



**HOUSE OF COMMONS
CANADA**

**CHAPTER 3, RESERVE FORCE PENSION PLAN –
NATIONAL DEFENCE, OF THE 2011 SPRING
REPORT OF THE AUDITOR GENERAL OF
CANADA**

**Report of the Standing Committee on
Public Accounts**

**David Christopherson, MP
Chair**

APRIL 2012

41st PARLIAMENT, 1st SESSION



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

SIXTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 3, Reserve Force Pension Plan – National Defence, of the 2011 Spring Report of the Auditor General of Canada and has agreed to report the following:

INTRODUCTION

The Reserve Force, also known as the Reserves, is a voluntary force with the role of augmenting, sustaining and supporting the Regular Force of the Canadian military. Until 2007, there was no pension plan for reservists, although they are an integral part of the Canadian Forces.¹ With this in mind, the Department of National Defence (DND) introduced the Reserve Force Pension Plan in order to enhance recruitment and retention of reserve members, and to ensure equity among all who serve in the military. This was an important step in recognizing the key role and sacrifices of Reserve Force members. Vice-Admiral Bruce Donaldson, who spoke before the Committee, reminded those present that, “Individuals from across the country answered the call to duty in a time of need and voluntarily took leaves of absence from their regular jobs or education programs to serve full time with the Canadian Forces. They’ve been instrumental in keeping our military operational and successful, and I think all Canadians owe them a tremendous debt of gratitude.”²

The Reserve Force Pension Plan is a defined benefit pension plan that provides a pension based on salary and years of service. Membership in the plan is compulsory for all eligible reserve members, except for those eligible for membership in the Canadian Forces Pension Plan. As of March 31, 2010, the Reserve Force Pension Plan had approximately 21,000 participants.³

The Office of the Auditor General (OAG) undertook a performance audit of the Reserve Force Pension Plan as a result of the findings of the first OAG financial audit of the financial statements of the Plan. The financial audit, which covered the 2007-2008 and 2008-2009 fiscal years, could not determine whether the financial statements reliably presented the financial position of the plan and the results of operations for those years. A backlog in unprocessed pension buybacks made it impossible for DND

¹ Auditor General of Canada, *2011 Spring Report*, Chapter 3, “Reserve Force Pension Plan – National Defence (Ottawa, 2011), p.1.

² House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 41st Parliament, December 14, 2011, Meeting 22, 1530.

³ All reservists are automatically enrolled in the plan. Membership in the plan is compulsory for all eligible members, except those who have sufficient full-time service to be eligible, under Part 1 of the *Canadian Forces Superannuation Act*, for membership in the Canadian Forces Pension Plan (the plan for members of the Regular Force).

to report reliable figures on the total accrued pension liabilities⁴ and contributions receivable.⁵ This backlog, combined with errors and control weaknesses, resulted in the denial of an audit opinion on the financial statements. Due to the problems encountered, a performance audit was deemed necessary and the resulting OAG chapter⁶ is the subject of this report.

The overall objective of the performance audit, which covered the period from March 2005 to March 2010, was to determine whether DND had adequately implemented the Reserve Force Pension Plan. In particular, the OAG examined:

- the approach the department had followed to plan and implement a pension plan for reservists; and
- whether the department had the means necessary to operate the pension plan, including organizational structure, resources, information systems and control procedures.

On December 14, 2011, the House of Commons Standing Committee on Public Accounts (the Committee) heard from witnesses regarding Chapter 3 of the Spring 2011 Report of the Auditor General of Canada. From the OAG, the Committee heard from Jerome Berthelette, Assistant Auditor General, and Tom Wileman, Principal. From the Department of National Defence (DND), the witnesses were Robert Fonberg, Deputy Minister; Vice-Admiral Bruce Donaldson, Vice-Chief of the Defence Staff; Rear-Admiral Andrew Smith, Chief of Military Personnel; Kevin Lindsey, Assistant Deputy Minister and Chief Financial Officer; and Dave Grandmaison, Director of Canadian Forces Pensions Services.

AUDIT FINDINGS

Assistant Auditor General Jerome Berthelette told the Committee that there were problems with the implementation of the Plan, and that these were partly related to the

⁴ "Accrued liabilities" are pension expenses that have been incurred by the department, but for which it has not yet paid.

⁵ "Contributions receivable" are pension contributions that the department is owed, but that it has not yet received.

