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A Conversation With... Keith Ambachtsheer

To mark its 15th year of publishing, **Benefits and Pensions Monitor** will run a series of conversations with some people who have made a difference in the industry.

Obviously, not just for his newest book, but for his outspoken comments about **pensions** and **pension investments** for more than three decades, it was decided that Keith Ambachtsheer was an ideal candidate to lead this series off.

The following is an edited version of the conversation between Ambachtsheer and **Benefits and Pensions Monitor** Executive Editor Joe Hornyak.



BPM: Where did your passion for pension plans and pension plan investment come from?

Keith Ambachtsheer: It depends on how far back you want to roll back the clock. I went to RMC (Royal Military College) and I did my time in the Canadian forces, but the area that was most interesting to me as a long-term pursuit was economics. Once my time in the military was up, I earned a Masters degree from Western and then went into the PhD program at McGill University where I kind of hit the wall.

I realized if you hang around academia long enough, the question becomes how long do you want to do that?

Then, in 1969, a friend of mine, Bob Swan who I went through Western with, said "if you don't want to finish the PhD thing, come and work for us in the investment department at Sun Life."

So I get this amazing first job, which was, at that time, stuff like portfolio theory and capital markets theory ... all these things were so new that they had just barely started to hit the professional community. My job was to go and find out who people like Harry Markowitz, Bill Sharpe, and Myron Scholes – this gang of academics – were, what they were talking about, and whether it had any relevance to the real world.

So I spent three years at Sun Life doing that and learning how a real live investment department works. Sun Life, even in 1969, had everything. They had real estate, stocks, bonds, and currencies. So it was one foot in the real world and the other foot in academia.

From there, Brendan Calder got me involved in Canavest House, an institutional brokerage firm. I was there for nine years and we basically developed a consulting practice working with money managers to apply portfolio theory.

At some point, I started looking at the broader question of whose money is this? At that time, in the 1970s, the funding started to seriously happen in the pension plans. This was a time when all the investment counselors started up. Firms like Jarislowsky Fraser and Beutel Goodman were gathering in the assets under management just by being around.

The career choice was 'do I go and join them or do I do something else?' The something else was actually influenced by an actuary I met at the time,

Don Ezra. Don and I teamed with Bob Mitchell and founded PFA (Pension Finance Associates) in 1981. The idea behind PFA was to apply financial economics and up-to-date actuarial techniques to managing pension plans. It basically looked at the broader questions – whose money is this; what does the balance sheet look like; is it being valued properly; and how should you make risk-related decisions in that context – into the more integrated context of looking at the whole thing?

Another influence was the intellectual background at that time.

Peter Drucker wrote this book in 1976 called *The Unseen Revolution: How Pension Fund Socialism Came to America*, and it basically laid out for me what you'd call the political economy of pensions as to where does it fit in the rest of the world, what's the ideal fit, how close to that are we, and, if we're not there, how do we get there?

That's something that I've kind of plugged away at ever since.

BPM: What do you think the key points of your new book, 'Pension Revolution: A Solution to the Pensions Crisis' are? What do you want readers to come away with?

KA: The message is really one that's the same that Drucker put forth – we're not going to get better outcomes unless we apply integrative thinking to this area. It's not just about actuarial science. It's not just about investments. It's not just about one thing.

It's about integrating some elements in relation to public policy – like what are we trying to do here anyway – to looking at labour markets and seeing how they work (or don't work), to looking at the concept of occupational pension plan coverage as a really powerful way of smoothing lifetime consumption for a lot of people, but, also, in a positive way, tying them to economic wealth creation.

But unless you actually have dedicated, expert, arm's length, pension delivery organizations that have scale, you aren't going to get there. It requires a number of things fitting together to really move us to the next plateau. That's the key message of the book.

BPM: Why don't we get it in Canada?

KA: Well, I'm not sure that there is any one single answer.

What we can say is given that politicians are pretty good at listening to what they think will get them elected, one of the realities is that in Canada, pension reform just hasn't got to that absolute political mustdo level. That's one reason.

Another reason is it is hard for them to put themselves in somebody else's shoes where that safety net doesn't exist. I've talked to David Dodge, governor of the Bank of Canada about this – he's sort of hammering away that everybody should have a DB plan. I told him, 'David, that's easy for you to say. The Bank of Canada has a really great DB plan. Its chance of default, pretty low. Are they going to get a final earnings based fully indexed pension? You bet they are.'

It's the same for the rest of the public service sector. If, somehow, the people who could make the policy changes didn't have pension plans that were solid, then you'd get more empathy for the other side.

Having said that, I had a chance to respond to The Canadian Federation of Independent Business report 'Canada's Pension Predicament.' It was lamenting that 'here, the public service has these gold-plated plans and we, in the private sector, especially the small business end of the private sector, have this mish-mash.' My response was that 'you can lament a little bit that maybe the accounting isn't what it should be in the public sector in terms of costing, but at the end of the day, you have 100,000 members, do something!'

I haven't heard back yet.

BPM: Do you think there is hope in Canada, or are we going to see pension coverage continue to vanish in the private sector?

KA: I think it will turn around. I think that this is an issue that is now in the process of getting salience. It is moving up on the priority scale, on the visibility scale, and on people's radar screens. For example, in Ontario right now is the Expert Commission on Pensions that Harry Arthurs is leading. When you look at the mandate, it looks pretty narrow. However, hopefully he's getting the message from people like me and others that it should be broadened.

BPM: Is this why you highlighted the chapter in your book about the UK pension commission that went beyond its mandate?

KA: Exactly, it's to say 'don't stop.' Apparently the Ontario commission is already getting some pushback from the government in terms of making sure 'you stay within your mandate.' It remains to be seen whether they do the right thing or not.

Another issue here is who's ultimately accountable for pension policy? In the UK, you've got a minister of pensions. We don't have that. So you've got this question in Canada of 'is it Human Resources and Social Development Canada, is it the department of finance, is it OFSI, or the Bank of Canada ...?'

BPM: Maybe we don't want one, however, because we'd end up with 13 of them.

KA: That is an issue, but turn that around now and look at how successful the reform of the CPP was. It was a federal/provincial thing. It was a joint responsibility and the problem was analyzed and options were discussed. Paul Martin put a lot of political capital to seeing the thing through. So, we've done it.

Can we do it for the occupational pension plan system? Why not?

BPM: In your book, you offer TOPS, The Optimal Pension System, as a solution to the lack of pension plan coverage. Similar to what they are doing in the UK, this would be a large scale, mandatory pension vehicle designed to overcome issues such as member apathy or lack of education and adequacy of retirement benefits. I came away thinking that maybe we have that vehicle in Canada, the CPP Investment Board, and all we need is the desire to implement TOPS.

KA: This is where the UK is stuck right now, how do you do it?

The model, qualitatively, has got to have scale, it's got to be arms length, and it has to have good governance. I think the CPPIB has all three of those things, but I do think we run a risk if we put all our eggs in one basket.

I would prefer to see something happening that's a little more diverse. I would like to see maybe an Ontario workplace pension plan. I would like to see an Alberta workplace pension plan. Maybe some of these things work better if you've got a unique workforce like the energy sector. Maybe we should have an energy sector pension plan.

So I'd like to see some more diversity, rather than just have one big thing. But then, you are left with the question of what's the critical mass and where are the champions to make this happen? That's where the search is right now. We need the critical mass of people who can actually make things happen. ■