

Federal Public Sector Pension Benefits

For both public and private sector employees, the "Gold Standard" in terms of pension benefits, has been the defined benefit plan (DBP). A DBP plan provides a retirement pension whose amount is set in advance. The amount usually corresponds to a percentage of salary, multiplied by the number of years of credited service under the plan. In a number of instances, the amounts payable are indexed to keep pace with inflation. The normally less generous pension plan alternative has been the defined contribution (DC) plan. With a DC plan, the amount of your retirement pension depends among a number of factors with payout based on the total amounts accumulated in your account.

In terms of pension plan coverage, out of 3.3 million public sector employees, 2.6 million are covered by pension plans with the vast majority, 2.5 million, enrolled in DBP pensions. From the private sector perspective, out of 11.8 million private sector workers, 2.8 million are covered by pension plans of which 2 million are enrolled in defined benefits plans, and 766,000 by defined contribution programs.

Although DBP plans still account for a majority of workers enrolled in a pension plan, the recent growth in DC coverage has been significant. According to Statistics Canada, from 1991 to 2006, the number of DC plan participants doubled, from 466,000 to 899,000.

The Changing environment for pensions and pension sustainability has raised a number of important questions on public sector pension plans. Since the majority of Canadian workers are outside of a pension plan AND the private sector is moving towards the DC plan model, is it still appropriate for the federal public sector to continue with the DBP model? With pension plans in Canada and around the world facing significant asset declines as a result of the current economic crisis, is the federal public sector pension plan sustainable without taxpayer bailouts? The recent federal budget projects deficits until 2013-2014. Regaining a balanced or surplus budget will require reducing government expenses. This may require a review of the federal public sector pension regime to ensure that it is sustainable and provides a level of support that is acceptable to Canadian taxpayers.

Recommendations

That the federal government establish an expert committee comprised of professionals in the field to make recommendations on federal public employee pensions to the appropriate ministers with the goals of:

1. Ensuring a sustainable funding model
2. Creating a federal public employee pension system that will reduce liabilities for the taxpayer without compromising the attraction and retention of high caliber public sector employees.
3. Examining the solvency tests and governance tests against which registered public sector pension plans are evaluated.

