Legislative Assembly of Alberta

The 28th Legislature
Second Session

Standing Committee on Alberta's Economic Future

Bill 9, Public Sector Pension Plans Amendment Act, 2014
Bill 10, Employment Pension (Private Sector) Plans Amendment Act, 2014
Stakeholder Presentations

Thursday, June 5, 2014
8:30 a.m.

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Standing Committee on Alberta's Economic Future

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Standing Committee on Alberta's Economic Future

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Derek Dobson, CEO, Ontario Colleges of Applied Arts and Technology Pension Plan
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8:30 a.m. **Thursday, June 5, 2014**

[Mr. Amery in the chair]

The Chair: Well, good morning, ladies and gentlemen. I'd like to welcome members, staff, and guests in attendance at today's meeting of the Standing Committee on Alberta's Economic Future.

I would like to call this meeting to order and ask that members and those joining the committee at the table introduce themselves for the record. Please indicate if you are attending as a substitute for a committee member. For those who are attending via teleconferencing, please introduce yourselves.

I'm Moe Amery, MLA for Calgary-East and chair of this committee.

Ms Kubinec: Good morning. I'm Maureen Kubinec, MLA for Barrhead-Morinville-Westlock.

Mr. McDonald: Good morning. Everett McDonald, MLA, Grande Prairie-Smoky.

Ms Rempel: Bernice Rempel, representative of CARP, Canadian Association of Retired Persons.

Mrs. Sarich: Good morning and welcome. Janice Sarich, MLA, Edmonton-Decore.

Ms Sorensen: Good morning. Rhonda Sorensen, manager of corporate communications and broadcast services.

Dr. Massolin: Good morning. Philip Massolin, manager of research services.

Mr. Tyrell: Good morning. Chris Tyrell, committee clerk.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

Mr. Fox: Good morning. Rod Fox, MLA for Lacombe-Ponoka and deputy chair of this committee.

The Chair: Online, please.

Ms Pastoor: Good morning. Bridget Pastoor, MLA, Lethbridge-East.

Mr. Stier: Pat Stier, MLA, Livingstone-Macleod.

Mr. Lemke: Ken Lemke, MLA, Stony Plain.

Mr. Luan: Good morning. Jason Luan, MLA, Calgary-Hawkwood.

The Chair: Also, I would like to invite our guests joining by video conferencing to introduce themselves, please.

Ms Mazerolle: My name is Angela Mazerolle. I'm the superintendent of pensions for the province of New Brunswick.

The Chair: Thank you.

Mr. Dobson: Good morning. My name is Derek Dobson. I'm the CEO of the CAAT pension plan, which runs the pension plan for the colleges in Ontario.

The Chair: Great. Thank you very much.

Ladies and gentlemen, just a few housekeeping items to address before we turn to the business at hand. The microphone consoles are operated by the *Hansard* staff. Please keep all cellphones, iPhones, and BlackBerrys off the table as these may interfere with the audiofeed. The audio of committee proceedings is streamed live on the Internet and recorded by *Hansard*.

The second item on the agenda is the approval of the agenda. Would a member move the adoption of the agenda, please?

Ms Kubinec: So moved.

The Chair: Ms Kubinec moved that the agenda for the June 5, 2014, meeting of the Standing Committee on Alberta's Economic Future be adopted as circulated. All in favour? Opposed? Carried. Thank you.

Today we will be receiving presentations from a range of stakeholders relating to the committee's review of Bill 9, Public Sector Pension Plans Amendment Act, 2014, and Bill 10, Employment Pension (Private Sector) Plans Amendment Act, 2014. I'm pleased to welcome our guests participating in panel 8, two of whom are joining us by video conference and who will be addressing bills 9 and 10.

Ladies and gentlemen, you will each have 15 to 20 minutes to make your presentation, and I will open the floor to questions from the committee once we've heard from all presenters. We will go in the order listed on our agenda, starting with Ms Rempel with CARP.

Welcome. You may begin your presentation, please.

Canadian Association of Retired Persons, Ontario Colleges of Applied Arts and Technology Pension Plan, Province of New Brunswick

Ms Rempel: Thank you, Mr. Amery. The Canadian Association of Retired Persons, CARP, is a nonpartisan not-for-profit national organization with 300,000 members across the country in 60 chapters. We're committed to a new vision of aging for Canada, promoting social change that will bring financial security, equitable access to health care, and freedom from discrimination. Our mandate is to promote and protect the interests, rights, and quality of life for Canadians as we age. There are over 14,000 CARP members in Alberta with local active participation in chapters in Calgary, with 3,700 members, Edmonton, with 2,600 members, and Fort McMurray, with 1,500 members.

My 44 years of employment prior to my retirement in 2006 involved human services responsibilities in municipal and provincial governments in three Canadian provinces as well as a total of seven years as a civilian employee with the Canadian armed forces in Germany. Those years provided the opportunity to accumulate deferred income. Some people call them pensions.

I have served as chair of CARP Edmonton for the past six years. My role is to facilitate the lines of communication between CARP Edmonton and CARP national to help keep members informed and involved in the policies and priorities of the organization. Chapters inform the national office of regional and provincial legislative bills, issues, and policies that relate to the mission and objectives of CARP, positive ones for support and endorsement and negative ones for advocacy and recommendation.

CARP national Vice-president for Advocacy Susan Eng met Finance Minister Doug Horner in Toronto while attending an Economic Club of Canada event in April. During their discussion an Edmonton meeting was arranged between herself, Mr. Horner, and representatives of CARP Edmonton and CARP Calgary. During our meeting, on May 1, we discussed pension caps and learned more about the consultation process that the department had announced. This issue is important to CARP, and we are

pleased to have been invited to address it as part of today's consultation process.

Pension issues are a top priority for CARP members. According to CARP national polling the vast majority of CARP members have pensions, with two-thirds belonging to defined benefit plans and almost half belonging to the kind of public-sector defined benefit plan under discussion in Alberta. CARP is concerned that the changes proposed to the Alberta public-sector pension plans will erode pension benefits for active plan members and jeopardize the retirement income security for future retirees of these plans. CARP is encouraged that the government has tabled implementing changes to public pension plans until further discussion and consultations are done, but the proposals come with considerable risk to the health and well-being of the plan and future retirees.

I'm here today to speak to our concerns primarily about three proposals currently on the table: one, the proposed change to the early retirement formula, from 85-55 to 90-60; two, the reduction of cost-of-living adjustments for active plan members; three, a firm cap on contribution rates. Taken together, these three changes to public pension plans will mean that the fundamental defined benefit structure of public pension plans will be compromised as will the promise of a robust defined retirement benefit.

Early retirement. The government's proposal to change the early retirement options for benefits earned on service after 2015 means that all active employees will have to pay into the plan for longer and delay retirement or risk a permanently reduced pension. As such, changing the formula for early retirement represents a reduction in benefits for active employees, especially those with long tenure, for whom early retirement under the existing formula is an earned benefit. Many have been paying for years with the hope that they will be able to retire early without penalty.

The provision will be especially problematic for active members who have already factored early retirement provisions into their retirement planning. For many that may mean working longer than expected. Older active employees who had planned around early retirement will now functionally have to wait longer for reduced benefits. Many older workers have had long, arduous careers, and the extra working years may prove difficult physically as well as financially.

8:40

Although it's unlikely to be noted as an item on a financial spreadsheet, the benefits of the family, community, and social services contributed by the person who retires early merit consideration. Only a portion of the early retirement group is able to take advantage of their free time as a retiree to travel, fish, golf, or quilt. A large segment of this population assumes more responsibility for the care of an aging parent, an ailing spouse, incapacitated children, and grandchildren.

If not serving the caregiver function, the early retiree is available to help elderly neighbours, act as a volunteer driver for cancer patients, volunteer to visit shut-ins, and, importantly, to co-ordinate and manage the many volunteer organizations that are so important to the quality of life of Albertans. As mentioned, these services aren't part of the financial spreadsheet, but to borrow a line from a banking ad, these services are priceless and should be recognized for their value. CARP is asking that the years of service and age formula used to determine the early retirement benefits be left at the current levels of 85-55 rather than being reduced to 90-60.

Two, the cost-of-living adjustments. The bills under discussion here today will also aim to remove the guaranteed cost-of-living adjustment, or COLA. It is currently set at 60 per cent of Alberta inflation and will remain there for people retiring before the conversion date, but it will be changed for service after 2015 to target COLA at 50 per cent of the Alberta inflation and will not be guaranteed, nor will the contributions be reduced to account for the lost benefit. COLA would only be paid if the plan were financially stable. This is another case of asking active members to pay more for less. Reducing the COLA from 60 to 50 per cent of inflation is onerous on its own as the value of one's pension recedes yearly as inflation rises.

As life spans increase, many future retirees may experience substantial loss in real pension dollars. This will be the case even if the COLA is paid yearly, but since the proposal calls for conditional COLA, there is no guarantee that COLA will be paid. Each missed COLA benefit is a permanent reduction in total real retirement income that cannot be regained. Conditional COLA will also make it difficult for future retirees to predictably plan retirement income. Not knowing when or whether to expect a cost-of-living adjustment will have a material effect on the short- and long-term planning of retirees. CARP is asking that COLA benefits remain at 60 per cent of inflation in Alberta and be guaranteed rather than contingent on the health of the plan.

The third item: contribution caps. The government proposes to unilaterally set contribution caps for all active members after the conversion date. Setting a hard-contribution plan strikes at the centre of a defined benefit plan. By setting a hard cap on contributions, the plan essentially becomes a target benefit plan, in which benefits are no longer defined and guaranteed. In a true defined benefit model employees and employers negotiate together the benefits and the contributions required to pay for those benefits. By capping contributions, the plans will essentially forestall benefit improvements and ensure that any future underfunding is accounted for by further erosion of benefits rather than an increase in contributions.

CARP recently polled membership on pension plans and had the opportunity to ask about contributions and plan sustainability. The majority of CARP members think that the best way to make defined benefit plans sustainable at current levels is to gradually increase contributions. What is more, when asked what their preference would be if faced with the choice of seeing benefits reduced slightly or paying higher contributions, 80 per cent of CARP members polled said that they would prefer to pay higher contributions rather than see benefits decline.

Most CARP members are retired, and many have public-sector defined benefit plans like the ones under discussion today. They have the perspective of retirees who know that protecting benefits, even if it means adjusting contributions, is essential to protecting the promise of defined benefit plans and securing retirement. By unilaterally capping contributions, these plans will lose the essential traits that make defined benefit plans reliable sources of retirement income and will prevent active members from having a negotiating voice in contribution and benefit levels going forward. CARP is asking that contributions not be capped unilaterally and that active members have the right to engage in negotiations over contribution and benefit changes.

That concludes the presentation from the Canadian Association of Retired Persons, CARP.

The Chair: Thank you very much.

Before we go on to questioning, I would like to ask Dr. Swann to introduce himself for the record, please.

Dr. Swann: Yes. Thank you. My apologies for being late. David Swann, Calgary-Mountain View, sitting in for Kent Hehr.

The Chair: Good. Thank you very much.

Actually, we won't have any questions right now. We will go on to our next presenter. Mr. Dobson is joining us via video conference. Mr. Dobson is with the Ontario colleges of applied arts and technology pension plan.

Go ahead, please.

Mr. Dobson: Good morning. I have a PowerPoint presentation, which I'm hoping is now on the screen.

The Chair: Yes, it is.

