public sector workers were in a defined benefit plan. By 2011, this had decreased slightly to 94.0% (figure 5). However, this slight reduction in the share of public sector workers covered by defined benefit pensions does not match the pronounced decline observed in the private sector.

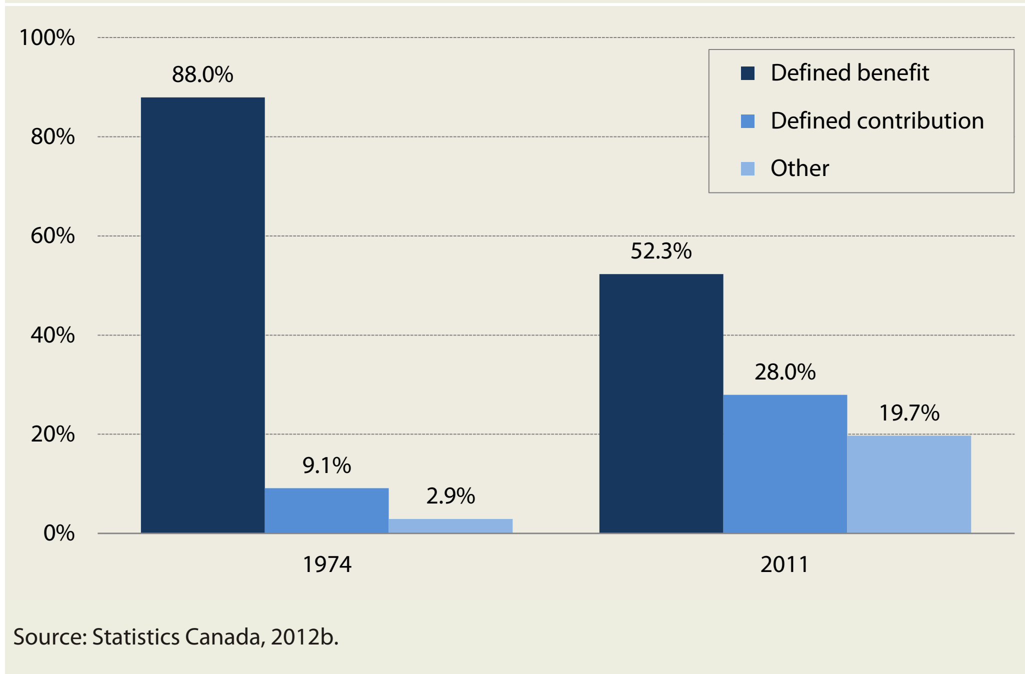
In summary, there is now a clear two-decade trend in the private sector: enrolment in defined benefit plans has dropped, while enrollment in defined contribution

Figure 2: *Private* Sector—Type of Pension Plan, by Enrollment, 1974-2011



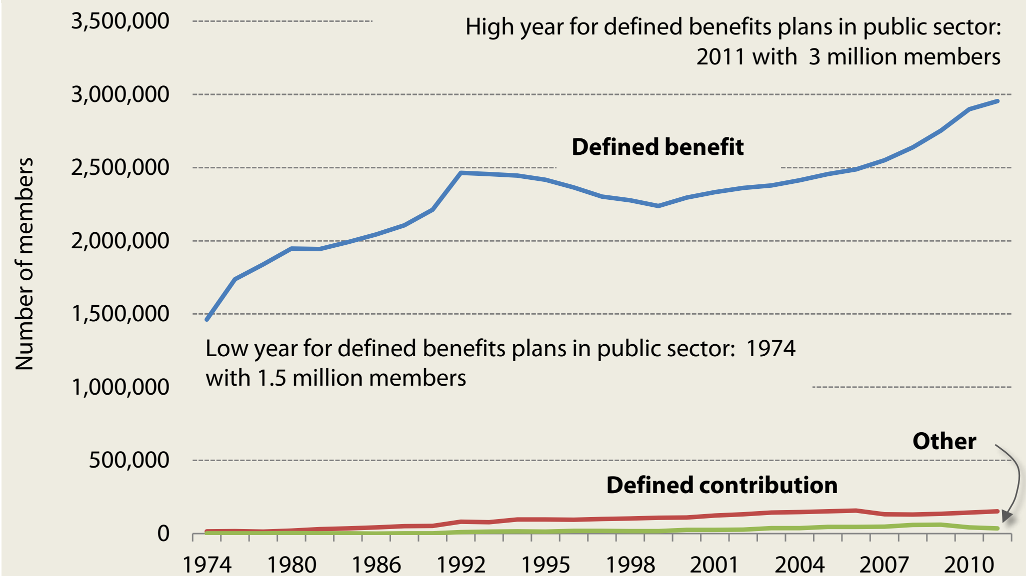
Source: Statistics Canada, 2012b.

Figure 3: Registered *Private* Sector Pension Plans, 1974 and 2011 compared



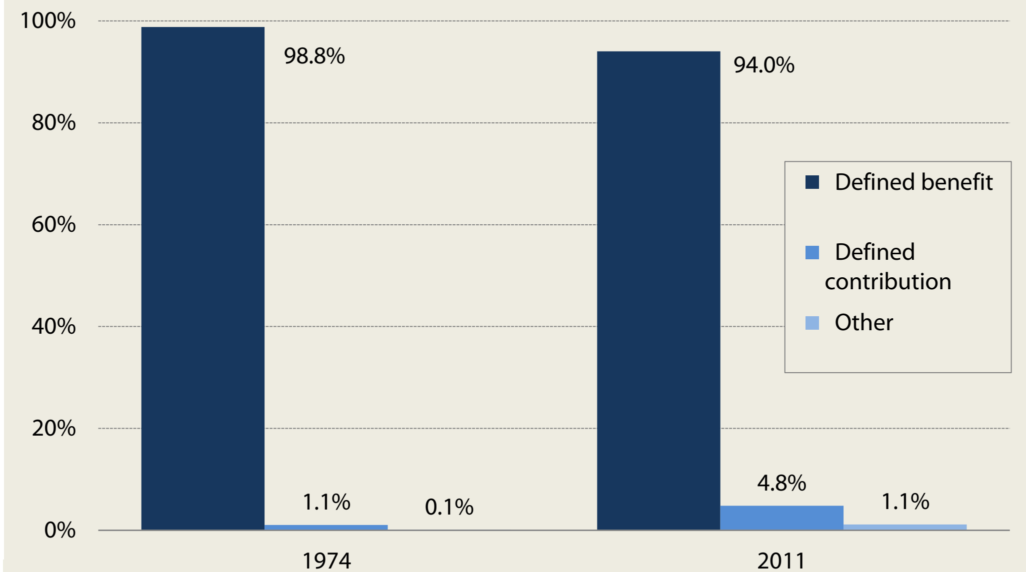
Source: Statistics Canada, 2012b.

Figure 4: *Public* Sector—Type of Pension Plan, by Enrollment, 1974-2011



Source: Statistics Canada, 2012b.

