Discussion on APP (2023-10-18 10:08 GMT-6) – Edited Transcript

Attendees

Ellen Nygaard, Robert Ascah, Trevor Tombe, Virendra Gupta

Transcript

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Robert Ascah: Welcome to Abpolecon's sixth episode in its Ideas, Thoughts, Experiments. My name is Bob Ascah. This session is on the concept of an Alberta Pension Plan. I will converse with a trio of pension and finance experts, both the financial economic and political implications of such a plan. Before introducing the panel members, I wanted to take a few minutes to frame this discussion. On September 21st. Premier Danielle Smith, Finance Minister Nate Horner and former provincial treasurer Jim Dinning gave a press conference about an Alberta Pension Plan.

There were two features in my mind about the news conference. First the public release of the long-anticipated report from actuarial and consulting firm Lifeworks. The second aspect of the release was the announcement of what is being called an engagement panel led by former treasurer Dinning who served under Ralph Klein and who contested unsuccessfully the PC leadership in 2006. At the news conference Dinning said this about the idea of the APP: "it could be a game changer for the financial sector. In this province to have that kind of weight in the international community to serve markets, locally, nationally, and internationally. And not to bring this forward for discussion with Albertans would be a missed opportunity." Joining the panel were chartered accountant and corporate director Mary Ritchie and Dr. Moin Yahya, a professor of law at the University of Alberta and former member of the Fair Deal Panel.

What I think is most obvious about the news conference is the government of Alberta is very keen to take Albertans' pension money away from the CPP Investment Board which manages independent of political pressures.

Coincidentally on the same day, one of my guests, Professor Trevor Tombe, released a draft analysis of an Alberta Pension Plan. That paper will be published in *Canadian Public Policy*. We shall discuss this coincidence shortly. As well in the week before the public release details of the report were leaked to the media including Don Braid of the *Calgary Hera*ld and Dr Jack Mintz in the *Financial Post*. Both pieces talked up the benefits of an APP.

Finally, I'd like to give a little bit of history, which is well-summarized in Tombe's paper. This [APP] idea dates to a policy proposal of the Western Canada concept in the early 80s and in the heat of the anti-NEP-Trudeau era. In the late 1990s, this issue was explored by Paul Boothe and colleagues in *A Separate Pension Plan for Alberta,* which was published by the Institute for Public Economics. This book preceded the famous Firewall letter to Premier Klein in January 2001, which included the idea of a separate Pension Plan. The Alberta government, at the time, thought a lower premium was reasonable: between seven to nine percent. Most recently in 2020, the Fair Deal panel recommended the government study the matter of a separate plan and put any changes to a referendum.

In her mandate letter of July 13th to Nate Horner was directed to release the APP pension report and “consult with Albertans on its findings to determine whether a referendum should be held to establish an Alberta Pension Plan that will increase pension benefits for seniors, reduce premiums for workers and protect the pension interests and benefits of Alberta.“ This was despite the premier stating during the election that the government “would not touch Albertans’ Pension Plans.”

To walk through the maze of complexity, which consists of legislation, regulation, administration, actuarial science, and investment management are the three experts on public Pension Plans. I'm joined by Dr. Trevor Tombe who is professor of economics at the University of Calgary who just released research on the finances of an Alberta Pension Plan. He is a prolific researcher and well-known authority on fiscal federalism and has recently been called a Force of Reason in Alberta by the Globe and Mail. My second guest is my dear friend Virendra Gupta, who has over 30 years of experience working within and outside government on Pension Plan design regulation, intergovernmental relations, administration and governance.

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Ellen Nygaard is a former senior government official from Alberta who has been involved in pension policy and regulation for decades and has had considerable experience in governance of Alberta's public sector Pension Plans.

Welcome all. So, my first question to Trevor is around the provenance of his paper, its purpose and how it came out the day of the government's announcements.

