April 2003

5 – Saying No to Privatization with our Pension Funds

INTRODUCTION

More and more pension fund managers are seeking authority to invest workers deferred wages in public private partnerships (P3s). Generally the money manager will ask for authority to invest in certain non-traditional holdings, in particular, certain types of "private equity".

Pension fund trustees will be tempted by the selling job. However, trustees must make decisions that are solely in the best interests of the Plan's beneficiaries. When workers sit as trustees, representing the plan member means following a different process. After all, if we don't do things differently why bother gaining control at all?

Let's begin by considering some background. Pension funds are heavily regulated. This regulation is intended to make sure that your pension fund is there for you when you come to collect your pension wages. Both the provincial and federal governments have rules regarding where pension funds can be invested. Such rules require, for example, that they be invested in diversified holdings. Basically, this means "don't put all of your eggs in one basket". There are also rules on how much ownership your fund can have in any one company.

Trustees themselves are not the stock/bond pickers. Rather, they set the policy that gives the money managers rules on which specific holdings the fund allows. Of course, your pension fund has long held shares in publicly traded companies. It also holds the bonds of both federal and provincial governments, as well as some corporations. It likely also holds some municipal bonds. There are a number of other "asset classes" or broad categories of options where your deferred wages can be placed besides stocks and bonds. One example is real estate, another is private equity.

It is important for your investments to earn positive returns over the long run. Clearly, they do not need to earn positive returns each and every year. After all, the Canadian stock market has had a "hard time" over these last few years. Very few money managers, if any, have actually had positive returns each and every year over the long run (40-plus years). This is the reason for having diversified holdings, so that, in fact, the total return on your pension fund is positive, even though any one piece of it may not have been.

In addition, one of the major reasons why CUPE supports joint trusteeship of our pension funds, is so that with worker control, we can make a difference because of our union values.

We make this difference first, by improving the plan's terms and conditions for members (including plan communications, etc). Second, and equally importantly, we can bring trade union values to the investment process.

Most Trustees are being asked to make a decision about whether to broaden the scope of investments to include "private equity". This can and will mean using your deferred wages to invest in public private partnerships (P3s), among other so-called "private equity financed" projects.

We are facing the next phase of the fight back over P3s. In 1999 CUPE's National Convention adopted a policy statement in opposition to public-private partnerships. We knew then that we were under attack from privatization under the guise of partnerships, with our own money (our pension funds), being used to spread and promote P3s.

In order to help our trustees represent plan members it is vital for them to hear from us. We and they, need to make space to know what members want. A good example is the recent meeting held, just prior to the BC division convention, of CUPE members in the BC Municipal Pension Plan. Members and CUPE named pension trustees discussed fund investment policy and P3s.

Our trustees will truly be able to say that they know what the members want – truly be able to represent the best interest of the beneficiaries $ – if we are clear about ensuring the need to adopt trade union values as part of pension fund investment policy.

We certainly know that such investments are of serious concern to CUPE. Let's look at the myths being used to justify investing CUPE members' pensions in private equity P3:

Myth #1 – The Fund is so large that there is no where else to invest.

Simply because a pension fund is very large, that does not mean that it must invest everywhere. In fact, it makes choices already. For example, in its "outside of Canada" holdings, it does not invest in every available country around the globe.

Instead of promoting P3s, our wages should support public services by the purchase of government bonds. This is, after all, the traditional method for financing public infrastructure and public services. It is how pension funds have always partnered with governments.

Another important point is that a pension fund operates as a private sector entity. When it invests in government bonds, it is as if the government was borrowing from a bank. We should not think that because our fund is public sector workers' money, this makes it public financing. It is not. There is a huge difference in owning a government bond that finances a public project/service and being the owner of the project /service by holding equity in the operation. If a private, non-government entity such as a pension fund owns the service, (or piece of infrastructure) the accountable government does not. Direct pension fund investment, unlike investing through bond purchase, is a form of private ownership of public services and infrastructure.

Myth #2 – "The fund will earn such good returns, how can we say no?"

Some argue that due to "fiduciary duty" trustees have no choice but to agree to put funds in investments that have profit making as the only criteria. Fiduciary duty is the special legal responsibility of those in control of trust property (the pension fund) to meet the interest of the real owners (plan beneficiaries).

Typically, the ultra conservative professionals who usually get to determine the "interest" of the plans owners have simplified it to a very narrow position of maximizing returns, without consideration of the consequences of the investment beyond money. This blind doctrine does not always represent the broadest interest of workers. Our interest goes well beyond profit making to include an interest in our own employment, overall employment levels, healthy communities, and the continuing operation of a sustainable and healthy economy to say nothing of international solidarity. This means our trustees must consider which investment serves the broadest interests of workers, in the long term, and which do not.

