

## **CPP board sees big gains since March**

### ***Market rebound fuels 4.6-per-cent gain for CPP; and, presenting a retirement primer***

The Canada Pension Plan has put the crash behind it, reports the Toronto Star.

A revival of stock prices from what the man in charge of the CPP reserve fund calls their “Armageddon discounts” has lifted the reserve fund to \$123.8-billion as of Sept. 30.

The latest total, reported in November by the CPP Investment Board, is about a billion above the fund’s earlier peak in the spring of 2008, but \$18.3-billion better off than at the low point this past March 31.

The dramatic turnaround in such a short period is not a bellwether for measuring the state of health of most other pension plans, however.

Unlike most plans, the CPP Investment Board will not have to pay pensioners any of the money placed under its care for more than a decade. Until then, pensions will continue to be paid from the same year’s contributions.

Board president David Denison said the fund benefited from the sharp rise of every stock market around the world, although returns on many foreign markets were muted when translated into Canadian dollars.

He said the fund is certainly not expecting a repeat of the past six months’ returns in the next six months. “We think (stock) valuations are sensible, and we would expect more moderate performance.”

The fund reported a 4.6-per-cent overall rate of return in the latest quarter, and a 12-per-cent return that produced \$13-billion of investment income net of expenses in the previous six months. Another \$5.4- billion came from contributions.

Last year’s losses have severely reduced the average of the fund’s historical returns, to 5.2 per cent over the past decade and 2.3 per cent over the past four years.

The 10-year record was about a percentage point less than what the Chief Actuary of Canada estimates will be required in the next 75 years for the reserve fund to

fulfill its role in keeping payroll deductions from employees and employers at a combined 9.9 per cent of pay.

Denison said he is confident that the fund's targeted allocation in the various classes of assets will produce the required returns over several decades. The fund stuck with those allocations through thick and thin in recent months, remaining fully invested, he said.

Shares in public and private companies amounted to \$69.2-billion, or 55.8 per cent of total CPP investments as of Sept. 30. Bonds and other debt instruments represented 30.7 per cent, real estate 5.6 per cent, infrastructure 4.8 per cent and inflation-linked bonds 4.8 per cent.

Denison said the board hears from Canadians who think the fund is taking too much risk with their savings, and that it has paid too much for some large investments.

"It's quite the contrary," he said. The choice of assets is appropriate for a fund with such a long investment horizon, he said. "Our track record is that we have been a very disciplined investor over the years.

- *James Daw, Toronto Star, published Nov. 13.*

## **Retirement facts and myths**

How much do you understand about the history of Canada's public pension systems?

The Investors Groups offers this brief primer.

Retirement is a relatively recent development in human history. The industrial age of the late 18th and early 19th century replaced an economy based on manual labour with one dominated by machinebased industries. Still, the demands of physically exhausting labour made it almost impossible for older workers to stay on the job. It was easy for them to buy into the idea of retirement as they hit their sixth decade.

The cornerstone of Canada's retirement income system, the Old Age Security (OAS) program began in 1927 and was updated in 1952 to provide a modest pension to eligible seniors as early as age 60. Among many subsequent

amendments: the introduction of the Guaranteed Income Supplement (1967); the establishment of the Spouse's Allowance (1975); and the extension of benefits to same-sex common-law partners (2000).

Registered Retirement Savings Plans (RRSPs) were first introduced in 1957.

The Canada Pension Plan/Québec Pension Plan (CPP/QPP) were enacted in 1965 to provide a monthly income to retirees as early as age 60 with payments dependent on how much a person paid into the plan while working.

The most significant retirement trends over the past 30 years are driven by people retiring earlier and living longer. That means the period over which retirees must fund their retirement has increased significantly from an average of five years in 1970 to approximately 20 years today – and is expected to reach 30 years in the near future.

– *Investors Group*

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