Mr. Dobson: Great. So just a bit of background. As introduced, my name is Derek Dobson. I have about 25 years in the pension industry, the first half of my career really on the consulting side to both public- and private-sector pension plans and the last 12 or 13 years running or being heavily involved in jointly sponsored pension plans for the last little while.

The CAAT pension plan serves the postsecondary education sector in Ontario. We have about 37,000 members, and we have about $7.5 billion in assets. We appreciate the invitation to participate in this important process because I think it will have some influence across the whole country, including Ontario. My focus will be more on the public-sector pension side, so Bill 9, but I believe many of these comments can be extended to private-sector situations.

First slide, please. The overview I'll be providing will be a little bit of a whirlwind tour of various pension studies that have occurred and some of the themes and analysis that are emerging on these key themes. Finally, I'll conclude with some important facts about DB pensions and their positive impact on all stakeholders.

Next slide, please. Pensions are a hot topic for various reasons. There have been lots of pension studies since 2004. Some are very useful and insightful, others should be filed in the fiction section at your local library, yet others should be used to line the bottom of your birdcages.

Now with the whirlwind tour. Next slide, please. Starting in December of 2012, the Ontario Conservative Party published a paper suggesting that new hires to the public service should be converted to DC pensions. This will be theme 1.

Next slide, please. Following that report, in September of 2013 the Fraser Institute had the same theme, that new hires should also be moved to DC plans.

Next slide, please. Earlier this year, in March of 2014, the C.D. Howe published a paper essentially suggesting that the federal service plan should be fixed, but in that paper they also acknowledged that risk-shared plans are very appropriate. This is another emerging theme, that equal risk sharing and cost sharing is a solution moving forward.

Next slide, please. Again in the same month, in March of this year, the Society of Actuaries published an important paper. Their key theme was that pension plans, especially public-sector pension plans, should disclose their risk-free cost. We'll talk about that theme later.

8:50

Next slide, please. Another paper published this spring by the Ontario Chamber of Commerce is on an emerging theme or a theme that's been in existence for quite some time that suggests that pensions are inadequately funded or largely unfunded. Sometimes, occasionally, the words "Ponzi scheme" are used.

Next slide, please. In April of this year there was again an Ontario Chamber of Commerce paper, this time with the CGA. Their key theme is that action to increase retirement savings is important, but they also have a different opinion from many other people about the best way to do that, whether it be in efficient DB plans or through pooled registered pension plans.

Next slide, please. Another April report, this time by David Dodge and Richard Dion, is contrary to the Ontario Chamber of Commerce paper. They suggest that the solution should instead be an enhanced CPP, in that the near-term impacts are relatively small and the long-term impacts are positive.

Next slide, please. On the next day the federal government announced a consultation on target benefit pension plans, which is a type of risk-shared pension plan, but it allows sponsors to reduce accrued benefits.

Next slide, please. In that same month the Association of Canadian Pension Management, or ACPM, released a paper. Their theme is that action is also needed on retirement savings, especially from a coverage inadequacy perspective, but also to do no harm to what is already working well across Canada.

Next slide, please. So there have been lots of opinions, some informed and some not as informed as others. I'm sure that I've missed various reports, but I see the following themes that need discussion or debate across the country. As I've mentioned, the themes are: fixing employer or taxpayer costs, review of retirement ages, how to appropriately measure liabilities, and the sharing of risk and governance.

Next slide, please. I believe these themes across the country align well with the discussions that are happening in Alberta. Let's review them.

Next slide, please. Theme 1, fixed contributions. There are various ways to implement these, some good and some bad. My opinion is that DC conversion is not the right way for many reasons, and they are listed on this slide. Overall, it is because it's less efficient or more expensive than the current DB pension model in the public service because lower investment returns will result in higher costs overall to all stakeholder groups. Because of this, DC conversions will create risk, not only to members but also to government programs; for example, GIS programs and other social programs that exist across the country.

What's not talked about often is that DC plans do not provide patient capital, which is sorely needed across the country, to invest in infrastructure, real estate, long-term bonds, and private equity. The switch to DC by new entrants hastens plan maturity of existing DB plans and will increase costs to the existing plans and the legacy DB benefit promises that exist. For example, at CAAT we've done some analysis that suggests that our current risk of a deficit in the next 20 years is only 3 per cent. If we are closed to new entrants or new entrants move into a DC plan, that risk of deficit of 3 per cent moves up to a risk of deficit of 23 per cent or worse.

Workforce management is also problematic. DC members typically retire in accordance with economic cycles, which are often countercyclical to the needs of various stakeholder groups. Various studies have suggested that defined benefit members are more confident about the economy, are more productive at their workplaces because they are not concerned about their retirement savings. This also leads to a stronger consumer-led economy. Other states in the U.S. have found that DC conversions have not delivered what they had expected, and some have actually reversed and moved back to the defined benefit model in the public service.

In short, I strongly believe that DB is a superior pension solution in the public sector, but I don't argue that DC is often a solution for some employer types, and any retirement savings are positive in the workplace.

Next slide, please. Fixing contributions is a real issue, and better solutions exist than the DC type of approach. With cost sharing and risk sharing as the objective, fixed employer contributions can be achieved without the conversion to DC. At CAAT more than 50 per cent of economic scenarios in our studies show that our contribution rates will vary just by 2 per cent over that 20-year period. The downside risk of contribution increases is just 1 per cent of pay over that 20-year period. As mentioned, closing the plan to new entrants creates much more significant downside risk. At CAAT if benefits were to be fixed, the downside risk would be an increase of 23 per cent of pay, or a tripling of current contributions. So closing existing DB plans to new entrants is very costly to the existing legacy DB plan benefits and funding.

I believe that employer or taxpayer costs can be managed in a narrow range with modern DB pension plans. My definition of modern includes sector-based plans – for example, the college sector in Ontario – but also having a very prescriptive funding policy agreed to by all stakeholder groups. In our case, we save surplus, we manage long economic cycles, and we ensure that all our stakeholder groups are aware of what funding decisions will be made in both surplus and deficit times. As part of our funding policy in 2006 we introduced conditional indexing on a go-forward basis. We've now seen that this is a growing trend across the country.

But I should also mention that it's critical, if we're going to fix employer contributions, that the proper smoothing methods and smoothing tools be permitted so that plan governors can manage through economic cycles. If total compensation overall is appropriate, my belief is that key stakeholders, typically plan governors, should be left to find the right balance between benefit and contribution stability. Studies that I've viewed and our own survey research at the CAAT pension plan have suggested that members are willing to pay more to protect their current benefits. At CAAT we are already at a 50-50 joint cost- and risk-sharing method, and this is okay with many of our members and even members in other sectors who are not at 50-50 right now.

This is a sidebar. The Alberta proposal also includes discussion on inflation protection. Many studies have shown that CPI increases do not need to be at 100 per cent to retain standard of living or purchasing power. At CAAT we use 75 per cent of CPI as our measure for inflation protection, and there have been many credible studies, in my view, as early as the 1980s which suggested that 75 per cent of CPI less 1 per cent does protect purchasing power, although some of these studies need to be updated for longevity.

Now back to the slides and theme 2, early retirement. This is an issue driven largely by economic theory or the size of the workforce, but I believe members and employers need flexibility depending on their workforce needs; for example, nurses, firefighters, electricians, labourers whose bodies simply cannot continue to work past certain ages. I view early retirement as a cost-effective insurance policy, and many of our sectors have utilized it when downsizing of the public sector and other workforces has been necessary. In a sense, pension plans have provided the insurance policy to avoid large severance costs on the government's books. In the interests of time I'm going to skip over some of these elements, which have already been covered off by the first speaker. In conclusion, on this slide I suggest leaving early retirement features to plan sponsors and member groups to decide what is best for their workforce.

Next slide, please. Theme 3, measuring liabilities. There are definite differences – and they are justified – between costing out pension plan obligations in the private and public sector, largely because employer risk is quite different. I believe that risk-free rates of calculation are inappropriate. It confuses the public on sustainability and cost, does not reflect reality, and serves no real purpose other than to create unnecessary alarm. Pension debates are already complex, so there is no need to add this issue.

9:00

Next slide, please. Finally, theme 4, sharing risk and governance. In short, governance works, and it works well. It's not a scary proposition. When you have both sides of the table, there's joint ownership over decisions, joint communication efforts. This has worked very well in the CAAT situation, including when we had to increase contributions by 1.6 per cent to reflect increasing longevity over the past six or seven years.

Because of our joint sponsorship and our transparent communications program, even though we had 20-something thousand members and 31 employers who were facing those contribution increases, I did not receive a single complaint because of the representation and trust that was built over 20 years on joint sponsorship. In addition, joint sponsorship works well. In my five years as CEO almost every single decision at our board and sponsors' table has been unanimous.

Next slide, please. We've applied these four themes to the CAAT pension plan and have achieved superior results. We are fully funded at 105 per cent. As mentioned, we have joint governance, 50-50 cost sharing, top-quartile investment performance, so we manage our assets to make sure they match our liabilities. We have conditional indexing, and we have a funding policy that guides benefit and contribution decisions.

Next slide, please. Funding policies are critical, and this is something I would support across the country. It's very powerful and key to sustainability of any pension plan. In our case our funding policy describes a prudent plan to manage reserves, contributions, and benefits through various market cycles.

Next slide, please. Continuing on joint governance and open communication: does it work? We asked our stakeholders. Eighty-seven per cent of members, 88 per cent of our employers derive good value from our pension plan.

Next slide, please. The vast majority, 94 per cent, think pension plans are very important for the future. I've seen this as I've visited across the country, that pensions are more a part of our fabric going forward.

Next slide, please. Independence is valued, and sharing decisions is vital. Ninety per cent of our active members like having an independent organization, separate from their employer, and 82 per cent, both members and employers, have reported that equal sharing of decision-making is working well at the CAAT pension plan.

Next slide, please. Diligence is required in pensions, and sometimes change is required. I am supportive of meaningful and lasting change to create sustainability, but there are different opinions on what type of change and the amount of change that is necessary. In my view, often only tweaks are necessary, not wholesale changes, but even tweaks must be managed very well. Some of the tweaks need to address what's on the slide: recognizing longer lifespan, using realistic assumptions, making sure your investments are aligned with your liabilities, having a funding policy, and making sure you consider demographic changes moving forward.

Next slide, please. We must not lose sight that modern DB plans benefit many people. They're very efficient and low cost. Canada is actually viewed as a leader in this area. Because members and employers put money away each and every paycheque, the vast majority of pensions – over 70 cents on each pension dollar paid – come from investment returns that have grown and are invested in

the economy. DB plans should be designed to provide adequate lifetime retirement savings when combined with other programs. DB plans do definitely benefit the economy and create a future tax base, which will be much needed given the demographic shifts that we're facing across the country.

Next slide, please. My last two slides want to dispel some myths. In the public-sector plans there are some issues, but the vast majority are adequately funded. The vast majority share risk and costs. They're very efficient and low cost, maximizing the benefits per dollar of contributions going in. They provide much-needed long-term capital, and they reduce reliance on poverty-income programs. As mentioned, they provide a much-needed Canadian deferred tax base, which will create less reliance on social programs and create a more productive retiree population.

Finally, my last slide, please. Governance. It is most important to realize that joint governance works. In meaningful consultations like the ones you're undertaking, it will work. We had a similar process in Ontario a couple of years ago, bringing all stakeholders together, and together we found better solutions, which most were willing to accept.