There are always choices about where to place pension fund money. Within each of the asset classes already in the portfolio, there are choices being made. For example, money managers must choose which publicly traded company's stock to purchase and in what quantity. If the only criteria for choosing an investment was short term profit, we wouldn't care about child or sweatshop labour, protecting public services, the environment, human or civil rights. Trade union values mean something. We should apply them to pension fund investment policy decisions.

In fact, the statistics now prove that, in the long run, companies that act "responsibly" (that is, pay attention to health and safety issues, do not pollute the environment, etc,) are at least as profitable as those that are not. It pays to invest in socially responsible companies.

Pension funds are long-term investments, not short-term. They hold your money throughout your active working life and pay you throughout your retirement. Every investment choice has a consequence. If the duty to achieve high rates of return on pension investments leads us to invest in high-rolling P3s, aren't we profiting from the very forces that are undermining CUPE members' and other public sector workers' job security? What is the point of making great returns if fewer members get to benefit from it because they've lost their jobs to privatization.

Myth #3 – "If we don't invest here, some other fund, and likely a U.S. fund, will."

This is no excuse for promoting P3s with our own deferred wages. Indeed, if we start promoting government bonds as the correct method to finance public needs, we may help to stem the tide of privatization.

We know the major pitfalls of P3s. They include:

- The cost to our communities and taxpayers is far more in the end. The Auditors General in several provinces have documented this fact. It makes sense. It costs governments less to issue bonds for financing projects than to pay for-profit lenders. The accounting methods used to make it look less in the short-run is smoke and mirrors.
- Delivery of public services are no longer accountable to the community and citizens. When governments hand over services to private companies, there is an erosion of democratic accountability linked mainly to a lack of transparency and disclosure. Private companies (including pension funds and money managers) are not democratically accountable to communities.
- Loss of public sector jobs, jobs that are well-paying and keep money in our communities. This means that our collective agreements will be under attack as we fight with for-profit private companies to keep full-time, well paid jobs with pensions and benefits.
- Private companies have to make profit where governments do not. When services are provided by private companies, workers are expected to be public employees. This changes the level and nature of public service. In order to make profits, either the number of workers, the quality of the service, and/or the supplies are downgraded.

The issue is that all pension funds, even those of public sector workers, own the "private equity" to earn profits. They too operate the enterprise according to normal private-sector, profit seeking principles just as any other private investor would. This means that an asset that was traditionally owned publicly becomes privatized, turning a non-marketable public asset into a marketable private asset, a tradeable commodity.

Myth #4 – "We can write into the contract that jobs must be protected"

Even where this happens it is certainly no guarantee over the long run. While we want to protect CUPE and other public sector union members' jobs, this is not the only reason for defeating P3s. The major reason for keeping public services in the public sector is that it is simply good public policy. Our goal is to protect accountability to our communities. An example will illustrate why accountability to our communities is essential. You may recall that the Ontario municipal workers' pension plan (OMERS) was lined up to finance the construction (and then manage and own) several Nova Scotia schools. Once the new government recognized the true costs of the contracts, most of the schools were halted, however two are now open. At a conference in Montreal on economically targeted investments, an ATU member living in Halifax reported on what one of these schools was like for his children and the community. Because the schools are now assets of the Ontario CUPE municipal members' pension fund, they are required to be protected under contract. This means that there can be no tape placed on the windows or the walls of the classrooms. It also means that there is no community involvement whatsoever in those schools as overtime will be required to be paid to CUPE members to clean those schools. It also means that the children cannot play on the grass in the schoolyards as it will "damage the asset". The list goes on. The OMERS subsidiary that helped finance (and now owns) this school responded to such issues by suggesting that the community should have thought about all of these things when the government asked the private company in.

The long-term consequences of private financing P3s and/or private ownership must be dealt with head on.

Myth #5 – "CUPE policy is not really clear on this yet."

Wrong. CUPE has very clear policy opposing pension fund investment in P3s. In 1999, the National Convention passed a CUPE policy statement on public private partnerships, which is available for your review. The statement specifically talks about not using pension fund money to support privatization initiatives. CUPE members should expect the pension trustees that they name to be committed to following policy of the union.

Conclusion

With governments moving full steam ahead to reduce the public sector and CUPE and the trade union movement mobilizing and fighting back, we cannot now, or ever, allow our deferred wages (the pension fund) to facilitate and encourage the privatization process.

We must reject moves to convert public services into commercial transactions. It is essential to keep government accountable to our communities. This cannot happen if the private financing vehicle and/or owner is a pension fund – or any other private sector investor. We must continue to stand up for good jobs, publicly serviced communities, hospitals, schools, utilities and accountable government.

P3s' are a steamroller heading across the country aimed directly at public services and CUPE members jobs and collective agreements. The privatization pushers are viewing our pension funds as ideal investors, that is why we must draw a line in the sand. Indeed, we can draw the line because particularly in those pension plans where we along with other union trustees, have a real say.

Let's say no to P3s' every way we can!

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Revised August 2008