

April 16, 2014

## AN OPEN LETTER TO ALL MLAs:

Dear MLA:

### **Re: Amendments to the Public Sector Pension Plan Act**

As a Member of Alberta's Legislative Assembly, you are about to embark upon a debate that has huge implications for the life-savings and retirement security of 300,000 Albertans. Because most of these people have spouses and dependents, your decisions will actually affect at least 600,000 Albertans.

To put that number in perspective, about 1,290,000 Albertans voted in the last provincial election. So, the number of Albertans who have a personal stake in the outcome of your debate on changes to the Public Service Pension Plan Act is huge.

Given the gravity of the situation, we think you would agree that the Legislature has an obligation to do its due diligence and make its decisions based on the best available information. Unfortunately, the Minister of Finance and officials from his department have, to date, failed to provide objective evidence to make the case for the radical changes that they are proposing.

We would go further and submit that the Minister has actually exaggerated concerns about the sustainability of the plans and has, arguably, misled you and other members of the Legislative Assembly in order to win approval for an ill-conceived, unnecessary and potentially dangerous course of action.

Almost every argument used by the Minister to justify his so-called "new vision" for pensions is based on misinformation and half-truths.

Here is a list of areas in which we submit that you, as a member of the Assembly, have not been provided with full information:

- 1. You've been told by the Minister that Alberta's public-sector pension plans are struggling under the weight of large and growing unfunded liabilities. Specifically, the Minister says the unfunded liability for the four pension plans under review amounts to \$7.4 billion.***

It's true that unfunded liabilities in pensions around the world grew in the wake of the global recession. But, the unfunded liability in Alberta's pension plans is no longer \$7.4 billion – and it's not growing, it's shrinking.

According to a recent analysis conducted by the independent actuarial firm George & Bell (a company which has been used by agencies of the government), the unfunded liability in Alberta's two biggest pension plans, the LAPP and PSPP, has shrunk by about \$1 billion over the past year alone. George & Bell estimates that the unfunded liability will be gone entirely within nine years.

When unions pointed out that unfunded liabilities were shrinking, not growing, we were dismissed – even mocked – by the Minister. But, just a few days ago, PC MLA Cal Dallas, admitted to the Assembly that the unfunded liability would be gone in 12 years. Dallas' comments were not a mistake – they reflect the projections of the Boards themselves, and can be confirmed by looking at their valuation reports.

We think the Dallas' projection is too pessimistic, but at least he admits that the strategies to eliminate unfunded liabilities put in place years ago by Pension Boards, are working. Clearly, the Minister has not been entirely straight with you on the question of unfunded liabilities.

**2. *You've been told by the Minister that Alberta's public-sector pension plans are unsustainable in their current form because people are living longer.***

While it's true life-spans are increasing (and the last time we checked, that was a good thing) the reality is that all of Alberta's Pension Plan Boards have had strategies in place to deal with these trends – the same way they had strategies in place to pay down unfunded liabilities.

In fact, actuaries and pension experts now agree that the impact of changing trends in longevity on the long-term health of pension plans will be much smaller than previously feared.

The Boards of both of Alberta's largest pension plans, the LAPP and the PSPP, are set to release detailed updates on the health of their plans in June. Both reports are likely to show that unfunded liabilities are shrinking and that longevity risks are manageable.

Why is the government in such a rush to pass legislation before this information is available? Could it be that they want this legislation passed before you, as an individual MLA, realize that the challenges being faced by pension plans are not nearly as serious as you've been led to believe?

**3. *The Minister has told you that pension costs for public-sector employers are too high and that those costs are rising.***

While it's true that both employers and employees have been making bigger contributions in order to eliminate unfunded liabilities, what the Minister hasn't told you is that, once those unfunded liabilities are paid down over the next few years, contribution rates (i.e. costs to both employer and employees) will drop by as much as 30 percent.

To put it another way, about one-third of all contributions paid by employers and employees are specifically targeted at eliminating the unfunded liability. These targeted contributions are divided into batches dealing with specific portions or "chunks" of the unfunded liability. Once a batch or chunk of the unfunded liability is paid off, the associated contributions for both employers and employees stop being levied. That's the law.

It's important to note that a significant "chunk" of unfunded liability for Alberta's largest pension plan, the LAPP, will be paid off at the end 2014. As a consequence of this prudent planning, premiums are scheduled to start dropping after 2017. Once the entire unfunded liability is eliminated, costs for both employers and employees will be dramatically lower than they are today – all without cutting benefits or breaking the pension promise that has been made to tens of thousands of Albertans.

As an MLA, we think you should be asking why the Minister has been telling you that costs are rising when, in fact, they're set to fall substantially.

**4. *The Minister has told you to reassure your retired constituents that their pensions are safe. He says that benefits for existing retirees will be maintained.***

But, if the Minister is allowed to make the changes that he's been championing, there's a significant likelihood that the promises you've been making to your constituents will have to be broken.

There are two related reasons why the Minister won't be able to keep his promise about the security of benefits already earned under Alberta's existing pension plans.

First, the Minister has made it clear that he will use the new powers granted to him by amendments to the *Public Sector Pensions Act* to impose a cap on contributions. This is seriously problematic because, as we've seen, Pension Plan Boards sometimes have to increase contribution rates in order to pay down unfunded liabilities.