Figure 5: Registered *Public* Sector Pension Plans, 1974 and 2011 compared



Source: Statistics Canada, 2012b.

plans and "other" plans has increased significantly. In the public sector, however, defined benefit plans remain the overwhelming norm with very little movement to defined contribution or other pension plans.

Part 2: Taxpayers and public sector pensions

The taxpayer-public sector nexus

The salaries, benefits and pensions in the broad public sector are paid for by today's taxpayers, or, when deficits are present, by tomorrow's taxpayers. For public sector pension plans, specifically, and regardless of whether governments possess sole or joint responsibility, such pension costs fall to taxpayers *even where public sector workers contribute to their pension funds.* Taxpayer dollars pay the government's share of the contribution; they also pay the employees' salaries and thus the pension contribution made by those employees. In addition, when public treasuries make special contributions to public sector pension plans due to a liability, the "top up" also originates with taxpayers.

Since the year 2000 (the beginning of this analysis), taxpayers were repeatedly called upon to increase contributions to public sector pension plans. In addition, they were required to bail out shortfalls in public sector pension plans through special payments. Even where a rise in contributions in some plans has been rare, that does not necessarily mean taxpayers will not be subject to increasing costs if such plans also face shortfalls,[4] shortfalls later paid for through a combination of contribution increases or special contributions.

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4 Readers should be aware that the word "liability" as applied to pension plans has several meanings and thus can result in confusion. As the Canadian Institute of Chartered Accountants also notes: "Because the objectives of determining the most appropriate funding policy are not necessarily the same as those determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan" (CICA, 2013: sec. 3250, para. 010). For more clarity, as actuarial expert Malcolm Hamilton notes,

> In essence, actuaries use the term liability to represent a funding target—the amount of money that the actuary believes should be in the pension fund at any point in time according to its funding policy. Then we have the liability that a pension plan may record in the plan's financial statements according to generally accepted accounting practice (if it even has audited financial statements)—a number that may not resemble the funding "liability." Then we have the liabilities recorded by the plan sponsor in its financial statements following a different set of generally accepted accounting practices; these are not the liabilities of the pension plan recorded in the plan's financial statements—they are the unfunded portion of the liabilities, differently measured (Malcolm Hamilton, personal communication with the author, February 6, 2012).

For the sake of clarity, this paper avoids the term "liability." It instead uses "shortfall" to indicate an actuarially-derived identification of an underfunded or unfunded liability noted by Hamilton—the gap between what is estimated to be available from the assets in a fund that result from present and future contributions (and the return on assets), and the amount necessary to meet promised obligations.

That reality—that taxpayers ultimately pay—must be kept in mind in any discussion of the effect of defined benefit plans upon taxpayers. As the Chartered Accountants note, government liabilities are defined as "present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits" (CICA 2013, sec. PS1000: 44). Indeed, and shortfalls in public sector pensions are an example of just such a future sacrifice of economic benefits, and from taxpayers, most of whom do not themselves have a defined benefit plan—or as shown in Part 1, any such registered pension plan at all.

Public sector pensions: hiked contributions and taxpayer bailouts since 2000

This section surveys public sector pension plans among the provinces for two types of occurrences: first, a rise in contribution rates (usually measured as a percentage of salary up to Yearly Maximum Pensionable Earnings (YMPE), the upper earnings limit against which Canada Pension Plan contributions are calculated)[5] and then a separate percentage above that level; and second, "special payments" into pension plans. It will concentrate on major public sector pension plans, i.e., the main plan(s) provided to the public sector, which usually cover the vast majority of public sector workers as well as teachers, who have specific plans. It will exclude pension plans for politicians as those have been analyzed elsewhere (Canadian Taxpayers Federation, 2012) and federal public sector pension plans for the same reason (see Laurin and Robson, 2010 and 2011; and Robson, 2012).

The following information was gleaned from provincial Public Accounts that date back to the year 2000 and that are available online, or to the nearest year after that year. Readers should be aware that the level of detail provided by the Public Accounts varies among the provinces. Where details on contribution rates were not provided, annual reports from provincial pension plans were also consulted, if available online, back to 2000. Again, the level of detail varies and not every provincial pension plan was available nor do all offer information on contribution rates. Nine provinces are listed here. Saskatchewan is the exception and will be profiled in Part 3 for its unique reform to public sector pensions. Tables are provided for selected provinces in the case of voluminous details.

5 For example, in 2013, the YMPE set by the CPP was $51,100. All the rates for YMPE limits can be found at Canada Revenue Agency, 2013.

British Columbia

In British Columbia, the provincial government is in a joint trustee arrangement for four plans: the College Pension Plan, the Public Service Pension Plan, the Municipal Pension Plan, and the Teachers' Pension Plan (British Columbia, 2012: 41).

Contribution increases

The Public Accounts do not list the increases in contributions. Instead, one must read the last decade's individual plan reports to find the increases, which are listed below:

- The Teachers' Pension Plan raised contribution rates for employees in 2001, 2004, 2007, and 2010.
- In the Public Sector Service Pension Plan (PSSP), contribution rates were increased in 2004, 2006, 2009 and 2012 for employees and employers. Also, as the 2011 Actuarial Valuation for that plan made clear, the PSSP board identified benefit security of the plan as a "primary objective," with stability of contribution rates as a secondary objective. It would seem that future reforms to the plan are premised on higher contribution rates over modified benefit levels.
- The College Pension Plan raised contribution rates several times, with upward changes in contributions in 2004, 2007, 2009 and 2010.
- The Municipal Pension Plan raised contribution rates several times, with upward changes in employee contributions reaching 7.8%/9.3% up to/over YMPE as of 2010,

Table 1: British Columbia

Major public sector pension plans—range of pension plan rates	Employee		Employer	
	Low	High	Low	High
Plan	As a % of salary up to/over YMPE			
Teachers' Pension Plan (1999-2010)	5.0/6.5	11.2/12.7	8.0/9.5	13.33/14.83
Public Sector Service Pension Plan (2002-2012)	5.5/7.0	7.93/9.43	6.75/8.25	9.43/10.93
College Pension Plan (2002-2010)	5.5/7.0	8.94/9.69	5.5/7.0	9.04/9.79
Municipal Pension Plan (2002-2010)	6.0/7.5	7.8/9.3	No standard rate	

Sources: British Columbia Teachers' Pension Plan, 2003: 13; 2004: 23; 2007: 9; 26; 2010: 3; British Columbia Public Service Pension Plan, 2005: 11; 2008; 2010: 1; 2011: 7; 2012: 16; College Pension Plan, 2002: 32; 2004: 30; 2007: 36; 2009: 15; 2010: 1; Municipal Pension Plan, 2002: 34; 2005: 12; 2010: 17.

up from 2002 rates of 6.0 %/7.5% (Municipal Pension Plan, 2002: 34; 2005: 12; 2010: 17). There is no standard employer rate for the Municipal Pension Plan as contribution rates differ based upon employee group classification and demographics. However, in 2011, employer contributions amounted to 53% of all contributions (Municipal Pension Plan, 2011: 26).

