

Intelligence MEMOS



From: Bob Baldwin
To: Pension Watchers
Date: April 3 2024
Re: **HOW TO RESOLVE THE ALBERTA PENSION ISSUE**

Last fall, the Alberta government released a report proposing the creation of an Alberta Pension Plan (APP) funded initially by withdrawal from the Canada Pension Plan, taking with it \$334 billion in assets.

My recent C.D. Howe Institute [E-Brief](#) examines the financial assumptions of the proposed APP, assesses their reasonableness, and outlines the risks and consequences of the departure for Alberta and other provinces. It outlines some basic aspects of the CPP that are relevant to the possibility of Alberta leaving the CPP. Then, it examines the financial consequences of the claim, both for the new APP and the truncated CPP. Finally, it offers thoughts on the risks an APP might face, assuming the province withdraws a more reasonable amount from the CPP.

Among the findings:

- 1) The numbers don't add up. If other provinces use the same rationale for Alberta's current proposed withdrawal, the claims on CPP assets would be more than 100 percent.
- 2) Alberta's tally of contributions made minus benefits paid to its citizens ignores labour mobility. People can work in Alberta and make contributions there but later move to another province and collect benefits there.
- 3) Alberta's demographics, with its younger, higher-earning workforce, are now favourable to keeping contribution rates relatively low. But over decades, demographics can change significantly, undercutting the province's assumptions about future contributions.
- 4) Finally, there are major unanswered questions about APP governance.

From my vantage point, it looks like the creation of an APP will involve taking on a good deal of risk for relatively small gains that are uncertain over the long term. In addition to the financial risks associated with the APP itself, there is some potential risk to interprovincial labour mobility, which is important to Alberta's ability to meet its labour supply needs. Nonetheless, it is a choice that Albertans have to make. One would hope that if Albertans are asked to vote on leaving, they will have the answers to questions about future plan design and governance.

The question of how much should be paid to Alberta if it leaves the CPP has more direct and potentially quite difficult implications for what is left of the CPP.

With respect to the amount of the payment to Alberta, two things should be clear. First, Section 113(2) of the CPP Act, which addresses provincial withdrawal, lacks clarity on key provisions. It can yield a range of possible conclusions on the amount that should be paid to Alberta. It is inevitable that the final conclusion will be reached through a negotiating process. Second, the need of the initial Alberta report to move from its conclusion based on a literal reading of the Act to a "more reasonable" conclusion suggests that discretion anchored in some notion of what is reasonable will be required to resolve the issue. Deciding on the amount to be paid to Alberta is not just an exercise in actuarial arithmetic.

Last November, federal and provincial finance ministers agreed that the Office of the Chief Actuary should opine on the amount to be paid to Alberta. I have the utmost respect for the work of the OCA. But it is the responsibility of government leaders to clarify "reasonable." I have offered a view on this. I make no pretense that this is the last word on the matter, but something of this sort is necessary to guide the math.

It should be clear, too, that while there may be an understandable desire to have a solution that can be rationalized by Section 113(2), it is impossible to arrive at a solution that satisfies all definitions of the size of transfer that follows. Reaching a conclusion with this problematic section in place creates a situation where it will be hard to explain to the current populations of Alberta and Canada how the amount was arrived at. Furthermore, it will not provide a clear precedent should another province withdraw.

As federal and provincial finance ministers move toward a commonly accepted view of what is a reasonable transfer to Alberta, they should amend or replace Section 113(2) so that it clearly spells out how the amount of the transfer is established. While this would have the unfortunate appearance of changing the rules in the middle of the game, the current problem is that the game lacks clear rules. Accountability to today's public and facilitating precedent for the future would be enhanced by a clear Section 113(2) that yields a reasonable result.

That is not the case for Alberta's current proposal.

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