BIG RISKS, NO REWARDS

Debunking the Alberta Government's Plan to Secede from the Canada Pension Plan

November 2023

ALBERTA FEDERATION OF LABOUR

Highlights

Provincial Government of Alberta, led by Premier Danielle Smith, wants to withdraw the retirement savings of all Albertans from the Canada Pension Plan (CPP) and put them into a smaller, riskier Alberta Pension Plan (APP). This would affect every Albertan who has any CPP entitlement, whether they have been in the workforce for four years or forty. Every retiree and every active worker with an accumulated CPP benefit who lives and works in Alberta, or who has ever lived and worked in Alberta, would have their accumulated savings shifted from the CPP to an APP. The CPP would no longer stand behind those earned benefits. An APP would be wholly responsible for them.

An APP would be smaller and riskier than the CPP. It would also be exposed to the whims of a single government in a way that the CPP is not. The CPP is governed by the federal government and provincial governments of all the provinces, minus Quebec. Decisions about how the plan is run—including benefit levels and premium rates—need to win the support of a great majority of provinces. This is a deliberate and intentional safeguard. An APP, on the other hand, would have no such checks and balances. It would be subject to the whims of a single government. This would jeopardize a main source of retirement income for all Albertans.

Despite claims made by the Alberta government, contribution rates could go up and benefits could go down under an APP. The only thing that would be guaranteed is a higher risk—which is the last thing anyone wants when talking about retirement savings.

The Alberta government's plan hinges on the notion that Alberta would be entitled to pull $334 billion out of the CPP fund—53% of the total, even though Alberta represents only 12% of Canada's population and 16% of CPP contributions. There is absolutely no way that the federal government and other provincial governments—who, along with Alberta, run the CPP—would ever allow this to happen. Without this fantasy number, none of the Alberta government's claims about lower contribution rates or higher benefits would be possible.

Premier Smith and her government's own "Fair Deal" panel talked about a transfer as low as $40 billion as recently as a few months ago. A realistic expectation for a transfer could be in the range of $100 billion—less than a third of what the Alberta government is currently claiming. If an APP started with $100 billion and earned a real return of 2% (as opposed to the 4% assumed by the Alberta government) the entire supposed advantage of an APP would vanish into thin air—Albertans would be paying 1.05% more than current CPP rates. And even those costs could increase as Alberta's population demographics start to fall in line with the rest of the country (a trend acknowledged by LifeWorks, the author of the Alberta government's own report aimed at justifying the establishment of an APP.)

Additionally, an APP will saddle Albertans with more retirement security risk than the CPP, particularly in the form of investment and political risks. The CPP is one of the world's largest investment funds—with its heft it can diversify its holdings and has access to the world's best investments. Smaller funds have a tougher challenge, and an APP will be much smaller than the CPP.

CPP investments are well-insulated from political interference, but Premier Smith has mused, often and openly, about viewing an APP as a “pot of money” that could be used to support pet projects of provincial government—a scary prospect for retirement savings.

It cannot be stated strongly enough that the money saved through the CPP belongs to the retirees who saved it. It belongs to workers and retirees, not Danielle Smith or any other politician. This money has been set aside to provide stable retirement incomes for Albertans and other Canadians, not to act as a political slush fund. Political interference in APP investments would reduce future investment returns and create significant deficits for an APP that could lead to future benefit reductions.

CPP benefits are safe. Benefit levels can only be changed with the agreement of the federal government and 2/3 of the provinces representing 2/3 of Canada's population.

An APP, although it would have to be comparable to the CPP at the outset, could be changed by any Alberta government at any time after establishment. Nothing would stop the Alberta government from making big changes to the plan. For example, increasing the retirement age to 70 (as Danielle Smith publicly mused about doing before she became Premier) or rescinding the benefit increases that are currently being phased in for the CPP. And the likelihood of benefit cuts is all the greater if the APP's "pot of money" is badly invested.

Astonishingly, provincial government's proposal leaves large numbers of workers unaccounted for—people who work and contribute to the CPP in Alberta but who reside elsewhere in Canada, and people who have lived and worked in Alberta but chose to retire in another province. Provincial government published its report without knowing how many people fit these descriptions, or what the value of their accrued CPP benefits might be. Clarity on this point is crucial because an APP would be responsible for these benefits and nobody knows what they are or how much they would cost. The liabilities and costs carried by the proposed APP could be much higher than what is currently being presented to Albertans.

Neither the other provinces nor the federal government would agree to Alberta's $334 billion CPP claim.

While the *Canadian Pension Plan Act* provides a formula for splitting CPP assets, the formula is not clear and the split is not "just math," as many Alberta government spokespeople, including the Premier, have claimed. Provincial government's own advisors have adopted what they call an "alternate and reasonable interpretation" of the *CPP Act* to arrive at their $334 billion calculation. Others have calculated different and much lower amounts. The United Conservative Party (UCP) government's $334 billion figure—53% of the entire CPP Fund—makes little sense given that Albertans are 12% of the Canadian population and have only made 16% of the CPP contributions. The goal of the UCP government appears to be a long and protracted battle with all of the provinces, territories, and the federal government, none of which would agree with the UCP's demands.

