Intelligence MEMOS

From: Trevor Tombe

To: Alberta Pension Watchers

Date: January 30, 2025

Re: **Having a More Informed Debate on the Alberta Pension Plan**

On December 20, 2024, the federal Chief Actuary released their analysis of what Alberta would receive should it decide to exit the Canada Pension Plan (CPP).

In short, the Government of Alberta's preferred estimate that it would receive 53 percent of the CPP's assets, were it to leave the CPP, was rejected by the Chief Actuary. This makes the potential withdrawal from the CPP less favourable (and riskier) than Alberta's public engagement efforts suggested. But the report by the Chief Actuary also opens the door to a more informed debate on the merits of a separate provincial plan for Albertans.

A Debate Over Language

First, a look back to when this issue first arose in Alberta in September 2023. At the time, there were two published interpretations of what the language in the *CPP Act* implied should a province opt-out:

1) The Government of Alberta's commissioned analysis from LifeWorks 2) My academic analysis published here.

The Government of Alberta's commissioned analysis thought the language of the *CPP Act* implied that we ought to reverse the clock and estimate what a hypothetical Alberta Pension Plan (APP) would have accumulated since 1966, were it to create a separate plan at that time and were all other variables remained unchanged. The result of its analysis is that Alberta would qualify for approximately $334 billion of CPP assets, which amounts to more than half the projected value of total assets. This was highly touted by the government, potentially to sway voters who are hesitant to support leaving a well-known and well-run plan like the CPP.

This large asset haul, were it to occur, would allow the province to provide financially sustainable benefits at least as good as the CPP (or perhaps enhanced ones), and do so with substantially lower lower contribution rates. On the surface, this might sound great.

But, and this is critical, I had a different interpretation of the Act that implied something very different. The key is how to split investment returns of the CPP. My view was that they are split in proportion to the historical share of total contributions by those in a province. This was like explicit historical practice and (I thought) implied by the language. As outlined in Paragraph 113(2)(b) of the *CPP Act*, which talks about income derived from investments held in the fund. Under this view, Alberta might be entitled to receiving only between 20 to 25 percent of the CPP assets upon withdrawal – roughly $200 billion less than the government of Alberta was hoping for.

To help clarify the situation, the federal government asked the Chief Actuary to step in. They came to conclude that "the part of the total net investment income "that is derived from the contributions referred to in paragraph (a) . . . is interpreted as the part that is based on the proportion of the province's total contributions determined in (a) relative to total CPP contributions over the reference period." This mirrored my own conclusion, though there was different logic involved in reaching it.

The Chief Actuary's reasoning was, to simplify things, threefold. First, we're splitting the *actual* CPP returns (not hypothetical returns as in LifeWorks). Second, the "part of" the returns are a positive amount (which would apply to all provinces should anyone decide to leave). Third, only contributions, not benefits, should factor into the calculation.

The Chief Actuary did not produce a number (since, of course, this is a moving target as the CPP asset values change day by day). But the report is clear about the formula they think is best.

Implications for Alberta

Given that the Chief Actuary has determined that Alberta would, in the event of a withdrawal from the CPP, only qualify for less than half of the amount that the earlier analysis by the province suggested, does this mean an APP is not viable? No. Even that sizeable transfer would allow the province to charge a contribution rate somewhere around 8.2-8.6 percent of eligible earnings. This is higher than 5.9 percent from the earlier analysis with a $334-billion transfer. But it is also still much lower than base CPP (which is 9.9 percent of earnings).

That said, there are still several risks – most notably, investment return risks and those associated with interprovincial migration trends – that could prompt future contribution rate increases. I developed a calculator to examine the impacts of the numerous demographic and economic risks on contribution rates.

Implications for the Rest of Canada

The calculations by the Chief Actuary are not necessarily so rosy for the rest of Canada as well. Although they were done in such a way as to ensure that every province would have a positive asset balance in the case of withdrawal from the CPP, a CPP without Alberta would be at risk of having to increase rates to provide more financial stability to the surviving plan.

So where does that leave us? Hopefully, we can have a more informed policy debate on the topic going forward. Alberta still may see benefits to a separate plan. But there are also costs and risks. Balancing those is the tricky part, and where reasonable people may disagree.

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