Speaking Notes for

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at the

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The Canada Pension Plan Reforms Ten Years After:
Lessons and Prospects

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CHECK AGAINST DELIVERY

Thank you, Bill, and good morning everyone. It's a privilege to be with you this morning at this conference to commemorate the Canada Pension Plan reforms.

In retrospect, those CPP reforms of the mid-nineties stand as a bold and visionary achievement that has become a model for pension reform around the world. This achievement can best be seen in two ways:

- In the global contemporary context marked by growing concern over the role of state-sponsored or sovereign wealth funds; and
- By the many ways in which the CPP Investment Board's unique governance model is enabling us to build a world-class investment organization.

We sometimes forget how difficult the deliberations must have been to reach the final reforms. The stakes – political and otherwise – were high, and many of the recommendations were un-tried and un-tested. There was no trail for policymakers to follow. They were designing wide-ranging reforms, on a national scale, that had never been attempted before and in the face of a near-certain pension funding crisis.
We are reminded of that difficulty each time we are visited by representatives of the national pension funds of countries around the globe. They regularly visit us to learn about the CPP reforms and examine the Canadian model in search of solutions to their own challenges. The list is impressive. We have shared our experience with delegations from Singapore, Japan, Russia, Brazil, Norway, South Korea, New Zealand, France, Ireland, China, the U.S. and others.

These countries have different starting points for pension reform, different needs and different appetites for change. But they all acknowledge the thoroughness of the Canadian approach, the integrity of the Canadian model and the success of the CPP reforms.

Indeed, if imitation is the sincerest form of flattery, we can see the strength of the Canadian model when other countries make earnest efforts to adopt some of the lessons they learn from Canada. To date, Ireland, New Zealand and France have implemented reform programs that are *directionally* like ours. But even then, none have gone the full mile. For instance, none of these countries have plans that operate completely at arm's length from government – a critical difference, as you will hear in a moment.
So while the model has been studied – we might even say admired – by other countries, and while many of its elements have been copied elsewhere, none but Canada's reformers has had the foresight and fortitude to fully embrace a model that balances independence and accountability as ours does.

Certainly, individual elements of the Canadian model can stand on their own. But after living with the model I can tell you emphatically that its power and effectiveness derives from the integrity and logic of the *total integrated* package of reforms. I'm speaking of the ways in which transparency drives accountability, independence enables performance, performance contributes to trust and confidence, and how the entire operation is protected against political interference. Indeed, the whole is much greater than the sum of its parts.

To us, this speaks to the long-term vision and clarity of purpose of the Canadian pension reforms from a decade ago.

We also recognize the value Canadians have received because our political leaders took the initiative to act when they did. It is axiomatic today – and we hear it all the time from the countries that visit us – that the longer the delay in enacting pension reforms, the more difficult those reforms will be to implement.

Earlier this year, I was privileged to speak on the subject of the CPP reforms to a meeting of congressional policymakers in Washington. The invitation came from AARP, the powerful and respected lobby group for retired Americans.

AARP is promoting efforts to reform the U.S. Social Security system, and views the Canadian model as a potential solution. And while they and the congressional policy leaders admired the Canadian model, it was clear from their feedback that they did not believe that the various constituents within the U.S. government would have the political will or discipline to adopt the Canadian governance model.

The CPP reforms of a decade ago were prescient in another key respect.

Recently, we have all read headlines about the scrutiny facing the state-sponsored investment arms of many countries. These investment agencies take different shapes and forms, but fall generally under the umbrella of the term *Sovereign Wealth Funds*. Estimates of the total assets available to those sovereign funds vary considerably, but the number seems to start at $3 trillion today – double the size of the global hedge fund industry – and goes up from there.

These increasingly powerful investors are feared because so little is known about their mandates and their disclosure can fairly be described as opaque. The obvious concern is that these government-controlled funds will use their financial clout in the pursuit of non-commercial national security, political or economic objectives.

This issue presents certain risks to the CPP Investment Board even though we are not by any definition a sovereign fund. Among the many attributes that set us apart, we have:

- A very clear investment-only mandate that is enshrined in legislation. The CPP Investment Board is purely return-driven and has no other public policy purpose;
- The strict segregation of the CPP assets from government revenues and the national accounts;
- A “maximum strength” governance structure that allows the investment organization to operate at arm’s length from governments – a fundamental and necessary prerequisite for effective investment management, and

- We operate with a high degree of transparency and disclosure standards on a par with public companies.

And, of course, as a purely contributory plan involving all Canadian workers and employers, the federal government is neither a sponsor nor a guarantor of the CPP.

In short, we operate as a transparent, market-driven, long-term investor and represent what the critics of Sovereign Wealth Funds would like *those* institutions to be.

It is not surprising, then, that the Bank of Canada and Canada's finance minister are promoting the CPP Investment Board operating model as a template against which government-sponsored investment vehicles in other countries could be measured.

It must be gratifying for the policymakers who devised the thoughtful formula for the reforms of the CPP to learn that their work is being held up as the gold standard for the world 10 years later.

For all that, the true test of the governance model is not the recognition it has received from others, but rather its ability, so far, to enable our Board and management to build what we believe is fast becoming a world-class investment organization.

Since its inception in 1999, the CPP Investment Board has evolved into a sophisticated investment organization of more than 350 professionals with the required knowledge and expertise to handle complex investment programs across a diverse range of active and passive investment strategies, as well as across asset classes and geographies.

Our ability to set compensation policies that are competitive with the private sector, combined with the scale and sophistication of our investment programs, has enabled us to recruit the very best and brightest people to our team and build a performance-driven culture.

Our transparency, size, reputation and arm's-length distance from government have enabled us to form deep strategic relationships with many of the world's most respected market participants.

Of course, one important measure of our progress and evolution is our investment performance.

The CPP Fund has grown from a legacy portfolio of more than $35 billion in government securities to what is now a broadly diversified portfolio of more than $121 billion invested on behalf of 17 million working and retired Canadians.

These assets will continue to grow to an estimated $250 billion within the next 8 to 9 years. And the Chief Actuary of Canada has recently reaffirmed that the CPP is sustainable throughout the 75-year period of his forecast.

Part of our evolution has entailed transitioning from a passive to an active investor. Our active investing capabilities have helped to generate a 13.6% annualized rate of return and have added $43 billion in investment income to the fund over the past four fiscal years. This is comfortably above the 4.2% real return that Canada's Chief Actuary estimates is necessary to sustain the plan at current contribution levels.

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I hope this serves as a useful introduction to the day's events. More than that, I hope today's discussions are viewed against the backdrop of the international *recognition* and *respect* for the achievements of the federal and provincial policymakers who saved the CPP.

For those of us who live, day-to-day, with the architecture of the Canada Pension Plan and the CPP Investment Board, we understand the rare privilege we have been given.

Like the Canadians we serve, we benefit from the remarkable foresight of the reformers, from the political will that transcended party ties and aligned for the national good, and from their courage to enact bold reforms.

I can say confidently that the vision of the reformers is alive and well, and is being realized each and every day as we work to help sustain the Canada Pension Plan for decades and generations to come.

Thank you.