If Alberta were to establish an APP, there is no mechanism for it to return to the CPP. An APP would be a one-way ticket—and Canada could not be expected to pick up the pieces if the APP fails.

Debunking the Alberta Government's Plan

I. Introduction

The Alberta Federation of Labour (AFL)

The AFL is Alberta's central labour union organization, representing 25 trade unions from both the public and private sectors, and nearly 175,000 workers from across the province. The Alberta Federation of Union Retirees (AFUR) is also a key constituent component of the AFL.

Since its creation in 1912, the AFL has been a strong and consistent voice for Albertans who work for a living. The AFL does not represent business interests—it speaks only for working people and retirees.

Pensions and decent retirement incomes have long been a key concern for the AFL. The AFL has protected its members' pensions, in the private and public sectors, against predatory employers and governments. Alongside labour partners across Canada, the AFL fought for and achieved significant enhancements to the CPP that were implemented on January 1, 2019 (CPP Enhancements).

Pensions Are Key to Financial Security

Pension plans provide needed income to people after they stop working. They must be properly funded and appropriately managed to deliver secure and reliable retirement incomes. They are not political footballs.

CPP Membership and Contributions, Alberta and Canada

In 2021, the total number of CPP contributors was 14,678,324. Alberta had 2,191,245 contributors, or 15% of the total.[1] Alberta contributions are estimated to be about 16% of total contributions over the period 1966- 2025.[2]

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[1] <https://open.canada.ca/data/en/dataset/f8ec9eb8-62d1-487b-83ff-4c407b6cb227/resource/2550d801-9f4f-4233-b8fb-3f03d8a036e0>.

[2] "The Alberta Pension Advantage? A Quantitative Analysis of a Separate Provincial Plan (working paper version)" (September 21, 2023), Professor Trevor Tombe, University of Calgary, ("Professor Tombe Paper") at p.16.

The Canadian Pension Plan (CPP) Act

The *Canada Pension Plan Act*[3] was adopted with all-provincial support[4] in 1965. The CPP began operations on January 1, 1966. It has been a pillar of Canada's retirement income system for nearly 60 years.

In 1997, the CPP was overhauled and put on a much firmer financial footing. Contributions were doubled, benefits were protected, and a reserve fund was created (one that has grown tremendously due to the success of the Canada Pension Plan Investment Board [CPPIB]). As a result, today's CPP is generally agreed to be stable, well-funded, and properly managed.

The CPP was enhanced by the provinces and the federal government in 2019. Two improvements would increase the CPP's benefits. Before the improvements, the CPP was intended to replace roughly 25% of a retiree's career average income (up to a cap[5])[6]. With the enhancements, the CPP would replace 33.33% of average earnings up to the cap. Also, by 2025, the cap on earnings would be increased so that higher income participants can earn a better CPP benefit.

CPP Investment Board

The CPP Investment Board was also created in 1997. It invests part of the funds held for the CPP in market-based financial instruments. Since 2013, it has produced average annual returns of 10.9%. This is well in excess of the returns generated by most other retirement funds, including the Alberta Investment Management Corporation (AIMCo) (7.2% over the period).[7]

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[3] *Canada Pension Plan Act*, RSC 1985, c C-8 (CPP Act).

[4] Including an arrangement with Quebec whereby it established the Quebec Pension Plan (QPP) at the outset.

[5] The cap is technically referred to as the "Year's Maximum Pensionable Earnings", or YMPE. CPP members make contributions on their earnings up the YMPE and receive a CPP benefit on earnings up to the same cap. After the 2024/2025 CPP Enhancement, members will make contributions up to a higher cap, the "Year's Additional Maximum Pensionable Earnings" (YAMPE) and will receive a CPP benefit based on earnings up to the YAMPE.

[6] "Canada Pension Plan enhancement", Government of Canada, Online: <https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-enhancement.html>.

[7] *Canada Pension Plan Act*, RSC 1985, c C-8 (CPP Act).

The CPP Does Not Discriminate Against Albertans

The CPP provides monthly benefits based upon each member's earnings and the contributions they and their employers have made. As a result, higher income employees make more contributions than lower income employees and receive larger CPP benefits. Longer service employees[8] also contribute more, over their working lives, than shorter service employees, and get higher CPP benefits than shorter service employees. The CPP protects all its members against periods of unemployment and low earnings, and also protects all members against periods of low earnings due to child rearing.

Canadians in every part of the country are treated the same by the CPP—they pay the same contribution rate regardless of where they live and they get exactly the same benefits wherever they have worked and regardless of where they retire. The CPP does not discriminate based on where a person lives, works, or retires.

If the population of one province is temporarily younger or has higher income than the population of other provinces, then, at that moment, its population would contribute more than the population of the other provinces, and if it has fewer retirees than other provinces, it would collect less in CPP benefits. But this is just a snapshot at a moment in time. As its population ages, it would contribute less and receive more.

Alberta is like a pension plan with a lot of young workers—numerous contributions going in, and in some years' time, lots of pensions coming out. Other provinces, with different economies, may look different. Their populations may be older and have more retirees drawing pensions today based on contributions made in the past. They may have fewer younger workers making contributions today. Overall, it may look like these provinces are taking out more and putting in less. But provinces don't contribute to the CPP—working people do. And what working people get out of it reflects what they put in.

