

MESSAGE FROM THE PRESIDENT

President's Message | Glenn Heran | May 2013

A recent study indicates that 90% of government employees are covered by Defined Benefit Pension Plans (DBPP). By comparison, only 10% of private sector employees are covered by such plans and of these, the industries tend to be automotive or other heavily unionized labor.

The reason why the private sector no longer offers these generous retirement plans is because they are economically unsustainable for the employer. In Defined Benefit Plans, the employee is guaranteed a regular retirement payment for the rest of his life but the employer bears 100% of the investment risk. Today, private companies typically offer their employees Defined Contributions Plans. Here, the employer and employee make contributions into what is essentially an investment account. The underlying investment mix is determined by the employee and the risk of loss is entirely on the employee.

The fact that government employees are still covered under DBPP is testimony to the power of their unions and lobbying ability. However, in maintaining this compensation advantage, government employees are becoming a separate class of citizen. Yet this separate class is funded by the taxpayers, who do not have these plans.

A more equitable solution would be to discontinue DBPP and use Defined Contribution Plans instead. Pay employees, regardless of whether they are public or private, a competitive compensation and pay them today for the work performed. The amount of compensation, whether paid in cash or contributed to a retirement account or both, should be driven by market forces. No one should be immune, regardless of their choice of profession, from the same forces of the supply and demand for labor that drive its price. Let all employees be free to decide whether they will work for the compensation offered and let them be responsible for their own futures.

Glenn Heran