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PENSION DELIVERY ORGANIZATIONS: ARE EXCELLENCE AND CONTINUITY CONFLICTING GOALS?

“Nobody should be taking millions of dollars in bonuses from retirees’ money when they’ve just lost \$24 billion.”

Jack Layton
Leader of the New Democratic Party
House of Commons, Ottawa

CPP Investment Board under Attack

According to a *Canwest News Service* article, Mr. Layton’s quote capped a House of Commons debate ending with the motion that Canada Pension Plan Investment Board (CPPIB) executives “should repay C\$7 million in bonuses that were awarded after the fund suffered \$24 billion in losses last year.” In a rare show of solidarity, the motion was passed unanimously in the House by members of both the government and opposition parties. In our view, this event can be interpreted as both good news and bad news.

The good news is that members of the House of Commons do not have the authority to set or adjust the compensation packages of CPPIB executives. CPPIB is a pension delivery organization established through a joint agreement between the federal and provincial governments at arms-length from direct government intervention. Its mission is to invest the financial reserves of the Canada Pension Plan in a manner that maximizes long term return without taking undue risks. CPPIB is governed by its own Board of Directors which is accountable for approving CPPIB compensation policies. In short, the House censure is a reminder that CPPIB was established in a way that immunizes it from the day-to-day vagaries of the political process.

The bad news is that politicians have chosen to attack a public institution that has enjoyed broad

public approval and even admiration over the course of its first ten years of existence. Up until last year, CPPIB returns have been generally positive, and have generally beaten the benchmarks that the organization established as broadly-based market standards against which its performance can fairly be evaluated. In fact, that strong relative performance continued over the course of the financial crisis. The World Bank has held the CPPIB up as the global ‘gold standard’ for organizations tasked to manage pension reserves at the national and regional levels. CPPIB receives a steady stream of visitors from around the world wanting to know more about its strategies and structure. Against this rosy background, the recent very public compensation controversy has been a bitter pill to swallow for the CPPIB Board of Directors and senior management team.

What should we make of this controversy? Should it be treated as a short-term hiccup that will soon be forgotten when investment returns turn positive? Or is it a symptom of a deeper, longer-term issue that should now be clearly articulated and resolutely addressed? This *Letter* takes the latter view. The analysis which follows is not CPPIB-specific, and applies equally to such other major pension delivery organizations around the globe as the AP Funds (Sweden), APG (The Netherlands), ATP (Denmark), Australia Super, CalPERS and TIAA-CREF (USA), New Zealand Super, USS (UK), and their smaller private sector, industry, and corporate counterparts.