SWIB

Risk-Sharing Elements of Public Pension Plans

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The "Canadian Model"

A 2017 study commissioned by the World Bank Group[1] found a number of key features that has led to the success of large Canadian Pension plans:

- Strong stakeholder collaboration (labor, gov't, business, and finance)
- Independent governance
- Focused on investment results and paying pensions
- Ethical leadership setting the tone from the top
- Ability to recruit and retain top global talent
- Incubating growth during critical founding stage
- Government creating enabling regulatory environment
- Investments managed in-house vs. being outsourced to third parties

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1. "The Evolution of the Canadian Pension Model" – World Bank Group

The "Wisconsin Model"

- Shared risk creates deep alignment of interest across employers, employees, tax payers, and government.
- Good governance, independent and professional board
- Delegated authority to ED, CIO and staff. Staff investment committee.
- Skilled staff manages 60% of assets in-house capturing high percentage of value. Total compensation benchmarked to investment peer group with base and incentive targeted at median.
- Five year time horizon allows for commitment to specialty investment opportunities.
- Ability to manage complexity including total fund leverage and active overlays.

Shared Costs and Shared Risks

Investment risks and costs of the WRS are shared between government employees, employers (taxpayers) and retirees. Unlike members of other public pension plans, WRS employees and retirees bear most of the risk.

- Contribution rates are generally split evenly between employees and employers and adjusted annually, ensuring full funding of future benefits.
- Post-retirement adjustments (dividends) depend on investment performance and can be reduced based on annual investment returns.
- No guaranteed cost of living adjustments or COLAs.
- Annuities cannot be reduced below the original amount set at retirement.