Most people, in my experience, are willing to come to the table and have these discussions. It develops better solutions with higher acceptance rates. It reduces costly legal wrangling, and given enough time in the consultation process I believe that better solutions can be achieved for all stakeholder groups.

Lastly, different realities will result in different solutions. Unfortunately, we will not be able to find a solution in which one size fits all, so many of the objectives you're trying to achieve are best left to the plan governors, especially if you implement true joint governance structures.

In closing, flexibility is needed.

Thank you very much for your attention, and I look forward to your questions.

The Chair: Thank you very much, Mr. Dobson.

Also joining us now via video conference is Ms Mazerolle, superintendent of pensions for the province of New Brunswick. You may begin your presentation, please.

Ms Mazerolle: Thank you very much. Good morning, everyone. I also have a PowerPoint presentation, which is, hopefully, up on your screens there now. If we can just flip over to the slide that says Overview, that's where I'll start.

Since the changes in Alberta's Bill 9 and Bill 10 are similar to those that we implemented in New Brunswick approximately two years ago, I thought it would be useful to review the reforms in New Brunswick, what we did and why. Our reforms apply to both the private- and public-sector plans here, so they touch on provisions in both Bill 9 and Bill 10. This morning I'll focus on public-sector challenges, issues with the traditional pension plan models, New Brunswick's experience, New Brunswick's target benefit legislation, our shared-risk plans, and some of the unique features of New Brunswick's shared-risk plans.

As I was looking through Bill 9 and Bill 10 yesterday, I noticed that there are a number of similarities between your reforms and the ones that were carried out here in New Brunswick. It seems to me that you're looking to resolve similar issues and provide similar safeguards. Is it exactly the same? No, but there are certainly a good number of similarities between them.

I notice that in Bill 10, for instance, employers are able to convert DB plans to target benefit plans, including accrued benefits, with employee consent. That's something we've done as well, though we don't require employee consent.

You have a requirement for provisions for adverse deviations. We don't have that requirement, but instead we do mandate risk management of our shared-risk plans.

Your Bill 9 public-sector plan, I noted, has target or conditional COLA, or indexation, which we have done as well. In both our private and public sectors our shared-risk plans have conditional indexation only if the plan can afford it.

Reduced subsidy for early retirement: that's not mandated in our legislation, but it's certainly something that we've seen with any of the pension plans we've had convert over to shared-risk plans here.

Contribution caps, again, are something that we find in the shared-risk plan legislation in New Brunswick.

I'll get into some of those factors as we go through.

The next slide, please. Public-sector challenges. As Mr. Dobson mentioned, there have been a number of studies out around the challenges with pension plans in Canada. Canadians aren't saving enough for retirement. CPP alone is going to be inadequate to provide retirement for Canadians, and it's not meant to provide all retirement savings for Canadians. Some public-sector plans are unsustainable. In Canada we have not yet seen a failure of a public-sector plan, but throughout the world we've certainly seen numerous issues with pension plans significantly impacting the economies of the public bodies involved: Greece, Cyprus, Stockton, Detroit, Rhode Island. The list is getting longer.

People often forget, I think, that pension plans are simply, you know, assets and liabilities, and if those are out of whack with each other, the money has to come from somewhere. Either members pay more or government pays more in the public plans, and if government can't, then you have to look at what the alternative is.

We've seen changing workforce demographics. Some current plans were designed for a different era. Many plans were designed for a different era. Retirees are living longer. The current retiring generation is very large, and fewer workers are entering the workforce. Low interest rates and investment returns have created uncertainty. We've seen government deficits at municipal, provincial, and federal levels, and I've seen one report out which suggests, using the information available and making assumptions on what isn't available, that the underfunded shortfall of public plans may exceed $300 billion, which is a huge sum and equivalent to $100,000 per government employee, or $9,000 for every man, woman, and child in Canada.

9:10

Governments have certainly been focused on fiscal accountability and restraining public expenditures. Governments, like anybody else, only have the money to spend that they have to spend, and when that's insufficient to fund their responsibilities, they have to either go back to the tax base, or they have to start cutting some of their public programs.

Another issue we've seen is intergenerational equity. You know, who should bear the burden of changes to benefits and contribution requirements? Certainly, in the past and even in the present we've seen perceived a moral obligation to maintain the level of benefits promised to retirees, so the reforms that we've seen tend to impact the current working generation, which, some would argue, is an unfair intergenerational subsidy.

Transparency in accounting. Companies have to show on their financial statements the funded position of their pension plans. Although I don't believe that it's yet required for governments – some do show it, but I don't believe it's required – there has been a call for greater transparency, and it wouldn't be surprising to see it required in the future.

Next slide, please. Some of the issues we've seen with traditional pension plan models, the defined benefit plan – and these risks, I want to clarify, would apply equally whether it's a private-sector defined benefit plan or a public-sector defined benefit plan. The costs for a guaranteed benefit can rise to unaffordable levels in periods of low interest rates and poor market returns. People often see defined benefit plans as having an absolute guarantee, but is there? There seems to be an unwillingness on the part of both plan sponsors and members to pay the real costs of providing a guaranteed benefit by selecting low risk and therefore low expected return investments.

To reduce costs, sponsors typically mismatch the plan's assets and liabilities by investing in the capital markets to achieve higher returns and lower pension costs. The result is substantial volatility in the funded position of those plans. The true value of the benefits in many plans is more than what members or their sponsors are willing to pay. There is no asset class long enough to cover the term of the liability. Many other risks can't be fully hedged, like life expectancy and retirement patterns. When the plan is in a deficit position, the choice in defined benefit plans is usually between increasing future contributions or decreasing future benefits.

Recent economic volatility and an extended period of extremely low interest rates have certainly created uncertainty for these plans. The steadily increasing costs of many plans were often masked by the strong market returns of the past, and the significant costs and deteriorating health were magnified with the onset of the recession in 2008.

We've seen substantial benefit cuts in the event of plan failures. In New Brunswick we've had some very high-profile failures that have resulted in cuts as high as 45 per cent of the benefit when the employer goes bankrupt and the plan is in deficit. The typical response to some of the pension challenges facing defined benefit plans: there have been some typical relief measures offered to exempt some employers from the solvency funding requirement, to extend deficit funding periods, and/or to require higher contributions from active members and lower future benefits. But those so-called solutions are temporary and don't address the systemic pension problems or help to ensure plans become sustainable in the long term.

The next slide, please. Defined benefit plans also have an issue regarding intergenerational inequity. Active members, generally speaking, are expected to bear the deficit funding burden through increased contributions and decreased benefits. We've seen, as I mentioned before, increased longevity. The actuarial assumptions are often out of touch with reality and nonspecific to the particular workforce. Life expectancy has risen. Canadians retiring in their 60s can now expect to live 26 years in retirement. That adds tremendous cost to pension programs. A modern pensioner will be paid out for 11 more years than was expected when a lot of these DB plans were conceived, and that money does have to come from somewhere.

The risks in DB plans are borne almost entirely by the employer in the private sector or by taxpayers in the public sector. There's a significant financial risk where poor plan performance requires accelerated contributions to amortize solvency deficits. Plans are expensive to employers and increasingly less attractive to establish and maintain.

Next slide. On the flip side, we have defined contribution plans. These plans also have some issues. Risks are borne entirely by individual members in those plans. Increasing life expectancy may cause many or more to outlive their retirement savings. There are challenges of member education. Many aren't saving enough, but besides that, financial literacy is not always present and is especially difficult in cases of diverse workforces and the myriad of investment options that are out there. Defined contribution plans have no pooling of longevity or investment risk. The plans tend to download investment risk onto individual members, who typically don't have the financial literacy to manage that risk. And if retirement occurs or if you're retired during any of the periods of extreme market volatility, there's certainly a potential for a sudden reduction in anticipated retirement income.

Next slide. With that background we'll move on to New Brunswick's experience. Certainly, there was a concern here about the long-term sustainability of pension plans. The large deficits in several public-sector plans amounted to a funding crisis. We recognized the inherent challenges with the traditional defined benefit and defined contribution models. Investment market declines combined with the inherent maturity of the plans limited the ability of administrators to manage exposure to market volatility.

The New Brunswick government wasn't able to guarantee pension deficits in the plans that we had winding up or to underwrite COLA benefits. There was no money for bailouts in the private-sector failures. Really, people had to look and start thinking: are these plans guaranteed anymore? In reality, they never have been. The guarantee in a defined benefit plan is really only as good as the sponsor's willingness or ability to pay that guarantee.

We understood that the status quo was no longer an option in New Brunswick. The Premier established a task force on protecting pensions to look at both private- and public-sector plans. We looked at the needs of both employees and employers. What did employees want? They wanted a good and predictable defined benefit. They want a high degree of security. Some want absolute security. They want a share of at least some retirement risk through a defined benefit approach. What did employers want? Well, employers seemed to want predictable and stable contributions and pension costs. They want affordability, and they want competitive benefits for the purposes of recruitment and retention.

So the task force established the primary goals of equity, affordability, sustainability, and security. They also wanted to respect the principles of transparency and intergenerational equity. They looked at three main options. Basically, the status quo: continue with current plan unchanged and hope something saves them. The DC option: close current plan and implement a new DC option for future service. As Mr. Dobson said, that seems to be one of the options that's often suggested. And the third was to look at some of the target benefit plan regulations out there or look at other models that were out there and see what we could design that respected the primary goals and the principles that we wanted to respect.

The result was the shared-risk pension plans model, which was introduced in May 2012 and came into force on July 1, 2012. It manages employer risk since contributions are much like a DC plan; they're fixed and known from the beginning. It does deliver to members a pension with benefits like a DB plan. They'll be paid a pension for life when they retire. It's risk managed with mandated risk management principles to ensure that the first two are actually achievable. Intergenerational equity was taken into account, with all members and retirees sharing in the risk and reward. No group was left to subsidize the other.

Next slide. Our shared-risk plans: what are they? They're a type of target benefit plan. They came in under New Brunswick's Pension Benefits Act, part 2, with the framework in the legislation. So the characteristics of an SRP, the required documents for them, who can administer an SRP: all of those main features,

the framework for the plan type, are in the legislation, but the details surrounding that – what has to be in your funding policy, what has to be in your risk management policy, how you value the plans – are all contained in the regulations in order to allow the necessary flexibility.

It's a plan design option available to single-employer plans, multi-employer plans, public-sector plans, private-sector plans, unionized or non-unionized. It's an option available to all. All benefits can be reduced if funds are insufficient in the plan, and employer contributions are fixed within a narrow margin.

9:20

The risks of poor performance are shared between employers and employees. If the plan does extremely well, contributions don't stop, subject to the Income Tax Act maximums, and the excess money would be used for members.

There's more equity between active and retired members within these plans. In bad times you can certainly trim benefits by not paying indexing, and in extremely bad times then accrued benefits may be reduced. But those reductions are also required to be reversed when the plan rebounds, and that is part of the legislation as well.

There are legislated mechanisms to manage risk. We have annual asset/liability modelling. We have a risk management policy that indicates that base benefits have to have a 97 and a half per cent probability of no reduction over the next 20 years. Ancillary benefits, things like your COLA or early retirement provisions, have to have a 75 per cent probability of being received over the next 20 years.

