Intelligence MEMOS

From: Travis Toews

To: Canada Pension Plan Observers

Date: November 23, 2023

Re: **In Defence of Alberta's Pension Report**

Since the release of the Alberta Pension Plan report, I've read with interest the steady stream of commentary and opinion and, while there have been some thoughtful pieces, much of it has been ill-informed and misleading.

Doubt has been cast on the credibility of the firm that researched and delivered the report. Questions have been raised about the relevance of the formula used to calculate the transfer amount. And there seems to be general disbelief that a province with only 12 percent of the nation's population could have title to 53 percent of the assets of the Canada Pension Plan.

Albertans will only be able to properly weigh the risks and opportunities of an Alberta Pension Plan when these questions of credibility are settled. The real issues – how it will be administered and will invest, how the province's demographics will evolve and, finally, how to assure the stability and competitiveness of a made-for-Alberta pension plan – deserve the focus.

Credible information is critical when considering a monumental decision such as a pension plan. It is no accident, then, that LifeWorks (formerly Morneau Shepell), quite possibly the most credible HR and pension analytics firm in Canada, conducted the research embodied in its report over many months and drew its own conclusions. While many commentators have casually cast aspersions, I suggest greater deference be given to the experts at LifeWorks than to the opinions of journalists at the *Toronto Star*.

Assertions following the report's release that Alberta pulled an asset transfer amount basically out of thin air show that too many critics have given the report only a cursory review. The fact is the formula used to calculate the asset transfer value was outlined in the CPP's founding legislation in 1965, as Bob Baldwin detailed in a companion Memo.

Lifeworks used the most likely interpretation of this formula, one consistent with the original intent of ensuring that an exiting province would be in the same position as if it had not signed onto the CPP but instead had administered its own pension plan from the start, as Quebec chose to do. Then-premier of Ontario, John Robarts, championed the formula provided in Sec. 113 of the *CPP Act*. It calculates the asset transfer value by taking all a province's contributions, subtracting administration fees and benefits paid, and then adding the investment income earned on the gross contributions since inception.

Some argue that after the structural changes to CPP in the 1990s, which transformed what had been a pay-as-you-go plan into a partially funded or "steady state" plan, the allocation formula no longer applies. While this is an interesting idea, there appears to be little substance to support it. The reforms required higher premiums, and these premiums were disproportionately provided by Alberta workers and their employers. Since the reform, Alberta's net contributions have materially exceeded the combined net contributions of all the other participating provinces combined.

The changes to the CPP in the 1990s did amend the asset allocation section, which was also changed more recently by the CPP enhancement of 2019 (under the Trudeau government). If the asset allocation formula had been considered incorrect or irrelevant, it presumably would have been amended during these reforms, but it was not. It is reasonable, then, to conclude that the legislation's intent remains the same: To ensure an exiting province is not worse off on withdrawal from the plan. And that is the foundation for LifeWorks' conclusions.

In 2026, based on the legislated formula (contributions minus withdrawals, plus investment income), Alberta's share of CPP's assets is estimated to be $334 billion, equal to 53 percent of the plan's total assets. To many, that evidently seems unreasonable. But again, Alberta's net contributions have exceeded all of the other participating provinces' combined, including Ontario's.

Alberta's outsized share is a reflection of our outsized economic contribution over the last 60 years. As we have with fiscal transfers, Albertans have massively subsidized the rest of the nation's CPP premium rates by paying a higher premium rate than our own demographics require. If Alberta had not joined the CPP in 1965, either premiums would have been higher or the pension plan would today be in a much weaker position.

Alberta's outsized economic contribution continues today. In 2022, though the province accounted for 12 percent of Canada's population, it generated 15 percent of the country's GDP, 21 percent of its business investment and 28 percent of its exports. It's a testament both to Alberta's incredible fiscal contribution to the nation and to the significant wealth created by the energy industry.

Travis Toews, a senior fellow at the C.D Howe Institute, was president of Alberta's Treasury Board and its minister of finance.

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A version of this Memo first appeared in the Financial Post.