

CPP fund hit with 14% loss on stock woes

Decline of \$18.3 billion last year lowers fund's decade-long average return to about 5 %

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The investment fund backing the Canada Pension Plan suffered an \$18.3 billion loss in 2008, pulling down its average annual return to about 5 per cent over the past decade.

Falling stock prices erased 14 per cent of fund reserves last year, or nearly four years worth of excess contributions from workers and companies.

"Times are difficult," said David Denison, who leads the 460 professionals charged with building up a reserve fund that will be needed to keep the annual payroll deductions required to pay CPP retirement and disability pensions steady.

Despite the low 5 per cent average return after two stock market crashes in a decade "the CPP as constituted remains strong and sustainable," said the chief executive officer.

The fund's 10-year investment return was less than the interest paid on 10-year Government of Canada bonds at the time the CPP Investment Board was created in 1999. Higher returns will be needed if the fund is to serve its intended purpose.

Denison said he does foresee an improvement for the \$117.4 billion fund, starting within a few months. He expects to snap up stocks, real estate and infrastructure businesses at prices that would lead to much higher returns over the coming decade.

"We are seeing assets come on the market that we haven't seen trade in many years," he said in an interview.

There are investment opportunities in infrastructure "we did not think would be on the market for another 20 or 30 years."

The investment fund lost more than \$300 million in the year ended March 31, 2008 and \$17.5 million in the final nine months of 2008.

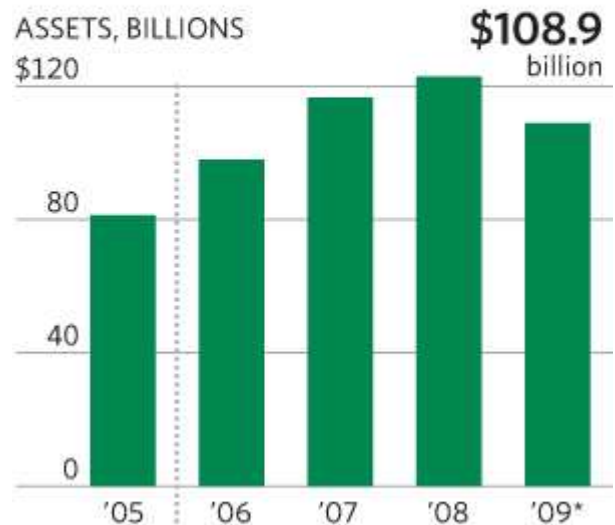
Denison provided the loss figure for the calendar year to make it easier for outsiders to compare returns with other pension plans.

One news report claims the Caisse de dépôt et placement du Québec, which manages money for the parallel Quebec Pension Plan reserve fund and other pension plans, lost a staggering 26 per cent in 2008.

Official figures are to be released later.

Reserve fund shrinks

The CPP fund ended its third quarter of fiscal 2009 with a lower asset value.



*Dec. 31. Fiscal year ends March 31.

SOURCE: CPP Investment Board

One mistake the CPP fund managers avoided was investing heavily in mortgage-backed securities, real estate and corporate bonds in the past couple of years, Denison said.

The CPP board will not disclose how the fund has done relative to outside benchmarks relevant to its mix of investments until its annual report in May.

But pension consultants at Mercer have estimated a Canadian pension fund with a balance of bonds and stocks would also have lost about 14 per cent last year.

Executive bonuses are tied to how well the fund has done relative to benchmarks over a four-year period. So bonuses could be paid if the fund merely loses less than the relevant benchmarks.

CPP contributions are expected to exceed the cost of pensions for the next 11 years, and allow the partial reserve fund to grow for many more years.

The fund is designed to spare workers and employers from having to pay more than 9.9 per cent of pay to fund CPP benefits.

Jean-Claude Ménard, chief actuary for the CPP, has assumed investment returns will beat inflation rates between 3.4 and 4.4 percentage points a year over the next 40 years.

He could not be reached for comment yesterday.

But it will take strong gains in the next few year to make up for the 2008 results – a 14 per cent loss instead of his assumption of a 6.3 per cent gain.