The University of Calgary's Professor Tombe explained it this way in an article he published in the Globe and Mail on September 26, 2023:

> **First is the idea that the CPP is unfair to Alberta. "The reality is," Ms. Smith said Thursday, "since the inception of the CPP, Albertans have been paying much more into it than they've gotten back... about $60-billion more."**

[8] These protections are particularly valuable in the bust phase of an economy.

It's not that this statistic is incorrect. In fact, adjusted for inflation, the gap is more like $80-billion. But this doesn't mean the CPP is unfair. It merely reflects how pensions work.

Young people contribute. Elderly people collect. And Alberta is home to a disproportionately large number of young people. It's also home to relatively more high-income people, so contributions are naturally higher.

At an individual level, the plan treats each of us the same. An Albertan neither pays more nor receives less than a similar Ontarian. Indeed, in recently released analysis using the latest available data, I show the entire gap between CPP collections and payments in Alberta is due to age, earnings and employment."

If people work in Alberta and retire in Nova Scotia, it may appear that Albertans are putting in and Nova Scotians are taking out, but this is not true. The same person contributed in Alberta and received a pension in Nova Scotia. No province is 'overpaying' for the CPP.

CPP Act Provisions Governing an APP

The *CPP Act* allows a province to set up its own pension plan, which must be comparable to the CPP, at least at the outset. If a province leaves the CPP, it must take responsibility for all CPP benefits accrued in that province. That means that any new provincial plan must take responsibility for all of the benefits that retirees are currently receiving for their Alberta pension, and the provincial plan must also take responsibility for all the benefits that every working Albertan (and everyone who has worked in Alberta but lives elsewhere in Canada) has contributed. The CPP would no longer be responsible for any pension payments to any working or retired Albertan—responsibility for all those benefits would shift to an Alberta Pension Plan.

In exchange for taking over all these benefit obligations, the *CPP Act* provides a formula to fairly divide CPP assets. The formula is set out in the *CPP Act*.[9]

[9] *CPP Act*, s.113.

UCP Interpretation of the CPP Act

Provincial government says that Alberta would get $334 billion from the CPP (53% of the entire CPP Fund).[10] These numbers are a pipedream. They are based on what the provincial government's advisor, LifeWorks, refers to as "an alternate and reasonable interpretation"[11] of the *CPP Act*. Unfortunately, the "alternate and reasonable" interpretation is completely unrealistic. The supposed $334 billion transfer amount is misleading and unreliable.

The CPPIB, after reviewing the report by LifeWorks commissioned by the UCP, said that LifeWorks had used an "invented formula" and an "alternative interpretation of the *CPP Act*" to get its 53% figure, and suggests that Alberta could expect closer to 16% of CPP assets because its share of CPP contributions is 16%. Professor Tombe of the University of Calgary estimates that an APP might get 25%—not 53%—of CPP assets[12]. Andrew Coyne, writing in the Globe and Mail on September 27, 2023, suggested that an APP might receive between 20% and 25% of CPP Assets. Others have suggested that the CPP Act formula for asset transfers makes no sense and should be amended to reflect the way that other pension plans split assets when they are divided[13]. This would produce an asset split proportionate to liabilities, in which case an APP might receive $100 billion, far cry from the provincial government's $334 billion figure.

Yet, the $334 billion number is central to provincial government's claim that each Alberta contributor (and their employer) would save $1425 with an APP. Without this fantasy transfer amount, an APP cannot deliver on provincial government's promise.

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[10] The $334 billion is proposed to be transferred from the "Base CPP". This is the CPP Fund that supports all CPP benefits except the Enhancements that are being phased in between 2019 and 2025. An additional $16 billion is proposed to be transferred for the Enhancements.

[11] "Alberta Pension Plan—Analysis of Costs, Benefits, Risks and Considerations, a Report from LifeWorks", August 2023 (the "LifeWorks Report"), p.13.

[12] Tombe, Trevor, "The Alberta Pension Advantage? A Quantitative Analysis of a Separate Provincial Plan," October 2, 2023, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4576950.

[13] Doug Chandler, Bonnie-Jeanne MacDonald, "The devil in the actuarial details: The problems with a $334-billion transfer from CPP to Alberta," October 10, 2023, https://financialpost.com/fp-finance/334-billion-cpp-transfer-to-alberta-problems.

Here are more realistic numbers. With an asset transfer of $100 billion—corresponding to Alberta's share of the contributions it has made to the CPP and reflecting a proportionate share of CPP liabilities—the APP contribution may decline by 0.62%, or 0.31% for employers and 0.31% for employees. Using realistic assumptions, employees and employers would not save $1,425, as provincial government claims.