⁶ Auditor General of Canada, *2011 Spring Report*, Chapter 3, Reserve Force Pension Plan – National Defence (Ottawa, 2011).

lack of planning and leadership of the initiative as a whole. Mr. Berthelette stated that, “National Defence did not have adequate planning in place. No senior official was made responsible for coordinating both the policy development and the delivery of the reserve force pension plan. As a result, pension services were prone to delays and errors in the first three years of operations.”⁷ The OAG noted in its report that DND did not have adequate means in place, including resources, information systems and control procedures to operate the pension plan when it came into force. Also, the OAG noted that early on, DND management identified significant risks to successful implementation of the plan; but decisions were made to proceed with a pension plan for reservists, with the intention to deal with these risks after the plan came into effect in March 2007.

The OAG found that as of March 31, 2010, 99 reservists were receiving an annuity, annual allowance, or survivor benefit, and 627 others had received a return of contributions; however, the Department’s data indicated that about 2,400 more benefit-related items were outstanding. Most of these related to general inquiries (777), return of contributions (565), and processing of released reservists (627).⁸ Also, at the time of the audit, there was a significant backlog in processing pension buybacks of past service. The Department’s statistics showed that 4% of the 9,213 buybacks requested by March 31, 2010 had been processed.⁹ Based on DND projections, many reservists could wait seven years or longer to know what pension benefit to expect and what it would cost them.

A number of management areas were identified by the OAG as needing improvement. As such, the OAG made one broad recommendation stating that National Defence adopt comprehensive measures that “should include a plan for hiring and training staff, system improvements, redesign of administrative processes, performance reporting, and improving communication with reservists, so that reservists receive pension services that meet their needs in a more timely manner.”¹⁰

⁷ Meeting 22, 1540.

⁸ Chapter 3, paragraph 3.31.

⁹ Chapter 3, paragraph 3.28.

¹⁰ Chapter 3, paragraph 3.49.

In response to this recommendation, DND officials compiled an action plan presenting timelines and actions that would be taken to address the OAG's recommendation. The action plan was provided to the Committee prior to the hearing, and showed that the single OAG recommendation had been broken down into separate components that would be dealt with individually. As such, hearing testimony was broken down into these main theme areas:

- hiring and training of staff ;
- administrative improvements;
- information technology systems;
- performance reporting;
- communications; and
- leadership.

Hiring and Training of Staff

The OAG reported that DND staff were unable to meet pension plan claim demand due to the high volume of files. For example, the Department had limited capacity to respond to member telephone inquiries and complaints, and the Department issued a general message on May 10, 2010, asking reservists to be patient and exercise restraint in calling Pension Services directly about the status of their file, since those calls were delaying the processing of requests.

The Committee queried DND witnesses on the actions that had been taken to increase output through the hiring of additional staff. RAdm Smith responded that:

both prior to the audit and post-audit, we significantly increased the staff horsepower associated with addressing the backlog. When the plan came into place in March 2007, we had 132 staff in place to address this....Between coming into force on March 1, 2007, and July of 2010, we hired another 70 people to bring it up to 202. Since that time, we have

hired and trained another 30 people to address this. We have a total of 232 people today dedicated to addressing the backlog.¹¹

RAdm Smith indicated that improvements in processing times had occurred, noting that when the staff number reached 230, the average time to process a file had dropped from 150 hours down to 100 hours¹² and based on these figures, DND officials assessed that the pension backlog would be cleared by 2017.¹³

The addition of several permanent employees raised other questions. Seeing that DND predicted that it would clear the backlog in 2017, the Committee questioned whether it was prudent to hire permanent employees for what could be viewed as a temporary problem.¹⁴ RAdm Smith responded that, “We continue to look on an ongoing basis at the value proposition associated with hiring more people, conscious, of course, of the cost that would be against the plan itself. So that's an ongoing piece we look at and continue to evaluate.”¹⁵

In addition to RAdm Smith's comments, Kevin Lindsey stated:

We are fully confident that, as the need for these staff abates as the backlog is dealt with, natural attrition will bring the numbers back to a proper equilibrium. Our experience is that there is about a 30% annual attrition rate with the staff working on this project, which frankly has been part of the issue [staff retention]. It has intensified greatly the need to train new staff as we're processing this backlog.¹⁶

VAdm Donaldson noted that staff were paid by the pension plan itself, so staff numbers and resulting administration cost of clearing the backlog were being balanced against the financial capacity of the plan to ensure sufficient funds would remain for actual pension payouts.¹⁷

¹¹ Meeting 22, 1555.