Thus, in British Columbia, taxpayers have been regularly called upon to increase contribution rates to ensure existing benefit levels, including inflation protection (British Columbia, 2011: 59). The province is part of the national trend that sees taxpayers bearing ever-increasing costs for public sector pensions (table 1).

Alberta

Alberta's provincial government is trustee for a number of public sector pension plans and has also made commitments to others, including the Alberta Teachers' Pension Plan. This survey will look only at the province's major plans.

A review of Alberta's Public Accounts since 2000 reveals the province does not record the regular (i.e., non-special) contribution rates for employees or employers. Thus, a reader of the public accounts would not know if taxpayers were called upon to increase their funding to public sector pension plans in Alberta beyond the special contributions listed below. Instead, a review of annual reports from three of the major plans is required for such history.

Contribution increases

For the Alberta Teachers' Pension Plan, which is managed by the Alberta Teachers' Retirement Fund (ATRF) board, a rise in contributions has been a constant for multiple years, though the rates have risen and fallen depending on special contributions to the pre-1992 Teachers' Pension Plan (ATRF, 2001: 9; 2002: 8; 2004: 7; 2006: 8; 2012: 11).

In the Public Service Pension Plan (PSPP), increases in employee/employer contributions took place in 2003, 2007, 2010, and 2012 (Alberta, PSPP, 2000: 26; 2003: 32; 2007: 30; 2009: 32; 2011: 30).

In the Local Authorities Pension Plan (LAPP), contributions rose during the decades as well (Alberta, LAPP, 2000: 18; 2011: 30) (table 2).

Special contributions

In Alberta, the Teachers' Pension Plan is divided into two plans: one for pre-1992 shortfalls and one for post-1992 shortfalls. In 1992, the provincial government accepted responsibility for two-thirds of the pre-1992 shortfall in the Alberta Teachers'

Table 2: Alberta

Major public sector pension plans—range of pension plan rates	Employee		Employer	
	Low	High	Low	High
Plan	As a % of salary up to/over YMPE			
Alberta Teachers' Pension Plan [ATRF] (2001-2013)	8.66/ 12.37	11.44/ 16.34	12.60	14.84
Public Service Pension Plan [PSPP] (2000-2012)	4.675/ 6.55	9.90/ 14.14	4.675/ 6.55	9.90/ 14.14
Local Authorities Plan [LAPP] (2000-2012)	4.025/ 5.9	8.91/ 12.74	5.025/ 6.9	9.91/ 13.74

Sources: ATRF, 2001: 9; 2002: 8; 2004: 7; 2006: 8; 2012: 11; Alberta PSPP, 2000: 26; 2003: 32; 2007: 30; 2009: 32; 2011: 30; Alberta LAPP, 2000: 18; 2011: 30.

Pension Plan with teachers responsible for the remaining one-third. The new agreement required additional contributions from the province and teachers (and are included in the contribution increases noted above) (Alberta, 2001: 40). In addition:

- In 2002/03, the province made what was supposed to be a "one-time" payment of $60 million towards the pre-1992 Teachers' Pension Plan shortfall (Alberta, 2003: 42).
- In 2007/08, the provincial government took over that remaining one-third shortfall in the pre-1992 plan, thus committing taxpayers to the entire pre-1992 shortfall, which as of absorption and the end of the 2007/08 fiscal year amounted to $6.8 billion (Alberta, 2008: 53).
- The cost to fix such shortfalls can be substantial. In 2009/10, the Alberta government made a $1.2 billion special payment towards the unfunded pre-1992 shortfall in the Teachers' Pension Plan (Alberta, 2011: 55; Alberta, 2012: 57).

For the Universities Academic Pension Plan, a pre-1992 shortfall was financed by an additional contribution of 1.25% funded solely by the province to the year 2043, in addition to any employer/employee hikes in regular contributions that might occur. In the Special Forces plan, the pre-1992 shortfall was financed by an additional contribution shared by the province, employers, and employees (Alberta, 2001: 40; Alberta, 2010: 61).

The Management Employees plan requires special payments until 2017 ranging (depending on the year) between 5.1% and 9.4% of pensionable earnings (no dollar figure was given by the province), split between employer and employee to eliminate a shortfall (Alberta, 2005: 46; 2006: 52; Alberta, 2010: 60; Alberta, 2012: 58)

The Public Service Pension Plan required a special payment of 2.76% of pensionable earnings (no dollar figure was given by the province), to be split between the employer and employees to eliminate a shortfall by 2020 (Alberta 2005, 46). The special payment was later increased to 2.92%, then 6.68%, and then 6.94% (Alberta, 2009: 55; Alberta, 2011: 55; Alberta, 2012: 58).

The province notes that for the Local Authorities Pension Plan, actuarial deficiencies would require special payments totalling 3.43% of pensionable earnings shared equally between employer and employee until 2022 (Alberta, 2009: 56 and Alberta, 2011: 55). That was increased to 6.23% as of 2009/10 Public Accounts (Alberta, 2010: 60).

Manitoba

Contribution increases

The province of Manitoba participates in "various pension plans" (Manitoba, 2012: 86). The two primary plans for which the province is responsible are the Civil Service Superannuation Plan, and the Teachers' Pension Plan. The plans are subject to a unique provincial arrangement: the province does not match pension contributions by participants. Instead, the government is "responsible for 50% of the pension benefits earned by employees" (Manitoba, 2012: 86).

Contribution rates from public sector workers—and thus from the public treasury responsible for public sector compensation, have been increased in selected plans and are scheduled to increase to 2015, including in the Civil Service Plan and the Teachers' Pension Plan (Manitoba, 2005: 68, 69; 2012: 86) (table 3).

Table 3: Manitoba

Major public sector pension plans—range of pension plan rates	**Employee**		**Employer**	
	Low	**High**	**Low**	**High**
Plan	**As a % of salary up to/over YMPE**			
Civil Service Plan (2004-2015 projected)	5.1/ 7.0	8.0/ 9.0	Province does not match; instead, responsible for 50% of pension benefits	
Teachers' Pension Plan (2004-2015 projected)	5.7/ 7.3	8.8/ 10.4		

Sources: Manitoba, 2005: 68, 69; 2012: 86–87.

Of note, in Manitoba, a useful example of the belief that added civil service benefits do not cost taxpayers was displayed in the 2005 Public Accounts. There, the province notes how the Civil Service Plan was enriched in 2000 to include “improved benefits.” The province claimed the cost of the improvements was “fully funded from actuarially determined employee surpluses, with no extra cost to the employer” (Manitoba, 2005: 68). However, as the province notes elsewhere, the public treasury is “responsible for 50% of the pension benefits earned by employees” (Manitoba, 2012: 86). In addition, the “employee surpluses” result from employee contributions. Those originate from payments to employees, which of course originate from taxes paid by taxpayers.