Trevor Tombe: That's a great question. So first, thanks for having me on. It's great to be here to talk about this important issue with you and the panel. So how did the paper come about? It was no secret that Alberta was going to be pursuing an Alberta Pension Plan. The Fair Deal report that made that recommendation to the government was released in early 2020. So more than three years ago and at the time the government did, in terms of the recommendation around Alberta Pension Plan, commit to taking a hard look at it; then fast forward to the new Premier Smith taking over from former Premier Kenny. First Mandate letter to her minister of Finance, Travis Toews was in November of last year, so nearly 12 Months ago. And in that letter was an instruction. To make specific recommendations around an Alberta Pension Plan and so it was something that was clearly signaled was coming and so I began working on a tool that would allow individual Albertans or Canadians generally, to explore what different scenarios might mean for an Alberta Pension Plan and under the impression that the government was probably going to be releasing a relatively rosy assessment of such a plan. And so, I wanted to have the ability of individuals to turn dials up or explore what migration means for an Alberta Pension Plan - investment returns, also fertility and all the other important factors behind an Alberta plan. Now released publicly through Finances of the Nation.ca and you can explore all sorts of scenarios there. But all that work going into making that tool, I thought, might as well write it up if only for documentation and it really just kind of became a paper on its own, exploring some of the history in depth. I thought that I came across a number of interesting historical pieces of context that were relevant, that were not broadly known. So, through most of this year, working on that paper, on the side of my desk it was completed In August and circulated to colleagues and so on. But there were rumours that Alberta was going to be moving forward with what we saw in September. And so, I thought of holding it back until the day of the announcement itself. And luckily, prior to any government's announcements, there's usually a day or two notice because they do let reporters know in advance so that they can arrange their schedule. I just waited to make that paper live publicly until the day of. Now, how it was published and accepted for publication in Canadian Public Policy is really just good luck. I mean it's very unusual for economics journals to move [quickly]-full credit to Mike Viola, professor at McMaster, who really expedited that review process and ultimately made that decision.

Robert Ascah: Let's now turn to the Lifeworks report and I wanted to maybe first start with Virendra, to give your initial reaction to the report and some of its central assumptions.

Virendra Gupta: Well I'm not sure I speak to the details in terms of the numbers but I would say that the assumptions and the way they say they have done the numbers, if that is the way it is, then, I think you have to accept what they are. But the reality is, it's just not a numbers exercise. Is a much bigger political exercise in so many ways. Even in the numbers, they say that they cannot calculate what would be owed by Alberta in respect of people who work here but are collecting pensions outside Alberta. That's one of the key missing pieces as I could tell, at a glance, and how large? That could make a very significant difference and what does economies and open economy, we are commodity-based economy and people come and leave, historically people from here, used to just move to B.C. because they can't

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take the cold as a retiree and so on, and people from Newfoundland will go back to Newfoundland or East and so on. So that is a huge kind of missing number in there. They don't even attempt to estimate, or even try to roughly guess what that number might be - the report ignores it. So, I think that's the big issue. And the other issue to me personally is, whatever assumptions you make, you can move the numbers either way to some degree anyway, and to the degree Albertans will pay less now they will be building a larger mountain of debt: the unfunded liability, which is not mentioned in this report at all. Given that Alberta has a conservative government, a conservative philosophy - don't want to take on debts - that will be a larger amount of unfunded liability than if we paid 9.9 per cent. Continue to pay 9.9. So, I mean, there's a whole bunch of assumptions about migration, about future salary increases. These things are forever. They are not for the Pension Plan for today, or 40 years, it's forever. So, what will happen between now and ever? You don't know.

Robert Ascah: I mean it certainly, as you started saying, it is very much a political exercise and it's being driven I think, a very sophisticated marketing way. Now over to you Trevor, in terms of this massive $334 billion dollar number, how did Lifeworks come up with that?

Trevor Tombe: A great question, and lots of variables matter for any long-run analysis of a Pension Plan, of course, fertility, migration, investment returns and so on. But for a separate Alberta plan, starting off, perhaps the biggest variable of all is how many assets it begins with and that comes down to what fraction of Canada Pension Plan's pool of savings would be given to a withdrawing Alberta Pension Plan and there is language in the Canada Pension Plan Act, and there has been from the very beginning, that would determine how much is paid to a withdrawing province. The problem though is the language in the Act isn't precise unfortunately and so can be read multiple ways and even in the 1960s there were at least three distinct, and in a sense contradictory, interpretations of what that language even meant, then let alone now after we've reformed the Canada Pension Plan dramatically in the 1990s. So, think about this basically as well, Lifeworks reading into the language the idea that a withdrawing province would be roughly placed in the position that it would have been in had it never joined from the start.

