WEEKEND LETTERS

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Myths and realities of public sector pensions

By Richard Alexander

I write in response to letters to the editor submitted by several union leaders, in particular those from the Newfoundland and Labrador Teacers' Association (NLTA), concerning public sector pensions in our province.

Union leaders have taken exception to provincial business associations like the Newfoundland and Labrador Employers' Council sharing in the discussion about the financial predicament of our public sector pension plans (PSPPs). These leaders have suggested that business associations are self-serving, distorting the facts and have no standing in the debate.

This demonstrates how emotionally charged the issue is for everyone involved. Unfortunately, these types of arguments distract from the real issue.

The real issue is that without reform, the first of the public sector pension funds could run out of money in as little as seven years (according to the auditor general). Action is required now to protect the public sector pension plans for current and future public sector retirees.

To be clear — business is not anti-public sector pension. The NL Employers' Council is not advocating for the elimination or alteration of pensions for current pensioners or those about to retire — that would be wrong.

A robust provincial retirement system plays a critical role in recruiting and retaining talented public servants. However, the government's commitment to provide retirement benefits to our civil servants must be balanced against the burden placed on taxpayers, who ultimately pay for those benefits. This is only fair.

Government is not alone in this predicament.

The business community has experienced the dangers of unfunded pension liabilities, albeit on a smaller scale, with their own employee pension plans. Most private sector plans have been restructured over the last 20 years with the support of employees and their unions.

The business community understands better than most that, without reform, these pension plans will threaten the financial health of our government. Taxpayers, including business owners and their employees, have a right to know the realities of our PSPPs, and to have their concerns respected.

Myths and realities

Myth: The public sector pension plans are not broken.

Reality: Unfunded public sector pensions and post retirement liabilities currently amount to nearly $6 billion of our province's net debt. The percentage of our debt related to public sector retirement liabilities continues to increase at an alarming rate. In 2013 it was 66 per cent, in 2014 it will be 74 per cent and by 2015 it will climb to 85 per cent.

Myth: Public sector pension plans are not generally funded by taxpayers.

Reality: The employer contribution to a public servant's pension is taxpayer money. Taxpayers are also on the hook for any shortfall in the pension funds. On top of annual employer contributions, government has made more than $4.7 billion in special payments to these pension funds since 1997. In 2005, then-Premier Danny Williams received a $2.2 billion advance from Ottawa on the Atlantic Accord — money that belonged to everyone in the province. Nearly all of that money was put toward the Teacher's Pension Fund because of its unfunded position.

Myth: The public sector pension funds are in trouble because past governments mismanaged them.

Reality: The PSPPs are in trouble due to current demographic and market realities. There are currently 8,581 retired teachers collecting pensions, and only 6,231 working and contributing to the pension fund. There will continue to be more people retiring and living longer than there are people working in the public sector. The rate of return on these funds over the last 10 years has not kept up with what is required to meet the promises. Despite billions in special payments to the public sector pension funds in recent years, the unfunded portion continues to grow. Taxpayers can no longer bear all of the risk associated with these funds.

Myth: Unfunded liabilities are merely "paper figures" and are not "real".

Reality: Unfunded liabilities represent money owed for guaranteed pension obligations that have already been promised. Public sector pensioners receive a guaranteed pension salary, for life, regardless of the funds' performance. Taxpayers bear all of the responsibility to cover any shortfalls. Current pensioners and civil servants expect and deserve to be paid what is owed to them for their pension, but without change the current nearly $6-billion shortfall will continue to grow. This obligation is very real and will have to be paid not only by today's taxpayers, but also by our children.

Myth: Supporters of pension reform are simply attacking pensioners and government employees. Reducing the benefits of one group will not make retirement affordable for another.

Reality: Government does not have an endless stream of revenue. Choices have to be made about how our tax dollars are spent. According to government's own projection, by 2016 pensions and post retirement liabilities could account for $9 billion in debt. This is equivalent to what it would cost to fund education in our province for 11 years. Increasing government contributions to PSPPs to cover shortfalls will mean sacrificing other services, or increasing taxes — leaving non public sector citizens with less money to save for their own retirements.

This is a very real problem. We commend union leaders for admitting that the current plans are unsustainable. We also commend them for agreeing to sit down with government and find a solution. However, time is running out. The longer government waits to act on this issue, more painful the solution will be for both public servants and non public servants alike. The problem has been growing for years and will only get worse. All taxpayers should expect and demand leadership from government on this issue today.

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