Ontario

In Ontario, the provincial government is the sole sponsor of three major pension plans: the Ontario Teachers’ Pension Plan OTPP), the Ontario Public Service Employees’ Union Pension Plan (OPSEU), and the Public Service Pension Plan (PSPP) (Ontario, 2012a: 53-54). The province’s Public Accounts do not list each plan’s contribution rates; thus, they were analyzed individually.

Contribution increases

Ontario Teachers’ Pension Plan (OTPP)

In 1990, an unfunded liability of $7.8 billion was amortized over 40 years. In 2000, The Ontario Teachers’ Pension Plan noted that under a 1998 agreement with the province, the plan “improved benefits” in 2002. It noted “while benefits have increased, the contribution rate for teachers has remained unchanged since 1990,” noting an 8.9% average rate. In 2001, a $6.8 billion surplus was used in part to provide pensions to teachers as early as age 50. Rates were later increased in 2005, 2008, and in 2011. As of the 2012 annual report, reference is made to a 2011 decision to increase contributions by 1.1% over three years, and that contribution rates will reach 13.1% on earnings above the pensionable limit in 2014, as compared to the 8.9% average rate paid between 1990 and 2006. No breakdown between payments made by employees and the employer is noted in reports (OTPP, 2000: 4; 2002: 20; 2008: 23; 2010: 118; 2013: 18, 108).

Of note, in Teachers’ Pension Plan annual reports, in most years no reference is made to contribution rates. Thus, a detailed comparison of contributions by employees/employer up to YMPE, and above that level, are not available through either Ontario’s Public Accounts or through OTPP annual reports.

Ontario Public Service Employees' Union (OPSEU) Pension Plan

Over the decade, employee contributions to the Ontario Public Service Employees' Union Pension Plan amounted to 2.2%/4.0% up/above to YMPE in 2000, which included a partial contribution holiday for several years. For employers, the contribution rate was 6.2%/8.0% up/above to YMPE in 2000 with no partial contribution holiday. Contribution increases came into effect in 2002, 2003, 2004, 2007, 2010, 2011 and 2012 (OPSEU, 2000: 36; 2002: 36; 2003: 36; 2004: 34; 2007: 39; 2010: 44).

Public Service Pension Plan (PSPP)

In 2002, contribution rates to the Public Service Pension Plan (PSPP) were 6.2%/8.0% up/above YMPE, albeit with a partial reduction in employee contributions for the years 2002-2004 , while employers continued to pay the full contribution rates. Rates were raised in 2009 and 2010 with employee/employer contributions equal as of 2010 (OPB, 2002: 27; 2003: 25; 2004: 23; 2009: 35) (table 4).

Table 4: Ontario

Major public sector pension plans—range of pension plan rates	Employee		Employer	
	Low	High	Low	High
Plan	As a % of salary up to/over YMPE			
Ontario Teachers' Pension Plan [OTPP] (1990 to 2014 projected)	Reference in 2012 report to 8% basic contribution rate in 1990, unidentified "special contribution" rate increases enacted in 2005; basic contribution rate increased to 9% as of 2008; 1.1% contribution rate increases over three years starting in 2011; contribution rates to reach 13.1% in 2014 on earnings above pensionable limit. No employee/employer breakdown noted in reports.			
Ontario Public Employees' Union Pension Plan [OPSEU] (2000 to 2012)	2.2/4.0 including partial contribution holidays	9.4/11	6.2/8.0	9.4/11
Public Service Pension Plan [PSPP] (2002 to 2010)	6.2/8.0 not including partial contribution holidays	6.4/9.5	6.2/8.0	6.4/9.5

Source: OTPP, 2000: 4; 2002: 20; 2008: 23; 2010: 118; 2013: 18; 108; OPSEU, 2000: 36; 2002: 36; 2003: 36; 2004: 34; 2007: 39; 2010: 44; OPB, 2002: 27; 2003: 25; 2004: 23; 2009: 35

Special payments

In the case of the Public Service Pension Plan, the province, as the sponsor, has made payments of $418 million in special contributions towards the PSSP's funding shortfall since 2006/07 (Ontario, 2007: 49; 2008: 59; 2009: 45; 2010: 5; 2011: 49; 2012; 54). Moreover, the province is scheduled to make additional payments of $142 million per year for 15 years to pay down the pension shortfall (OPB, 2010: 19 and 22).

Of note, outside experts have complained of opacity in the province's books and assert the province's pension risks are not fully disclosed. The Commission on the Reform of Ontario's Public Services, chaired by economist Don Drummond, summarized the problem in February 2012 when the commission urged Ontario to "clarify who bears the ultimate responsibility for funding deficits of the public sector pension plans as the Commission encountered considerable confusion on this issue" (Ontario, 2012b: 534).

Quebec

In Quebec, a survey of the Public Accounts since 2000/01 reveals no listings of the regular employee/employer contributions into public sector pension plans, or of special payments into said plans. Apart from normal contributions, a reader of the Public Accounts would not know if taxpayers have been called upon to increase their funding to public sector pension plans in Quebec, either through raised contribution rates or through special one-time or multi-year contributions.

In Quebec, two types of defined benefit plans exist. The first is "cost-sharing" plans "for which the Government's responsibility for payment of benefits granted by the plan is limited to its share of benefits accrued by employees." The second type is a "cost-balance" plan where the government "covers the total cost of accrued benefits, net of the contributions paid by employees and certain employers" (Quebec, 2012a: 104).

The largest provincial public sector plan in Quebec for which the province has any responsibility is the Government and Public Employees Retirement Plan (RREGOP). That plan had 520,000 active participants as of 2011, or 91.7% of the 566,983 active participants in plans for which the province has partial or full responsibility. The two next largest plans are the Pension Plan of Management Personnel and the Retirement Plan for Senior Officials (PPMP and RPSO), which between them had 28,650 active participants as of 2011, or 5% of the active participants for which the province has some responsibility. The first two plans are both "cost-sharing" plans, whereas the third is of the "cost-balance" variety (Quebec, 2012a: 106).

RREGOP documents show employee contribution rates in 2013 at 9.18%, up from 8.19% in 2010. (Earlier online figures were not found.) However, that contribu-

tion rate is not directly comparable to employee contributions in other provincial public sector plans. As the plan notes, RREGOP members "contribute only on the portion of their pensionable salary that exceeds the plan's exemption." Thus, in 2013, the first $15,841 is exempt from the 9.18% contribution, a savings of $1,454.20 for the public sector worker in question (Quebec, 2000: 11; 2010: 1; 2012b: 1).

New Brunswick

Contribution increases

In New Brunswick, the main plans have mostly avoided increases in contributions, including no increase to the Public Service Superannuation plan (PSSA) and the Teachers' Pension plan (TPA) which saw rates frozen between 2000 and 2012. The Pension Plan for Canadian Union of Public Employees of New Brunswick Hospitals (H-CUPE) saw rates of 4.5%/6.0% up to/above YMPE in 2000, with some increases in the ensuing decade and set at 6.17%/6.17% as of 2008, and were still there as of 2012. The Public Accounts of New Brunswick are mostly vague on employer contributions, noting that they are "determined by an actuary required to fund current service costs, plus special payments determined by an actuary" (New Brunswick, 2000: 33-35; 2012c: 46–47) (table 5).