Without the ability to increase contribution rates when necessary, Pension Plan Boards will have no choice but to cut benefits whenever they're faced with periods of low investment returns. These cuts will fall heaviest on younger workers, but if boards can't increase contributions in the face of recessions and downturns, benefits for retirees will also face reductions.

That leads to the second problem. If younger workers are faced with pension plans that continue to cost them a significant portion of their monthly earnings, but no longer provide the promise of an adequate or secure pension, a significant number of employees who have the option to opt out may exercise that option. Others, who do not have the option, may simply choose to leave the public service. In a similar way, employers like health boards, schools boards and municipalities may also start withdrawing from the plans if they start to feel that a watered-down pension plan is no longer useful to them in terms of attracting and retaining employees.

If young workers and employers start heading for the exits, then benefits for existing retirees will not be safe. This is exactly the problem that Alberta's Auditor General identified when he recently criticized the Minister's approach to pension changes.

*"Practically speaking, current and future employees will not likely pay for benefits accruing to past employees if current employees contribution rates are significantly more than the value of their own expected pension benefits... If current and future employees will not support the plan, then the options are limited to: the employer is left to assume more of the past liability; retired employees will receive benefits that are less than promised; or the plan risks insolvency."*

—Report of the Auditor General of Alberta, February 2014, page 43

We submit that the words of the Auditor General should be front and centre in your minds as you debate changes to pension legislation.

Specifically, we urge you to think about the three limited options that the Auditor General suggests the government may be faced with if the Minister is allowed to proceed with his ill-conceived plan: government bail-outs, cuts to pensions of current retirees or insolvency.

In the name of sustainability, the Minister may actually be making Alberta's pension plans less sustainable. In the process, he will be increasing financial risk for the government and political risk for you as an individual MLA. Is that really the kind of "reform" you want to be part of?

**5. *You've been told that the changes being championed by the Minister are the result of consultation. Nothing is further from the truth.***

Alberta's public-sector pension plans are paid for by matching contributions from employees and public-sector employers like municipalities, Alberta Health Services, universities, colleges, school boards and, of course, the Government of Alberta. Best practices for pension governance suggest that decisions about benefits and plans design should be made by the parties that have the biggest stake in the future health of the plans – employees and employers. Unfortunately, the Minister never met with employees or employers, let alone negotiated with them, prior to introducing his "new vision" for pensions.

The Minister did meet with Pension Boards– but he didn't listen to them. None of the Boards agreed with the Minister's characterization of the situation and none of them recommended any of the changes championed by the Minister.

This last point is particularly important because the *Public Sector Pension Act* currently says that the government may only make the kind of changes being proposed by the Minister upon the recommendation of Pension Plan Boards.

That's the real reason for the legislation that you'll soon be debating. The Minister couldn't get any of the boards to recommend the changes he wanted, so he's changing the rules to remove the requirement that recommendations for change come from Boards, not the Minister's office.

This is not an example of "prudence" or "responsibility"; it looks like once more the government is changing the rules when those rules don't suit them.

It's also an example of a government that runs roughshod over people and agencies that don't toe the line or do as they're told.

**6. *The final statement from the Minister that we'd like to highlight has to do with the promise of independent governance for Alberta's pension plans.***

The Minister has told you that once he's amended the Act, neutered existing boards and imposed his preferred changes, he will begin the process of negotiating the transition to independent pension boards, similar to the boards of public sector pensions in all other Canadian provinces.

There are three problems with this promise. First, handing governance to employees and employers after the plans have been gutted is a little like an arsonist handing you the keys to your house after he's burned it down.

Second, the government hasn't actually guaranteed that employees and employers will be granted independent governance. All the Minister has said is that he will negotiate with stakeholders on the subject of independent governance. Given this government's track record on negotiation (frankly, they don't seem to understand what the word means) we have very little confidence that an agreement on independent governance will ever be reached.

Third, even if, against all odds, negotiations on a new governance model are successful, the Minister has made it clear that he will use his near-absolute authority under the amended Act to handcuff the new boards. For example, he will, as we've said, put restrictions on the Boards' ability to increase contributions. He has also said that the boards will not be allowed to make any benefit improvements before 2021 – even if they are given full responsibility for the plans before that time. That doesn't sound like independence to us.

Given the fact that the government's plan to gut pensions is based on a mountain of misinformation, our questions for you are simple. Do you, as an individual MLA, want to participate in a plan that unjustly and inappropriately undermines the retirement security of thousands of your own constituents? Do you want to be associated with yet another law that could be struck down by the courts as unconstitutional because it imposes changes instead of arriving at compromise through negotiation? Finally, and perhaps most importantly, do you want to go into the next election having to defend a policy that takes significant sums of money out of the retirement savings of the very people you need to vote for you?

In conclusion, we urge you to defeat the government's pension legislation and send the Minister back to the drawing board. As representatives of the workers paying into Alberta's public-sector pension plans, we stand ready to negotiate fair and balanced changes to pensions that are already modest and healthy. We hope that common sense and fair-play will prevail, but if it doesn't, we will not hesitate to remind our members which MLAs voted to undermine their retirement security as they consider who to vote for in the next election.

Sincerely,



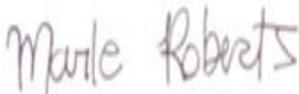
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