



EXCLUSIVE INTERVIEW:

Today I'm pleased to be talking to Katherine Strutt, Manager of the Saskatchewan Pension Plan (SPP).

Welcome Katherine.

Thanks Sheryl.

Q. The SPP has been around since 1986. There is nothing else like it in Canada. What were the original goals of the program?

A. It was originally meant to be a supplementary retirement plan. It was initially marketed very successfully as a homemaker's plan. There was no earned income requirement and there was a matching government grant to low income participants.

What I can gather from some of our files is that around the same time the plan was introduced there was some talk about integrating a homemaker's component into the Canada Pension Plan which didn't happen, but the SPP went ahead.

Q. When you say there was a matching grant was the total annual contribution still \$600?

A. Originally it was \$600. You could only contribute if you got a match. Then in 1988 it was changed so anyone could put up to \$600 in and then based on income there was a \$300 match and it was on a sliding scale.

Q. So why has this plan been open to everyone, regardless of residence although it was a unique Saskatchewan initiative?

A. Even though the matching grant was only available to Saskatchewan residents, we did have a number of participants who became members, moved out of province and wanted to be able to continue contributing. There seemed to be no reason why they could not. They just were not eligible for the government match.

Between about five and eight percent of our total active membership live outside of the province. We don't market outside of the province although we have our website

available to everyone. But most of the people outside of the province who are members have a family connection — their parents still live here or perhaps they went to school in another province and stayed there. In other cases, members of the plan are Saskatchewan residents who subsequently moved.

Q. Is there still a matching program?

A. No, it was eliminated in 1992 when there was a cash crunch in the province. In the early years of the plan, recognizing that members would join and retire right away there was also a government pension subsidy based on the match. That was also eliminated in the budget of 1992.

Q. Why were maximum contributions set at \$600?

A. I think it was a bit of a trade off between allowing people to contribute even if they didn't have earned income because spousal contributions weren't allowed yet and they weren't looking at family income. I don't have access to the federal/provincial conversations at the time but I believe it was also a trade off between the provincial/federal levels of government.

I think it was a way of getting things started. Because contributions were not tracked and were not part of the RRSP over-contribution limit, it wasn't allowing people to put a whole bunch of money in a place the government wasn't aware of.

Q. Why have contributions now been increased to \$2500?

A. That seems to fit the average contribution of the demographic of our plan. It will also allow employers to contribute if they want to. Although we are not asking employers to tell us when they are making contributions on behalf of their employees, at \$600 there wasn't a lot of room if employers want to make this part of their benefit package. With a contribution level of \$600, after 24 years it was hard to maintain the relevancy of the plan.

When the Board was looking for the right number I think it was sort of a middle ground between what members wanted and what government could support. The financial institutions are also part of the whole mix.

Q. With the program being integrated into the RRSP system, will employee and employer contributions now be deductible?

A. Yes.

Q. Do you envisage the contribution limit increasing even more in future?

A. I think there will be some requests from our members to do that. The Board is certainly going to be talking with members and with government. So I wouldn't rule that out.

Q. Tell me a bit about the demographics of your current membership of 31,000?

A. Of that 31,000 about 11,000 are retired and receive monthly benefits. Of the total population we still have 22% who identified themselves when they joined as homemakers. We don't check changes in status of members after they initially sign up. Of the new members joining, 75% identify themselves as self-employed (full or part-time). And of our full membership, 58% are self-employed (full or part-time).

So self-employed people and homemakers make up the biggest slice of our membership.

Q. Do you have any statistics on how regularly these people contribute?

A. The average contribution last year was \$561 — so close to \$600. About 60% of our active membership contributes on a regular basis. And I guess the nice part about the plan is that it's flexible. Although "voluntary" has issues in terms of management of the plan, people can contribute when they want, how they want and whatever amounts they want, subject to the maximum contributions levels.

They are not tied into a contribution schedule. If employers are contributing they don't have to contribute each and every year. So there is no mandatory portion of the plan. I think that makes it attractive for people coming in.

The funds are locked in until age 55. You have six months to decide if you want to stay in the plan. After that the money is locked in. So employers like that because if they do put money in they know it stays there. And members like the fact that even though their funds are locked in, they are not locked into contributions.

Q. It is interesting that you say they receive a pension from the plan, because typically to get “a pension” from defined contribution plans or group RRSPs you have to take your lump sum and buy an annuity somewhere. I guess each person must have an individual account, first of all.

A. Yes. We have always self-annuitized here and I think part of the reason was that members were looking for an annuity but the amounts were too small in the early years to make it attractive to go to the private sector. They still have an option of taking an annuity from the plan – a monthly pension from us – or transferring to either a life annuity at a life insurance company or a prescribe RRIF or a LIRA.

Q. It seems to me that if you self-annuitize, members would be getting a pretty good deal because one of the reasons people do not want to buy annuities is they do not like the rates on the market.

