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Pension cutbacks possible in public sector

By Michael Kane

Tens of thousands of public-sector workers and retirees throughout British Columbia could face the sort of pension cutbacks threatening to devastate municipal police and fire services, according to a leading pension and benefits consultant.

Greg Hurst was reacting to recent stories in The Vancouver Sun revealing that hundreds of police officers and firefighters could leave their jobs this year to avoid changes to the Municipal Pension Plan that could cost them up to \$500 in monthly benefits.

Hurst said the changes draw attention to the fact that public-sector pension plans in B.C. are inadequately funded for inflation adjustments and other supplementary benefits potentially worth billions of dollars.

He said inadequate funding could affect virtually everybody employed by the provincial government, school boards, municipal governments and colleges.

That's approximately 350,000 pension plan contributors, pensioners and plan members no longer employed but with money in one of the four, multi-employer public-sector plans.

Many of those people believe they have fully indexed pensions, but their plan documents include an escape clause that says indexing takes place to the extent that funds are available.

Cost-of-living indexing is funded from inflation adjustment accounts that are kept separately from the basic pension plans and are not subject to the same actuarial scrutiny to determine if there is adequate funding for future liabilities.

As long ago as March 31, 1999, an evaluation of the 86,000-member, \$12-billion Public Service Pension Plan revealed its inflation adjustment account was underfunded to the tune of \$1.7 billion.

However, a union member of the Public Service Pension Plan board described the \$1.7 billion figure as "totally bogus."

Doug Hensby, executive-director of the Professional Employees' Association, said: "The actuary is talking about if it [full indexing] is going to be guaranteed, it needs more money to be guaranteed out 25 years.

"It is not a guaranteed part of the plan, and there is sufficient funds there. We have been paying cost-of-living adjustments for some time, and there is absolutely no fear that we will not be able to do so for the foreseeable future.

"The actuary is just saying that if you want to put this on the same basis as the basic pension, then you have got to put more money in and this is how much more money it needs."

Asked if the plan would be able to maintain full indexing in the face of poor investment returns and declining membership due to government downsizing, Hensby said: "I think it is going to be okay, but if we continue to have the stock market continue to fall on its face for five years, then I guess we will have to revisit."

Although Hensby was aware of the actuary's report, Hurst contends that shortfall was never fully disclosed to public-sector workers when they voted in favour of moving responsibility for their pension plans from the provincial government to joint boards of trustees representing unions and employers.

For example, a communication to members about joint trusteeship in May of 2000 talked about a surplus in the plan's basic account but made no reference to shortfalls in the inflation adjustment account.

As a result of joint trusteeship, plan members assumed 50 per cent of the responsibility for plan liabilities and any future increases in contribution rates will be a matter for collective bargaining.

"In order to get any money out of the employers, you have to bargain for it and if the employers refuse, or don't have the money, then there is going to be no money for these benefits," Hurst said.

"If you look at the conditions today, I would suggest that many of these employers will argue we simply don't have the money. So that makes the issue even more critical."

In 2001, the outgoing NDP government shifted potential pension deficits to the boards of trustees while capturing surpluses shown on the basic pension accounts to improve its books when it presented its final budget.

Hurst stresses that no money was taken from the pension plans, but he says the plans would not have shown surpluses if the inflation adjustment accounts were appropriately funded.

While members of B.C. public-sector plans voted in favour of joint trusteeship, Hurst said: "I don't believe they had full and complete disclosure when they opted for it."

He added: "Today, the boards of trustees are between a rock and a hard place. They have very little room to manoeuvre. They can either cut benefits or find more money."

Hurst said the problems with the Municipal Pension Plan revealed to The Sun in a leaked document may show that underfunding issues are coming home to roost much sooner than expected.

That's partly because of dismal financial markets and partly because public-service downsizing means a smaller base of pension-plan contributors to pay for benefits.

Hurst's firm, Vancouver's Heath Lambert Benefits Consulting, warned the current government shortly after it took office in 2001 that shortfalls in other public pension plans -- the \$15.2-billion Municipal Pension Plan, the \$10.8-billion Teachers' Pension Plan and the \$12-billion College Pension Plan -- could be of similar or greater magnitude to the \$1.7 billion deficit in the Public Sector Pension Plan.

"Based on the shortfall in 1999 and based on the last three years of financial performance in the markets and based on government downsizing, I wouldn't be surprised to see the total unfunded liability relative to inflation adjustments across the four public sector plans being in the magnitude of \$5 billion," Hurst said.

Until the 1999 report, prepared by Vancouver's Eckler Partners Ltd., actuaries to all four public sector plans, Hurst believes there had never been a published actuarial analysis of inflation adjustment accounts on B.C. public-sector pensions because the public sector is exempt from the prudent funding standards of the provincial Pension Benefits Standards Act.

"B.C. has not been prudent if its approach to the problem," Hurst said. "If the public sector were subject to the same standards as the private sector, the inflation adjustment account would be viewed as a defined benefit and it would have to be funded accordingly."

"This is what Ontario did more than a decade ago when faced with the same dilemma. There really is no sound reason to split the funding between a basic pension account and an inflation adjustment account."

In a report to the Ontario government dated Aug. 21, 1987, actuary Laurence Coward of Mercer Benefits Consulting concluded that pay-as-you-go financing of inflation adjustment accounts prevented the government, taxpayers and plan members from fairly assessing the value of the pension promise to teachers and public servants.

He wrote: "Current practices also foster misunderstandings between the cost of the basic benefit and escalation [inflation] adjustments.

Further, the pay-as-you-go financing is transferring liabilities for the present generation of employees and pensioners to future generations in a manner that will produce arbitrary and unfair results.

"The recognition that basic and escalation benefits are inseparable components of a single pension benefit and the implementation of procedures that provide consistent valuation of the total pension benefit are essential."

Ontario implemented Coward's recommendations, but B.C. continues to separate the two components, despite concerns raised by former auditor-general George Morfitt in his report on the 1994-95 public accounts.

According to records of a Nov. 8, 1996 meeting attended by Morfitt, the then superintendent of superannuation, John Cook, who now chairs the four public pension-plan boards, dismissed calls for an actuarial accounting of inflation adjustment accounts.

Hansard records Cook as saying: "We believe that to provide an assessment on a set of economic assumptions as to the continued viability of the plan to pay full indexing is wrong-minded and would provide no useful information to plan members because the best we could say about it is that it is going to be wrong. You have to make a lot of assumptions about the future, all of which I tell you would be wrong."

Hurst said Heath Lambert fundamentally disagrees with that statement. "Actuarial valuations of any pension promise require assumptions to be made about the future," he said.

Attempts to talk to four members of the Public Pension Plan Board appointed by the B.C. Government Employees Union were rebuffed. A union spokesman said the board had agreed all inquiries about the plan should be referred to Cook, who did not return calls.

Earlier, Cook said he would not discuss changes to the Municipal Pension Plan until all affected members had been notified, but he confirmed that changes were made to the plan.

Hurst noted that the Canada Pension Plan has come to terms with demographic sustainability -- growing numbers of retirees and declining numbers of contributors -- by dramatically increasing contributions.

But he said the B.C. public sector has yet to face the fact that in 20 years the ratio of active employees to retirees will be about half what it was in 2001.

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