At the time of introduction we had five plans immediately convert. Two were MLA plans. Two were the workers in our hospitals, so the New Brunswick hospitals plans. One was a private-sector multi-employer plan. Since then we've had a number of other plans convert in the municipal, private, and now public sectors, the most recent being our Public Service Superannuation Act, so the pension plan for all the public servants here in New Brunswick. They converted on January 1, 2014. Our teachers' pension plan is set to convert effective July 1 of this year. With these conversions the vast majority of the public service will now be in shared-risk plans in New Brunswick. They're still each their own individual plans, but they're shared risk.

Next slide. Some of the unique features of New Brunswick's shared-risk plans. Conversion from existing benefit: shared-risk plans can convert existing accrued liabilities, much like your Bill 10. I was at a pension conference the day before yesterday. There was an actuary speaking there who's done some work on our shared-risk plans here but also in other provinces. He said: mathematically, if you don't touch past benefits, there are many scenarios that you'll run into that make contributions so volatile that they actually bring the company down, which benefits nobody. If you're out of work and then have a reduced pension, nobody wins in that situation.

Past service liabilities become part of the base benefits, so they're part of the benefits that have to be funded to the 97 and a half per cent probability. Indexation is no longer guaranteed, again like your Bill 9, and risk management tests apply. So members' basic pension formula, their base benefit, as I said, has a 97 and a half per cent likelihood that it won't have to be reduced over the next 20 years. Ancillary benefits are strongly funded, with a 75 per cent likelihood that they won't have to be reduced. But benefits can be reduced, and when they are reduced, those reductions are borne by all plan members in the same proportion.

Contributions to these plans are set when the plan is established. The amounts are determined taking into account the prescribed minimum level of funding for base benefits and ancillary benefits and the risk management goals that have to be met. Generally speaking, employers and employees contribute equally to these plans. If there's a deficit at conversion, temporary contributions may be required. Employee contributions can't exceed 50 per cent of the contributions, so an employer can pay more than 50 per cent, but, legislatively, an employee cannot.

There's a narrow margin within the legislation for increases and decreases to contributions. Increases, if necessary, are capped at the greater of 2 per cent of earnings or 25 per cent of the initial contribution rate. Getting back to what I said, that employer contributions are fixed, they're fixed within that very narrow margin. Contribution holidays are not permitted unless required by the Income Tax Act.

Next slide. Cost-of-living indexing is conditional, as I said. Automatic cost-of-living indexing is replaced by conditional indexing, and this is for both actives and retirees. It's only paid if the plan can afford it. So on conversion we freeze the accrued final-average benefit at conversion and convert to an enhanced career-average benefit prospectively. So for New Brunswick's public service plans and a number of the private plans that have converted, this means that their previous final-average benefit was frozen at conversion, and they are now in an enhanced career-average plan, which means a career average that gets indexed when the plan can afford to grant indexing. In shared-risk plans where indexing or COLA is granted in a year, it augments everybody's base benefits: the actives, the deferreds, and the retirees. That's a misunderstood and important element of this model, I believe.

Funding rules for shared-risk plans. Solvency valuations aren't required. There's a different type of funding policy valuation that is undertaken instead, and that funding valuation is performed to determine the benefit security levels and whether any actions set forth in the funding policy have to be taken. There's also a triannual going concern valuation for tax purposes to determine the Income Tax Act maximums.

Next slide. There's a required funding policy in our pension plans. It's a key document for shared-risk plans. It's also established at the inception of the plan and reviewed at least annually, and it guides the trustees in the administration of the pension plan. It establishes the risk management goals and procedures. It establishes the funding deficit recovery plan, basically what steps you're going to take if the plan gets into deficit.

It also establishes the funding excess utilization plan, and the legislation does lay out three priorities for that excess utilization plan. The first has to be that if there's been a reduction in base benefits that has not yet been reversed and the plan has excess funds, then you reverse those. The second is that if you've reduced ancillary benefits and they haven't yet been paid back, you reverse the reduction; the third being, basically, COLA, any ancillary benefit that was impacted by the conversion. That's the third priority.

It has annual risk management and stress testing, where the goal is to provide flexibility and a warning system that will allow plan administrators to take corrective measures and help ensure that targeted benefits can be achieved. The superintendent can require additional tests at any time. They're legislated to factor in rapidly increasing life expectancies when making their spending decisions.

Next slide. Shared-risk plans have to be administered by a board of trustees, a trustee, or a nonprofit corp. The trustees are appointed by the parties. It can be just one trustee as well, and that one trustee can be appointed by the employer. A board of trustees

isn't mandated in the legislation, but most of the plans we've seen convert, because of the nature of the plans, have chosen to go with a joint board of trustees. The trustees have to act independently of those who appoint them. Their only fiduciary duty under the legislation is to act in the best interests of the plan. They're in for a set term of at least three years, which can be renewed, and basically only the superintendent can remove a trustee.

Because of the nature of the plans we felt that enhanced disclosure was also necessary to make sure that everybody understood the pension plan. So there's enhanced disclosure around contribution limits and around the potential for benefit reductions. There are disclosure obligations on conversion regarding how your current benefits are being treated and on calculation of the benefits on termination, retirement, or death. There are disclosure obligations after each valuation, the funded or termination value ratio in the plan, the investment performance, the asset liability modelling testing results, any benefit reductions or increases that would result from those tests, and the benefits on termination.

Next slide. What we found through the testing of the plans that we have converted here are some relatively common impacts at the various career levels. New and early-career employees have seen marginally higher contributions, and their targeted retirement year will increase by approximately three to four years. Mid-career employees, again, see marginally higher contributions. Their targeted retirement year will increase by two to three years. Late-career employees: we see very little difference in the pension. They can retire as planned with only a very small reduction or can work slightly longer than planned and receive the same pension. When I say "slightly longer," some of the individuals that we dealt with here were very concerned with the changes, and when we did their calculations, "slightly longer" meant that they had to work an extra four weeks to get the same amount of pension that they would have under the prior plan. For retirees the amount they're currently receiving doesn't decrease at conversion but is subject to the same risks as all other plan members in the future with respect to benefit reductions and conditional COLA.

9:30

Next slide, our key takeaways. I think from New Brunswick, anyway, what we see as the key takeaways from our shared-risk plan are that employer risks are managed, a pension is delivered to members, there's robust risk management, and the plan meets the objectives of sustainability, stability, and affordability as well as the principles of transparency and intergenerational equity. And what are the alternatives?

Thank you.

The Chair: Well, thank you very, very much. You're right on time.

Thank you to all our presenters. I have a list of members who have questions. I would ask that we proceed with one question and one supplemental so that all members have an opportunity to pose their questions to the panel.

But before we do that, I would like to invite Mr. Quadri and Mr. Eggen to introduce themselves for the record, please.

Mr. Quadri: Sohail Quadri, MLA, Edmonton-Mill Woods.

Mr. Eggen: Good morning. I'm David Eggen. I'm the MLA for Edmonton-Calder.

The Chair: Thank you.

Now we'll go right to the questions. Mr. Eggen.

Mr. Eggen: Thank you. Thank you for your presentations, I apologize that I missed yours, Bernice, but we do often talk, so we can do that again, I'm sure.

I was very interested, Ms Mazerolle, in your presentation of the New Brunswick experience. My analysis is that New Brunswick is a cautionary tale for us here in Alberta. It's really a good example of not managing pensions properly. It seems to me that you failed to deal with your unfunded liability properly, like we have here in Alberta, and thus you quite literally drove your defined benefit plan into the ground, leaving people and pensions at risk in its wake, and then you seem to have the audacity to seize control of everyone's pension future, imposing, you know, legislative rules that interfere with collective bargaining, with the capacity for not just public pensions but private pensions, too, to get back and build a defined benefit that is more stable and so forth.

We have a capacity, we have a plan here in Alberta to deal with our unfunded liability, and contributions will drop as a result. I'm just wondering if there is any part of this New Brunswick thing that you think that we should be exporting to Alberta. I don't see anything that applies, really, in my mind.

Ms Mazerolle: Well, I would say that the cautionary tale is not that New Brunswick looked the other way and wasn't paying attention to their pension deficits. Quite frankly, I don't agree with anything you've said with regard to New Brunswick's situation. The cautionary tale is this: perhaps New Brunswick was a bit ahead of the curve on demographics. Our population is older than some other provinces in Canada, but it's a train coming down the tracks. The deficits in the plan weren't because nobody was paying off the deficits. The deficits in the plan were a result of market conditions and improved longevity, something that is impacting all of Canada, all of North America, and Alberta is not exempt from that.

So take New Brunswick's model, or come up with another one, but I think you need to look at a plan that provides sustainability and flexibility and affordability for both your public and private sectors.

Mr. Eggen: Well, certainly, we intend to strengthen our pensions, both public and private, but this notion that you can create a mythology that there's some sort of terminal issues of longevity and interest rates and so forth, I mean, we know those things here, too. It's not a big mystery that just came to New Brunswick first. The key, I believe, is to ensure that you make a long-term intergenerational plan that invests in defined benefits packages, allow the autonomy of negotiators, both on the employer side and employee side, to define their terms, to have that governance and the integrity of that governance intact on the pensions, and thus you create something that will serve the needs of workers and employers, taxpayers, and the province in general.

Ms Mazerolle: Well, in New Brunswick – again, the process we follow here might not be the same as the one you follow in Alberta, and that's certainly up to every province to decide for themselves. The pension plans we looked at here: we actually did work very closely with the union representatives. We looked at some of the worst plans in the province as far as funding went. We met with the union leadership there. We designed solutions that worked for those plans and then found that they worked for a number of plans. So the solutions that were worked out with the initial union leadership of the initial plans we looked at did actually become the shared-risk model. It wasn't something that was foisted on those individuals. When the task force sat down with the membership around the table, it became clear very

quickly, once the numbers were on the table, that the status quo was not an option.

Once people realized that, the unions actually were quite willing to work at finding solutions, and the task force and government were quite willing to look at a number of different solutions. You know, when unions came back to us with suggestions on, "Well, we want to keep this benefit instead of this one. What does that cost?" we'd run the numbers, and at the end of the day if it was too expensive, everyone around the table knew it was too expensive. It was a give-and-take process on those first few plans, and through that the shared-risk model was developed.

Mr. Eggen: That's it for me.

The Chair: Are you done? Thank you.
Mrs. Sarich.

Mrs. Sarich: Thank you very much, Mr. Chair. Well, building some capacity on the New Brunswick example, I've read New Brunswick regulation 2012-75 under the Pension Benefits Act with a lot of interest. I thank you for pointing out some of the key proponents that exist in that regulation. Because one of the themes that has been raised with a number of presentations thus far to our standing committee was the issue of being a partner in taking a look at some of the parameters of regulation, I was wondering if you could comment on the process that you built around the regulation piece.

Also, another theme that has arisen through the presentations is the issue of governance. There seems to be a body of evidence to suggest that perhaps if we look at the governance first and then the structures that would follow from that, that might be helpful. I'm wondering if you could comment on the issue of governance and how you structured that piece because you have emphasized through your presentation that it was a shared responsibility in terms of your model.

I might have a third, but I'll just wait for your response.

Thank you.

Ms Mazerolle: Okay. I'm not a hundred per cent sure what you're referring to with regard to the process for our regulations. As I had stated, the framework for our model is in our legislation, and that was something that we reviewed with the various groups that we were working with on their pension plans. Once that framework was agreed to, once we had that in place, then we went about writing the regulations, with all the detailed information in the regulations. If you've read it, I congratulate you. It's certainly not an easy read. As you'll note, it is very detailed and very prescriptive.