Table 5: New Brunswick

Major public sector pension plans—range of pension plan rates	Employee		Employer	
	Low	High	Low	High
Plan	As a % of salary up to/over YMPE			
Public Service Superannuation Plan (2000 to 2012)	5.8/7.5	No increase	N/A	N/A
Teachers' Pension Plan (2000 to 2012)	7.3/9.0	No increase	N/A	N/A
CUPE-Hospitals [H-CUPE]	4.5/6.0	6.17/6.17	N/A	N/A

Source: New Brunswick, 2000: 33–35; 2012c: 46–47.

Special contributions

As regards the Teachers' Pension plan, two special contributions are noted in the Public Accounts, one made in 1999/00 for $58.9 million and one in 2000/01 for $23.3 million (New Brunswick, 2000: 39; 2001: 39).

Nova Scotia

In Nova Scotia, some civil servants are not required to contribute to their pensions. "The province has several unfunded defined pension plans. The majority of these plans do not require contributions from employees," states the province in its 2012 Public Accounts (Nova Scotia, 2012: 81). Taxpayers ultimately finance all public sector pension contributions, be it directly through the employer or indirectly through financing the employees' paycheques. In selected plans in Nova Scotia, though, there is not even the pretense that employees will "feel" a rise in contribution rates. In those selected plans, such employees see no pension deductions from their paycheques.

Of note, even where public sector pension plans do require employee/employer contributions (the Nova Scotia Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers' Pension Plan (TPP)), Nova Scotia's Public Accounts have not listed such applicable contribution rates since the 2001/02 Public Accounts. In addition, even the pension plan annual reports do not provide details on contributions in recent reports, not since 2008 in the case of the Teachers' Pension Plan.

Readers must instead look to member facts sheets for a breakdown of contribution rates. Contribution rates have increased in the Public Service Superannuation Plan but not in the Nova Scotia Teachers' Pension Plan, where 2001 rates were in effect in 2013 (Nova Scotia, 2001: 44; 2012: 80; Nova Scotia Pension Services Corporation, 2013a: 1; Nova Scotia Pension Services Corporation, 2013b: 1) (table 6).

Table 6: Nova Scotia

Major public sector pension plans—range of pension plan rates	**Employee**		**Employer**	
	Low	**High**	**Low**	**High**
Plan	**As a % of salary up to/over YMPE**			
Public Service Superannuation Plan (2001 to 2013)	5.4/7.0	8.4/10.9	5.4/7.0	8.4/10.9
Teachers' Pension Plan (2001 to 2013)	8.3/9.9	No increase	8.3/9.9	No increase

Source: Nova Scotia, 2001: 44; 2012: 80; Nova Scotia Pension Services Corporation, 2013a: 1; 2013b: 1.
*Breakdown between employee/employer not provided by sources.

Special contributions

According to the 2001 Public accounts, for the Teachers' Pension Plan, the province committed to a $10 million payment per annum beginning in 1993, rising by 7.5% every year until ceasing in 2003. The 2002 Public Accounts note a payment of $22.5 million while no figure is recorded in the 2003 Public Accounts (Nova Scotia, 2001: 44; 2002: 38).

Prince Edward Island

The two main plans in Prince Edward Island are the Civil Service Superannuation Fund and the Teachers' Superannuation Fund.

Contribution Increases

Increases to contribution rates for the Civil Service Superannuation Fund and for the Teachers' Superannuation Fund have been marginal (with the province matching contributions) (Prince Edward Island, 2001: 18; 2012: 43) (table 7).

Special Contributions

Prince Edward Island has made special contributions to various public sector pension plans over the past decade.

In the Civil Service Superannuation Fund, the 2000 Public Accounts note a special contribution from the provincial government (beyond existing employer/employee matching contributions) of $11.6 million in 1995/96 and then $5.8 million in each of the years from 1996/97 until 2004/05 to deal with a shortfall. In 2005, the prov-

Table 7: Prince Edward Island

Major public sector pension plans—range of pension plan rates	**Employee**		**Employer**	
	Low	**High**	**wLo**	**High**
Plan	**As a % of salary up to/over YMPE**			
Civil Service Superannuation Fund (2001-2012)	6.95/8.75	7.09/8.75	6.95/8.75	7.09/8.75
Teachers' Superannuation Fund (2001-2012)	7.2/9.0	7.3/9.0	7.2/9.0	7.3/9.0

Sources: Prince Edward Island, 2001: 18–19; 2012: 43.

ince contributed $52 million to the Civil Service Superannuation Fund (CSSF) via a promissory note (with annual installments of $5.2 million to follow for 10 years) (Prince Edward Island, 2000: 16; 2011: 38).

The provincial government made a special contribution into the Teachers Superannuation Fund of $23.6 million in 1995/96 and then $11.8 million in each of the years 1996/97 until 2004/05 inclusive to deal with a shortfall. In addition, the province contributed $160 million to the plan via a promissory note in 2005 (with annual installments of $16 million to follow for 10 years). Another special cash contribution of $53 million was made to the Fund in 2010 (Prince Edward Island, 2000: 16; 2011: 39).

Newfoundland & Labrador

In Newfoundland & Labrador, the government "guarantees defined benefit pension plans for substantially all of its full time employees, and those of its agencies, boards and commissions and for members of its Legislature" (Newfoundland, 2012: 44).

Contribution increases

Three of the main plans all saw contributions rise from the first year of data available for this province (2001) to 2012: the Public Service Pension Plan, the Teachers' Pension Plan; the Uniformed Services Plan (Newfoundland, 2001: 16; 2012: 44–45) (table 8).

Table 8: Newfoundland & Labrador

Major public sector pension plans—range of pension plan rates	Employee		Employer	
	Low	High	Low	High
Plan	As a % of salary			
Public Service Pension Plan (2001-2012)	7.6% of pensionable salaries	8.6% of pensionable salaries	Employer generally matches percentage	
Teachers' Pension Plan (2001-2012)	8.5% of pensionable salaries	9.35% of pensionable salaries		
Uniformed Services Plan (2001-2012)	8.5% of pensionable salaries	9.95% of pensionable salaries		

Sources: Newfoundland, 2001: 16; 2012: 44–45.
*Less a formulated amount representing contributions to the CPP.

Special contributions

In addition, several pension plans have required “topping up” since 2000.

