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The evolution of the Canadian pension model: lessons learned

Background, project update, and Ontario opportunity

December 13, 2016

Project objectives and deliverables

Scheduled for completion / release in spring 2017

Project objectives

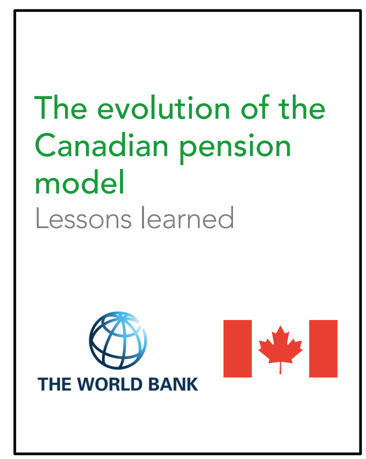
- **Document the evolution of the "Canadian model"** of public pension fund (see definition on page 6) in a manner that provides **practical, actionable lessons and insights for key stakeholders** in emerging economies and supports the World Bank's pension capacity building work with governments, regulators, pension funds, and other stakeholders
- Highlight both the **common themes and variations** within the Canadian model by focusing on one or two key characteristics of each pension fund being profiled
- **Create opportunities to deepen relationships** between Canadian pension funds and their counterparts in developing markets, helping to ensure lessons learned are embedded in practice and creating further opportunities for collaboration, knowledge exchange, and potentially co-investment. Facilitate the sharing of Canadian expertise with World Bank Group clients.

Deliverable

World Bank branded, standalone report documenting the evolution of the Canadian pension model, profiling 3-5 Canadian pension funds, and offering lessons learned for emerging economies. Key elements of the report will include:

- Rationale for studying the Canadian pension model
- Overview of the Canadian pension model and framework documenting the evolution of leading Canadian funds
- Pension fund case studies of 3-5 Canadian pension funds including their key investment and governance features
- Lessons learned for stakeholders in emerging economies

- Report to be disseminated by the World Bank and its partners through numerous channels including regional workshops, country-specific events and capacity building, technical training workshops, and potentially the World Bank Group's Spring Meetings
- Project partners to participate in the dissemination of the report through World Bank events and capacity-building sessions with World Bank Group client countries / funds



The primary audience for the report includes a wide range of pension stakeholders in emerging economies

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Would be used to strengthen retirement systems and pension institutions

Key World Bank Group participants in the project

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Finance and Markets Global Practice

- Project sponsor
- Lead pensions and retirement security capacity building work with governments, regulators, Social Security administrators, and other pension stakeholders

World Bank Treasury (RAMP Program)

Provide technical training on pension and asset management for pension funds, central banks, and sovereign wealth funds

Potential audience for the report in emerging economies

- Governments
- Regulators
- Pension fund managers / administrators
- Social Security administrators
- Central banks
- Pension fund trustees
- Sovereign wealth funds / government reserve funds
- Financial / pension industry representatives
- Labour leaders

A number of Canadian pension funds, and potentially governments, are partnering with the World Bank to deliver the project

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Confirmed project partners

- HOOPP – Healthcare of Ontario Pension Plan
- OPTrust
- Caisse de dépôt et placement du Québec
- AIMCo – Alberta Investment Management Corp.

Potential project partners who have expressed initial interest

- Government of Canada / Gouvernement du Canada – Canada: Have been approached through the Canadian Executive Director's office of the World Bank
- CEM Benchmarking: Interested in providing benchmarking analysis of performance of leading Canadian funds relative to national / global peers

The project presents an important opportunity for Ontario to promote a leading industry and support its pension reform agenda

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Opportunity for Ontario

- Reinforce Ontario's brand as a centre of excellence for pension management and financial services
- Create investment opportunities for Ontario-sponsored public pension plans
- Consistent with Ontario's export-oriented economic development strategy. Would provide profile for Ontario in fast-growing emerging economies from which the province is seeking investment.
- Provide an additional opportunity to highlight action Ontario is taking on pensions and retirement security (e.g., ORPP / CPP enhancement, creation of the Investment Management Corporation of Ontario)
- Build on and leverage extensive investments in pension-related research and policy that the government has already undertaken (e.g., ORPP implementation)
- Provide a useful source of knowledge to inform the development of the new pension regulator (FSRA) and to allow for continuous improvement in pension regulation (e.g., regulation of DC plans)

Ontario

Request

Assign senior executive from OPS to the project until spring 2017 as in-kind contribution

Working definition of the "Canadian model" of public pension fund

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A Canadian public pension plan or public pension asset manager that is typically defined-benefit or target-benefit, has a public-sector sponsor or sponsors, and has the following characteristics:

- **Independence** – the funds operate at arm's length of governments and sponsors and are overseen by independent boards
- **Scale** – assets under management exceed $10 billion and are often significantly higher
- **In-house management by professionals** – a significant portion of investment management and/or pension administration is performed by in-house professionals who receive competitive compensation
- **Diversification** – the funds' investments are highly diversified by both geography and asset class, including a significant allocation to alternative asset classes such as real estate, private equity, and/or infrastructure, and significant direct investments in such asset classes

Project timeline and current status

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Sep 2016 – Nov 2016: Establish project framework and initial partners

- Confirm project scope with World Bank Group
- Confirm initial project partners
- Identify interview subjects and prepare interview guides

Complete

Nov 2016 – Feb 2017: Interviews, research, and analysis

- Compile bibliography of academic and grey (government / research institute) literature relevant to the Canadian pension model
- Explore collaboration opportunities on benchmarking / data analysis with CEM benchmarking
- Develop initial framework for the evolution of pension organizations

Partially complete

- Conduct 20-30 structured interviews with interviewees such as current / former CEOs and board chairs of Canadian funds, senior government officials, labour leaders, and pension fund personnel (10 complete)
- Finalize project partners (pension funds and government(s))

Feb 2017 – Apr 2017: Draft report

- Prepare overview of the Canadian model, including defining the model, charting its origins, and providing an evidentiary base for studying it
- Prepare case studies / profiles on 3-5 Canadian pension funds, highlighting key
- Distill key lessons from the Canadian experience for emerging economies

Apr 2017 – May 2017: Feed-back

Solicit and incorporate feedback on the report from project partners

May 2017 – May 2017: Disseminate report

- Prepare for dissemination of the report through conference presentations, workshops, WebEx sessions etc., including preparing the necessary documentation to support such dissemination
- Identify opportunities for project partners to participate in capacity building work with World Bank Group clients (governments, pension funds, etc.)

