Opening Remarks of the Canada Pension Plan Investment Board

(CPPIB)

Before the Standing Committee on Finance

Regarding the Retirement Income Security of Canadians

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Delivered by Don Raymond

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Good Afternoon. My name is Don Raymond and I am Senior Vice President of Public Market Investments at the Canada Pension Plan Investment Board – it is nice to be here again. With me today is my colleague, Ian Dale, Senior Vice President of Communications and Stakeholder Relations. Thank you for inviting us to speak to you this afternoon.

During the mid-1990s, the conversation in the Canadian pension industry and amongst policy makers focused on what was working and what was not. At that time, it was recognized that the Canada Pension Plan was not sustainable. With foresight, political courage and ingenuity, Canada's provincial and federal governments worked together and took bold action to successfully reform the CPP.

With input from contributors and beneficiaries, pension experts, employers, the labour movement and academics they crafted an enduring solution that ensures the sustainability of the Canada Pension Plan.

Fast forward to today: the CPP is sound and sustainable for the Chief Actuary's 75 year review period and beyond. It is 10 years before the first dollar of investment income from the CPP Fund is needed to help pay benefits, and CPP is viewed as a key part of the solution to increased retirement security, no longer as part of the problem.

It is reassuring that a recent Nanos poll indicates that a majority of Canadians are confident in the capacity of the CPP/QPP to deliver on their pension commitment going forward. What is a concern is that less than half of Canadians in the 30-39 age group were confident or somewhat confident on this point, whereas almost 70% of Canadians over 60 were much more confident.

Asked whether the CPP/QPP would have to reduce payments in the future, three quarters of respondents in the 30-39 age bracket thought this was likely or somewhat likely, while only about 42% of respondents 60 or over thought so.

Our take-away from this is that many Canadians are still unaware that the CPP was reformed almost 15 years ago and are not aware of the plan's soundness or sustainability for generations to come. Changing the perception of the CPP is a significant opportunity for federal and provincial policy makers. Our role at the CPP Investment Board is to manage the CPP Fund, but we believe that Canadians might make different financial choices if they better understood the sustainability of the CPP.

But one thing is clear. Canadians can rest assured that the CPP will be there for their retirement and will deliver an important portion of their retirement income as intended. As a result, the CPP can and should be viewed as the cornerstone of retirement security for the 17 million Canadians who currently participate in the plan.

Consider the attributes of the CPP: The CPP is a mandatory, contribution financed, national defined benefit plan. These benefits are a stream of payments for life that are fully indexed and fully portable.

Other advantages include the fact that risks are pooled with a large number of plan participants, the 17 million Canadians who are part of the CPP. And for the vast majority of Canadians, even if they have tax assisted retirements savings, the CPP is the only access to an actual pension they have.

The Canada Pension reform model of 1996-97 and the CPP Investment Board are admired by national pension plans and pension funds around the world as an effective way to address struggling national retirement systems. Credit for this accomplishment belongs to policymakers. It is truly remarkable that the CPP, rightly judged to be in crisis 15 years ago, is now seen as part of the solution and enhancements to the plan are under consideration.

What we can do here today, is share some of what we have learned from our experience of managing the CPP Fund to help inform the debate currently underway across Canada – and elsewhere around the world.

The CPP Investment Board manages the assets of the Fund not needed to pay current benefits – assets which do not belong to the government and are segregated from general tax revenues. It operates at arm's length from government, free from political involvement and with a professional management organization accountable to a financially sophisticated Board of Directors. It has a singular commercial mandate – to maximize investment returns without undue risk of loss – and can invest with a high degree of certainty about the future cash inflows to the Fund. And due to its partial-funding structure, the Fund has an effective amortization period of 75 years.

The CPP Investment Board is a longer term investor than almost all market participants. Our investment strategy is designed to perform over the long term to help sustain the CPP for 17 million Canadians over decades and generations. We manage the $124 billion CPP Fund with our investment horizon of 5, 10 and 20 years and it is designed to deliver returns over decades.

While we are encouraged by the stronger performance in 2009, it is performance over the long term that matters to the ongoing sustainability of the CPP. By staying the course with our long-term strategy, the CPP Fund has benefited from the recent rebound in financial markets around the world.

In 2009, we were able to capitalize on our structural advantages and internal expertise to complete significant investments in Canada and globally. We expect that the investments we have been making during the past 12 months will be a strong source of investment income over the long term. We will maintain the strategic asset weighting of the portfolio and emphasize our strengths as a large, long-term investor to capitalize on investment opportunities we see in current market conditions.

In summary, we do not advocate any specific pension reform model nor do we champion a specific proposal. Our role in the pension system is to manage the funds that will help sustain the Canada Pension Plan as currently structured.

Our sole focus is investing the assets of the CPP and we have built an organization to handle the tremendous growth of the Fund as it increases to $250-$300 billion in the next decade. If policy makers decide to expand the CPP, we could if asked, manage the additional assets. Or alternatively, a separate organization that reflects the proven CPPIB model could also handle this.

Thank you again for the invitation to participate today, we look forward to your questions.