



## Letter to the Editor – Pension Liabilities

December 29, 2009

The following is in response to our article, *The Next Black Swan? [Underfunded Public Pensions](#)*, which appeared December 15:

Dear Editor,

I read with interest your article on public pension deficits. The author highlighted an issue which is indeed the elephant in the room for public finances, and not just in the US.

In 2009, I chaired a working group which published a comparative [study](#) of the un/underfunded public pension deficits in the US, UK and Canada. This group used publicly available data from 88 US State Pension Plans; the key US Federal Plans; the large central Government unfunded UK Pension Schemes; the UK Local Authority Schemes, and the Federal and Provincial Canadian Plans. The group collated the publicly calculated deficits in USD and as % of country GDP. We then prepared a second table re-valuing the liabilities based on each Government's sovereign market risk free rate – in each case the 20-year duration yield on the relevant country's inflation protected Treasury Bonds.

The summary results are as follows:

<b>Net Public Pension Liability</b>				
<b>at schemes own discount rates</b>			<b>at risk-free market rates</b>	
<i>Country</i>	<i>% of GDP</i>	<i>US Dollars (billion)</i>	<i>% of GDP</i>	<i>US Dollars (billion)</i>
US	15%	\$2,088	28%	\$3,869
UK	64%	\$1,267	85%	\$1,683
Canada	12%	\$151	27%	\$335

Additionally, and much more importantly for the upcoming discussion between the employers and employees, if we use risk-free market discount rates rather than optimistic 'risky return' discount rates, the annual contribution rates required to fund each years' accrual are as follows:



	<b><i>Current Service Cost of Public Pensions as % of Payroll</i></b>	
<i>Country</i>	<i>Governments' assumed rates</i>	<i>Market rates</i>
US	18%	29%
UK	18%	44%
Canada	17%	37%

The UK is particularly expensive because of the extremely low 20-year Index-linked Gilt rates (<1% p.a.) and full price indexation of all UK pensions.

Politicians (and certainly the public) are still widely ignorant of these facts. However, the pressure on public finances will inexorably mean that they become more and more visible in the coming years.

Yours sincerely,

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