Update on project interviews

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Interviews completed

Name	Background
Michael Nobrega	Former CEO, OMERS. Founding head of Borealis, OMERS' infrastructure arm and the first dedicated infrastructure arm for a Canadian pension fund.
Claude Lamoureux	Founding CEO, Ontario Teachers' Pension Plan (1990-2007). Former chair of nominating committee, PSP Investment Board.
Bill Foster	Former Chief Administrative Officer and interim CEO, OPTrust. One of key employees of Ontario Teachers' during the transitional period between the Crown agency and independent phases of the fund.
Hugh O'Reilly	CEO, OPTrust. Former board counsel, OPTrust and HOOPP. Served as a key policy advisory to the Ontario government during the period when many public-sector plans were reformed / made independent.
Jennifer Brown	Former Chief Pension Officer, OMERS. Former board member, OPTrust. Served as a key government official during the set-up of OPTrust.
Keith Ambachtsheer	Pension consultant. Founder of Rotman International Centre for Pension Management. Served as key advisor to government and pension funds during their set-up phase.
David Dodge	Former Governor of the Bank of Canada. Served as Deputy Minister in the federal Department of Finance during set-up of CPPIB.
Malcolm Hamilton	Retired senior actuary, Mercer. Served as the actuary for several major Canadian pension plans including Ontario Teachers'.
Kathy Bouey	Former Deputy Minister, Ontario government. Served as civil service lead during reforms to Ontario Teachers' Pension Plan and Ontario Public Service Pension Plan.
Malcolm Rowan	Author, *In Whose Interest?* – report to the Ontario government on the reform of its public-sector pension plans (1987).

Upcoming interviews – December / January

Name	Background
Gail Cook-Bennett	Founding chair, CPPIB. Has served as chair and board member of several other major organizations including Manulife.
CDPQ case study interviews	Various interviews with CDPQ current and/or former representatives, focusing on CDPQ's approach to infrastructure and economic development mandate.
HOOPP case study interviews	Various interviews with HOOPP current and/or former representatives, focusing on HOOPP's governance model and liability-driven investment approach.
OPTrust case study interviews	Various interviews with OPTrust current and/or former representatives, focusing on OPTrust's governance model and approach to infrastructure investment
AIMCo case study interviews	Various interviews with AIMCo current and former representatives
Margaret Wilson	Lead Ontario Teachers Federation representative during the set-up of Ontario Teachers' Pension Plan.
Robert Bertram	First CIO of Ontario Teachers' Pension Plan.

Initial findings from interviews and literature review

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- Strong positive feedback about the project, including about the appeal for Canadian funds to participate in ongoing capacity building (e.g., exchanges) in collaboration with the World Bank Group and its clients

- In the early 1990s, some Canadian plans that are now very sophisticated, were likely behind where many emerging economy pension organizations are now:
  - 100% invested in non-marketable government debentures
  - Very significant administrative errors ($500M worth of over/underpayments in the case of Ontario Teachers')
  - Poor controls and systems (e.g., weak audit, no custodian)

- Key aspects of the "Canadian model," according to interviewees
  - Independence / lack of political interference
  - Top-tier people and appropriate compensation / "run like a business"
  - Professional, in-house investment management that has evolved towards highly diversified, global portfolios with significant direct investment in alternative asset classes
  - Strong governance (governance model varies by fund)
  - A collaborative, risk-sharing, joint-sponsorship model that removes pensions from collective bargaining (varies by fund)
  - Integration of the assets and liabilities side of the pension balance sheet (varies by fund)

- The quality of key people, and their actions, is critical in establishing organizational independence and good governance, particularly during the early stages of setting up a new or reformed pension organization. For instance, in the case of Ontario Teachers':
  - The first chair of Ontario Teachers', Gerald Bouey, insisted that the plan would be independent of government and accepted the vision of founding CEO Claude Lamoureux that the plan be "run like a business"
  - A key labour leader in the education sector, Margaret Wilson, bought into a collaborative governance model and allowed management ample discretion to administer the plan and invest its assets
  - The Teachers' board demonstrated its independence during its early years by treating a key government request for investment like any other investment opportunity

- Key challenges facing the Canadian pension model
  - Demography – plans are increasingly mature
  - Highly fragmented regulatory regime that has often lagged the sophistication of the larger pension funds / plans and is not well integrated with other parts of financial regulatory architecture
  - Pension administration costs remain relatively high
  - "Pension envy" / ability to extend elements of the "Canadian model" to those outside existing plan membership
  - Complexity – oversight and management has become more complex as investment programs have become more sophisticated and global
  - Maintaining outperformance in an increasingly competitive environment for investments and talent

Framework for the evolution of pension organizations

Working hypothesis that we are testing through interviews and research

1. Pay-as-you-go pension plan / concept phase
2. Pre-funded pension plan as part of government department or employer HR function
3. Dedicated pension organization independent of politics
4. Professional entity with good governance
5. Professional investment team with some investments managed in-house
6. Sophisticated in-house investment program (e.g., alternatives)