Part of that touches on your second question, on governance. We did not mandate a governance structure for shared-risk plans. What we did mandate was an independent trustee and a number of other documents in order to ensure that these plans would be well governed. The independent trustee does not have to be a joint board of trustees though I'm not sure that I have any shared-risk pension plan registered in New Brunswick at this time that is not run by a joint board of trustees. The parties themselves for the most part have decided that given the nature of these plans, given the shared nature of these plans, it is best to be run as a joint board. They've made those decisions on their own; we didn't mandate it.

9:40

On the governance side, then, we have mandated risk management policies that the trustees have to be testing every year. We have mandated funding policies that will tell the trustees exactly what steps have to be taken when the plan is in deficit and in what priority those steps will be taken and the steps that will be taken when the plan is in a surplus position. That all has to be laid out at the inception of the plan so that there is no argument around: "What do we do? Here we are. We're 90 per cent funded. What do we do?" The funding policy tells you what you have to do. The trustees' only obligation, then, is to follow the funding policy that's in place. All those documents are agreed to prior to registration of the plan.

Go ahead.

Mrs. Sarich: If you have more to add, go ahead.

Ms Mazerolle: I was just going to say that one of the other items regarding governance that's contained in the legislation is that the pension plan has to have a dispute resolution mechanism in case the trustees do happen to be deadlocked on an issue. There has to be, again at inception of the plan, a dispute resolution mechanism within the plan, and if it's not implemented within a reasonable time, then the superintendent can actually step in and implement a dispute resolution mechanism to get things moving again and to make sure these plans don't just sit there stagnant without making the proper decisions.

Mrs. Sarich: Thank you.

The Chair: Before we continue, Mrs. Sarich, I'd like to advise the members joining us via teleconferencing that – please, please – your side conversations, paper shuffling, and the noise of your phones are interfering with our proceedings. Please keep them away from the phones. Thank you.

Mrs. Sarich, continue.

Mrs. Sarich: Thank you very much, Mr. Chair. I do have a question for Bernice Rempel from CARP. It has been pointed out to our standing committee by the Auditor General very clearly that there is compounding evidence to signal that we're reaching the maximum acceptable level in terms of what's happening on the pension issue here in Alberta. The question is if the plans are sustainable and the ability to secure the promise of those plans. I listened very carefully to your presentation, and I was wondering: is there a realization by CARP and the membership here in Alberta of those things that the Auditor General has pointed out?

Ms Rempel: I think CARP members are all very realistic, and they recognize that there are those issues that need to be addressed. Our opinion is that they should be addressed in consultation with all the partners. We have many people more experienced than myself in the pension programs, but we would hope that everything is done on a consultative basis. Certainly, our members are all experienced in life and are realistic to the challenges of life and are open to those.

Mrs. Sarich: I appreciate those additional comments because basically there is a realization not only from the perspective of the Auditor General but from numerous presentations that the status quo for today is not something that we can continue. We have some challenges that are forthcoming, and we have to be able to be robust enough to respond. Is there anything further that you would like to say on the consultation?

Ms Rempel: No. Just that we're family people, so we are concerned not about the retirees only; we are concerned about our children and grandchildren, who, we hope, will have opportunity to save and contribute to retirement programs, pension programs.

Mrs. Sarich: Thank you.

The Chair: Thank you, Mrs. Sarich.
Ms Kubinec.

Ms Kubinec: Thank you. I've enjoyed all the presentations and found them very valuable. My question is to Angela. What was your previous governance model? We've heard over the last few days that the governance here needs to change and to the joint model. We've also heard that we need the governance changes first and then the plan design changes. You did both together. Am I correct in that? Then I have another question after.

Ms Mazerolle: Right. New Brunswick's legislation came out all at one time. They were a complete package for shared-risk plans, the legislation and regulations. The governance model depended a lot on the plan itself. Our public-sector plans, most of them have unionized workforces. They were already jointly trusteed plans, but the trustees in those plans had some limited decision-making abilities. There were only certain things that they could decide upon. That's still the case in the defined benefit and defined contribution plans. I mean, we didn't do away with DB and DC plans. They're still in our Pension Benefits Act. They're still an option. It's simply that there is a new model also available under the Pension Benefits Act for public- or private-sector plans if they choose to go in that direction.

In any of the private-sector plans usually we see one administrator appointed by the employer, or it's often the employer who is the administrator. There's an inherent conflict with that, but it's not uncommon in any pension legislation across the country, nor is it an uncommon model to see.

We simply mandated a slightly different approach on shared-risk plans for defined contribution and defined benefit plans. The approach has not changed within our legislation.

Ms Kubinec: A supplemental. The contribution rates, being 50-50 or whatever, employee-employer: were they set in your legislation, or can they be altered by negotiation?

Ms Mazerolle: In the New Brunswick legislation for defined benefit or defined contribution plans there is a maximum employee cost rule that says that the employee can pay no more than 50 per cent of the commuted value of their pension. At the end of the day, if on termination it is, then there are certain calculations that transpire, and they get a refund, or the commuted value is increased so that it isn't any more than 50 per cent.

That rule does not apply to shared-risk plans. What applies instead for a shared-risk plan is that in the legislation it does actually say that employees cannot contribute more than 50 per cent of the contributions. Employers can; employees cannot. So it's based more on contribution than the value that the contributions had against the commuted value of the benefit.

Ms Kubinec: In other words, it could be negotiated down from 50 per cent.

Ms Mazerolle: Yes, absolutely. For shared-risk plans it doesn't have to be 50 per cent. The most it can be is 50 per cent.

Ms Kubinec: Thank you.

The Chair: Thank you, Ms Kubinec.
Do we have any questions from the phones?
Hearing none, thank you, all, very, very much. Thanks, Ms Rempel, Ms Mazerolle, and Mr. Dobson for your presentations today and for answering the committee's questions. The *Hansard* transcript of the full day's proceedings will be available in a few days via the Legislative Assembly of Alberta website. The audio of the meeting is also available via the Assembly site. If you wish to provide additional information to the committee, please forward it through the committee clerk.

Now we will break for a little more than 15 minutes. We should be back here promptly at 10:15.

[The committee adjourned from 9:50 a.m. to 10:18 a.m.]

The Chair: All right. Good morning, ladies and gentlemen. We're back on the record, and we will be moving on to our next panel. I would ask that we go around the table and introduce ourselves for the record, and then I will call on the members teleconferencing to introduce themselves. If you are substituting for someone, please indicate so.

I'm Moe Amery, MLA for Calgary-East and chair of this committee.

Mr. Fox: Rod Fox, MLA for Lacombe-Ponoka and deputy chair of this committee.

Mr. Quadri: Sohail Quadri, MLA, Edmonton-Mill Woods.

Ms Kubinec: Maureen Kubinec, MLA, Barrhead-Morinville-Westlock.

Mr. McDonald: Everett McDonald, MLA, Grande Prairie-Smoky.

Mrs. Sarich: Good morning, and welcome. Janice Sarich, MLA, Edmonton-Decore.

Mr. Eggen: Good morning. My name is David Eggen. I'm the MLA for Edmonton-Calder.

Ms Sorensen: Good morning. Rhonda Sorensen, manager of corporation communications and broadcast services.

Dr. Massolin: Good morning. Philip Massolin, manager of research services.

Mr. Tyrell: Good morning. Chris Tyrell, committee clerk.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: Thank you.
Members on the phone, please.

Mr. Luan: Jason Luan, MLA, Calgary-Hawkwood.

Dr. Swann: David Swann, Calgary-Mountain View, for Kent Hehr.

Ms Pastoor: Bridget Pastoor, MLA, Lethbridge-East.

Mr. Lemke: Ken Lemke, Stony Plain.

Mr. Stier: Pat Stier, Livingstone-Macleod.

The Chair: Good. Thank you very much.
Now I would like to ask our guests participating via video conferencing to introduce themselves, please.

Mr. Hunter: Cameron Hunter, a pension actuary.

Mr. Mackenzie: Hugh Mackenzie, an economist and sometimes messer-around with pensions.

The Chair: Thank you, and welcome. Gentlemen, you will each have 15 to 20 minutes to make your presentations, and I will open

the floor to questions from the committee once we have heard from each of you. We will go in the order listed on our agenda, starting with video conferencing.

Mr. Cameron Hunter, from Eckler Consultants, welcome, sir. You may begin your presentation.

Eckler Consultants, Ontario Teachers' Pension Plan

Mr. Hunter: Thank you, Mr. Chair and hon. members of the committee, for the opportunity to address you today. My comments are in respect to Bill 10, the Employment Pension (Private Sector) Plans Amendment Act, 2014. I believe that I've been asked to provide comment because I'm a pension actuary. The pension plans to which I advise consist solely of multi-employer pensions plans, which are also referred to as negotiated cost pension plans and specified multi-employer pension plans.

These plans are significantly different from most other types of pension plans. Pension benefits are defined in the plan document. Either a defined benefit or defined contribution benefit structure may be provided. For purposes of my comments today, I'll be speaking with respect to defined benefit multi-employer pension plans.

According to the Alberta Finance website there are 23 defined benefit multi-employer pension plans registered in the province of Alberta, mostly in the construction sector, providing financial security and retirement to over 150,000 individuals. As of the last reporting period these pension plans have almost seven and a half billion dollars in assets. For these plans contributions are established from an allocation of the total wage package as negotiated between a union and employer association. This contribution rate is fixed for the period of the collective agreement. Future collective agreements may increase the contribution rate but only through the collective bargaining process. The employer obligation to fund the pension plan is limited to the amounts agreed to through this process. Should the pension plan experience financial difficulties, there is no obligation on the employer to fund any shortfall.

These plans are also subject to different tax rules, with a key aspect being that aggregate contributions are limited to 18 per cent of pay. This is different from most other pension plans, where the employer backstops the pension. In those situations the tax rules allow the employer to contribute whatever amounts are required to fund the benefits, including eliminating any shortfalls. Since there is no employer backstopping the pension benefits in a multi-employer pension plan, financial difficulties are typically addressed by plan members increasing the allocation of their wages to the pension plan or some sort of benefit reduction.

With that, I would like to express my support for Bill 10 as it is currently drafted. There are two provisions in particular on which I'd like to comment. The first provision allows for the conversion of a defined benefit pension to a target benefit pension plan. The two key implications of this are the streamlined process to adjust benefits to address any funding difficulties and different funding rules.

Multi-employer pension plans currently have the ability to reduce accrued benefits. Accrued benefits are benefits that have been earned prior to the effective date. Unfortunately, some plans have had to take such action. In order to do so, superintendent approval is required. By allowing these plans to become a target benefit pension plan, the process required to adjust benefits moves away from strict oversight by Alberta Finance and moves to the plan's board of trustees. The policy position of Alberta Finance indicates that trustees must adopt a benefits policy spelling out when and how benefits are to be adjusted so that trustees have a framework to follow, one that is in place before they face that situation.

In addition, trustees are to subject the pension plan to stress testing. The combination of a documented benefits policy along with the insights gained from stress testing in my opinion greatly increases the ability of the trustees to manage the plan to minimize the need for benefit reductions and at the same time increases the plan's membership confidence in the management of the plan. Target benefit pension plans are not expected to be subject to the normal going concern and solvency funding requirements. Instead, they are expected to be subject to a going concern plus funding regime, consistent with the policy paper released in March 2013 by Alberta Finance.