Asset Transfer Amounts, Base APP Contribution Rates, and Employee/Employer savings based on different asset transfer values as at January 1, 2027—Base Benefits[14]

Asset Transfer as % at January 1, 2027	Asset Transfer Amount	APP Minimum Contribution Rate	Contribution Rate Savings compared to CPP Minimum Rate	Maximum Employer/ Employee Savings (in 2027)
16% of CPP Base Assets[15]	$100	8.48%	1.06%	$335
20% of CPP Base Assets[16]	$125	8.15%	1.39%	$439
25% of CPP Base Assets[17]	$170	7.55%	1.99%	$627
53% of CPP Base Assets[18] [19]	$334	5.91%	3.63%	$1425

[14] Rows showing contribution rates and contribution reductions for a $100 billion transfer, and transfers of 20% and 25% of CPP assets as of January 1, 2027 are based on information provided by the Alberta Pension Plan Simulator, Professor Tombe, https://financesofthenation.ca/alberta-pension-plan-simulator/.

[15] CPP base assets as of January 1, 2027 are estimated at $630 billion.

[16] Does not properly account for all obligations of an APP accrued by non-residents who work in Alberta.

[17] Does not properly account for all obligations of an APP accrued by non-residents who work in Alberta.

[18] Does not properly account for all obligations of an APP accrued by non-residents who work in Alberta.

[19] Based on LifeWorks Report.

These potential savings are 'best case scenarios'. If an APP were to earn a 2% real rate of return with a realistic $100 billion initial asset transfer rather than the assumed 4%, then the APP minimum contribution would be 10.5%, higher than the CPP minimum contribution rate of 9.54%. Not only would there be no savings at all, Albertans would pay more for an APP than the current CPP rate.

If the provincial government meddles in an APP and directs it to make politically motivated investments—the situation would be even worse. And if the demographic assumptions underpinning the UCP's projections are wrong, and the calculations made by LifeWorks about the value of the CPP obligations to people who worked in Alberta but retired elsewhere in Canada are severely underestimated,[20] an APP would find itself underwater from the beginning.

II. UCP Proposal

All Current Employees and Retirees Transfer All Their Accumulated Benefits to an APP

The UCP government proposes to pull all Albertans' retirement savings out of the CPP. It wants to move everyone who has worked in Alberta and contributed to the CPP to an APP.

This means that retirees, disabled retirees, active employees regardless of age, full time Alberta residents (currently residing in Alberta), Albertans who have retired outside the province, and people who have worked in Alberta but maintained residences in another province or retired in another province—all of their pension accruals would be withdrawn from the CPP and shifted to an APP. The CPP would no longer have any responsibility for these benefits. Albertans' retirement security would no longer be based on the CPP.

[20] There is no good data that demonstrates the amount of CPP benefits that have been accrued by out-of-province workers and retirees for work done in Alberta, so that it is impossible to accurately measure all of the CPP obligations for which an APP would have to take responsibility.

So many flaws...

Unreal Asset Transfer from the CPP to an Alberta Pension Plan

In exchange for taking over responsibility for these benefits, provincial government says that Alberta would be entitled to a transfer of $334 billion from the base CPP.[21] With this transfer of $334 billion, and because of Alberta's younger-than-average population, the Smith government says that it could reduce Albertans' contributions to an APP to 5.91% of pensionable earnings from the CPP's 9.9% contribution rate.[22] This, they say, would amount to a savings of $1,425 for each employee and their employer in Alberta.[23]

Unfortunately, these savings aren't real. The UCP is claiming 53% of all CPP assets, and its promised savings depend on it getting this fantasy amount. Bear in mind that Alberta has 12% of Canada's population, 15% of CPP contributors, and has made 16% of total CPP contributions.

The basis for LifeWorks' literal interpretation of the *CPP Act* is an impossible one—as Alberta's own Professor Tombe has observed. If Ontario, British Columbia, and Alberta were all to withdraw from the CPP on the basis proposed by the UCP, these three provinces would require more money than the entire CPP Fund.[24] This, of course, is an impossibility. Provincial government is proposing to split the existing CPP assets, but it cannot increase the size of the existing CPP to get the assets it wants. At best, it is entitled only to the province's share of existing CPP assets, just as any other province

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[21] Both figures as of January 1, 2027.

[22] Note that the actual combined CPP employer and employee contribution rates equal 9.9% of earnings between the Year's basic exemption amount ($3500) and the Year's Maximum Pensionable Earnings ($66,600 in 2023, projected by LifeWorks (based on the CPP 31st Actuarial Report) to be $75,400 in 2027.

[23] LifeWorks Report, Table 2. These comparisons may be confusing because, while the combined employee and employer CPP contribution rates are 9.9%, the CPP Actuarial Report identifies the 'minimum CPP contribution rate' as being 9.54%. The difference between 9.54% and 9.9% is the amount of buffer built into the CPP contribution rate to enhance retirement income security. The savings estimated in the LifeWorks Report compares the APP minimum contribution rate to the CPP minimum contribution rate. The LifeWorks estimate of 5.91% for an APP refers to the APP minimum contribution rate of 5.91%, and the comparison to the CPP minimum rate 9.54% yields a supposed contribution reduction of 3.63%, and a reduction of contributions by each employee with earnings equal to or greater than the year's Maximum Pensionable Earnings of $1425.

[24] Professor Tombe paper, supra., p.15. Professor Tombe concludes that, using the UCP method, the three provinces would lay claim to 128% of the CPP Fund.

would be entitled to its share if it were to leave the CPP. Those shares must add up to 100%. Any method that creates claims equal to more than 100% of what exists is false.

