

Danielle Smith's Shiny New Alberta Pension Plan...

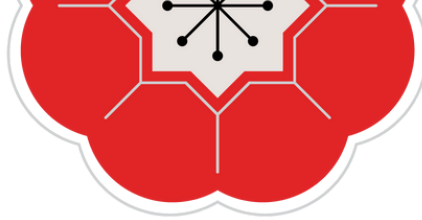
What could possibly go wrong?

Premier Danielle Smith and her Take Back Alberta supporters in the United Conservative Party want to take us out of the Canada Pension Plan (CPP) and substitute an "Alberta Pension Plan" (APP). But in terms of its long-term effect on the lives of Albertans, this is the most important issue of any in the current election campaign. However if the Premier has her way, it won't be part of the election campaign - Smith has stated that she will not discuss the proposal, or answer questions about it, until the election is over.

This means that Albertans will not be able to get detailed information about the proposed new plan. The benefit structure is likely to be similar to the CPP (although probably not identical), and it will certainly be a pay-as-you-go (PAYGO) plan. We do have some knowledge of how it might look, and we can make some informed judgements about the risks to our retirement incomes.

The Background

- The CPP currently applies to a labour force of about 15.9 million Canadians.
- An APP would apply to a provincial labour force of about 2.5 million, making it about one sixth as large as the CPP.
- It's a basic principle of pension plan design that larger plans are generally less risky and less expensive to run than smaller ones.
 - Larger plans have more funds to invest, and can diversify their investments more, thus lowering financial risks to the plan. If one sector of industry takes a downturn, returns on investments in other sectors help carry the plan. And if the entire economy goes into recession, a larger funding base is better equipped to weather the storm. Finally, larger pension funds generally have lower investment costs - capital markets offer better deals to larger investors.
 - Pension plans have to have reliable and efficient administration. Workers have to be enrolled in the plan, contributions have to be collected from workers and employers, and records of contributions and accrued benefits maintained. When workers retire, their pensions have to be calculated, and reliably delivered to pensioners. Larger pension plans are usually able to take advantage of economies of scale to perform these tasks at a lower cost than smaller plans can manage.



- The CPP has been delivering pensions to Canadians for over five decades. Its administration and investment structures are proven, efficient and successful.
- We don't know how an APP would be administered, nor how its funds invested, although some of the possible answers should raise red flags for Albertans.

Who would administer an Alberta Pension Plan?

- Alberta does not now have an organization in place capable of providing administrative services for an APP. Two possible solutions exist:
 - The provincial government could establish a new structure capable of doing so. But we should bear in mind that such start-up operations often experience “teething problems” which may take some time to fix, and are always costly.
 - The gov't could try to expand Alberta Pension Services. APS currently provides administrative services for the province's public sector pension plans. Such an upsizing process would entail its own risks, however, and would be expensive.
 - Any changeover from the CPP would involve costs and risks for all involved. Employers, for example, might have to change their payroll systems to accommodate the new administration.

Who would invest the funds for the Alberta Pension Plan?

- The answer to this question is simpler, but not necessarily reassuring. A Smith government would almost certainly have these funds administered by AIMCo (The Alberta Investment Management Corporation). AIMCo currently acts as investment manager for the Heritage Fund and for the province's public sector pension plans.
 - The gov't. currently forces these public sector plans to use AIMCo whether they want to or not.
 - The Kenney gov't forced the Alberta Teachers Pension Plan to turn its funds over to AIMCo, against the strong objections of the teachers.
- AIMCo's record as an investment manager is mediocre at best. In 2020 it lost \$2 billion dollars speculating on a risky and exotic “volatility trading program”.
- If AIMCo were to invest funds from the APP, it would have to be radically upsized, with the risks and costs associated.

We are left with many questions about how the Premier Smith's cherished APP would work. Unfortunately, we won't get any answers to these questions until **after** the election (if, in fact, we get clear and unambiguous answers even then). Albertans should have serious reservations about this proposal: it offers a lot of risks for very little reward.