The current Bill 10 allows for the conversion of all past benefits to target benefits. This makes sense. If accrued benefits are not converted, then the management of the plan as a whole will be substantially more difficult and confusing for members to understand. A portion of the benefits will be subject to solvency funding and a portion not. Solvency funding assumes that the plan is terminated on the valuation date and all assets are liquidated. Due to the vagaries of solvency funding this results in highly volatile benefits. Since contributions are fixed, benefits must be adjusted to address any funding shortfalls.

10:25

Target benefits under going concern plus funding are to have much more stable funding and thus more stable benefits. Again, most multi-employer pension plans have contributions limited to 18 per cent of pay, and many are already at that limit. Thus, any corrective action would be in respect of benefits, not contributions. As a result, it would be incredibly disruptive to have benefits split by these two funding regimes.

The second provision of Bill 10 to which I'd like to comment is with respect to the clear discharge of liabilities when pensions are purchased from an insurance company. I believe that this is a reasonable and appropriate transfer of obligations from the pension plan to an insurer. Life annuities sold by insurance companies are subject to funding requirements equivalent to or possibly stronger than those of a pension plan. Life annuities are also protected by liability insurance provided by Assuris, which covers life annuities up to certain dollar limits. Assuris is a not-for-profit organization that protects Canadian policyholders if their life insurance company should fail. Every life insurance company authorized to sell insurance policies in Canada is required to become a member of and contribute to Assuris. Thus, the transfer of assets to an insurer to provide life annuity becomes a risk management tool and is not a funding tool.

Finally, I would like to comment on timing. Absent any other action the solvency funding moratorium applicable to specified multi-employer pension plans expires at the end of 2014. Without the provisions of Bill 10 solvency funding would once again apply to these pension plans. In the current economic environment it is quite possible that many of these pension plans will have a solvency deficiency at that time. For many of these plans the corrective action would be benefit reductions. Thus, it is very important that Bill 10 come into force before the end of 2014. If Bill 10 is not passed in 2014, many plans may have to cut benefits only to restore them should Bill 10 eventually become law. This unnecessary variability in pension benefits destroys the confidence that plan members and their families have in the whole pension system.

To summarize, multi-employer pension plans are already target benefit plans. Not allowing the conversion of all accrued benefits to fall under the same funding regime is illogical. The ability to

purchase life annuities from an insurance company can be a prudent risk management tool. Finally, I urge you to pass Bill 10 in its current form no later than the end of this year.

Thank you for your time.

The Chair: Well, thank you. Thank you very much, Mr. Hunter.

Also joining us via video conference is Mr. Mackenzie, with the Ontario Teachers' Pension Plan. Go ahead, please, Mr. Mackenzie.

Mr. Mackenzie: Thank you. I want to thank the committee for accommodating those of us who wanted to participate but found it impossible to get to Edmonton to be with you. I'm grateful for the opportunity.

I want to start off just very briefly by telling you a little bit about myself because that might help to situate what I'm going to talk about. Your introduction referred to the fact that I'm on the board of the Ontario Teachers' Pension Plan, which is a jointly sponsored pension plan in the public sector in Ontario. I'm also on the board of the Ontario public service plan, which is a conventional employer-sponsored, earnings-related, defined benefit pension plan in the public sector. Before taking on those tasks, I worked for about 25 years in the private sector for a large union, the steelworkers, involved in negotiating and evaluation of pension plans in the context of collective bargaining. So I've seen the pension world from many different ends of the stick.

I want to make three key points in my discussion with you today. First of all, I want to make some observations that I hope will put the issues that have been discussed a lot lately about public-sector pension plans into some perspective. Secondly, I want to make a plea to root the discussion of what should be done in the context of public-sector pensions in the context of the broader objective of these plans. Pension plans are fundamentally intended to provide for adequate retirement income and secure retirement income for their members. The other aspects of pension plans that we spend a lot of time talking about are ancillary to that. The third point that I want to make – and I think this is particularly important given the introduction – is about the risks associated with cherry-picking ideas about how to deal with issues from other jurisdictions without reference to the context that existed there.

So let me start with a comment about the perspective. In Canada we went through, in 2008 and 2009, the deepest economic recession since the 1930s, and if you look at the status of Canadian pension plans, particularly Canadian public-sector pension plans today, I think it's remarkable given the depth of that recession and particularly the extent of the disruptions in financial markets that accompanied it, that Canadian public-sector pension plans are in as healthy shape as they are.

That brings me to step back a little bit and look at the overall structure of the Canadian pension system. Many of you will have heard people referring to the three-legged stool of the Canadian pension system: old age security and guaranteed income supplement being one leg, a plan that's available to everybody regardless of whether they're employed or not; secondly, the Canada pension plan, which is the universal workplace-related pension plan; and the third leg, which was intended to be the privately initiated segment of the system.

If you look at these three pieces, I think it's fair to say that the universal nonemployment related pension system in Canada has been pretty successful, and that's particularly noteworthy in Alberta because the supplementary benefit, the Alberta seniors' benefit program, combined with old age security and guaranteed income supplement has had a huge impact on the prevalence of poverty and near poverty among seniors. So that aspect of the system is performing extraordinarily well.

The Canada pension plan faced many of the same kinds of issues that other universal public plans around the world faced in the 1980s and 1990s, and for a combination of reasons Canada actually did the right thing. We significantly improved the funding arrangement in the Canada pension plan to the point now where the chief actuary for Canada is saying with some confidence that we expect the Canada pension plan to run through the period where the baby boom generation retires, collects Canada pension, and dies, this big bubble generation, in sound financial shape.

One can't say the same thing about the third leg of the stool, the private end of the stool, which is one of the reasons why expansion of the Canada pension plan is such an important issue for us to be dealing with these days. Frankly, I think if you step back and look at the workplace-related pension system or the workplace-related retirement income system, the biggest issue that we face is not the funding issues with public-sector pension plans. The biggest issue we face is the lack of coverage in the private sector. Coverage in the private sector is down in the neighbourhood of 20 to 25 per cent, depending on where you are in Canada. Alberta is a little lower than the average. Basically, less than 1 in 4 private-sector workers is covered by a pension plan.

10:35

More important than that, I think, is that a pension system that is largely built around single employers providing pensions for their employees exclusively may have been a reasonable reflection of the structure of the labour market in the 1960s, when the system was envisaged, but it's not the reality that we face today, with very high turnover of both employers and employees. So I think it's important, as I said, to keep in perspective where the real problems in our retirement income system lie.

Now, I want to make some general contextual observations about the financial stresses that all workplace-related pension plans, including public-sector workers' pension plans, face. All pension plans are dealing with the impact of increased longevity. If you look at a chart showing life expectancy at age 65, comparing the '60s, when the system was envisaged, to today, you see dramatic changes in life expectancies. Those have a direct implication for the expected cost of pension plans.

There's also, I think, a general consensus that as we look forward into the future, we're not going to see a repeat of the kind of extraordinary investment returns that typified pretty much every financial instrument in the period from 1980 to 2000. Those are broad, long-term trends that, I think, need to be and in fact are being reflected in the fundamental economics of public-sector pension plans regardless of where you are in Canada. I make that point because it's critical, I think, to distinguish between those financial issues that arise from long-term trends and demographics and in financial returns and the kinds of cyclical changes that we've seen increasingly putting pressure on pension plans in the late 2000s and into the 20-teens.

We do have a tendency – and I think everybody is subject to this – to look at the world from a close-up lens, to look at the world over the last five, six years. Certainly, if you look at the world over the last five, six years, one can get more than a little pessimistic about the relationship between the performance of financial markets and the financial health of pension plans. But if you look at the situation over a longer period of time, you see that cyclical fluctuations in returns are exactly that, cyclical fluctuations, and you can identify periods of time in the past, in the relatively recent past, when investment returns were kicking

out gains for pension plans, both in the public sector and the private sector, that were making those plans extraordinarily healthy.

The second point I want to make is that I think it's important that we keep our eye on the ball when we're looking at various options for pension plan design. From the perspective of the plan member a defined benefit pension plan is by far the best way to provide for retirement income security for two reasons, not the reasons, perhaps, that you might expect me to offer. One is that defined benefit pension plans, particularly large defined benefit pension plans, are the most efficient way to save because they allocate risk appropriately given the relative ability of plan sponsors and individuals to bear risk. And defined benefit pension plans, particularly the large, well-managed defined benefit pension plans, earn greater investment returns after cost than are realizable in private savings arrangements. When it comes to risk, basic insurance principles tell you that the larger the group over which the risk is spread, the lower the cost of bearing that risk.

I want to make a couple of further comments about risk in the context of pension plans. First of all, one's view of risk depends a lot on one's time horizon. The shorter the time horizon, the greater the likelihood that outcomes will depart from expectations. The longer the time horizon, the more likely that the longer term expectations will be realized. For a public-sector pension plan the time horizon is at least as long as the remaining life expectancy of the youngest plan member. Most public-sector plans have a maximum time horizon approaching 75 to 80 years. In that context it's important not to get too spooked by what happens in the very short term, what happens in, for example, short-term bond markets, on a day-to-day or month-to-month or even a year-to-year basis.

The second point I wanted to make about risk is that in the context of prudent pension funding, because the funding assumptions that are built into pension funding, whether in the private sector or the public sector, include a provision for adverse deviation – in other words, an extra reserve to allow for the possibility that assumptions won't be realized in a way that's adverse to the funding of the plan – in effect the plan gets paid for taking that risk through the adoption of prudent funding regimes, but the payment that the sponsor or the plan receives remains in the plan essentially as a cushion against funding risk.

The last point I'd want to make, because this has been a frequent topic of conversation in discussions of reforming pension plans in Canada, both in the public sector and in the private sector but particularly in the public sector, is the idea of risk sharing. Risk sharing is being discussed as if it's a brand new concept. As Cam noted with respect to multi-employer plans, risk sharing has been a feature of multi-employer plans in Canada from the get-go, but even in the traditional employer-sponsored defined benefit pension plans, risk sharing is not a new idea, basically in two really important respects.

One is that pension plans are employment benefits, and what that means is that every time an employer or a group of employers sits down with employees, either notionally or literally in the case of unionized workforces, and settles on terms and conditions of employment, the option is always there to change the terms under which the pension plan is funded and to change the terms under which the benefits are offered in the future. Those changes often happen in the context of the determination of terms and conditions of employment.

Equally, it's important to note that in plans that do not offer 100 per cent inflation protection, there is an implied risk sharing between retirees and active plan members and the plan sponsor because while the returns that are paid to a plan are obviously nominal returns, incorporating the impact of inflation into the returns, if benefits are not 100 per cent indexed, the retiree ends up, in effect, bearing part of the risk of inflation through less than 100 per cent inflation protection. In particular, for example, when you're looking at the major public-sector plans in Alberta, which are 60 per cent inflation protected, in effect retirees are already bearing 40 per cent of the risk of inflation through the design of the plan. So it really is pushing it to say that risk sharing in the context of pensions is a novel and unprecedented idea.

Finally, I want to speak specifically with reference to the role that I've played in dealing with public-sector pension plans in Ontario. I want to offer some cautionary notes about jumping onto or cherry-picking ideas that have been adopted in other jurisdictions and applying them without reference to the context in which they arise.