Not surprisingly, this position has already proven extraordinarily polarizing. While provincial premiers have held fire before publicly commenting, some have begun to demand explanations. The CPP Investment Board for its part, calls the proposal "an invented formula", and its head of global public affairs has said that, "A province that accounts for only 16% of the total contributions can't legally, realistically or morally be allowed to claim more than half the assets".

Being part of the CPP, a large plan with a strong track record that is supported by a diversified economy, is a better bet than putting all of our assets in a small non-diversified plan that is vulnerable to the ups and downs of a boom-and-bust economy.

Alberta's Demographic Advantage is Real but Temporary

The second condition for a significant reduction in contribution rates to an APP is demographic. In general, it is less expensive to provide pensions to a young group of members than to an older group. This is because younger members' contributions accrue investment earnings for longer than contributions made by older members. So, much of a younger member's eventual pension can be paid through investment earnings, whereas older workers must rely more on their contributions. Alberta's active workforce is now younger than the Canadian average. It may be less expensive to provide CPP benefits to the current Alberta workforce than to the current Canadian workforce.

In the case of the CPP and an APP, most of the plans' current benefits are not funded in this way, through a combination of contributions and investment earnings. For the most part, the CPP and the APP benefits are simply money-in, money-out. Today's contributors pay most of the cost of today's CPP pensioners. As they continue to do so, contribution rates to the APP in Alberta would have to increase as today's younger workers retire. This is the unavoidable consequence of a population profile that, as the LifeWorks report ss, would converge towards the Canadian average over the coming years.

When Quebec created the Quebec Pension Plan (QPP), its workforce was younger and its fertility rate was higher than the Canadian average. However, its workforce is now older than the Canadian average and, as a consequence, Quebecers now pay higher QPP contributions than the CPP contribution requirement.

In the same way, the LifeWorks report considers Alberta's current population profile and concludes that Alberta's relatively young workforce is a temporary phenomenon:

> **“…over the long-term…, the Alberta population is projected to eventually become comparable to the general CPP population with the benefit of Alberta's current younger demographic being dampened.”[25]**

So, while the demographic factor may help today and for a temporary period, it is not likely to assist our children and future workers. When Alberta's population profile converges with the Canadian profile, the ‘Alberta advantage’ will disappear, and the $1425 in promised savings will disappear as well. Once again, the UCP is proposing a quick fix to a long-term challenge, the result of which is only likely to make things worse.

Alberta has historically had a boom-and-bust economy. Droughts and climate change could bring big changes to the provincial economy. Climate change is real, and is already taking its toll in heatwaves, fires, floods, storms, warming oceans, melting Arctic and Antarctic ice sheets, and changing atmospheric and ocean currents. Renewable technologies are advancing quickly with international government and investor support, continually lowering the costs of renewable energy and creating new industries and opportunities for leaders in these fields while leaving others behind. The International Energy Agency has said that there can be no new oil and gas projects beyond those that were on the books in 2021,[26] and that fossil fuel demand must decline by 25% by 2030.”[27] The Canada Energy Regulator's Report “Canada's Energy Future 2023” also pulls no punches—if Canada and the world are to avoid continued and sharp deterioration in the climate by keeping warming to 1.5 degrees, the world's consumption of fossil fuels will decline by 65% between 2021 and 2050.[28]

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[25] LifeWorks Report p.4.

[26] International Energy Agency, Net Zero by 2050, p.21 on the web at: https://www.iea.org/reports/nezero-by-2050.

[27] <https://www.iea.org/news/the-path-to-limiting-global-warming-to-1-5-c-has-narrowed-but-clean-energy-growth-is-keeping-it-open>.

[28] The LifeWorks Report says it modeled three ‘climate change’ scenarios but provides no details at all about those scenarios. Without any details as to the effects of climate change on Alberta’s oil and gas and agricultural sectors, and without any projections regarding the renewable sector, it is impossible to make any sense of LifeWorks’ results. The UCP says it is being transparent, but LifeWorks climate scenarios are anything but transparent.

These changes could challenge Alberta's population profile and reduce or reverse its demographic advantage, especially if the province fails to seize the economic opportunities of the renewables revolution.[29]

Absence of Data—Government Proposal Not Properly Prepared

Not only is the proposed initial transfer from the CPP to the new APP false and unrealistic, but it is based on a critical lack of data. Among other things, provincial government has ignored all the people who live outside of Alberta, and contribute to the CPP in Alberta, and then retire outside the province. An APP would have to provide them with pensions based on their Alberta contributions, but their LifeWorks report did not have the data to properly account for these obligations.

Based on more limited data, LifeWorks estimated that this factor alone—taking account of pension obligations that the APP would owe to persons outside Alberta, could reduce the transfer from the CPP by over 20%, or by up to $72 billion.[30] But even this discount is only an estimate. When the data limitations are considered, and obligations to people who worked in Alberta but reside elsewhere in Canada are considered, the hit to any transfer value could be much larger.