Trevor Tombe: And so, this involves looking at contributions made in the past, minus expenditures in the past, saving that into a hypothetical Alberta Pension Plan fund compounded over time because this is a very long stretch of time. The magic of compound interest here works very much in that calculation. And it yields about 53% they estimate by 2027 of CPP funds that would be provided to a withdrawing Alberta and I don't take issue with that calculation. You can run the numbers with the actual data that we have through to 2027 and get 49%. So, the difference there just being some projection assumptions between now and the next couple of years but taking 53% of the assets is the result of that particular interpretation of the Act. And we don't need to spend the next half hour going through word by word, but other ways of reading it is to look at the actual investment returns of the CPP board. And a portion that based on a withdrawing province's share of total contributions and in the paper, I kind of unpack what I think that's a more historically grounded interpretation of the language and it results in considerably less - only about 25% of CPP assets being provided to a withdrawing province. Now Virendra noted that there's a lot of

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issues around the data. The publicly available data doesn't tell us how many retired Albertans there are in Kelowna or Nova Scotia and that's relevant for the calculation. And unfortunately, there's just no way to quantify how big that might be. And so, I think, it might be closer to 20%, recognizing that much of what's counted as CPP spending in other provinces, is actually CPP spending to people who had time working in Alberta. And so that gives you a sense of, one potential sense of, the range of what the CPP Act language might provide. And that's massively important for what the implied contribution rate would need to be in Alberta. So, Lifeworks is hanging their hat and the Government of Alberta hanging its hat on a 5.9% contribution, so a significant drop relative to the Canada Pension Plan. But if all you do is change the amount of assets provided to a withdrawing province to be more historically reasonable, now I estimate that contribution rate would need to be at minimum 8.2, But then you build in the same cushion that currently exists in the CPP because our contribution rate's higher than the minimum, right? There's a little bit a cushion which is prudent - say we would need a 8.6% contribution rate in Alberta. So, the drop is considerably lower just from that one change alone, putting aside issues around the long term that a separate plan would be both more exposed to but also unique risk like interprovincial migration that the CPP does not face. So, I think that there's a lot of ambiguity in the Act and that's why this is going to be a messy process. If indeed Alberta wants to go that route, the first interpreter of the language would be the federal minister of Finance, and then there would be some litigation almost surely around that. But in no state of the world can I imagine the Lifeworks interpretation actually occurring, were Alberta to withdraw.

Robert Ascah: I just wanted to make just a couple of notes. One is that there were a lot of qualifications built around Lifeworks in their report and [they] made very clear there weren't any recommendations to that. There's no name of the person that wrote the report. It was withheld for privacy, which is kind of interesting.

Virendra Gupta: No, I just want to reinforce a couple of things that Trevor said. One is that this so-called 5.9% contribution rate is predicated on Alberta receiving - whatever, 350 billion dollars - from the federal government. The report notes if that number is different, as Trevor just mentioned, if you change the number to 20% or 25%, the contribution will be significantly higher. So, if 5.9 is predicated on a very fixed sense of what you will get, and the report itself notes that number is variable, will vary, if they don't get that, I mean they make that point very strongly and very clearly in their work. And the second thing I would say, in terms of getting the money, I cannot think of a scenario where Alberta wants 350 billion dollars and Ontario will quietly hand it over. Or they will go to the sunset because their share if they did their calculation, God only knows what that will produce. And so, I think it's very unrealistic to think that we will have that $350 [billion] and the contribution rate will be 5.94. And the other issue here to me is that if the whole point of this was to cut contribution rates, CPP could currently reduce the contribution rates. By how much I don't know but they could marginally reduce that whether that's a wise thing to do or…

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not is a big question mark.

