The Role of Large Private Pension Funds in the Economy:

Canadian Perspectives

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Pension Trends and the Changing Supervisory Landscape

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Overview

- Large Pension Funds in Canada
- Economic Impact
- Pension Supervision in Canada
- Supervisory Challenges

What is a Large Pension Fund?

Generally, the largest pension funds in Canada manage the assets of the major public sector defined benefit pension plans.

The top 5 private pension plans in Canada (by 2014 assets) include:

1. Ontario Teachers' Pension Plan; **$152 billion**
2. Ontario Municipal Employees Retirement System (OMERS); **$73 billion**
3. Public Service Pension Plan; **$68 billion**
4. Healthcare of Ontario Pension Plan (HOOPP); **$61 billion**
5. Quebec Government & Public Employees Retirement Plan: **$56 billion**

Source: Benefits Canada, "Top 100 Pension Funds" (June 2015)

Some provinces engage the same asset manager for numerous public sector plans, for example the British Columbia Investment Management Corp. and the Alberta Investment Management Corp., to capture economies of scale.

NB: Excludes the Canadian Pension Plan Investment Board (CPPIB) ($268 billion) and the Caisse de dépôt et placement de Québec ($241 billion), which manage assets of the national and provincial public pension schemes.

Characteristics of Large Funds

In a 2013 study, the top Canadian pension funds identified the following success factors:

- **Professional Management**

  Managed independently, with clear performance mandates.

- **Well-Developed Governance Structures**

  Operate in the best interests of members, guided by fiduciary responsibilities.

- **Sufficient Scale**

  Large member base and regular contributions, permits internal asset management.

- **Certainty of Liquidity**

  Predictable cash flows permits allocations to less liquid assets.

- **Employee Value Proposition**

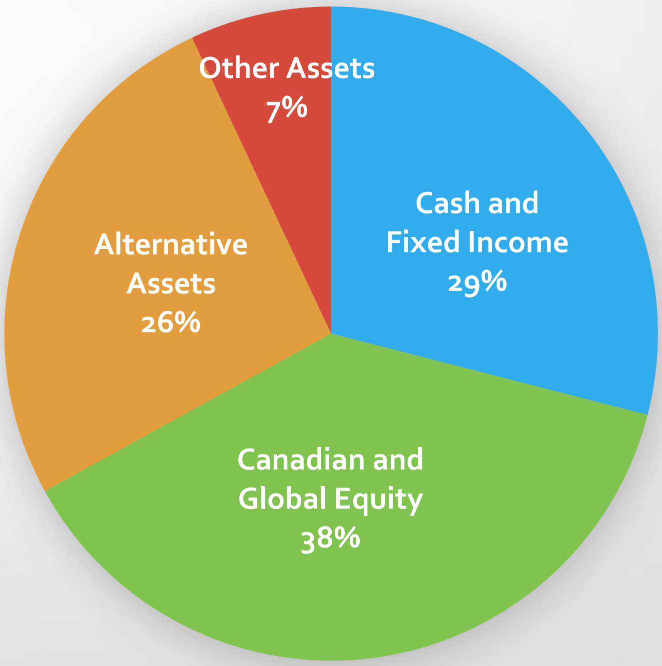
  Attraction and retention of top talent.

Asset Mix

The Pension Investment Association of Canada (PIAC), whose members manage the portfolios of some 130 pension funds publishes the average asset allocation of its members' plans.

At the end of 2014, the average mix for plans of all sizes was as follows:

- Larger pension funds have reported allocations of up to 35% in alternative asset classes, with significant real estate and infrastructure investments.
- Smaller plans appear to be following this trend, as some are contemplating consortium investments in infrastructure.



Source: PIAC, 2015

Economic Impact

The economic impact of large pension plans / funds can be observed from the perspective of institutional investors, pension providers and employers.

- Total Canadian pension assets exceed $1.2 trillion (2013).
- Top 10 funds have more than $400 billion invested in Canada, with over $100 billion in real estate, infrastructure and private equity (2013).
- They provide non-leveraged investments with focus on long-term value creation, with the potential for counter-cyclical influence.
- Nearly 75% of pension income is derived from investment returns, requiring lower contribution rates, while stable pension payments allow pensioners to continue economic activity.
- The pension sector directly employs over 10,000 Canadians, with a total payroll of over $1.5 billion. An additional $2 billion for professional services is expensed annually.

Pension Supervision in Canada

Legislative authority for the supervision of pension plans in Canada is divided between the provincial and federal governments.

- The Canadian Association of Pension Supervisory Authorities (CAPSA) promotes harmonization and coordination of regulatory approaches among the 10 supervisory bodies.
  - CAPSA's Agreement Respecting Multi-Jurisdictional Pension Plans (MJPPA) establishes a primary supervisor (or "major authority") based on the jurisdiction with a plurality of membership.
  - CAPSA's Guideline on Prudent Investment Practices (2011) provides guidance to plan administrators on how to demonstrate the application of prudence to the investment of pension plan assets.
- Private pension plans and funds are subject to the same legislation and regulations in the jurisdictions they operate, regardless of size.

Pension Supervision in Canada

- Pension plan administrators are expected to prepare an investment policy (or Statement of Investment Practices & Procedures) which considers the investment objectives and risk tolerances of the plan as well as categories of investment and asset mix.
- Many provinces have adopted the federal government's pension investment rules by reference in their pension legislation (namely Schedule III of the federal Pension Benefit Standards Regulations, 1985). Of particular note, this includes the following investment restrictions:
  - **10% Concentration Limit**
    No more than 10% of plan assets can be invested in, or loaned to, any one company or group of related companies. Exceptions include holdings of government securities. In March 2015, this rule was changed to a market value test and, in order to limit forced divestment, was clarified to in effect at the time of purchase.
  - **30% Control Limit**
    A pension fund cannot hold more than 30% of the voting shares of any corporation, subject to certain exemptions. In its Budget 2015 , the federal government announced a public consultation on the usefulness of this rule.

Supervisory Challenges

Public Policy Influence

Due to their size and economic reach, large pension plans / funds are important stakeholders in public policy discussions and they can have considerable influence.

- Generally, large plans can devote more resources to lobbying regulators and policy makers than smaller plans.
- Administrators of public sector pension plans may be accountable to the same government ministry or agency as the pension supervisor.
- Large pension plans / funds possess considerable capacity and can drive innovation. They might have more human and financial resources than supervisors.
- The membership of many large plans are union represented, which can mobilize additional influence.

Supervisory Challenges

Exemptions to the Investment Rules

Large pension funds have sought exemptions from the investment rules to invest in alternative assets and other government securities.

- Some jurisdictions exempt pension plans from the 10% concentration limit in relation to investments in US treasury securities.
- Some jurisdictions are considering exempting pension plans from the 30% control limit for specific investments infrastructure corporations, as there is interest in additional public-private partnerships for infrastructure.

Questions?

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