CPP: Will the Coronavirus Crisis Impact Retirement Pensions?

Description

An epidemic is throwing global economies in disarray. The pace of transmission is rapid, and more countries are locking down cities to contain the spread. Retirees are expressing concerns, too. While the virus has no direct effect on the Canada Pension Plan (CPP), an epidemic-induced recession will pose pension problems.

Retirees and potential retirees need assurances that the CPP fund manager can secure the financial security of about 20 million Canadians in retirement.

CPP fund manager

The Canada Pension Plan Investment Board (CPPIB) is a professional organization with a mandate to invest the CPP fund. It operates at arm's length from federal and provincial governments. The CPPIB invests in public and private equities, bonds, private debt, real estate, and infrastructure, among others.

As of December 31, 2019, the CPP fund is $420.4 billion, and for the past 10-year period, the cumulative net income is $251.9 billion. The five-year and 10-year annualized rate of return (net nominal) is an identical 10.4%. CPPIB is targeting $14.5 billion in net income by Q3 2020, or a 3.6% rate of return (net nominal).

CPPIB assurances

The CPPIB president and CEO Mark Machin defends and stands by the board's investing record. He notes that the CPP fund is protected from events like the oil market crash. The investments are diversified in assets around the world. There are investments in 52 countries and 274 global investment partners.

Machin adds that unlike other national pension plans, the CPP can live up to its obligations to retirees. The CPPIB invests the CPP fund that isn't currently needed to pay pension, disability, and survivor benefits.

According to Machin, the oil and gas sector remains attractive, because he foresees the demand for fossil fuels to be high for many years. He admits, however, that the damage to the Canadian economy and the energy sector will depend on the duration of the low-price environment.

Top TSX holding

TORC (TSX:TOG), a $259.5 million explorer and producer of petroleum and natural gas, is the second-largest holding of the CPPIB on the TSX. A glimpse into the year-to-date performance shows that this energy stock has lost 74.49%. The price per share is only $1.17, but the dividend yield is a whopping 26.55%.

For full year 2019, TORC's revenue increased by only 13.1% but posted a net income loss of $37.1 million. If you go by the analysts' price target in the next 12 months, this energy stock should be gaining by around 493.8%.

Despite the losses, TORC's competent management team should be able to steer the company back to profitability. The balance sheet is decent, while the debt level is very low. CPPIB's CEO Machin said that the market selloff would hurt energy companies with weak balance sheets and high debts.

The CPPIB invests for the long term. Thus, I would like to assume the board sees TORC to be resilient in the face of wide-ranging market and economic conditions.

The cornerstone of Canada's retirement system

Retirees are fearful that the coronavirus outbreak as well as the declining oil prices will drive the global economy into recession. But if the CPPIB head is saying that the CPP is the envy of the world, the Canadian pension is likely not at risk.

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