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PSI report to CWC September 2015

Background

Public sector pension funds contain in excess of $20 trillion in assets and include 36 of the largest 40 asset owners in the world. However, public sector pension funds are under attack, provoked by the combination, amongst others, of:

- the continuing global financial crisis
- austerity programmes and anti-public sector ideology
- systemic tax avoidance
- poor investment returns and excessive fee extraction

The overall context in which pension funds operate is one in which few politicians wish to raise (or even collect) taxes, there is systematic tax avoidance (both 'legal' and illicit) and public services are increasingly starved of funds. These are part of the ideological push to shrink the government and to allow market forces and actors to increase their role in society. PSI is active in the global and regional campaigns for tax justice and trade, and to ensure that our members can deliver universal access to quality public services, which directly impact the viability of public-sector pension plans.

For PSI affiliates, the key decisions on pension funds come mainly from the legislature, but also from the executive, and sometimes from the regulatory branches. However, these government bodies are heavily lobbied by the financial services corporations, some of which provoke the attacks against our pension funds.

The global financial crisis caused stagnation or recession in most national economies, putting pressure on public budgets, as public revenues dwindled and public outlays increased. This included bailing out the banks and other financial corporations and dealing with increasing unemployment and growing poverty. The effect on our pension funds has been double: returns on investment have been negative or extremely low, and governments are starved of funds, including for their mandatory pensions contributions. Furthermore, there is now clear evidence of excessive fee extraction by the financial services industry.

Government and public employers are under pressure to cut public spending, including on pension contributions and benefits. The ways used to cut pensions commitments are many, including: converting defined benefit to defined contribution; moving from final salary to average salary; refusing to adequately fund pensions systems, and/or using these funds for other purposes; refusing to strengthen public retirement protections.

Tax avoidance is a global phenomenon, whereby corporations and the wealthiest avoid paying their fair share, thus depriving governments of much-needed income. In some countries, this is compounded by the weakness of tax administrations, implying poor collection capacity and poorly designed tax systems, which rely too heavily on regressive consumption taxes - as opposed to taxes on income (both labour and capital). As well, free trade agreements and tariff reductions are reducing public revenues that are especially important for developing countries which depend on these streams.

At a minimum, pension trustees should ensure that corporations in which they invest comply with all tax laws, avoid aggressive tax planning, and fully declare their holdings, even in tax havens. This would be part of the ethical investment practices.

In a number of countries, the capital amassed in pension funds attracts the financial services corporations – allowing them to earn very large management fees. The question of fees is linked to pension liabilities, employer and worker contributions, and fund viability. These same financial services companies are often involved in lobbying to reduce worker and union rights and to cut public services.

PSI affiliate campaigns

Our unions are fighting to:

- defend existing pension funds and benefits
- expand pension coverage
- block the conversion of defined benefit funds to defined contribution
- increase the quantity and quality of worker representation as fund trustees
- reverse the privatisation of public pension systems
- ensure ethical investment practices

PSI affiliates in the pensions meeting at our recent Americas conference showed a high level of concern over cutbacks in pensions systems, whether through reducing benefits or increasing retirement ages, or both. The World Bank has forced countries to privatise public pension systems, often with disastrous results for the workers and retirees. The World Bank's flagship Chilean model has been shown to benefit a few corporations at the expense of the workers and retirees. Affiliates from Chile shared their experiences after many years of pension system privatisation – a total disaster. Argentina decided to bring their privatised funds back under public ownership.

Increased longevity poses structural problems for all funds, and for unions, as does the fact that, in many countries, public sector pension funds are much better than in those in the private sector, where they are often inexistent.

In the Interamerican region, many governments are cutting back on benefits, including of tax-based pay-as-you-go funds. Affiliates can't safely allow the question of pensions to be separated from the broader economic and social debates. Governments claim they can't afford decent pensions; the question of fair taxation and sensible spending decisions has to be addressed as part of the debate. The fight for decent retirement security has to be squarely placed in the context of the larger income inequality debate; why should the resources of the economy be directed to those with wealth and power while working people are consigned to a working life of scarcity and a retirement of poverty?

Campaign for fees, and cost transparency

For funded pensions there is a new process to verify the control of costs paid to service providers throughout the investment chain. Many providers are charging huge amounts often through disguised fee structures. The Dutch pension funds have been in the forefront of this process; the Dutch regulator is the first to request the reporting of pension fund value chain costs. A number of public funds in the USA are doing something similar and have called on the SEC to regulate for private market costs to be transparent. The American Federation of Teachers is running a successful campaign to expose the excessive fees of hedge funds and the use of their economic power to influence politics in the USA.

A number of unions are fighting to block the conversion of defined benefit pension funds to defined contribution. Research indicates that defined-benefit funds provide better value at lower costs, and with greater democratic control.

Shareholder activism

Action on climate change includes getting funds to assess their exposure to carbon investments and to encourage and pursue greener investments. Affiliates have been reaching out to specialist organisations with expertise in social and environmental responsibility in investments, such as CERES in the USA, ShareAction in the UK, and others.

PSI and affiliates support a number of shareholder initiatives: the most recent related to education privatisation, as well as a number related to violations of trade union rights.

Action on infrastructure investment

PSI's opposition to pension fund investment in PPPs is based on many years of largely negative experience with PPPs, both from the perspective workers and unions and from the affected communities. However, PSI understands the need for massive infusions of capital in order to ensure universal access to quality public services. One traditional way that pension funds have invested in this endeavour is through government bonds. These bonds remain a very important asset class, even if they are now providing much lower rates of return. PSI needs to explore alternative mechanisms for pension capital to contribute to public infrastructure and services. And we need to ensure that, where pension fund capital is invested in public infrastructure, all of the risks are fully understood, and that social and environmental rights are protected.

PSI recently delivered a one-page critique for pension trustees on the risks inherent in PPP infrastructure investments. We also produced a 50-page privatisation critique, which we used effectively in the Sustainable Development Goals - SDG and Financing for Development - FFD negotiations. The costs and risks of PPPs are often disguised, in a similar way to the problem of management fees. Some affiliates request information on the behaviour of specific corporations involved in PPP projects, to enable trustees to demonstrate clearly the risks involved. PSI and ITUC have agreed on the need to ring-fence health, education, and water and sanitation as inappropriate for a PPP approach.

PSI will also look into the new financial tools, known as Social Impact Bonds and Development Impact Bonds, as these appear to be yet another way to financialise and privatise public services.

Our fundamental aims continue to include:

- protect the rights of public service workers to a decent pension
- avoid speculative investments of pension funds; and challenge fee extraction
- ensure that our pension funds contribute to developing a sustainable, worker-friendly economy
- tackle climate change by adopting climate-friendly investment guidelines and practices
- support asset owner activism by helping affiliates solve problems with stock-listed and private equity employers
- challenge attempts to extract governments from their responsibilities to ensure adequate public infrastructure and services for our communities and for our economies.