Let me first give a little bit of background about the public-sector pension world in Ontario. There are six major pension plans in Ontario covering public-sector workers: the Ontario Teachers' Pension Plan, of which I'm a member of the board; OPTrust, which consists of members of the Ontario Public Service Employees Union, who work for the government of Ontario directly; the colleges of applied arts and technology pension plan, which, as its name suggests, represents people who work for colleges of applied arts and technology; the Ontario municipal employees retirement system, which covers employees of municipalities and employees who are not teachers who work for school boards; the hospitals of Ontario pension plan, pretty obvious who they cover; and the Ontario public service plan, or Ontario Pension Board, which is the employer-sponsored pension plan that covers direct employees of the government of Ontario. With the exception of the Ontario Pension Board each of them is either classified as a jointly sponsored plan or a multi-employer plan and therefore is technically a risk-sharing or target benefit plan.

10:45

Having said that, there are substantial differences between what is in place in Ontario and what is under consideration for Alberta. I'll group those differences under four broad headings: the origination process, the relationship between the plans and the day-to-day decision-making of government, the ongoing governance of the plans, and the line being drawn between what is described as guaranteed and what is being described as contingent.

First, origination. HOOPP, the hospitals plan, is a multi-employer pension plan arising from the collective bargaining processes involving various unions and hospitals as employers. OMERS is a statutory multi-employer plan covering all employees of municipal governments and all nonteaching employees of school boards but operates as an independent entity and is cosponsored and co-trusteed by a large board representative of municipalities, school boards, and the unions representing employees in those sectors and also representatives of non-union employees and retirees in those sectors.

The Ontario Teachers' Pension Plan, membership in which is mandatory for any certified teacher who is working in the education system in Ontario; CAAT; and OPTrust: those three plans are all what are known in Ontario as jointly sponsored pension plans. Each of those arose from voluntary arrangements between representatives of plan members and the government of Ontario. In other words, Ontario's JSPPs are the product of a consensus. They were not legislatively imposed.

Secondly, the relationship between the plans and the government. All of the plans are subject to the Ontario Pension Benefits Act as well as to specific legislation. The government of

Ontario has a role in decisions with respect to the benefits and contributions as a 50-50 partner in the governance of the plans with the exception of OMERS, which is completely on its own, and HOOPP, which is also completely on its own. The plans are responsible for their own decisions regarding such things as benefits, contributions, risk sharing, funding strategies, et cetera. In other words, the government as employer has a role in the benefits provided and contributions required in these plans, but the government as sovereign does not.

The third point, ongoing governance. All of the plans have boards, which are comprised 50-50 of representatives of the government as employer, with its chair selected by agreement. The plans are responsible for their own operations.

The line between guarantee and contingent. Where plan changes are made and provisions are made contingent, they apply to future service only. In general, inflation protection is the variable and the only variable that's used in the structuring of contingent benefits. I would note that even in the one plan that is sole sponsored by the government of Ontario, the Ontario Pension Board, the board includes nominees of bargaining agents, the board operates as an independent entity at arm's length from the government with full responsibility for managing the plan, the relationship between the board and the government is spelled out in a formal memorandum of understanding, and there is a detailed funding policy that has been developed over a number of years and has been recently ratified by the board and by the government.

In conclusion, let me just stress that pension plans are root employment benefits. Their role in providing for retirement income security, as financial institutions, et cetera, flows from that fundamental characteristic. Public-sector employees' pension plans arise from an employment relationship between public employees, either as a class or as represented by unions or employee associations, and the government in its capacity as an employer and not in its capacity as sovereign. It's important to keep those two roles separate. The approach contemplated in Alberta does not.

Thank you.

The Chair: Well, thank you very much, Mr. Hunter and Mr. Mackenzie, for participating on this panel.

Now, any questions? Ms Kubinec.

Ms Kubinec: Yes. Thank you. That was very informative. My question is regarding the governance, and you've answered a lot of that. The contribution of employer and employee: normally that's 50-50. Is that the case with both of your plans? If you could each answer that question.

Mr. Mackenzie: Well, I'll start. With respect to the jointly sponsored pension plans, those are all 50-50 plans. The one footnote to that that I would add is that the plans did not start out as jointly sponsored plans. They were solely sponsored plans up until the early 1990s. When the plans were converted from employer-sponsored plans to jointly sponsored plans, there was a provision made for the retirement of the unfunded liability that existed at that time. In all of the plans that I'm familiar with, that unfunded liability has long since been retired. But if you look back at the financial statistics for those plans, you would find that in the early years in which those plans were operating, the employer contribution was slightly higher than the contribution of the employees, but on a going-forward basis and at present in the jointly sponsored plans the contributions are 50-50.

In the case of the Ontario public service pension plan, which is the solely employer sponsored pension plan that I'm involved with, the funding for the normal going concern benefits is 50-50. Each of the employers and the employees contribute half of the cost. The employer's cost can vary relative to the employees' contribution, depending on the financial status of the plan. Under the funding policy that exists now between the Ontario Pension Board and the government, if there's a period of time when the plan is in surplus, the employer will get credit against contributions so that the employer's contributions will draw below 50 per cent during that period of time, and in a period of time when there's a funding shortfall, the employer's contribution may exceed the employees' contribution.

But the design of the plan – and I think it's important to stress this – and the fundamental economics of the plan are based on long-term funding studies that look at expected returns and expected longevity 30, 40 years out and structure the plan so that they are expected to be 50-50 funded over that long period of time.

Ms Kubinec: Thank you.

And our other presenter?

Mr. Hunter: In respect to multi-employer plans the structure is somewhat different. Generally, what happens is that the union negotiates with the employer association for a total wage package. From that total wage package the union decides what portion would be allocated to the pension plan, just like they would determine what portion of that would be allocated to a health and welfare plan, to other types of trusts they might have, and what portion is allocated to direct wages. Technically, those contributions are employer contributions for income tax purposes; they are not employee contributions.

In a relatively small proportion of plans, in addition, employees do make a contribution. Technically, the vast majority of plans have employer-only contributions, but as I say, it's the unions that determine the package. The employers just agree to pay the total wage package, and then that gets split up in accordance with how the union decides it should be split up.

Ms Kubinec: Thank you.

The Chair: Do you have a supplemental question?

Ms Kubinec: No.

The Chair: Good. Thank you.

Mr. Eggen.

Mr. Eggen: Thank you very much for both of your presentations. I guess I just have two questions. The first gentleman, Mr. Hunter, expressed some urgency around dealing with Bill 10. I just was hoping you could perhaps reiterate or offer more on that subject as to why we would feel like we should do that before the end of this calendar year.

10:55

Mr. Hunter: Sure. Thank you for the question. Specified multi-employer pension plans in Alberta currently are operating under a temporary solvency moratorium, and perhaps I should back up a moment and explain what that means. The pension plans are subject to a financial analysis on two bases. The first assumes that the plan continues indefinitely. That's called the going concern basis. The second assumes the plan is terminated on the valuation date, and all assets are liquidated and distributed to the plan members in a predetermined fashion.

Solvency funding has the effect of immediately recognizing the current economic environment. As Hugh had mentioned in his

comments, pension plans are very, very long-term vehicles. By recognizing the current economic environments and if a plan has a solvency shortfall, those shortfalls have to be eliminated over, again, a short period of time. Under normal rules that's a five-year period. My comment is based on the fact that many specified multi-employer pension plans in Alberta are currently operating under a system that does not impose solvency funding.

If Bill 10 is not passed and implemented with the associated regulations, et cetera, then solvency funding again applies effective January 1, 2015, assuming no other changes. In that event, I expect that many pension plans could very well have a solvency deficiency. As I said in my remarks, the only corrective action for most pension plans is to reduce benefits as they do not have the ability to increase contributions because contributions are limited under the Income Tax Act to 18 per cent of pay. What that means is that if nothing else happens and Bill 10 does not come into force, my fear is that solvency funding applies again. That will require benefits to be reduced because that's the only corrective action.

A subsequent fear is that if Bill 10 and the associated regulations subsequently come into force, then trustees of these plans will increase the benefits in line with what they reduced – presumably, they would be able to do that – so you'd get a whipsaw of the benefits. Quite frankly, in my opinion, that is a very, very untenable situation to be in.

Mr. Eggen: Thank you.

The Chair: Any supplemental question?

Any questions from the phones?

Hearing none, Ms Kubinec.

Ms Kubinec: Yes. What we've heard over the last few days – well, there are sort of two issues that we're facing here: one is the governance, and then one is plan design. Some are saying that you need to deal with your governance first and then let that new governance model fix the plan design. Can you each give me your opinion on that?

Mr. Mackenzie: I'll start. I think I addressed that point in as many words in my opening remarks. I think that for the kinds of changes that many are contemplating in the delivery of public-sector pension plans, it is critical to get the governance right first. I think it's really important in the operation of pension plans for public-sector workers, as would be the case with pension plans for private-sector workers, to ensure that the relationship between the employer and the plan members is a relationship between the government as employer and plan members, not a relationship between the government as sovereign, i.e. as writer of legislation, and the plan members. That's why I think it makes sense, as has been the case in Ontario.

I'm going to get a little windy about this and get into a little bit of history. The teachers' joint-sponsored pension plan was created in 1992. The plan did not need to incorporate formal provisions for risk sharing into the design of the plan until 2005. So there was a long period of time when the governance model was developing and decisions were being made on a 50-50 basis, both at the sponsors level and in the plan operations level. The design changes in the plan were arrived at by consensus between the parties in the context of the governance model. I think to come in and unilaterally change the design of the plan in a way that doesn't arise from an agreement or a consensus is a recipe for problems.

Mr. Hunter: With respect to multi-employer plans the pension plans are the outcome of, typically, a union and an employer association, or possibly just a union, deciding to create a trust, and from that trust falls a pension plan. So by definition in the multi-employer world the process was to get the structure in place and then the plan design. With the governance in place the governors of the plan then make all of the plan design decisions. I should say, just observationally, that these plans are all voluntary and that there is no party forcing another party to participate in the process. These are two willing parties, typically, coming together to create the structure, and that has generally been the process that they have used without any outside influence.

The Chair: Supplemental question, Ms Kubinec?

Ms Kubinec: Yes. I'm going to share with you a concern that I have. I mean, I recognize that we probably need to go to a governance change, but I have knowledge of a benefits board, which is different, but there are definitely similarities. When that benefit plan was set up, it was 50 per cent employer, 50 per cent employee. Through negotiations the total cost of the benefits were paid by the employer, yet the board structure indicated that the employee had 50 per cent of the seats. I guess that would be a concern of mine, and I'm wondering if there's a way that that can be addressed.

Mr. Mackenzie: Well, yes, there is a way that that can be addressed. I'm going to distinguish between the multi-employer plans, that Cam has been referring to, and the jointly sponsored plans in the public sector, that I've been more directly engaged with recently. All of those plans are predicated on 50-50 funding. I think it's also important to understand the basis on which funding tends to shift in benefits plans away from 50-50 funding. It has to do with the way the income tax works. It is much more straightforward to deliver health benefits on a tax exempt basis, on an employer-provided basis than it is if you have 50-50 funding.

For example, if you have 50-50 funding of a long-term disability benefit, the benefit is taxable. If it's a hundred per cent employee funded, the benefit is not taxable but the contributions are, and if it's a hundred per cent employer funded, the employee pays no tax on the premiums but pays tax on the outcome. I think there's a bit of a story on the benefit side that has to do with the way the income tax system arises from it. The short answer to your question is that if you are going to mandate a structural change in governance for these plans, you can mandate the sharing basis going in.

