

August 13, 2014

The Hon. Doug Horner
Minister of Finance
Government of Alberta
423 Legislature Building
10800 – 97 Avenue
Edmonton, AB T5K 2B6

Re: Teachers Pre-1992 Pension

Dear Minister Horner:

Back in June, I listened with interest to your news conference announcing the release of the province's 2013-14 Annual Reports, especially your comments around Alberta's pension liability.

During your news conference, you said that, over the past year, the province's pension liability has increased by \$748 million to \$11.6 billion and that "[t]his should be a signal that even with double-digit investment returns, the plans are still dealing with significant issues in terms of sustainability."

Given the current review of Bills 9 and 10 by the Standing Committee on Alberta's Economic Future, I feel your comments on this subject cannot go unchallenged. Specifically, your implication that all of Alberta's public sector pension plans face growing problems simply cannot be squared with information outlined in the Local Authorities Pension Plan's (LAPP) recently-released 2013 Annual Report which shows that the plan is now 85 per cent funded, up from 82 per cent in 2012.

Nor can your statement be squared with expert testimony heard during the Committee's hearings on Bills 9 and 10.

During the hearings, Mark Prefontaine, Assistant Deputy Minister of Financial Sector Regulation within your own ministry, told the Committee that the unfunded liabilities of both the LAPP and the Public Sector Pension Plan (PSPP) "are currently scheduled to be amortized or paid off by 2026."¹ Mr. Prefontaine's conclusion was supported by Brendan George, a professional actuary with the firm George & Bell, who explained to the Committee that employers and employees are making special, equally-shared payments towards the plans' unfunded liabilities. He also pointed out that once the unfunded liabilities are gone, contribution rates will drop to "somewhere between 17 and 20 per cent of salary in total,"² split evenly between employers and employees.

¹ Standing Committee on Alberta's Economic Future Hansard, "Stakeholder Presentations on Bill 9, *Public Sector Pension Plans Amendment Act*, 2014, and Bill 10, *Employment Pension (Private Sector) Plans Amendment Act*, 2014," Tuesday, June 3, 2014

² Ibid.

Mr. Minister, by pointing to the \$11.6 billion total pension obligation as justification for Bills 9 and 10, I fear that you are attempting to deliberately mislead Albertans by conflating two unrelated facts.

First, while it's true that the government, as an employer, is obliged to fulfill the promises it has made to employees covered the LAPP and PSPP, the actual liability is MUCH smaller than you are leading people to believe. Fully half of the liability is shouldered by employees themselves. And much of the other half is shouldered by other public-sector employers such as municipalities and school boards. In fact, the provincial government's share of the liabilities carried by LAPP and PSPP (the two plans that would be affected by Bills 9 and 10) accounts for just under 5 per cent of the province's total pension obligation.

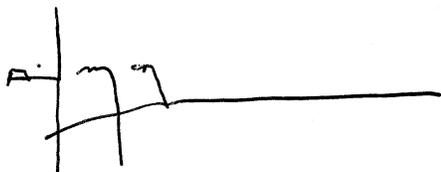
It's also important to point out that there are NO pre-1992 liabilities for the LAPP and PSPP. Those liabilities were eliminated in the 90s after employees agreed to equally share responsibility for returning the plans to fully-funded status (a goal that was reached in 1998).

The second fact that is being used to confuse the situation has to do with the Teachers' Pension Plan. To put it simply, the lion's share of the \$11.6 billion liability (the liability that you have so ominously warned about) is the result of pre-1992 liabilities in the Teachers' plan, not liabilities carried by either the LAPP or PSPP. It is simply not accurate or fair for you to lump the Teachers' pre-1992 liability together with government's (much smaller) obligation as an employer to fund part of LAPP and PSPP liabilities; the two are entirely different things.

Furthermore, it is also unbecoming for the Minister of Treasury Board and Finance to suggest that either Bill 9 or 10 would do anything to reduce liabilities that are, for the most part, attached to the Teachers' plan. As the sponsor of the Bills, you ought to know that these pieces of legislation deal only with the LAPP and PSPP (which, as we've seen, are well on the way to being fully funded) and that they don't do anything to address the pre-1992 Teachers' Pension Plan obligation. As a long-serving member in cabinet, you should also know that, after long negotiations, the government agreed to assume the Teachers' Pension Plan pre-1992 liability in order to ensure stability in the education system. Specifically, former Premier Ed Stelmach signed a deal in 2007 with the Alberta Teachers' Association (ATA) for the province to address this issue.

With all of this in mind, I ask you to avoid conflating the province's obligation as an employer to the workers covered by the LAPP and PSPP with the government's negotiated obligations for pre-1992 commitments in the Teachers' pension plan. These issues are already complex and complicated enough, without the Minister of Finance unnecessarily adding more layers of confusion.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gil McGowan', followed by a long horizontal line extending to the right.

**Gil McGowan, President
Alberta Federation of Labour**

cc. Standing Committee on Alberta's Economic Future