Institute cries ‘wolf’ on lurking liability

Re: Federal pension gap really $227B, Dec. 14.

Bill Krause suggests there is little doubt that as government employees keep contributing to their pension plans and the economy slowly recovers, reasonable plan surpluses will once again be reflected in the public accounts

It’s that time of the year again, when the little boy runs into town and shouts: “Wolf!”
That little boy is the mischievous C.D. Howe Institute, and the wolf is the monstrous unfunded liability hiding in Canada’s Public Service Pension Plans.

For years the institute has peddled the notion of a lurking liability ready to savage the Canadian taxpayer. This year the institute claims that the plan deficit is $80 billion greater than that reported in the public accounts.

I can appreciate the approach of the C.D. Howe Institute. Say a lie often enough, and loudly enough, and someone will believe it. What is truly horrifying would be any government reaction formulated on this myth. So once again, let’s set the record straight.

The method used by the C.D. Howe Institute, “market yields” (or fair value accounting), is inappropriate for the examination of pension funds.

It is simply the method used to clear daily margin accounts on stock exchanges. It was never meant to assess pension accounts. Applied in a period of recession, it will drive equity values down and raise plan debt. Used in a period of economic expansion, it will drive plan surpluses to unrealistically high levels.

Some have argued that it was the widespread use of this accounting method by largely unregulated hedge funds that played a critical role in the rapid rise and downward spiral of world equity markets. When our equity markets recover, will the institute report the overstated surpluses?

C.D. Howe authors Alexandre Laurin and William Robson have stated, “To let this unfunded obligation expand is unconscionable.” What is truly unconscionable is the persistence of the institute, continually making exaggerated claims, and needlessly alarming the public.
Fortunately, not all Canadians are fooled by the antics of the C.D. Howe Institute. Canada’s Chief Actuary has used appropriate and widely accepted accounting methods in analyzing these pension plans. Canada’s Auditor General, our protector of the public purse, has never found any hidden under-appreciated risk lurking in these plans. There is little doubt that as government employees continue to contribute to their pension plans, and the economy, however slowly, recovers, reasonable plan surpluses will once again be reflected in the public accounts.
For now, prudent and well-informed Canadians will have to once again admonish the little boy for shouting, “Wolf!”

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