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## Before reforming pensions, MPs must tackle their OWN

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Debate over retirement income is hot. It's partly that Canadians are getting older. But it's mainly the growing realization that the next generation of retirees may live less comfortably than their parents have done. People are living longer, and returns on investment are lower. So hitting the targets their parents achieved means today's workers must retire later and save more.

Further raising the temperature is Canadians' learning that the stresses affecting their own retirements do not affect the government employees whose pensions they backstop – federal employees heading that list.

Ottawa's pension plans provide benefits far richer and earlier than the retirement incomes most Canadians can aspire to. They are also badly underfunded, exposing taxpayers to a potential liability approaching \$250-billion. Worst of all is the pension plan for MPs – both because its exceptionally lavish benefits are totally unfunded, and because it's the scheme for elected representatives who need to lead national reforms.

It's not news that the MPs' plan promises rich benefits (although it certainly raises eyebrows that its indexed entitlements accrue at the rate of 3 per cent annually to a maximum of 75 per cent of the best five years of

pay and are available after only six years of service). What makes people lose their cool is comparing the wealth building in that plan with what an ordinary RRSP saver can achieve. Any non-federal employee earning the equivalent of an MP's salary, who wants an equivalent inflation-indexed benefit backed by the federal government, would need to buy federal real-return bonds – to the tune of about 70 per cent of income! A stiff challenge, put completely out of reach for most Canadians by the federal Income Tax Act, which limits tax-deferred retirement saving to 18 per cent of income or \$22,970 – whichever, in words the income tax form has made so familiar, is less.

What few realize, even MPs themselves, is that no actual saving happens in their plan. The federal government tracks its obligation to MPs with a mechanical formula that looks like an asset in the plan's financial reports, but is actually just a bookkeeping entry. The contributions MPs notionally make to the plan vanish into Ottawa's consolidated revenue fund, and the government's contributions as an employer are a fiction. The total amount needed to meet the plan's obligations at today's yields is about \$1-billion. The actual amount of assets in the plan is zero. So the unfunded liability – the money yet to be found to pay the plan's promises – is also \$1-billion.

Benefits this rich, backed by no assets, put MPs in no position to fix other federal employee pension plans – whose collective deficit around a quarter of a trillion dollars creates a serious burden for taxpayers, and lessens the urgency in Ottawa to make the changes other Canadians struggling for a secure retirement badly need.

The government feels the heat. Prime Minister Stephen Harper and Finance Minister Jim Flaherty have suggested that federal pensions – and MPs' pensions particularly – are under review in the run-up to the 2012 budget. They should be, because there is plenty to do.

We need assets, not bookkeeping entries, backing federal pension promises. From now on, the MPs' plan should put real money into real investments. And from now on, the promises should not exceed the saving that backs them. One option would be a target-benefit plan of the kind common in the provincial broader public sector. More attractive, because it would put MPs on the same footing as their constituents, would be a pooled registered pension plan such as the government has proposed for Canadians generally.

This does not mean cutting MPs' total compensation. Canada should pay its MPs well, and increases in current pay can offset lower pensions. But not entirely – part of their loss would be the income tax MPs would have to pay on saving above the limits that constrain most Canadians. If MPs want that back, they should raise the limits for everybody.

Canada's pension debate shows that Canadians realize they need better, and better funded, pensions. Reform should start at the top.

*William Robson is president and CEO of the C.D. Howe Institute and author of [Fixing MP Pensions: Parliamentarians Must Lead Canada's Move to Fairer And Better-Funded Retirements](#), available Thursday at [cdhowe.org](http://cdhowe.org).*