¹² Meeting 22, 1610.

¹³ Meeting 22, 1640.

¹⁴ Meeting 22, 1605.

¹⁵ Meeting 22, 1555.

¹⁶ Meeting 22, 1645.

¹⁷ Meeting 22, 1645.

Administrative Improvements

The OAG noted in its report that the Pension Plan has encountered challenges with its administrative process that led to inefficiencies. For example, the OAG found that before 1999, pay and service records for reservists were kept manually in hard copy only at the various reserve unit locations across the country, and could not always be retrieved or were not always complete. This made it difficult for DND pension administrators to know key information, such as time served by personnel in reserves units.

Another problem was identified during the OAG audit of the financial statements of the Reserve Force Pension Plan for 2007-08 and 2008-09, where a large number of transaction errors was identified. These included data entry errors and a systemic error in the rate used for calculating a buyback. Correcting errors in the election files that had already been processed was taking time away from processing backlogged files.

At the time of the audit, the OAG noted in its report that management had developed a plan for improving internal control in pension service operations, and established new methods and procedures, including a case management system for pension services. Despite these changes, the OAG's recommendation encouraged DND to undertake further administrative improvements to help streamline pension operations.

Some Committee members expressed concern over the cost of administering the Pension Plan, noting that in 2009-2010, \$5.3 million was spent on the administration of \$95 million in pension receipts. By comparison, the RCMP pension plan had \$8.5 million in administrative expenses on pension receipts totaling \$13 billion. When asked why the ratio of expenses to contributions varied so much between the two pension plans, Kevin Lindsey, Chief Financial Officer at DND, told the Committee that while he couldn't comment on the RCMP data:

I would say that the administrative expenses associated with the reserve force pension plan are in fact a function of the remedial efforts we're

making to process this backlog. And when the plan reaches a steady state, when the records are automated, when the reservists are fully into the kind of pension system the RCMP are now—which we're targeting, I believe, to happen by 2015—then you will see this ratio change significantly.¹⁸

In response to committee queries about the progress on administrative challenges, including what DND had done thus far in response to the OAG recommendation, RAdm Smith told the committee that:

With respect to the recommendation to redesign administrative processes, the military pension renewal project will certainly amend the business processes associated with pension administration. But with respect to the manual record-keeping going forward, it continues to be a manual process, and that, regrettably, is what it is, and we're going to have to deal with it as we work through the backlog.¹⁹

Information Technology Systems

The OAG found that the information technology system used was not well suited for the Reserve Force Pension Plan. The system used was an older legacy pay system that did not allow customization or quick changes, and could not ensure sound pension administration or eliminate the existing backlog. For example, it took about four years to implement an important business rule regarding re-enrolment and nine months to change an incorrect rate used in calculating pension buybacks. The OAG mentioned that later in the audit period, these systems were upgraded, but they may still not be adequate over time.

When questioned by the Committee about progress on this element of the OAG's recommendation, RAdm Smith noted that, "In 2010, we made some major changes. In the fall of 2011, we also adopted a series of changes to our computer system. As problems are discovered in the system, they are fixed."²⁰ RAdm Smith confirmed the OAG's concerns, pointing out that earlier problems were related to the fact that the systems were geared to work with a regular force pension plan or public service

¹⁸ Meeting 22, 1615.

¹⁹ Meeting 22, 1555.

²⁰ Meeting 22, 1550.

pension plan that deals with more straightforward cases, and it was not adequately designed to deal with the unique part-time cases of reservists.²¹

When further queried by the Committee on whether improvements had helped reduce processing and examination times, RAdm Smith stated that, “When we started this endeavour, the processing times for the files were in the order of 150 hours per file. That is just a further indication of the complexity associated with going through manual records. Due to the efforts put in place, we’re now down to about 100 hours, and that number of hours per file will decrease over time as we automate more of the records.”²² The Committee heard that the older a pension applicant file is, the longer it takes to process. This is not only because more time has elapsed and files are harder to find, but also older files are less likely to be found in any sort of electronic format that would facilitate processing. As the older files are completed, and system improvements are implemented, processing times should decrease.

Performance Reporting

The OAG stated in its report that better information in the area of performance reporting would allow management to monitor if objectives were being met and if improvement efforts were working. The OAG noted that there were inadequate systems in place to measure and report on the performance of the Reserve Force Pension Plan.