- For the Teachers’ Pension Plan, the 2001 Public Accounts note annual extra payments, beyond employer/employee contributions, of $76 million annually so long as the plan remained unfunded (Newfoundland, 2001: 18). The 2006 Public Accounts note an end to special payments—this due to a one-time $2 billion special payment into the Teachers’ Pension Plan (Newfoundland, 2006: 42).
- For the Public Service Pension Plan, the 2001 Public Accounts note annual extra payments, beyond employer/employee contributions, of $40 million annually until an initial shortfall had been paid. The 2003 Public Accounts note an increase to $60 million annually (Newfoundland, 2001: 18; 2003: 18.) The 2007 Public Accounts note an end to special payments—this due to a $982 million special payment made over two years—into the Public Service Pension Plan (Newfoundland, 2007: 43).
- For the Uniformed Services Pension Plan, the 2003 Public Accounts note special payments of $20 million annually, to begin that year, for five years (Newfoundland, 2003:18).

Implication for taxpayers

When pension plans have shortfalls, an upward adjustment of contributions, or special deposits into said plans, or a reduction is benefits, is what is meant to happen. Thus, it might be argued such developments occur by design and thus should be unsurprising for taxpayers at large.

Such a response and reasoning are both inadequate. First, there is no guarantee the trend of ever-higher contribution rates or the bailouts have ended. Second, since 2000, governments have preferred to “kick the can down the road” rather than deal with the fundamental flaw in defined benefit plans: such plans depend upon getting the assumptions “right,” and when those assumptions are incorrect, shortfalls appear that are then ameliorated by taxpayers at large unless such plans are corrected by reducing benefits.

In contrast, while underfunding or over-promising of benefits or weaker returns on investment can lead to shortfalls in private sector defined benefit plans, the cost of corrective measures in those plans are limited to plan sponsors and plan participants.[6]

6 There are exceptions, but as per the point above, a government could not rescue every single private sector defined benefit plan as attempts to do so would require great infusions of tax proceeds from current or future taxpayers.

In the public sector, the costs for corrective measures also include taxpayers at large, taxpayers who receive no benefit from those corrective measures, only the bill.

In the 2000 to 2012 period, provincial governments repeatedly used tax dollars to rescue defined benefit plans in the public sector instead of reforming them in any substantive manner. Since 2000, taxpayers have increasingly been called upon to fund higher contributions to public sector pensions and to provide special contributions in attempts to ameliorate significant pension shortfalls. The link between public sector pension plans, the public treasury, and taxpayers is clear: defined benefit pensions are backed up by taxpayers and it is taxpayers who must pay when shortfalls result. That state of affairs is what one provincial government, back in the 1970s, sought to fix. That remedy is profiled next.

Part 3: Long-term remedies for pension shortfalls from Saskatchewan's NDP

You may have, Mr. Speaker, fully funded plans, partially funded plans, and unfunded plans, and we have all those types in the Province of Saskatchewan.
—Saskatchewan NDP Minister of Health, W.A. Robbins, in a speech to the provincial legislature in 1977 (Saskatchewan, 1977: 2934).

When governments fail to set aside sufficient funds to meet promised retirement payments, or, described from another angle—when benefits promised are greater than the combination of contributions and the return on investments, taxpayers end up paying for the difference. This reality is noted by the Canadian Institute of Chartered Accountants (CICA) when the association notes, "Many governments have chosen not to set aside funds to meet retirement benefit payments when they become due" (CICA, 2013: sec. 3250, para. 006).

Given the tight connection between the cost of public sector pension plans and the public treasury, one notable Canadian-made option for reform comes from Saskatchewan and serves as a useful model for long-term reform.[7] Saskatchewan stopped adding to pension liabilities and did so with foresight over three decades ago. The Saskatchewan NDP government under Premier Allan Blakeney recognized how defined benefit pensions can create shortfalls. The then- Minister of Health, W.A. Robbins, who shepherded the pension issue through cabinet, identified the problem in a speech to the provincial legislature in 1977 and zeroed in on the problem as noted in the introductory quotation above. He elaborated further in the same speech:

> Pension consultants who draw up those plans do not intend that all participants in a particular pension plan will in fact be pensioned by that particular plan. In the main, their calculations assume that most of the people in any given pension plan, at any given time, will for one reason or another quit or be laid off before they reach pensionable age (Saskatchewan, 1977: 2933).

7 There are a plethora of options for short- and medium-term reforms to defined benefit plans in the public sector, but as with targeted benefit plans (discussed in the addendum), none address the fundamental problem of public sector defined benefit plans: the implicit or explicit guarantee that returns are guaranteed by taxpayers if all else fails, this as opposed to returns proceeding from real-world, market returns.

The history of Saskatchewan's move to defined contribution plans

In the 1976/77 Public Accounts, the province was clear upon whom the cost of any shortfall would fall: taxpayers. "Payments required… are recorded as expenditures for the year. These plans are therefore on a current cost basis…" noted the writer (Saskatchewan, Ministry of Finance, 1977: A7).

As a result of the looming pension shortfalls, and after consultation, the NDP government enacted legislation to move new entrants in much of Saskatchewan's civil service to defined contribution plans (Kent Walde, Public Employees Benefits Agency, Saskatchewan. Personal e-mail correspondence, August 25, 2011). In 1977, in introducing Bill 105, which guided the public sector transition from defined benefit plans to defined contribution plans, Minister Robbins noted the problem of defined benefit plans:

> If an employee has vested rights to a pension upon reaching retirement, the pension is payable to the extent that the pension trust has sufficient assets. If the trust is poorly funded, the employee may have a vested or owned interest in next to nothing. On the other side of the coin, if the pension plan is well funded, but not vested, the fund ends up with a lot of cash, which employees have no right to receive. Those vested earnings are necessary if the pension plan is to be of much value to any individual (Saskatchewan, 1977: 2934).

Robbins identified the conundrum: defined benefit plans can promise benefits, but the follow-through decades later will depend on whether initial projections (including proper contribution levels and earnings from investments) were accurate. The only other option for deficiencies is to transfer more money from general taxation, the presumed backstop for public sector pension plans. However, that raises the question of other sacrificed government spending priorities, as well as the question of equity, where the public must pay for promised benefits many themselves will not receive.

Conversely, when defined plans are fully funded, participants in those plans may miss out on the additional income and earnings in the plan when the sole sponsor of the plan is the employer who retains ownership of the pension fund. Defined contribution plans have the advantage that contributions by the employee, and made on behalf of the employee, are theirs forever, as are earnings accrued in such plans. The foregoing constitutes a few of the reasons why much of the private sector has moved to just such a model for pension plans.

In Saskatchewan's case, the NDP government enacted legislation to move much of that province's public sector from defined benefit plans to defined contribution

plans for the general civil service. The change took effect October 1, 1977, and new civil servants were automatically enrolled (Saskatchewan, 1978: A23).

Features of Saskatchewan's defined contribution plan

Features of the new defined contribution pension plan for most government employees (known as PESP/later PEPP) included:

- Deductions of 5% from an employees' salary, which was matched by the province as the employer.
- Employees could make extra contributions to the plan, though the employer would not match those contributions.
- The eventual pension would result from how much the employer and employee contributed, interest earned, investment earnings, and what the pension purchase rates (for the annuity) were upon retirement.