The idea here has been to have contribution rates which are stable long-term. So that's what's not happening here if you cut it. So finally, they can't be. You want stable contribution rates? They must not be cut that much. Finally, must be a little more ice to skate on

Robert Ascah: I wanted to break Ellen into the conversation and particularly given your experience in both regulation and administration of these plans and get your thoughts about, the transition cost to create the infrastructure… And any other thoughts you had about the broad dialogue that Jim Dinning is going to have with Albertans.

Ellen Nygaard: First of all, I wanted to reinforce something that Virendra said about the rates that derived from that asset calculation being undoubtedly without any padding or provision for adverse deviation as they say in the rest of the pension business. And in fact, all defined benefit plans now are expected to take into account the variability they might have in their future results. And the more variable your situation is for economic or demographic reasons, the more of a provision for adverse deviation that you are going to need. And that means that the cushion of - what is it? about half a percentage point, I think - that is now in the CPP contribution rates is based on a situation of a lot more stability and less risk than if you're just talking about Alberta. So that prudence would suggest that you actually have to build in more of a cushion.

Robert Ascah: I was just wondering that if everything goes according to Hoyle we will probably have a referendum this time next year and they'll pass., I guess, legislation saying we're leaving and then negotiations will begin, but both Virendra and Ellen, can you give a sort of a sense of the flavour of how these negotiations go if they ever happen? And assuming the referendum is supportive, an APP would proceed? And how long might they take?

Ellen Nygaard: I think this is going to be a huge problem. It is a multi-year problem. If a Pension Plan, say in the private sector for instance, wants to split off, the verification of the records alone is a lengthy process. And next to that of course is the big issue that Trevor already talked about, which is how to calculate the assets. I will say that again. In the non-imaginary world. But in the real world of when Pension Plans divide the assets, the approach that is generally taken, is that after you go through the lengthy process of deciding exactly what the liabilities are, that would be hived off, then you use that number to prorate the assets. That's how you would do it. The share is based on an equivalent share of the liabilities that are being assumed. That's the way that all the pension regulation that I've ever been familiar with works, and and even though it is quite true that you can't necessarily divine that from what's in the CPP, that is the way that I would assume that the federal government and the other provinces would suggest that you have to do this thing.

By the way. Bob, I looked at the legislation just this morning and it's quite interesting. The section about the assets talks about the securities of the province that's leaving and I think that relates to way back in 1966 and thereafter, there really were provincial securities of the province that was withdrawing because what they used to do with their really fairly insignificant fund at the time, was loan it to the provinces at their borrowing rate. So, I assume that the first thing that they thought would be a good idea would be to just hand over

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the bonds, right?

Robert Ascah: I can remember working in Treasury on the borrowing side and just really before we started borrowing heavily in the mid 80s, really the only debt that the province had was to the CPP plan.

Trevor Tombe: It's just that's a critical original point that allows us to just read what words mean and the CPP Act because they didn't just buy whatever provincial bonds they wanted; they bought provincial bonds in a precise proportion that was connected to each province's share of contributions over this kind of rolling ten-year window.

Trevor Tombe: So all the income of the CPP Fund at the time that from contributions were derived from contribution shared determined holding of provincial bonds and at the time, this language was really in a sense, just giving back to a provincial government, what it had paid in the form of interest on those bonds. But, after the 1990s, we have a very different approach to financing the CPP with a large and broadly diversified set of investments that, if it does hold any provincial bonds is just like an afterthought relative to the whole fund but they didn't change the language of the Act. I still think what we should read the words in the Act to mean, and in particular, the income that's derived from contributions should be seen as a contribution share that determines how much of the CPPIB returns are actually given to a withdrawing province.

Virendra Gupta: That's correct. I mean the plan was started that way because the provinces of the jurisdiction, won't be able to borrow the money and do with it, whatever they wanted to do. The interest rate they had to pay was federal government's ability to borrow long 25-plus [year] long bonds plus 25 basis points for not going to market. That was the rate that was built into the lending rate. But I was going to say in addition to that, it's not easy to sort out, in terms of negotiations, things happen, things don't get done that quickly.

