INVESTMENT EXECUTIVE

Alberta downplaying pension plan proposal risk, experts say

Broad estimates and generous assumptions may mean the APP is less viable than it seems

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Alberta is significantly downplaying the risks associated with its proposal to exit the Canada Pension Plan (CPP) and create its own provincial plan, some pension experts say.

The process of "disentangling" Alberta out of the CPP would be "complex, expensive, disruptive, time consuming and administratively burdensome," said Mahmood Nanji, a fellow with the Lawrence National Centre for Policy and Management with Ivey Business School at Western University in London, Ont.

On Thursday, the province released a report on a proposed Alberta Pension Plan (APP) that estimated Alberta could claim 53%, or $344 billion, of estimated CPP assets as of 2027. The figure was determined by taking Alberta's contribution since the establishment of the CPP, and then subtracting benefit payments and expenses accumulated with net investment earnings.

"This cannot be negotiated in three years, it's really complicated, and at the end of the day, Canada and Alberta would be worse off," said Nanji, a former associate deputy minister in Ontario's Ministry of Finance under Kathleen Wynne's Liberal government.

Alberta premier Danielle Smith said in a press conference that an APP would be better for Albertans and "more stable" than the CPP because of the significant potential transfer of assets. "This is possible because of Alberta's younger demographic and strong labour force. An Alberta Pension Plan would have much bigger pool of assets compared to its number of retirees and that means great pension security for Albertans."

Jack Mintz, an economist and president's fellow at the School of Public Policy at the University of Calgary, wrote in an opinion article in the *National Post* Thursday that "the report makes clear that an APP could be a huge win for Alberta." At the same time, the APP would represent "a ticking time bomb for the rest of Canada, which is already facing decades of low per capita economic growth even without more growth-killing taxation."

But Joe Nunes, chairman of Actuarial Solutions Inc., in Oakville, Ont., said an APP was not risk-free for Alberta: "It seems like a dangerous proposition, to me, to bet on only the Alberta economy rather than diversifying across the country."

Membership in an APP would be limited to workers in Alberta, rather than workers across Canada except for Quebec (which has its own provincial plan), further increasing the risk for Albertans, Nunes said.

The APP report estimated the employees and employers would each save up to $1,425 annually per employee via lower contribution rates. The province said it could use the estimated $5 billion in savings in the first year alone from establishing an APP to achieve such savings and raise annual pension benefits for seniors.

However, Nanji said the report's assumptions were too generous, noting that it was highly unlikely that Alberta, whose population represents 15% of CPP members, would receive $344 billion in CPP assets.

"The best they could possibly do is 15% or 16% of the assets, which would be maybe about $100 billion," Nanji said. At $100 billion, Alberta wouldn't be able to provide the lower contribution rate and higher benefits promised in its proposal, he said.

Lea Koiv, a pension expert and president of Lea Koiv & Associates Inc. in Toronto, said in an email that the report's estimates were based on "publicly available information" only. "It would appear that they haven't done a deep dive," she said.

In her press conference, Smith said its estimated share of CPP "is conservative, if anything" considering Alberta's younger demographic and contribution to the CPP since its establishment almost 60 years ago.

Nanji, who worked on Ontario's proposal in the mid-2010s to establish the Ontario Retirement Pension Plan, believes the Canada Revenue Agency probably wouldn't agree to administer the program, as Alberta has proposed — adding to the APP's costs.

"I went through this whole process," Nanji said. "The CRA has a very, very challenging mandate [already]."

The Ontario pension plan, which would have operated in parallel to the CPP, was abandoned in 2016 after the federal government announced it would expand the CPP.

Nunes said some of the report's estimates appeared too broad. For example, the report estimated the cost of establishing the administration of the APP at between $100 million and $1 billion. "Well, which is it? Those are very different numbers," he said.

Koiv added that any transfer of CPP assets to the APP would face a valuation challenge since many assets are illiquid and unlisted.

Nanji said he believes the APP initiative is more about politics than policy.

"I think this issue goes away if the rift between [Danielle] Smith and [Prime Minister Justin] Trudeau gets ironed out around clean energy, the low-carbon economy and [the federal government] being more sympathetic to Alberta's energy concerns," Nanji said.

Nevertheless, Canada’s public pension framework is “too big of a public policy issue to be reduced to a political bargaining chip,” he said.

Alberta is striking a panel to discuss the APP proposal with Albertans and intends to hold a referendum on the issue. The APP report was prepared by LifeWorks and included legal analysis from Blake Cassels & Graydon LLP.