

Part Two: Public concern over pensions in the nation's capital

OTTAWA — A tiny group of British Columbians are part of a federal public sector pension plan that is under increasing scrutiny from critics who say it is both unsustainable and overly generous.

Private sector interest groups and think-tanks like the Canadian Federation of Independent Business and the C.D. Howe Institute argue that the federal scheme should be reformed and made less generous in the coming 2012 budget.

The system is “not sustainable,” according to C.D. Howe president Bill Robson.

There are 423,781 active contributors to the public service, RCMP and Canadian Forces pension plans, representing about 2.3 per cent of the Canadian workforce of 18.7 million.

While officials couldn't provide accurate figures for the number of federal pension members in B.C., Statistics Canada says there were 41,000 people in B.C. on the federal payroll in 2010, making up about 1.7 per cent of the 2.45- million members of the provincial workforce.

The 317,000 members of the Federal Public Service Pension Plan can retire as young as age 55 if they have worked for at least 30 years, and on or after their 60th birthday if they've put in as few as two or more years of pensionable service.

And some in more challenging positions, like the RCMP and prison guards, can retire at any age as long as they've worked for 25 years. Canadian Forces members, meanwhile, can retire after 20 years of service.

Anyone in a federal plan collects two per cent of the average of their top-five salaried years — this is usually, though not always, their last five years — so 25 years of service would net a member 50 per cent of their top average annual salary over their best five years.

Those who stick in for the long haul and work at least 35 years can earn a maximum 70 per cent of their best five earning years. For a senior mandarin, such as a department-running deputy minister now earning a maximum salary of \$195,300 a year, that would mean a pension of close to \$140,000, indexed to inflation.

The average public service pension earned by the current 238,000 retired members and their survivors was about \$25,000 in 2009-10.

But that average is rather misleading, according to pension consultant Malcolm Hamilton, since it includes public servants who have only worked a few years in the bureaucracy.

For all those benefits, federal employees pay 5.8 per cent of their annual salary up to \$48,300 into the pension scheme, and 8.4 per cent of their salary above that amount.

Members are now paying about 35 per cent of the plan's costs, with taxpayers picking up the rest — although the federal government has taken steps to move up the employees' contribution to 40 per cent by 2013.

Critics say Canadians can't afford to subsidize gold-plated pensions, with the C.D. Howe Institute arguing retirement ages should be raised and employee contributions jacked up to at least a 50-50 basis with employer (that is, taxpayer) contributions.

They also argue that the current gap between public and private sector schemes paves the way for deep resentment as more and more public servants hit retirement age. "One group of retiring Canadians is set to raid the public treasury for billions of dollars in guaranteed, indexed pensions," write Bill Tufts and Lee Fairbanks in their new book, *Pension Ponzi: How Public Sector Unions are Bankrupting Canada's Health Care, Education and Your Retirement*.

Catherine Swift, of the Canadian Federation of Independent Business, said her group has calculated that the salaries, perks and pensions of federal public servants is 40-per-cent higher than equivalent posts in the private sector.

"They're not sustainable and we see this happening around the world. Basically promises were made often decades ago under pressure [from unions] and nobody ever did the proper monitoring as circumstances changed," Swift said, citing longer lifespans as one factor.

C.D. Howe, in an analysis released a year ago, said the Canadian public service pension plan is facing a similar kind of bubble as government pensions in the U.S. and Britain, where there are unfunded pension liabilities measured in the trillions of dollars.

Pension consultant Hamilton said the government deviates from the accounting standards used in private sector plans by failing to take into account the rock-bottom interest rate environment.

"They materially and disastrously understate the cost of that plan," Hamilton told *The Vancouver Sun*.

But Linda Duxbury, of Carleton University's Sprott School of Business, said private sector critics like Swift seem to be arguing that all Canadians should be dragged down to the level of private sector workers, who in many cases have no employer pension plans.

"I get tired of the groups who go, 'Look at how well public servants are being treated.' They seem to be saying, 'We should treat everybody badly,'" Duxbury said. "I'm not saying they should go to the gold-plated model of the public service, but I am saying that in many of these sectors they offer nothing."

Both the federal government and its unions deny the federal pension plans are unsustainable.

“The Government of Canada places great importance on the financial integrity of its public sector pension plans,” said Treasury Board spokeswoman Anabel Lindblad, noting the pension system has passed inspection by the auditor-general’s office, as well as a review by a private consulting firm.

The Public Service Alliance of Canada, which represents 172,000 public servants, calls the C.D. Howe study a red herring.

PSAC president John Gordon noted that the chief actuary of Canada’s 2008 report showed a surplus in the public service plan. “When they talk about gold-plated pensions they should take a look at what the CEOs of this country are getting,” Gordon said.

While there is growing speculation that the Tory government will take a hard line on pensions, any tough decisions raise questions of hypocrisy if they don’t also trim their own platinum scheme. MPs collect three per cent of their best salaried years for every year of service, only have to serve a minimum six years in Parliament, and can begin collecting at age 55. In other words, MPs with 25 years of service would earn 75 per cent of their best five years, compared to 50 per cent for a public servant in the plan.

The 113 defeated or retired MPs after the 2011 election are estimated to earn \$1.1 billion over their lifetimes, according to the Pension Ponzi authors. Seventeen of them are now drawing six-figure pensions, including ex-Bloc Quebecois leader Gilles Duceppe, who is receiving \$141,000.

“It’s going to be a very powerful debating point for the unions to say, ‘Why are you doing this to us when your pension plan is still in the same bad condition that you’re complaining about with ours?’” said C.D. Howe’s Robson.