If you're asking how long it will take? There were only sort of two big changes in CPP which started in 1966. So, we have 34 plus 23 years. It's 57 years and over 57 years of its life there have been only two significant changes in CPP. One is when we said we can put the money in the markets and stop lending into the provinces. In fact, the provinces stopped needing the money. Ontario was the first one saying "We don't need it." And then other provinces said, "We don't need it. And then the Fed is required to pick up money that the provinces didn't pick up on their own. And the Fed said we don't need it either. So, the whole issue became what we're going to do with money and money went to the market. Even then, they were all kinds of viewpoints and they argued those and eventually it became set. About the only other change, and the Federation of Labour, I mean, CLC, had been asking since 1970s, at least 70s, for an enrichment of CPP; that is, the 25% benefit we get is not enough, they need higher and bigger benefits that never happened until recently. So, it shows you how hard these changes are.

Robert Ascah: Virendra, I was just wondering, what period of time were these negotiations that you were involved in as provincial finance officials in the mid to late nineties? How many years were you back and forth to Ottawa and discussing with federal and provincial governments?

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Virendra: About four to five years.

Ellen Nygaard: I would also say that next round which I was involved in likewise, I believe the agreement was approximately 2016 for the expansion. And I retired from the government of Alberta in 2014 and CPP negotiations were part of my policy file. And so going back, at least a couple of years before that I was involved in those extensive plans. I mean, I know the CLC had been asking for this sort of thing for a long time, but the actual policy discussion among the provinces and the federal government on how one might expand the CPP, that would be at least four years before it came to fruition in the form of legislation.

Virendra Gupta: it's a window,… a special window was created because the NDP was in charge in Alberta in the original border and the lefty liberals were in charge of the federal government, and similarly, Ontario was threatening to move to set up their own. Not allowed to entirely. All provinces agreed. Okay, this is what we've done but it's stars lining up. That doesn't happen [often]. That didn't from '74 to 2013. So, it takes that special situation being created. The other thing I should note generally, in the past, the feds have led the ideas, the reform, they did all the homework that was required to put it together. And the Feds historically have had Atlantic provinces in their pocket, if I may put it that way - they can line them up quickly. Ontario is a different issue and so is Alberta. So, it's going to take a very long time. Other thing I should mention that it has taken what I would say. 35-40 years to get the CPP's administration; It hasn't been overnight. It has been very long in progress over time and to running an APP as well as a CPP is done. Today, it will take some doing

Robert Ascah: let's for a minute turn to Trevor's paper and Trevor, you just want to give a high level of overview of your paper and sort of put it in context of what LifeWorks was saying, as well.

Trevor Tombe: What the paper does is it takes a long run view of what different scenarios might mean for an Alberta Pension Plan and boiling it down in a really super simple way. Any analysis of this kind really thinks about what is the whole stream of contributions that might be made into the plan. And then it thinks about the present value of all of those contributions. And then, it looks at what the stream of benefit expenditures will be into the future, and what that is in present value terms. And then comparing how large are the future expenditures relative to future contributions. That's important for determining what fraction of earnings needs to be contributed to that plan in order to actually meet those future expenditures and then you can make some adjustments for the initial assets, If you plan that has those assets that generate returns to supplement worker contributions. That's it basically Those are the three big ingredients that you need. Now of course constructing those projections is really, really tricky.

What the future demographics of the province look like and there are different population projections that are out there. And so, I put one together for the paper myself and just standard methods thinking about mortality rates, how those evolve over time. Migration flows, critical for a province. How large are they and what fraction or young people versus old in those migration flows matters as well.

Trevor Tombe:, I construct the long-term demographics of Alberta using some fairly standard methods and then you can quantify what that contribution rate is and that's where I get the 8.2, or with the cushion, 8.6 [per cent], although, Ellen's great point, that the cushion should be larger in a province exposed to more risk and Alberta would be, that's kind of the baseline scenario here. But then I go through and explore lots of different scenarios and I think that's the critical missing piece from the conversation at least in terms of Lifeworks, there's no one scenario that is guaranteed to happen as Virendra noted. It's a very, very long-

