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OUTSTANDING IN ITS FIELD

After a quarter-century of success, the Saskatchewan Pension Plan may help plant the seed for Canadian pension reform

By Neil Faba / Photography by Phillip Chin

Saskatchewan is known as Canada's breadbasket, for its ability to consistently produce quality grain. But given that many in the industry have begun paying attention to what's behind the Saskatchewan Pension Plan's (SPP) 25 years of steady and reliable growth, the province may also one day be known as the root of Canada's pension reform.

Since its inception in 1986, the SPP—a voluntary DC money purchase pension plan created by the Government of Saskatchewan but open to all Canadians—has offered those without access to a pension an easy-to-understand solution for retirement savings growth. At the plan's core are low administration and investment management costs, portability and prudent fund management—all principles the federal government has said it intends to uphold in its framework for the pooled registered pension plan (PRPP). And the results show: the SPP ranked 27th in *Benefits Canada*'s 2011 *Top 50 DC Plans Report*.

The centrepiece of the SPP is a balanced fund with a benchmark portfolio that includes a 36.2% allocation to Canadian bonds and mortgages, 19.4% Canadian equities, 18.9% U.S. equities, 18.3% non-North American equities, 5.6% Canadian real estate and 1.6% short-term fixed income investments.

Katherine Strutt, general manager of the SPP, says the asset mix has remained fairly consistent since the plan's creation, though the real estate portion was added just a couple of years ago to further diversify its holdings.

"We're pretty tried-and-true," she says. "As the fund grows, we will look at some alternative investments to add value. But there's a certain size you need to be to undertake [alternatives]. We have a 1% expense ratio, and we want to be mindful of keeping it at that or less to make sure members get good value for their money."

Diversifying to mitigate risk is also behind the decision to split the day-to-day fund management between two firms: Greystone Managed Investments in Regina and Leith Wheeler Investment Counsel in Vancouver. The fund's trustees keep a close eye on things, too—investment performance is monitored at least quarterly, with the investment policy reviewed at a minimum once a year.

Of course, even the most carefully managed fund can't completely insulate itself from market fluctuations. When the market crashed in 2008, the SPP felt the effects. For its first 21 years, the SPP posted positive annual returns, ranging from 2.86% to as high as 21.08%. But the fund returned -0.30% in 2007 and -16.20% in 2008.

Strutt says that, after years of steady growth both in members and contribution numbers, the two-year slide has slowed the plan's progress somewhat. "Sometimes the legacy of a loss stays longer than the euphoria of an increase."

Strutt adds that the SPP's voluntary nature—and the tendency of investors to make decisions based on the previous year's results versus what the market is currently doing—has kept some members from returning to their pre-2008 contribution rates. In an effort to combat the lingering hangover from the economic collapse, the SPP introduced a short-term fund option in March 2010 that comprises Canadian money market instruments and is benchmarked against the DEX 91-day Treasury Bill Index.

"Members were saying, 'We want to stay with you, but we're not comfortable having only one option. We want to protect some capital.' 2008 was a very scary year for people."

Strutt says the short-term fund is an ideal option for those who want a safe place to park their money during short market dips and for members who are preparing to transition to retirement, at which point they can move their savings into the plan's annuity fund.

Recent changes have been introduced to ensure that the plan continues to meet the needs of current and future members. The plan's annual contribution cap had been $600 since its inception, but changes made at the federal level in December 2010 saw that figure increased to $2,500. Members can also transfer up to $10,000 from an existing RRSP or unlocked registered pension plan.

Simplicity and efficiency are at the root of the plan's communications and marketing efforts. Members receive at least two newsletters per year letting them know about the plan's performance and any new developments; statements are sent out twice a year. Strutt says marketing campaigns are designed to draw in new members and remind current ones that they can make contributions.

According to Strutt, the emergence of generation Y has created a new challenge for the plan's outreach efforts. The SPP is open to Canadians starting at age 18, which means tapping into a demographic that now gets most of its information online. To that end, the SPP plans to launch a blog and a Facebook page in December.

"The average age of our new members is around 40, and we find that as people turn 40, they're more interested in saving [for retirement]. But we certainly do want to attract the younger members, because we think it's important that they start saving as early as they can."

Although the SPP is open to investors across the country, Strutt says it has never had a strategy in place to market outside of Saskatchewan. Typically, between 3% and 7% of new members annually come from outside the province. But with the plan now drawing comparisons to the proposed PRPP guidelines, Strutt says about 10% of the 900 members who've joined in 2011 have come from elsewhere in Canada.

The lack of a marketing focus outside of Saskatchewan's borders, Strutt explains, reflects the market expansion potential that SPP management sees in Saskatchewan and the focus on keeping administration expenses at 1% or less.

"We have quite a market to fulfill right in Saskatchewan," she says, estimating that the province is home to approximately 96,000 small businesses, of which 30% have fewer than 10 employees—and, in many cases, no company pension plan. "Also, every dollar that we spend is members' money, so we're very conscious of what we're doing and how much we can spend."

Members can join the SPP as individual investors or through their employer. Employers can join the plan at no cost to them, and contributions made by members are portable if, and when, they change jobs. Despite this, employer-based contributions currently comprise only a small fraction of the 12,000 annual contributing members—847 members currently contribute through 200 employers in Saskatchewan.

"It's a small portion of our business right now, but that's really where we see growth in the future. Being the pension plan of choice for small business is one of the things we're looking toward."

Given the SPP's track record, it's reasonable to expect continued growth for this made-in-Saskatchewan retirement savings solution. But Strutt knows past glories are not the sole ingredient in the recipe for the plan's future success.

"I think there's a lot of pride in this homegrown product. But that takes you only so far—you still have to have good returns, service and product." BC

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Q&A

KATHERINE STRUTT TALKS ABOUT HOW THE SPP AND PRPP CAN COEXIST

Why is the SPP being looked at as a model for the PRPP?

It's simple to use, easy to understand and easily accessed. There are not a lot of bells and whistles, but it's well managed and well run. Employers like it because the money they put in stays there, and it doesn't add any liability to their bottom line. From an employer's and an individual member's standpoint, it doesn't take a lot of their time.

Do you worry that a PRPP structured similarly to the SPP will affect participation rates in your plan?

I'm hoping they have a finance ministers' meeting after all of the [provincial] elections are done so that we can continue the discussion and see what's going to happen, because right now, we're very much in limbo. The SPP will continue, but what a PRPP will look like and what changes we'd have to make to be onside with that is still very much up in the air.

We're not afraid of competition. I think that we have a niche to fill in the market. The playing field will change, and we will adapt to it. I think that we have a great product that resonates really well with people.

What do you think has kept other provinces from creating a plan similar to the SPP?

It's expensive. Now that it's up and running, it's great. But I think what keeps some [other provinces] from doing it is the start-up costs.

What will be the secret to continued success for the SPP?

The small business focus will continue to be our growth model for the next couple of years. This is something that gives [small businesses] a pension plan, but without adding to their personal or business liability. And it gives them quite a bit of flexibility and portability. We just have to keep getting that message out there, and I believe there's a lot of the market that will allow us to grow.