When the UCP government and its supporters say that Alberta 'overpays for the CPP', it sidesteps the fact that Alberta contributions don't only support CPP benefits for Alberta residents. Alberta contributions also support CPP benefits for anyone who worked in Alberta and retires elsewhere. How big a deal is this? Nobody knows. Provincial government chose to publish its paper without finding out.

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[29] In addition to average age, other factors, such as the rates of immigration, average wages, and fertility levels all influence the cost of a pension program such as the CPP. Higher average wages tend to increase the cost of the CPP or an APP. On the other hand, higher immigration rates, and higher fertility rates both tend to lower the cost of a program like the CPP. The likely differences between immigration into Alberta—and emigration out of Alberta—as compared to the national average, could be quite important but are difficult to estimate over long periods of time. Professor Tombe has estimated that if Alberta's migration and fertility rates converge on the Canadian averages, Alberta's savings from an APP would fall by 25% (see: https://thehub.ca/2023-10-05/trevor-tombe-the-problem-with-albertas-pension-plan-campaign/). The impact of these factors may be explored in greater detail through the Alberta Pension Plan Simulator, https://financesofthenation.ca/alberta-pension-plan-simulator/. They are not examined in depth in this paper because of the inadequacy of the available data.

[30] LifeWorks Report, p.14.

Investment Risks Also Wipe Out Savings

The unrealistic asset transfer and the temporary demographic difference are not the only critical assumptions that underpin the UCP's proposal. Professor Tombe of the University of Calgary has examined the investment risks associated with creating a new Alberta–only pension plan. Such a plan would have fewer assets than the CPP, and therefore, be less diversified than the CPP. Because it would be smaller than the CPP, an APP would not be able to put as much money into potential investments as the CPP. For this reason, an Alberta Pension Plan would not have access to the same investment opportunities as the CPP. It would have less leverage than the CPP with other financial market institutions in making those investments. These factors may already explain why, over the past decade, the CPP outperformed AIMCo by 2.7% on average each year. These dynamics and others would make an APP more volatile than the CPP and would likely lead to higher costs and lower investment returns than the CPP has been able to earn.

Professor Tombe argues that the investment risks associated with the creation of an APP "... are equivalent to Alberta's entire pension advantage".[31] In other words, leaving aside the unrealistic asset transfer proposal from the UCP government, and the temporary demographic advantage, there remains a risk on the basis of investment factors alone, that any advantage to the APP proposed by the UCP could be wiped out. This, especially in combination with a more realistic asset transfer and converging demographics, could not only eliminate any savings but force APP contributions above CPP levels.

In fact, it is very likely than an APP would underperform the CPP. Over the decade to May 2023, the CPPIB earned investment returns of 10.9% per annum, as compared to AIMCo's 7.2% per annum over the same period.[32] That means that AIMCo earned 2.7% less than the CPPIB every year over the past 10 years. This provides no basis for the overly optimistic projections of the UCP government.

Costs—Duplication of Administration and Investment Services

In addition to the risks and uncertainties associated with an asset transfer, deteriorating demographics, more investment volatility, and a weaker set of investment opportunities, there are obvious and significant costs to establishing an APP.

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[31] Professor Tombe Paper, supra. at p.22.

[32] Global SWF Times, May 2023 Newsletter, p.2.

The CPP has an existing administrative infrastructure that collects contributions, maintains membership records for millions of members, collects delinquent contributions, administers CPP disability benefits, provides information to Plan members, accepts regular, early and deferred pension applications for benefits, pays pensions and survivor benefits, when they are due and collects overpayments where they are made. The CPP's administrative structure connects to every employer, employee and self-employed person in Canada.

Similarly, the CPPIB is an established and well-respected international pension investor It has offices all over the world, employs top-flight talent, has developed relationships with other investors, and enjoys a solid, reliable record and reputation that opens doors on every continent. Replicating the CPPIB would not be possible with a smaller pool of assets, and trying to duplicate its functions would be extremely costly.

An APP would have to duplicate all the services that are currently provided in the administration and investment portfolios of the CPP. An APP would require its own administrative mechanism and would have to connect to every employer, self-employed person, and employee in Alberta. It would have to collect contributions from them, record those contributions, maintain an account for each Albertan that records their earnings, contributions, age, spousal status, personal address, and banking information for payment. This system would have to connect with each employer's payroll system and each employee's and self-employed person's tax return.

All of this would be to duplicate the existing CPP infrastructure. LifeWorks estimates that it could cost up to a billion dollars just to establish a new administration system. This is likely a gross underestimate. Establishing such a system would be one of the largest contracted software projects ever undertaken in Canada, and it would be enormously expensive and complicated. Delays and additional costs would be inevitable. All of this expense would be for the simple purpose of duplicating what already exists within the CPP.

LifeWorks estimates that the costs of setting up an Alberta counterpart to the CPPIB could cost even more, up to $1.2 billion[33], and the annual additional costs incurred by an APP investment arm to duplicate CPPIB investment services would be considerable and add no value since the APP would simply be duplicating an existing service. Once again, these are likely gross underestimates of the expenses likely to be incurred.

[33] LifeWorks Report, p.4.