On contributions, under the previous defined benefits plan, employees paid into a retirement plan for a maximum of 35 years. Thus, for example, under the old plan, a government employee who began work at age 20 would cease paying into the defined benefit plan at age 55, even if they were employed until age 65. Under the newer contributory plan, employees were (and still are) required to contribute until retirement (all information above from Saskatchewan, Public Service Superannuation Board, undated: 2).

The teachers' transition (and back again)

In the case of Saskatchewan's teachers, the 1970s-era pension vehicle for the province's teachers was a defined benefit plan (the Teachers' Superannuation Plan, or TSP). The switchover to a defined contribution plan came though the collective bargaining process and in 1979, the province of Saskatchewan created the Teachers' Annuity Fund (TAF) and the Teachers' Supplementary Allowances Fund. New teachers who entered the province's school system as of July 1, 1980, were required to contribute to both funds. (Existing teachers could remain in the existing defined benefit Teachers' Superannuation Plan).

As described in later Public Accounts, teachers' contributions were matched by taxpayers; annuities and refunds were paid out based on the contributions to the fund and investment earnings (Saskatchewan, 1980: A28). Importantly, the design of the new defined contribution plan was such that no liability resulted. As the province

made clear several years later: "since benefits are based on accumulated contributions to the fund, the province has no residual obligation" (Saskatchewan, 1985: 13).

In 1991, however, the province's teachers took control of their pension plan and the Saskatchewan Teachers Retirement Plan (STRP) was created in place of the TAF with the fund's assets transferred to the new fund. The newest teacher pension fund was a defined benefits plan with one critical difference between it and the 1970s-era defined plan: the Saskatchewan Teachers' Federation became the trustee for the new version and the province still bore no residual responsibility[8] (Saskatchewan Teachers' Retirement Plan, 2010: 1 and 10). As the province noted in its 1997-98 Public Accounts, "the Government has fully funded its share of contributions to the defined contribution plans" (Saskatchewan, 1998: 46).

Opposition to NDP pension changes in the 1970s

Opposition to the NDP's pension reforms originated with the Saskatchewan Government Employees' Association (SGEA), the union that represented many provincial public sector workers. In a 1978 brochure to members, the SGEA criticized the new contributory pension plan as "not really a pension plan at all but a compulsory savings plan with provision for buying life annuity at retirement." The union also argued that the "old" plan was a better deal as both the employee and his or her spouse would be covered. It also criticized the new defined contribution plan because the individual would bear "the effect of and consequences for all the fluctuations and risks of market investment." The SGEA also claimed no real comparison of the two pension plans was possible, arguing that "burying your dollar in a sock in the backyard could be called a pension plan" (all references in preceding paragraph are to Saskatchewan Government Employees' Association, 1978: 4).

The SGEA criticism was inaccurate. For example, in the old plan, a spouse would receive only 50% of the pension to which their now-deceased spouse was entitled, this compared to the 100% share a surviving spouse would receive from the new pension

8 The fact the Saskatchewan Teachers' Federation is now trustee for the fund has arguably made the federation realistic about certain aspects of the fund. For example, while Saskatchewan's teachers returned their pension plan to a defined benefits model in 1991, the Teachers Federation eventually recognized that a model based on previously assumed benefits was unsustainable. Announced in 2011, and effective in 2015, teachers in Saskatchewan will see even their union-run pension benefits calculated on career average earnings instead of an average based on the last 50 months of employment (Saskatchewan Teachers' Retirement Plan, 2010b: 2). (For teachers who have service before 2015, benefit calculations will be a combination of pre-2015 earnings and post-2015 earnings.) The change is telling. It reveals how one public sector union-managed fund recognizes the problem of promised future benefits that, at some point, become unrealistic.

plan. On this aspect alone, the new contributory plan was superior (Saskatchewan, Public Service Superannuation Board, undated: 2).

In addition, with reference to the SGEA claim that the new plan was subject to "risks of market investment," the SGEA glided over the fact that almost all pension plans are invested in equities. For example, the largest defined benefits pension plan in the country, the Ontario Teachers', is invested in the market: 44.2% of its net assets of $107.5 billion were in equities at year-end in 2010 (Ontario Teachers' Pension Plan, 2011b). Similarly, in the Canada Pension Plan, equities account for 53.6% of the $148.2 billion fund (CPP Investment Board, 2011). In addition, in 2010, the pension plan managed by the Saskatchewan Teachers' Federation was invested largely in equities; 62% of that plan's asset mix was invested in stocks (Saskatchewan Teachers' Retirement Plan, 2010a: 5).

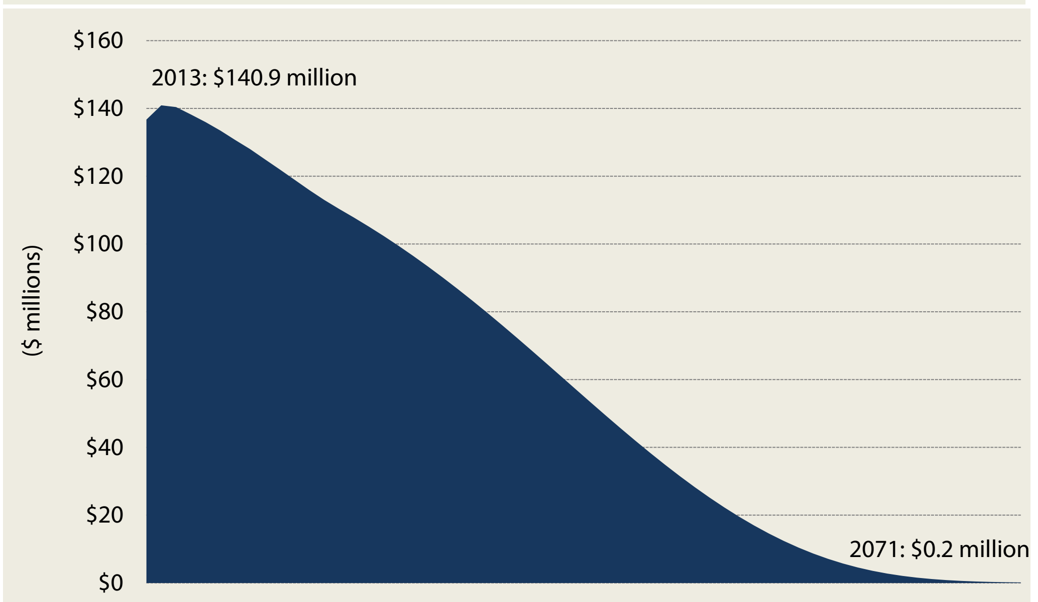
The main criticism of the 1977 Saskatchewan NDP change in public sector pensions appeared to be that under the old defined benefit plan, Saskatchewan's taxpayers would be responsible for the promised benefits. "Your pension is protected by the government," said the SGEA in its 1978 brochure, which warned members not to switch to the new defined contribution plan (SGEA, 1978: 4). Of course, the notion that one's pension is "protected by government" is opaque language for the reality that the provincial treasury—taxpayers—are the ones who must protect such pensions.