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2080s, and a decent fraction of them. almost one in 10 of those 18-year-olds today, they're going to be collecting their pension into the 22nd century, right? So even currently living Albertans need to think about these 80-90-year time horizon and that's not to mention the commitment we owe a future generation that don't yet even exist. We need to think about risks and scenarios and what the range of them are, and the range is very large. And I just explore many in the paper but it's just a small subset of potential futures that might be. A lot of these scenarios are really highlights of how sensitive things are like if Alberta's net migration flows, which are favourable now, strongly positive, if that is no longer the case, then more than half of that mechanical Alberta pension advantage, evaporates. Just from that change in migration flows alone - not even looking at a future where migration flows are negative. And just having them balanced, inflows and outflows, and then risks in terms of investment returns and it's volatile. But a separate Alberta plan would not be as able to manage that volatility as the broader, more diversified Canada Pension Plan and so the exposure to that risk is quite large.

And I estimate about a one in three probability that a separate Alberta plan's contribution rate couldn't actually be able to be below. 9.5, which is the CPP minimum. There's a great deal of risk, non-trivial probabilities where the contribution rate can't actually fall at all. And that's how I think about this. Because we are a younger population, there's this mechanical advantage but then there's an amplification of the risk exposure and that's where reasonable people will put different amounts of weights on risks versus rewards. But the Lifeworks report, because it starts with such a favourable amount of assets to begin with, so large that the returns on assets are basically funding all plan spending, it's just wild. Then they get the larger drop in the required contribution rates that really tilts the scales in terms of how the government wants to market this as something where the benefits are so large, no need to worry about the risks. But I think that the benefits from the mechanically younger population exist but they're fairly modest. And then the risk increases and that may very well, with, I think, a non-trivial eventually high probability, swamp all of the benefits that the province faces.

Virendra Gupta: If I may, in that context, I think it's noteworthy that the Lifeworks report in terms of fully funded pension plan, the portion which is richer, the contribution rate is the same as for the rest of the country. So Albertans, essentially have to pay for 4% or nearly 4% starting today. A fully funded plan is 4%. It is the advantage. What they're saying is in the other portion, that is the regular defined contribution component, they essentially taking all that money, advance funding it , [is] essentially the contribution.

Ellen Nygaard: It all hinges on that unfunded portion, and having an extremely optimistic view of how that unfunded portion is going to behave, And I was just going to mention that on top of

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what Trevor has all already said, some of the other stated intentions would probably magnify the risk. I get very concerned about the idea that somehow, the purpose of having all these assets is to enhance the investment industry in Alberta and numerous players here have often stated that it is also to concentrate investment in Alberta projects to an extent. It's not that CPPIB does not invest at all, in Alberta. In fact, if you look at it, probably still an outsized investment, relative to the size of the capital market here versus the whole capital markets that they could be operating which is not unusual. But if that degree of home market concentration is magnified, then we could get into governance. There are all sorts of reasons why there are incentives for exactly that kind of over-concentration to happen. Then you've just magnified that volatility risk. you've created a possibility of a perfect storm. I'm sorry if I'm anticipating where you were going next Bob, but there it is.

Robert Ascah: no, I'm glad that you brought that up,…because of, as I alluded to, Dinning's comments about the weight of bringing these financial assets to the province and the survey that was put out by the government on the 21st of September does look at who's going to manage investments. Now it's interesting AIMCo, which has had a checkered record, it's not listed as one. They talk about an APP type of manager, which could be separate, but they also talk about the private sector as well, and the CPP itself, just leave it with them, but it means a lot of jobs potentially and we shouldn't forget the jobs that are associated with having big financial pool in a city such as Toronto and hopefully under Dinning's idea Calgary - that is, the securities lawyers, investment bankers, the private equity, all these higher paid professional jobs. I'm sure some people - and we're getting into politics - are salivating about this prospect of filling up empty office buildings. I think that that's an interesting thing to my knowledge that's not being promoted other than Dinning, by the government.