When asked by the Committee about progress on the OAG recommendation, RAdm Smith stated that, “With respect to the performance reporting part of the recommendations, we have implemented a rigorous quarterly reporting piece that will be reported both to me and, three times a year, to the Canadian Forces Pension Advisory Committee, which I chair. That committee has representatives from the army, the navy, the air force, and the reserve community at the senior leadership level. The

²¹ Meeting 22, 1550.

²² Meeting 22, 1550.

reporting will then be disseminated back through their respective chains, and we will look to place those performance reports on the website as well.”²³

Communications

The OAG noted that the approach for communication with reservists was not adequately designed. Many reservists did not understand regulations or their obligations under them which were communicated via newsletters and personnel briefings for reserve units. The Department intended to provide reservists with a pension booklet to inform them of their benefits and obligations, but the booklet was not completed. Also, there were two websites to help inform reservists, but some sections of sites were out of date and information was not presented consistently on the two sites. These problems led to numerous calls and complaints.

In the audit report, the OAG did note that DND had set up a call centre to aid reservists with Pension Plan related questions. However, the OAG went on to recommend that more needed to be done to adequately communicate pension related information to reservists.

RAdm Smith told the committee that DND had been working towards fulfilling the OAG recommendation. He said:

With respect to improved communications, I spoke previously about the proposal to combine the two websites into one on a trial basis by March 2012, with a final version no later than December [2012], a year hence. We have conducted town halls to get the word out. There is a reserve force pension communication working group, under the auspices of the chief of reserves, to help get this word out. We continue to have a call centre with nine people dedicated during business hours to addressing concerns related to administration, and we have our own internal messaging vehicle by which we endeavour to get the word out as well.²⁴

²³ Meeting 22, 1555.

²⁴ Meeting 22, 1555.

Leadership

In terms of leadership of the initiative as a whole, the OAG pointed out that no senior official was made responsible for coordinating both policy development and the delivery of the reserve force pension plan, and as a result, pension services were prone to delays and errors.²⁵ DND stated that they had recognized this problem, and took steps to improve the situation. RAdm Andrew Smith stated that, “In light of what we have learned since, I am not sure we would have acted in the same way. I would say that in keeping with standard project management practice and principals, we would have had a single senior-level official, at least at the assistant deputy minister level, in charge of the project, and equally a master implementation plan in place.”²⁶ The committee was informed this situation had improved and that RAdm Andrew Smith, as Chief of Military Personnel, was made solely responsible for managing the project as a whole in summer 2011.²⁷

The Committee notes that DND has commenced work on improving this situation. As the Committee would like to monitor DND’s progress in improving the Reserve Force Pension Plan, it recommends:

RECOMMENDATION 1

That DND report to the Public Accounts Committee, by December 31, 2012, the status of all action plan items targeted for completion in 2012, as indicated in DND’s Management Action Plan.

RECOMMENDATION 2

That DND provide to the Committee a progress report on the status of the pension plan file backlog at the end of each calendar year, in order to determine if DND remedial actions have been effective to date and to determine if the 2017 target date for closing the pension backlog is achievable.

²⁵ Meeting 22, 1540.

²⁶ Meeting 22, 1600.

²⁷ Meeting 22, 1545.

CONCLUSION

As the Canadian Reserve Force is an important element of Canada's national defence strategy, the Committee feels that the initiative to create a pension plan for Canada's valued reservists was a positive step and applauds DND's initiative to bring equity to all people serving in Canada's military. The Committee recognizes the steps that have already been taken by DND to best serve Canada's valued reservists, such as hiring and training more staff to address backlogs and improving controls. However, the Committee still encourages DND to take immediate action to remedy the problems identified by the OAG.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of National Defence Bruce Donaldson, Vice-Chief of the Defence Staff Robert Fonberg, Deputy Minister Dave Grandmaison, Director, Canadian Forces Pensions Services Kevin Lindsey, Assistant Deputy Minister, Chief Financial Officer, Finance and Corporate Services Andrew Smith, Chief of Military Personnel	2011/12/14	22
Office of the Auditor General of Canada Jerome Berthelette, Assistant Auditor General Tom Wileman, Principal		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (41st Parliament, 1st Session: [Meetings Nos. 22, 32 and 34](#)) is tabled.

Respectfully submitted,

David Christopherson, M.P.

Chair