

## PUBLIC SECTOR PENSION SOLVENCY: WHY IS BC HYDRO ALLOWED TO BE THE LAGGARD?

On 8 May 2018 Vaughn Palmer wrote a piece about the BC Investment Management Corporation's management of the public-sector pension plan assets.<sup>1</sup> The objective of the piece was to describe how the corporation has provided useful and independent management of public sector pension assets,<sup>2</sup> and to caution against political interference.

Palmer noted that the bond rating agencies are on the lookout for unfunded pension liabilities, "brought on by politicians granting hefty taxpayer-financed retirement benefits to public sector workers while neglecting to fund those guarantees going forward."

### Public-Sector Pensions Generally Well-Funded

The good news is that the public-sector joint custody plans are well-funded, except for the BC Hydro plan. Table 1 shows the net assets and the funding solvency ratio of the public sector, the municipal workers, the teachers, and the college pension plans, as of 31 March 2017. The year-end position of the ICBC and BC Hydro pension plans are also shown.

**Table 1 -- Public Sector Pension Plans – Net Assets and Solvency Ratio (\$=million)**

	<b>PubSec</b>	<b>Munic</b>	<b>Teachers</b>	<b>College</b>	<b>ICBC</b>	<b>BCHydro</b>
Net Assets	1,086	1,123	(236)	176	(24)	(1,131)
Solvency Ratio	106.0	104.5	98.8	105.1	98.9	75.4

Source: BC Public Accounts 2016/17, Summary Financial Statements p. 61; annual reports for BC Hydro and ICBC for 2016/17.

<sup>1</sup> <http://vancouversun.com/opinion/columnists/vaughn-palmer-pension-investments-should-stay-in-hands-of-pros-not-politicos>

<sup>2</sup> It also invests the assets of Work Safe BC, but not those of ICBC.

## Why Is BC Hydro the Outlier?

Table 2 shows that on 31 March 2008 the BC Hydro pension plan had a solvency ratio of 97%, but by 2017 the ratio had dropped to 75.4%. The \$1.1 billion deficit was offset by close to \$1.1 billion in two regulatory (deferral) accounts; without the deferral accounts BC Hydro's equity of \$4.9 billion would have been reduced by \$1.1 billion.

**Table 2 – BC Hydro Pension Solvency (\$=million)**

	<b>2008</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Pension Liability	79	779	1,066	1,216	1,131
Solvency Ratio %	97.0	78.9	75.5	72.3	75.4
Deferred -Pension	nil	280	564	691	511
-IFRS Change	nil	688	650	612	574
Total Deferred	nil	1,068	1,114	1,303	1,085

Source: BC Hydro annual reports.

Beginning in 2009/10, to partially insulate rate payers from the impact of the effects of the financial crisis on pension assets,<sup>3</sup> the BC Utilities Commission agreed to a new deferral account for the variance between the indicated (budgeted) and the actual pension liability. The scope of the deferral was widened for 2012/13 when the variance in other non-funded pension benefits was also allowed to be deferred.

A second deferral account was established in 2012/13. This allowed for the deferral of the pension liability due to the change from the Canadian GAAP to the new IFRS accounting rules (shown as Defer-IFRS Change in Table 1).

In 2014, as part of its prescriptive 10-year financing directive, cabinet ordered that this pension deferral account must remain.

In 2017, when questioned as to the low pension solvency, BC Hydro stated that the pension was funded on a “going concern” basis, rather than on the solvency basis required by provincial legislation as administered by the Financial Institutions Commission.<sup>4</sup>

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<sup>3</sup> The financial crisis has significantly reduced the value of the pension assets, which would have required a significant rate increase or a drop in BC Hydro's equity.

<sup>4</sup> See Appendix B in my final submission to the BC Utilities Commission of June 8, 2017;

[http://www.bcpolicyperspectives.com/media/attachments/view/doc/bcuc\\_bc\\_hydro\\_final\\_submission\\_june\\_8\\_2017/pdf/bcuc\\_bc\\_hydro\\_final\\_submission\\_june\\_8\\_2017.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/bcuc_bc_hydro_final_submission_june_8_2017/pdf/bcuc_bc_hydro_final_submission_june_8_2017.pdf)

It would appear that having access to a deferral account has allowed BC Hydro management to avoid reducing the pension solvency shortfall through raising the contribution levels or reducing the benefits.

It would also appear that the bond rating agencies have turned a blind eye to the large pension liability at BC Hydro. They say that the weak finances at BC Hydro are manageable as the corporation has the fiscal capacity to raise the price of electricity.<sup>5</sup> This of course is counter to the previous government's often stated desire to keep rates low, and counter to the current government's affordability agenda.

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The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

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<sup>5</sup> The logic seems to be that electricity rates are low in BC compared to other jurisdictions.