Trevor Tombe: Yeah, true. So, if the goal is to increase the amount of Alberta managed savings funds, the easiest and I think most sensible and prudent approach would be to save more of our resource revenues. If we were to grow the Heritage Fund much larger, and had we been saving resource revenues and funding public services through taxation as a normal province does, we would have a fund now today larger than what we're even contemplating in an Alberta Pension Plan even with the, I think transparently unreasonable, share that the government would like to see. So, if we do want to save more and manage those funds, great, we have a very easy route to take and yet that is not something that I think sways anyone's view on the topic. We should put that aside as a real motivator for the Alberta Pension Plan and…

Ellen Nygaard: but the thing is that they've always admired Quebec for having established the *Caisse de Depot* , which a great portion of their assets are in fact, QPP assets, although not exclusively because they have pretty much all their public sector pension plan assets in there too. And that is to ignore a couple of things that haven't gone so wonderfully for Quebec. One is that their contribution rates are pretty much a full percentage point higher. And that's in spite of the fact that people here tend to discount that because, I mean, Quebec is relatively poorer than Alberta but that's irrelevant to the way this is financed. The point is Quebec's population is twice as large and their economy, even though there may be fewer really rich industries, is much more varied and stable.

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And yet for demographic reasons. they have not been able to maintain those contributions, and they have had some spectacular failures in the *Caisse de Depot* too. I mean, they're not awful, but it's

Virendra Gupta: I think we should talk a bit about the governance issue per se, not just management, I think that's a very fundamental issue. Whether you say it's good fortune or not, CPP has been professionally managed. Politicians have stayed out of their way, completely except for when contribution rates need to be changed or some big public sector policy issue has to be resolved. And also, it has helped check the provinces' tendency towards interfering or intervention and deciding, because a single Province can't bend the CPP. So CPP is two thirds, you follow me. Here, if you bring the CPP or APP into Alberta, our politicians have always interfered. How are we going to protect the average APP contributor against the politicians' tendency to even pick the CEO or change the benefits or grant something special before the elections. Because they have the authority.

Virendra Gupta: Which they don't now.

Ellen Nygaard: or make regulations, that give them directives that they're to invest in Alberta, which was something that was really unwisely put in there by the NDP. One of the things I have asked people who are inclined to believe that the UCP have a great idea here and are fully capable of governing this properly, is, if you put things in place so that you give the politicians a lot of power, how do you feel about it, how it would look to you if the other party were in power? Is it still a great idea or not?

Trevor Tombe: Yeah, that is such a critical point too. Because as we're seeing now, even just in the past few days the minister of finance, the premier basically saying no, no they will not in invest locally and even if they're genuinely taking that position and commit to it and do follow through, they can't constrain a future government and…

Virendra Gupta: Exactly.

Trevor Tombe: and that's not how our system works. One legislature can't bind another, we'll just change whatever legislation is required and we should be thinking about this in terms of the institutional arrangements, not as whether you trust one particular party or politician or not. At some point in the future, you might find them governed by a politician or a party that you disagree with. Do you want to have the structures in place to make it very easy to manipulate something as incredibly important as pensions?

Virendra Gupta: Yeah, no exactly. You see every Albertan is now protected in the sense that the provincial government cannot change their benefits at this point. Once you have an APP, the provincial politicians could change your benefits. They have the authority. They have you dependent on them so you are losing some degree of control you have about your CPP benefits.

Trevor Tombe: And this is worth underlining too. the Prime Minister couldn't change anything either,…It's not a Fed versus province thing,…

Virendra Gupta: The governance is a very central issue.

Ellen Nygaard: not even the entire federal government and you…to Virendra's point yes, that is the way it was arranged on purpose. It's not just that the politicians have voluntarily kept their fingers out of it. This failsafe device of the structure was put in place deliberately and it would be gone if it was just a provincial government plan.

Robert Ascah: So, we have about three more minutes left in this conversation and want just to go around the table to ask each of you to speculate on how you think this is all going to play with the engagement panel and then the government's response and so forth. Virendra, do you want to take that on first?

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Virendra Gupta: While I have been involved in some engagement panels before whether it was to deal with as Trevor said, resource revenue or deficits, or so on, I mean, the governments have a very good ability to come out of these panels the way that they want. And my personal take is that, increasingly, this government is showing they want APP. Whether they eventually get it or not to the referendum, I think they seem to be moving in that direction more strongly than not.