A. People don't like the rates from us either right now. The rates are low just because bond rates are low, but we do have probably 70% of people who are retiring taking the annuity. A lot of it is because it is easy. We're paying a competitive rate of return and a lot of people don't want to have to make investment decisions. So the annuity is a nice option for them. It's an assured guaranteed lifetime annuity with death benefits depending on the annuity they have chosen.

Some are going to the equivalent of a variable benefit. We don't offer that yet but we will within the next while. I don't think they understand annuities or variable benefits or PRRIFS but they have an option at retirement to either take the income from us or move it somewhere else. The private sector also likes that because they have an opportunity to do a total retirement plan with their members.

Q. Do you communicate with members regularly and encourage them to maximize contributions?

A. Yes we are actively out there with our members and the general population letting them know about the plan. We send out semi-annual statements and a couple of newsletters each year. We also run a couple of advertising campaigns in the fall (October/November) and again in peak RRSP season (January-March) where we are letting them know about the SPP, encouraging them to contribute and trying to attract new members.

Q. Do you think that with increased contribution levels and integration with the pension/RRSP rules the program will be attractive to an even broader constituency in Saskatchewan and across the country?

A. I certainly think so, especially in Saskatchewan. We have about 90,000 small businesses and about 30,000 of these have less than 10 employees. Anecdotally we know that those small businesses are not necessarily well-served by existing financial products. That's where we have a real niche to fill — small employers and the self-employed.

Some like group RRSPs but one of the benefits of the SPP as I said, is that contributions are locked-in. So if a parent or an employer makes a contribution on behalf of a member, it is locked in until 55. It's not going to be pulled out and used for other purposes.

There is a real need for small businesses to be able to add this to their benefit packages. Group benefits exist through a number of trade associations like the Chamber of Commerce on the group benefits side that small business can tap into at a very cheap rate. But there wasn't anything on the pension side until the SPP.

So now businesses can be part of the SPP, offer it as a part of their benefit package, without having a large employee base to spread the cost over.

Q. What about the rest of the country? You said you have primarily marketed to Saskatchewan. The press might acquaint the rest of the country with your program. Are there any political issues associated with marketing the SPP outside the province?

A. Our base is here. The bulk of our members are here. Any money we spend is the members' money. We would welcome interest from any part of the country and we do have members outside the province but we are primarily looking at fulfilling the needs of our residents. We don't turn business away, that's for sure.

It will also be interesting to see what happens with the pension debate with other provinces and what they pick up on.

Q The SPP's average rate of return since inception was 8.4%. The return for 2009 was 12.7%. How do you benchmark returns? How do your returns compare with other balanced funds?

A. I think we compare very favourably to other balanced funds. Our fund is invested as follows: 19% Canadian equities; 18% U.S. equities; 18% EAFE equities; 5% real estate; 37% bonds and 3% T-bills.

Our average MER is 1% or less. I think that's the competitive advantage we have. On the downside we don't have a sales force out there beating the bushes for the business and we service all of our members from this office in Kindersley. But I think we serve them very well and we have a very low MER.

Our market return benchmark would be 12.4% and our market return would have been just over 13.6%. When you are looking at pension funds most of them are not giving you their after-MER returns and a lot of it is because not every pension plan pays all of the expenses out of the fund.

So we would typically compare ourselves more to a conservative retail fund. Their MERs might be anywhere from 2%-3%.

Q. 2007 and 2008 were rough years for everyone. How do 2007 (-.30) and 2008 (-16.20%) returns compare with other similar funds?

A. The 2007 return was quite a bit better but the 2008 loss was about mid-pack.

Q. We've already talked about the fact that your commitment is to the people of Saskatchewan but you would welcome participation from outside the province. We also touched upon the fact that there have been pension reform initiatives across the country looking for solutions to low pension coverage. Do you think the SPP at least in part, fills the gap for those individuals and organizations that don't have pension plans?

A. Yes, and certainly now with an increased limit it can be more important. I think that the discussion about pension adequacy and access to pensions was also an impetus to get the approval we needed to increase contribution levels to \$2500, because the SPP is filling a gap. There are lots of people who would like to do something and don't know what.

Here's something simple and easy. It is a pension plan not a short term savings account. And it can be a model for other provinces to emulate.

We have two investment choices — a balanced fund and a short term fund. So members can transfer their funds to preserve capital into the short-term fund. The plan is very simple, easy to use and easy to understand. We have a lot of history administering a large number of small accounts very efficiently. With an MER of 1% or less, we do good things.

We have to spend money on advertising to get the word out there. It's not a mandatory plan. We do a lot of our advertising on social media. We get a lot of hits to our website and it has just amazed me how that has grown. Also, the clicks we get on our banner ads in Facebook and other places are very effective.

There is no automatic money coming in from employers and employees like there is in a company pension plan but it certainly is a model that can be looked at for other provinces.

Thanks very much Katherine. It will be very interesting to see membership and investment trends in the SPP over the next few years as Canadians become more aware of the program's more robust possibilities.

I agree. We're into a new phase for sure and it's our 25th anniversary in 2011. So it is very timely.

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