Political Risks

In addition to the APP's asset transfer risk, its demographic risks and its multiple investment risks, to say nothing of the additional costs that Albertans would have to pay to duplicate existing CPP administrative and investment services, there are a number of political risks associated with an APP.

Political Risk #1: Investment Interference

It is likely that an APP would cost more than the CPP, be more volatile than the CPP, and earn lower returns with higher risks than the CPP. This is simply because an APP would be smaller and less diversified than the CPP.

Even beyond these risks, there is an additional risk—that the UCP government, would seek to inject political factors into an APP's investment decision-making. Under section 3 of the *CPP Investment Board Act*, the CPPIB must "... invest its assets with a view to achieving a maximum rate of return, without undue risk of loss." In other words, the CPPIB can consider only two things when it invests CPP funds—risk and return. The CPPIB does not take direction from government or elected officials as to where investments should be made. It cannot direct investments to friends of provincial government, or to allies that contribute to their campaigns. It is independent and arms-length and has a legal mandate that restricts its investing to risk and return objectives.

An APP, by contrast, would be under the direction and control of the Alberta government. It could use its leverage to inject political considerations into the investment decision-making process. That means that investments would not be made solely to generate returns at a reasonable level of risk but could also be used to prop up companies in the oil and gas sector that are friends of provincial government. And that means lower returns and greater investment risks.

Political interference is on the table, front and centre. On September 23, 2023, Premier Danielle Smith said:

> **"If we can reduce premiums for workers, increase benefits for seniors and also have a say in how the money is invested that checks off a lot of boxes for me."[34]**

[34] <https://protect-eu.mimecast.com/s/FnIkC66OqTrn6Zjfmcj_K?domain=calgarysun.com>.

In an October 2021 video, the Premier said that an APP would be invested "based on the values and principles that Albertans care about." What does that mean? That an APP would 'invest' retirement money with businesses friendly to the UCP? Smith said the same thing in a recent interview:

> **We would develop a pot of money that we could choose to invest where WE want to."[35]**

Retirement funds are not a "pot of money" to be used by politicians. They must be invested wisely, for the long-term, at arms-length from political considerations. That is how the CPP is invested. Would an APP be invested in the same way?

Political Risk #2: Reducing Benefits

The LifeWorks report makes clear that, in its view, Alberta could unilaterally change APP benefits after the APP is established:

> **Based on our analysis, as well as observing how the 2016 enhancement was adopted by the QPP, Alberta could unilaterally amend or change an APP once it has been established without being constrained by the Confederation consensus mechanism outlined in the *CPP Act* for making amendments to that legislation."[36]**

This means that, while the APP might look a lot like the CPP at first, once the APP is in Alberta legislation, the Alberta government could change and reduce benefits, not only for current members but also for retirees. It would just take one government, with one term, that is hostile to public pensions.

CPP benefits, on the other hand, are well-established and well protected by what LifeWorks describes as the 'Confederation consensus mechanism'. In order to reduce them, two-thirds of the provinces representing two-thirds of the Canadian population, and the federal government, would have to agree to the reduction. In our federal system, this is extremely difficult. Practically speaking, this means that CPP benefits are very unlikely to be reduced, and that Canadians can rely on them for their retirement incomes.

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[35] <https://twitter.com/disorderedyyc/status/1708574453372948576>.

[36] LifeWorks Report, p.10.

The LifeWorks report, on the other hand, claims that Alberta could, by itself, change the benefit structure of an APP. If this is correct, then Alberta could reduce benefits unilaterally, especially if the APP's finances turn ugly or an ideological government decides to ‘reform' CPP-like benefits. Retiree benefits could also be reduced.

In other words, an APP offers much weaker benefits security than the CPP.

Political Risk #3: Labour Mobility

Alberta relies on workers from elsewhere in Canada. They come from every province, work and contribute to the CPP in Alberta, and help keep the economy moving. Many of them retire elsewhere in Canada. This has been true for some years and is expected to continue into the near future at least.

The CPP is well-suited to worker mobility in Canada. It allows workers from anywhere in the country to work anywhere else and when they retire, to apply for one pension, which reflects all their employment and all their contributions wherever in Canada. While Quebec has a separate plan (the QPP), it also has agreements with the CPP, and similar agreements with other countries, that allow Quebec workers to work in Canada or elsewhere in the world and to consolidate all of their pension benefits into a single pension at retirement without loss.

If the UCP took responsibility for all people who earned CPP credits in Alberta, even if they were non-resident or retired elsewhere, they would still have to replicate the existing network of agreements, if labour mobility in and out of Alberta is to be preserved. People who work in Alberta and elsewhere in Canada would have to be accommodated. Spouses in and outside of Alberta would be entitled to benefits, and marital breakdowns would also have to be accommodated. So would disabilities that affect contributors who have made both CPP and APP contributions. Detailed arrangements would have to be worked out between the APP and the CPP, and the APP and the QPP. Without these agreements, people from other provinces may be reluctant to work in Alberta, because of the damage to their eventual retirement incomes, or they may demand wage premiums to compensate them for pension losses. Either of these reactions would hurt the Alberta economy and damage the province’s ability to sustain its current economy. The risk to labour mobility may be one of the many reasons that a number of business groups, including the Calgary Chamber of Commerce, are concerned about an APP.