Ellen Nygaard: Yeah, first of all, having been involved in various of these processes myself, I have never seen one in all my years, that was so tilted right from the beginning. And I'm hearing in Alberta various people saying, they're just making noise, they're not serious about it, they don't know. They are serious about it. They want that money. However, there is a federal government and a lot of other provinces to deal with as we have alluded to so one potential way this could play out is that Alberta follows all the rules that are set out in the CPP, as brief as they are and that they manage to have a successful negotiation for what they're going to get in terms of assets and liabilities - that is one scenario. Another scenario, a very realistic one, is that the rest of the provinces and the federal government don't like the way this is going in terms of the flaws, you might say, or vagueness in the CPP legislation and decide to change it, they can do that. The two thirds, two thirds rule applies not to the withdrawal of a province that goes completely by the rules. The two thirds requirement is in the event the CPP legislation itself has to be changed. They can do that without Alberta. And then, I'm not even going to go down the route of how many things could be taken to court over this. Obviously a lot, certainly. The first obvious one, being the section on the calculation of the assets.

Robert Ascah: Trevor- final word to you.

Trevor Tombe: I won't offer a prediction; I will decline to answer the question directly. But how do I interpret what the Alberta government is doing? I look at the engagement panel, the seven plus million dollars on marketing the APP the way that the panel is engaging, is not actually engaging. It's about messaging and marketing, trying to sell the idea of an APP, in a really big way putting in the window very rosy projections around what it might look like, emphasizing benefits, ignoring costs completely.

I think they're testing how firm the public opposition to an Alberta Pension Plan is. We've seen Abacus data came out early after the announcement was made and the support for an Alberta Pension Plan was pretty low among those 60 and over, 17% thought it was a good idea and 64% said it was a bad idea. And so they want to see if they can make those numbers move. And if they can't by May, then maybe they just withdraw from the whole thing. Don't proceed to a referendum. They're really testing how solid that opposition is.

The secondary benefit they're getting from this whole process is that, I think, as many provincial governments do in Canadian history, they benefit from the fight with Ottawa and this is a way to amplify some of the tensions real, or perceived, between policy federally and provincially at a time where there's lots of other files that are being explored and discussed, let's say between Alberta and Ottawa and amplifying political tensions with Ottawa might have benefits on those other files as well. So, I think that's really what's going on here. If I were to bet, I suspect that we won't see the polls move because unlike the equalization referendum, and the fairness in the Federation discussion more generally, those are all about more abstract issues, much more indirect to an individual, but this is about

00:55:00

our pensions. To those receiving it, tangibly, regularly it's actual cash that is being deposited or provided to them, that is at risk. and…I think it's much more real than equalization, or these other issues. And so I can't imagine the numbers changing especially in the older age groups. I think the reason why younger individuals think that an Alberta Pension Plan is a good idea -but I should say in the Abacus data, only 29% of those under 30 - they think it's a good idea because of potential U.S. media exposure, where they're under the impression that the public pension system is not going to be there for them when they retire. But unlike the US, the Canada Pension Plan is very sustainable for the long haul. And I think they vote less than older individuals, their support for it is less informed. So I think that gets discounted in the political calculations. SI think we'll to make a prediction. I don't think the polls will move and then the

Commented [EN5]: are there missing words?

government will take the out because they haven't really committed to a referendum. They could just come back and say that we heard Albertans, and they weren't on board and we respect their view and that's it.

Robert Ascah: I think for me, the final curiosity of all this is why the UCP when they ran in 2019 really said nothing about the CPP or about public sector pension plans. And then, their first budget, it seemed like they got religion on this and whether that was AIMCo prodding them or whether it's the investment community in Calgary. And also overlapping this is the question of climate change, fossil fuels divestment, and that sort of thing, that conceivably is causing some drying up of investment capital point of being the fossil fuel industry.

Commented [EN6]: doesn't make sense

Thank you all very much for this conversation. I think our viewers will be very pleased to hear your comments and your thoughts. I think though, that we are coming from the same page, which is thumbs down on an Alberta Pension Plan, Thank you all.

Virendra Gupta: Thank you.

Trevor Tombe: Thank you.

Meeting ended after 00:58:04 👋