

**CPP, Pension Debacles, and Defined Contribution Plans:  
Tie CEO Pensions to Employee Pension Changes,  
Ontario Wrong to Infuse Teacher Pensions without Debate,  
No Enthusiasm for Plowing Surpluses into CPP**

**BDO Dunwoody CEO/Business Leader Poll  
by COMPAS in the Financial Post  
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## 1.0 Introduction

CEOs and business leaders on the CEO panel were asked wide-ranging questions about public and private pension plans during a period in which media reports highlighted dilemmas for both. Some of the major dilemmas have included public pension shortfalls (CPP), pension investment failures, and the movement of many companies from defined benefit to defined contribution plans.

Panelists adopt a tough line on all the players, including themselves. The panel believes that

- New pension regulations should be introduced to tie executive pensions to changes in the pension rules affecting average employees in the firm so that ordinary employees, faced with cuts in expected pension benefits, can take satisfaction in knowing their bosses will not be unaffected,
- Employees should learn to take a more active interest in their own retirements and bear the risk of such investment errors, and
- The Ontario government acted improperly in topping up the teachers' pension plans without public debate and discussion.

Though falling short of a consensus position, most see some merit in criminalizing pension misconduct that has been traditionally seen as amounting to regulatory infraction. This inclination is in keeping with past CEO panel positions that fear of jail is a strong antidote to executive misconduct.

These are the key findings from the current web-survey of the COMPAS panel of CEOs and business leaders undertaken for the *Financial Post* under sponsorship of BDO Dunwoody LLP.



## **2.0 Public Pensions—Concern Abating Slightly, Moderate Alarm about Actuarial Impropriety of Pumping Surpluses into CPP, Queen’s Park Condemned over Infusion into Teacher Plan**

Panelists remain concerned, albeit slightly less than in the past, about CPP shortfalls, as shown in table 2A. Despite such concern, they remained slightly opposed for actuarial reasons to pumping surpluses into the CPP, as shown in table 2B.

Few panelists feel that the Ontario provincial government did the right thing by injecting funds into the faltering teachers’ pension plan, as shown in table 2C. Some panelists see this error as part of a larger problem of privileging public sector employees. As one CEO put it, “A bigger issue is the overly generous public service pensions that we all pay for through our taxes. Firefighters, police officers and others have benefits the average worker will never see.”

Another CEO wrote at length:

I strongly disagree with any level of government giving its employees (and MP's) defined pension plans. All pension plans should be fully funded and based on what is in the fund and the fund should only pay out what it can. For example, to base the defined pension amount on the highest say last three years income when employee has only paid in based on last 20 years income is insanity and is one of reasons why defined pension plans are broke. Also, public employees especially do not value their pensions when they make wage demands and most public employers do not calculate the true cost of providing this benefit. I would like to see "individual" pension accounts based on the individuals’ and employers’ contributions, i.e. carve out the pension fund into individual pieces for accountability and value reporting during employment. All pensions should be fully funded by both employer and employee on an annual basis. Any pension amount paid should vest with employee "immediately" and not be used as a slush fund for other



employees, the employer, or the unions. At the end of the day it is always management's fault that there are pension problems. In most cases management was trying to give something today of perceived value to employees but not pay for it out of current income, sort of like stock options. There is a cost of options but these costs are not reflected in current financial statements. Current management looked good, because they were passing on huge cost to future management. Guess what? There is no free lunch.

Some panelists felt very strongly opposed to infusing the CPP with funds. As one CEO put it,

[It's a] myth that the Government of Canada has "windfall surpluses." This country has over half a trillion dollars of public debt. If your savings account had \$10 in it but you were overdrawn \$1000 on your chequing account, would you be considering whether or not to buy that new toy with the \$10 or would you be paying down your debt. At the very least, you would recognize that you were broke.