The current Saskatchewan situation: declining pension obligations

In Saskatchewan, contribution rates for the two main closed defined benefit plans have remained unchanged since 2000. The Teachers' Superannuation Plan (TSP) required member contributions (matched by the employer) of 7.85% in 2000, which was also the rate in 2012. In the also-closed Public Service Superannuation Plan, rates have also remained constant, at 7.0% to 9.0%, though in the case of the PSSP, member contributions are deposited into the province's General Revenue Fund, out of which PSSP pension obligations are paid (Saskatchewan, 2000: 47-48; 2012a; 93-94).

The annual cost for past defined benefit promises has continued to grow in Saskatchewan, even though Saskatchewan's defined plans were closed over three decades ago. In 2011/12, unfunded public sector pension liabilities totalled $6.3 billion (Saskatchewan, 2000: 18; 2012a: 112). That was expected, given that Saskatchewan grandfathered existing employees in 1977. In the case of the Public Service Superannuation Plan, pension obligations are paid from the General Revenue Fund, so the taxpayer obligation is explicit. Thus, Saskatchewan's now-closed defined benefit plans followed the same pattern of other defined benefit plans: shortfalls result in taxpayers funding such gaps.

Figure 6: Saskatchewan Public Service Superannuation Plan (closed) projected net pension payments from 2012 to 2071 total benefits paid (in $ millions)



Source: Saskatchewan, 2012b, Public Employees Benefits Agency.

That noted, the shift to defined contributions clearly affected the potential for the creation of future pension shortfalls given that defined contribution plans by design cannot create a gap between promises and assets—given that payouts are based only on contributions and the rate of return on the same. Thus, the potential for new shortfalls ended in the 1970s.

While there has been a recent increase in defined benefit payments as baby boomers under the "old" plan retire, that trend will eventually halt, and then decline (all figures from the Saskatchewan Public Accounts, 1998/99 to 2011/12). For example, see figure 6, which illustrates the projected net pension payments for the now-closed Public Service Superannuation Plan, to which the Saskatchewan NDP government closed entry in 1977.

The long-term trend is clear: Saskatchewan's payments for long-ago closed defined benefit pensions in the public sector will soon decline. As Saskatchewan's auditor general has observed, future cash flows needed to fund defined benefits plans will continue to increase until 2021, then decline thereafter on a path that will permanently extinguish Saskatchewan's obligations to long-closed public sector pension plans that presumed upon the tax dollars of future generations (Saskatchewan, 2011b: 220).

Recommendations

Canadian governments could decide to ignore the example of the Saskatchewan NDP government, which moved Saskatchewan's public sector away from defined benefit plans and into defined contribution plans. However, the status quo assumes that the general public should always finance benefits that many in the private sector cannot share in as employees, nor guarantee as employers. It also presumes upon future generations. To avoid such a scenario, five recommendations are in order:

Recommendation 1: Where missing, require and publish more transparent discussions about public sector pension risks—for taxpayers

As the Drummond Commission found with regards to Ontario, retirees, employees, and taxpayers rely on governments to be clear. Thus, accuracy and transparency are the first reforms needed.

Recommendation 2: Publish total salary, benefit, and pension costs, in dollars and as a percentage of total revenues and total expenditures

Governments do not always make clear in their Budgets or Public Accounts their wage, benefit, and pension costs. Ontario's practice in its annual Public Accounts (though not in its Budget) is better than most. Readers can find the wage, pension, and benefits costs of both the provincial government, and then the broader public sector, in that province's Public Accounts, albeit in two separate schedules (Ontario, 2011a: 64-65; schedule 3: 76; schedule 10). For the public accounts and budgets that are unclear, such costs should be listed and encapsulate the entire public sector, even for agencies and boards not part of individual ministries.

In federal and provincial budgets and in the public accounts, taxpayers should clearly see the portion of each government's budget dedicated to wages, pensions, and other benefits, both in real dollar terms and as a percentage of total expenditures.

Recommendation 3: Commission a review of public sector pensions

In announcing a panel to review public sector pensions, New Brunswick listed the following as the goals of the review:

- to ascertain the differences between provincial public service pension benefits and retirement provisions and those offered by private sector employers;
- to do so in the context of overall employee compensation;

- to factor in the needs of the provincial public service to recruit and retain qualified employees;
- to give consideration to the fact that other employers would be competing for those employees;
- to ensure that future pension benefits are reasonable throughout the public service;
- to determine how risk should be shared between the government and employees (New Brunswick, 2011).

Following an example from New Brunswick, each government should announce a panel to review public sector pension liabilities. To avoid a conflict of interest, all panelists should be independent and not stakeholders in the pension funds.

Recommendation 4: Grandfather existing defined benefits accrued to date but over time renegotiate aspects of such agreements to match private sector norms

Canada's governments should examine all options and both sides of the ledger—benefits as well as contributions. The goal here is three-fold:

- to allow existing enrollees the choice to stay in existing plans though not without reasonable reforms;
- to restore fiscal balance to provincial and federal budgets;
- to reform existing defined benefit plans so they are on a more equitable footing. For example, to use just one example, pension benefits could be modified to reflect career-average earnings, instead of, as is often the case, the average of the best five years.

Recommendation 5: Move new employees into risk-managed, mandatory defined contribution plans

Moving new employees to a defined contribution model will end the potential for new long-term shortfalls to be created, as defined contribution plans by design cannot create shortfalls. Similar to the way in which the Saskatchewan NDP ended the entry of new hires into public sector defined benefit plans in 1977 and 1980, and thus moved much of the Saskatchewan public sector to defined contribution pension plans, other governments should use enabling legislation to move new hires to mandatory defined contribution pension plans. The plan should be a pooled pension plan and risked-managed by the current entity that already manages the existing defined benefit plans.

Addendum: A discussion of Targeted Benefit plans

Another type of registered plan does exist, the "target benefit plan." The Canadian Institute of Actuaries defines this type of plan as one where "required contributions to the plan are determined by starting with the target benefit and working backwards" (2010: 26). In contrast to defined benefit plans, which also perform this calculation, the difference is that in targeted benefit plans, the eventual targeted pension benefit payouts are just that—targets. The government of New Brunswick, with agreement from that province's public sector unions, introduced a variant of this "shared risk" plan in May 2012, to be phased in over 40 years (New Brunswick, 2012a and 2012b).

In theory, if the targeted plan's returns perform better than expected, benefits can be increased; if the returns are worse than expected, benefits are scaled back or contributions increased. In practice, and in the case of the public sector, it is not difficult to imagine that targeted benefit plans would likely be treated as *de facto* defined benefit plans. If returns are less than forecast, it would be unsurprising if a public sector union lobbied for governments to raise contribution rates (thereby raising taxpayer contributions to the plan) or requested a bailout financed by the public treasury. For taxpayers, the political realities mean targeted benefit plans offer little additional protection against future taxpayer bailouts for public sector pension plans. The only protection is politics.

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