Political Risk #4: Depleting the APP

If and when the asset transfer risk, the investment risk, the demographic risk and the political risks begin to erode an APP, how will provincial government respond? Will they admit they were wrong, apologize to the people of Alberta and seek to re-enter the CPP? Or will they try to hide their failure, and use whatever initial assets they do receive from the CPP to cover up their mistakes? This could use accounting or actuarial techniques to move money around and hide problems in the short-term. They could keep paying benefits by running down future members' assets. Sooner than later, however, a depleted pension fund would show up in reduced benefits.

III. CONCLUSIONS

The UCP government's proposal for an Alberta Pension Plan would affect the CPP entitlements of every Albertan—retired or active. Retirees would see their benefit transferred from the CPP to a new and untested APP. Active workers would also see their CPP accruals transferred to an APP and, when they retire, would be able to look only to the APP for their retirement benefit.

Provincial government's APP proposal is unrealistic and, at its heart, dishonest. The proposed asset transfer of $334 billion is a complete non-starter. The promised lower contribution rates and individual and employer savings all pivot on this completely unrealistic number, according to provincial government's advisor LifeWorks:

> **"The Base minimum contribution rate for an APP is significantly lower than the CPP Based minimum contribution rate due in large part to the size of the estimated initial asset transfer…"[37]**

The asset transfer proposal is illusory. The claim that Alberta is owed $334 billion of CPP assets, or 53% of the CPP fund, while it has only contributed 16% of CPP contributions, makes no sense. Provincial government has been roundly criticized. Thoughtful observers have suggested that the actual amount of an asset transfer is likely to be closer to $100 billion. At this level, the savings that the UCP government promises fall by ½ to ⅔, due to this factor alone.

The second but smaller factor that provincial government says would lead to savings concerns Alberta's demographic advantage, i.e., its younger-than-average population.

[37] LifeWorks Report, p.11.

However, provincial government's own LifeWorks report predicts that this advantage will “dampen” as Alberta's population profile converges with the national average.

The fundamental flaws in provincial government's approach are aggravated by other key mistakes and miscalculations. In any pension plan, contribution rates are influenced by investment returns. High investment returns mean that much of a pension is paid from those returns. Low returns mean that more of the pension must be paid from contributions.

Over the past decade, the CPP's investment returns have outstripped AIMCo's returns by 2.7% each year. The CPP is a top performing international pension plan with a strong reputation and an excellent track record. It also benefits from its size, and the negotiating leverage that its size confers upon it. These advantages will not be possible to replicate in an APP. An APP would be smaller and less diversified, and would have less leverage in investment transactions. If an APP earns poorer investment returns than the CPP, its advantage may be completely eliminated.

Critical questions also remain unanswered about the futures of people who worked in Alberta, contributed to the CPP, but retired and reside elsewhere. Will Alberta assume responsibility for the pensions accrued by these people for their work and contributions in Alberta? If Alberta does take responsibility for these pension credits, then the initial transfer amount that the UCP so desperately seeks would be reduced. Or would the UCP seek to foist responsibility for these pension accruals onto the CPP? If so, we can expect that this issue, along with the asset transfer question and any number of other significant differences, would pre-occupy Alberta and Canada for many years to come.

An APP makes no sense. Albertans could only ‘save’ money if a lot of unrealistic assumptions come true. But what is certain is that Albertans would take on much more risk with an APP than they currently have with the CPP. No one knows how many people have contributed to the CPP for work they did in Alberta but live or retire in Canada, outside of Alberta. An APP would be responsible for these benefits, but provincial government cannot tell us what they would cost. CPP investments have performed well and are insulated from political interference—AIMCo has not performed as well and is subject to government direction. A downturn in Alberta's boom-and-bust economy could turn Alberta's ‘demographic advantage’ into a disadvantage and higher costs. There are lots of risks, and only speculative benefits. All factors considered, it sounds like a bad deal.

ACKNOWLEDGEMENTS

This report was prepared by the Alberta Federation of Labour in cooperation with Murray Gold, one of Canada's top pension legal experts.

Mr. Gold is a senior partner with Koskie Minsky and has a nationally-recognized pension and employee benefits practice. In 2021, Murray was awarded the OBA Pension Award for Excellence in Pension and Benefits Law. He is top ranked in the Chambers, Lexpert and Best Lawyers directories. He currently serves as one of three members of Pension Asset Expert Advisory Panel that is examining public sector pension accounting issues. In 2014, he was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security and then served as an initial Director of the Ontario Retirement Pension Plan in 2015-16. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions.

Mr. Gold advises governing boards of public sector and jointly trusteed pension and benefits plans across Canada in regard to compliance and best-practice issues. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario, and Alberta, and in health benefit plan reforms in Ontario and British Columbia. He represented stakeholder interests in insolvency proceedings involving Air Canada in 2003 and 2009, and Stelco in 2005. In 2009 – 2010, he led Koskie Minsky's team in establishing Canada's first funded postretirement health care trust in the auto sector. This involved the creation of new tax laws governing the tax treatment of postretirement benefit trusts and the negotiation and implementation of arrangements to govern Canada's first funded employee life health trust.

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