*Table 2A: Q1 "In the United States, there is a strong consensus that public pensions will be in trouble once the large baby boom generation is in full retirement even while there is disagreement about what to do about it. Insofar as you can tell, does the Canada Pension Plan face a similar problem? Please use a 7 point scale where 7 means definitely a major problem and 1, the opposite."*

	MEAN	7	6	5	4	3	2	1	DNK
July 10, 2006	4.7	11	21	32	7	10	11	4	4
Jan. 31, 2005	5.0	26	15	26	9	8	10	2	4



*Table 2B: Q2 “There’s talk of putting windfall surpluses from the federal government into the Canada Pension Plan to shore it up. On a 7 point agreement scale where 7 means agree strongly and 1, disagree strongly, how much do you agree with the following?”*

**ROTATE**

	MEAN	7	6	5	4	3	2	1	DK
Putting the windfall surplus into the CPP is a very bad idea because it jeopardizes the sound actuarial foundation upon which any proper pension plan should rest	4.4	21	14	13	13	11	14	11	5
Putting the windfall surplus into the CPP is a very good idea because the CPP definitely needs strengthening	3.6	8	11	16	13	14	16	18	5



*Table 2C: Q3 “As you may know, the Ontario teachers’ pension fund faced shortfalls because of a changing economic climate and lower returns. As a result both teachers and the Ontario government have upped their contributions. On a 7 point agreement scale where 7 means agree strongly and 1, disagree strongly, how much do you agree with the following?”  
RANDOMIZE*

	MEAN	7	6	5	4	3	2	1	DK
The Ontario government was doing the wrong thing by spending taxpayers’ money without public discussion to avoid union troubles	4.9	29	19	12	9	9	11	6	4
The Ontario government was doing the right thing given the shortfall	3.5	9	11	14	14	11	15	22	4

### **3.0 Tough Love for Inattentive Employees and Possible Jail Time for Error-Prone Pension Managers**

CEOs and business leaders on the panel take a tough line on pension plan error and wrong-doing. Strong majorities believe that employees themselves must take a much stronger interest. Most believe at least in part that criminal law should be modified to include penalties for errors that were previously deemed regulatory in nature but the panel’s views fall well short of a consensus. Panelists may be less certain that governments should assume a greater oversight role.

Those who favour tougher regulation do so with some intensity. One CEO had this to say: “Pension plan investments deserve a tougher regulatory environment than do personal investments, with particular interest in protecting



beneficiaries that have little experience in managing investment risk. This opinion is intended to apply to both CPP and private/employer-based plans.”

*Q4 “A multi-employer union pension plan in the food industry has just experienced large-scale losses through faulty investments in Caribbean resorts and elsewhere and there is a regulatory investigation over possible improprieties. On a 7 point agreement scale where 7 means agree strongly and 1, disagree strongly, how much do you agree with the following?” RANDOMIZE*

	MEAN	7	6	5	4	3	2	1	DK
Employees should learn to take a more active interest in their own retirements and bear the risk of such investment errors	5.1	20	25	29	9	5	8	4	2
Criminal law should be amended to increase the penalties for errors that may have been considered merely regulatory in the past	4.6	13	15	24	20	10	8	5	5
Government should take a much stronger role in ensuring that investment errors of this magnitude do not take place	4.4	11	19	23	15	12	10	8	2

## **4.0 Protect Employees Against CEO Avarice**

In the era of big accounting scandals, the CEOs and business leaders on the panel believe strongly that regulations should be introduced to tie executive pensions to changes in the pension rules affecting average employees, as shown in table 4. Panelists are less convinced that government oversight



agencies should step in to protect younger workers against the risk of subsidizing older ones in retirement.

*Table 4: Q5 “Nortel and some other firms, faced with pension shortfalls, are moving to defined contribution plans and away from defined benefit plans. On a 7 point agreement scale where 7 means agree strongly and 1, disagree strongly, how much do you agree with the following?” ROTATE*

	MEAN	7	6	5	4	3	2	1	DK
New pension regulations should be introduced to tie executive pensions, which are often very generous, to changes in the pension rules affecting average employees in the firm	5.3	33	19	13	8	9	4	6	7
Government oversight agencies should step in to protect younger workers, who may end up subsidizing older workers as a result	3.7	10	8	13	19	19	15	13	4

## 5.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted July 4-7. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public,



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surveys of 141 are deemed accurate to within approximately 8.3 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb.