11:05

In the plans that I'm familiar with in Ontario that have been done, with the exception of the footnote that I added to my comment earlier, as is always the case with these things, transition is an important question, and in the case of the creation of the jointly sponsored plans in Ontario in every case there was a commitment from the former sole sponsor, the government of Ontario, to pay off the unfunded liability over, I think, a 25-year period when they were initially created. As it happened, with surpluses generated in the 1990s, in the early years of the operation of these plans, a substantial part of that ended up going onto the government side of the balance sheet, and those unfunded liabilities were retired much more quickly, most of them in less than 10 years.

Mr. Hunter: I would just add that looking at the multi-employer experience, the question really becomes: who bears the risk? In a multi-employer pension environment, the plan members bear all

the risk. The employer's obligation is simply to remit contributions in accordance with the collective agreements. Plan members bear all the risk, and plan members are involved in the governance. In some cases the plans are governed 100 per cent by plan members. In some cases there are employers sitting as trustees, but they're there really because of the desire of the unions involved to have the plan members there. My observation would be that it depends on where the risk is borne.

Ms Kubinec: Thank you.

The Chair: Thank you, gentlemen.
Any other questions?
Seeing none, on behalf of the committee, Mr. Hunter and Mr. Mackenzie, thank you again for your presentations today and for answering questions from the committee. The *Hansard* transcript of the full day's proceedings will be available in a few days via the Legislative Assembly of Alberta website. The audio of the meeting is also available via the Assembly's site. If you wish to provide additional information for the committee, please forward it through the committee clerk. Thank you for participating with us today. Have a great day.

Mr. Mackenzie: Thank you for accommodating us.

The Chair: Now, ladies and gentlemen, we will be recessing until 12:30.

[The committee adjourned from 11:08 a.m. to 12:31 p.m.]

The Chair: Good afternoon, ladies and gentlemen. Glad to see all of you here. We're back on the record to receive presentations from stakeholders relating to the committee's review of Bill 9, Public Sector Pension Plans Amendment Act, 2014, and Bill 10, Employment Pension (Private Sector) Plans Amendment Act, 2014.
I'm pleased to welcome our guests participating on panel 10, who will be addressing Bill 10.
I would ask that we go around the table and introduce ourselves, and then I will call on the members teleconferencing to do the same.
I'm Moe Amery, MLA for Calgary-East and chair of this committee.

Mr. Fox: I'm Rod Fox, MLA for Lacombe-Ponoka and deputy chair of this committee

Mr. Quadri: Sohail Quadri, MLA, Edmonton-Mill Woods.

Ms Kubinec: Maureen Kubinec, MLA, Barrhead-Morinville-Westlock.

Mr. McDonald: Everett McDonald, Grande Prairie-Smoky.

Mr. Boucher: Don Boucher, Alberta director for Unifor.

Ms Warnock: Joie Warnock, western region director, Unifor.

Mr. McGowan: Gil McGowan, president, Alberta Federation of Labour.

Mr. Smith: Guy Smith, president of the Alberta Union of Provincial Employees.

Dr. Sutherland: Rob Sutherland, president of the Confederation of Alberta Faculty Associations.

Dr. Kaminski: David Kaminski, chair of CAFA's pension committee.

Mrs. Sarich: Good afternoon and welcome. Janice Sarich, MLA, Edmonton-Decore.

Dr. Massolin: Good afternoon. Philip Massolin, manager of research services.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: Thank you.
Members on the phone, please.

Mr. Luan: Jason Luan, MLA, Calgary-Hawkwood.

The Chair: Thank you, Mr. Luan.

Mr. Stier: Pat Stier, MLA, Livingstone-Macleod.

The Chair: Thank you, Mr. Stier.
Do we have one more?
That's it. Thank you.
Well, I'm pleased to welcome our guests, including some returning guests, who will be participating on panel 10 regarding Bill 10.
Ladies and gentlemen, you'll each have 15 minutes to make your presentations, and I will open the floor to questions from the committee once we have heard from all presenters. We will go in the order listed on our agenda, starting with Ms Warnock and Mr. Boucher.
Welcome, and you may begin your presentations.

Unifor, Confederation of Alberta Faculty Associations, Alberta Union of Provincial Employees, Alberta Federation of Labour

Ms Warnock: Thank you for the invitation to speak to the committee today on Bill 9 and Bill 10. My name is Joie Warnock, and I'm the western director for Unifor.
Unifor represents 305,000 members across Canada in all sectors of the economy, from manufacturing to transportation to retail to energy. In Alberta we have 14,000 members. They work in public-sector workplaces such as the Catholic school system and the town of Hinton. In the private sector they work at Suncor in Fort McMurray, Weyerhaeuser in Grande Prairie, Kawneer in Lethbridge, and at work sites in various other parts of the province.
Unifor was formed as a new union in 2013 between the Communications, Energy, and Paperworkers Union and the Canadian Auto Workers. Both of the founding unions have a proud history of bargaining good pensions for our members. It is our commitment to a secure and dignified retirement for workers that brings us to the June 2014 standing committee hearings today.
Unifor supports the Alberta Federation of Labour in their submission to the standing committee, and we have been actively working with the labour coalition on pensions.
I believe the standing committee should be concerned with the impact that both Bill 9 and Bill 10 will have on retirement income in Alberta. Bill 9 proposes cuts to the public-sector pensions, and Bill 10 allows for target benefit plans with the option to convert accrued defined benefit pensions to the less secure target benefit pensions for private- and public-sector workers and pensioners.
The government is taking a very narrow focus on pensions. The proposed bills are in the interest of employers who want to immediately reduce the cost of funding pensions. Unifor calls on the government to take a more balanced approach and consider the

interests of workers and pensioners for an adequate and secure pension today and into the future. As a minimum the government needs to consult with the labour pension coalition partners on changes to their public-sector pensions. The Auditor General commented on the lack of consultation in their February 2014 report. The coalition has indicated their willingness to address concerns in funding the pensions and has even sought actuarial costing estimates for various provisions.

As for Bill 10 we do not oppose target benefit plans. We see the value of target benefit plans in small workplaces, where a defined benefit pension is difficult to establish. However, we do not believe that the employers without workplace benefit plans are just waiting around for the target benefit options. If employers wanted to provide pensions to their employees, they would have at least introduced a defined benefit contribution plan. Employers who currently sponsor defined contribution plans are very unlikely to go through the administrative difficulties of converting a defined contribution plan to a targeted benefit plan.

The troubling aspect of Bill 10 is that employers with defined benefit plans will want to convert to target benefit plans. Workers and their unions advocate for defined benefit plans precisely because the plans guarantee a set benefit. If the defined pension plan has a funding shortfall, the employer is responsible for funding the shortfall. Often the employer will demand wage concessions at the bargaining table in order to make up the pension funding shortfall, but the employer is responsible to find the funding for the defined benefit plan. Target benefit plans have a set benefit, but if the funding is not sufficient, pension benefits for active workers and usually for pensioners must be reduced.

Converting defined benefit plans to target benefit plans on a go-forward basis is very troubling. But what makes Bill 10 even worse is the option for employers to convert accrued defined benefits to target benefits. This would mean that all the accrued defined benefits are no longer guaranteed at the promised benefit level. Alberta pension plan sponsors would gain tremendous funding relief on the millions of dollars of accrued defined benefit pension obligations. What employer, private sector or public sector, can resist the opportunity to reduce their accrued pension liabilities on the balance sheet?

For the plan members and the pensioners there is a new risk that their pension could be reduced during periods of pension funding difficulties. The government's proposal on target benefit plans is clearly in the interest of employers and is an attack on the retirement security of active workers and pensioners.

Most defined benefit plans were negotiated between the employer and the union during collective bargaining. As I said, in some years the union members agreed to wage freezes or even concessions in order to maintain their pension benefits. Through Bill 10 the government is actively encouraging pension plan sponsors to renege on their agreement with workers and retirees for a promised benefit. The Alberta government's disregard for collective agreements is alarming.

The real problem is the lack of pension coverage. The government must address the real issue: 1.7 million Albertan workers do not have a workplace pension plan. Employers have clearly dropped their responsibility to provide retirement income. Rather than attack the pensions of workers who do have workplace pensions, the government should seek to ensure pensions for the vast number of workers who will rely on public pensions and personal savings.

Jim Keohane, CEO of health care of Ontario pension plan, identifies the retirement income problem facing Canadians. To quote him, "In the long run, it is much more cost effective to deal with the problem today by improving pension coverage and adequacy than to wait and deal with it later via the social welfare system."

12:40

We hope that the standing committee will make recommendations to the Alberta government to address the lack of coverage and the adequacy issue, and we propose the following.

First, the Alberta government should support the Canadian Labour Congress proposal to double CPP benefits. The enhanced CPP would offset public and private pension plans and provide a cost savings to the plan sponsors. The labour coalition on pensions has commissioned a report on the actual cost savings. At the very least the standing committee could call for their own study on the cost savings of an enhanced CPP to the public-sector pension plans.

The Alberta government should join with Ontario, PEI, and Manitoba, who are acting responsibly for the people in their provinces, to establish a provincial pension plan with mandatory defined benefits that mirror the CPP. The government in Alberta can also call on the federal government to reinstate the age of old age security to age 65 from the proposed age 67. The delay in OAS in the future will create real hardship for many older workers who are unable to retire and may be forced to draw on community services and social welfare for support.

In our submission we go even further and call on the Alberta government to consider the larger picture of pension sustainability. Two recent studies on public-sector pension plans in Canada and in B.C. have excellent findings that are relevant to the Alberta government. In brief, these findings include that defined benefit pension plans are not a burden on the taxpayers. The health care of Ontario pension plan reports that because of the investment opportunities of a large, stable pension fund, investment income covers 80 per cent of the cost of the retirement pensions paid out. For each dollar of pension the taxpayer pays only 10 cents. Large pension funds invest in communities and make a substantial contribution to the Canadian economy.

Finally, pensioners with a defined pension benefit know their income, and they spend accordingly. In some communities defined benefit pensions account for 7 to 35 per cent of revenues. Pensioner spending is a significant source of tax revenues for all levels of government and generates business growth and employment in communities. The financial well-being of pensioners will become more and more important as the population ages.

On behalf of Unifor I thank the committee for your time and consideration.

The Chair: Thank you. Thank you very much.

Before we go to Dr. Sutherland, I would like to ask Ms Pastoor and Mr. Eggen and Mr. Lemke to introduce themselves for the record please.

Ms Pastoor: Hi. Bridget Pastoor, MLA, Lethbridge-East.

The Chair: Thank you.

Mr. Lemke: Ken Lemke, MLA, Stony Plain.

The Chair: Thank you, Mr. Lemke.

Mr. Eggen: And David Eggen. I'm the MLA for Edmonton-Calder.

The Chair: Thank you. Anybody else? Great.

Ms Warnock, thank you very much.

We will now hear from Dr. Sutherland with the Confederation of Alberta Faculty Associations. Go ahead please.

Dr. Sutherland: Thank you very much. I serve as president of the Confederation of Alberta Faculty Associations, and I work as a neuroscientist at the University of Lethbridge. CAFA represents the academic staff associations of Athabasca University, University of Alberta, University of Calgary, and the University of Lethbridge. Our members are all of the faculty association sponsors of the universities academic pension plan, the UAPP. We're very keen to make a presentation to your committee because we have a vital interest in the health and governance of the UAPP, and we appreciate this, our first formal opportunity to discuss the bills affecting our private pension plan.

To my right is Dr. David Kaminski. He's chair of CAFA's pension committee, and he's a professor of mathematics at the University of Lethbridge. He will be speaking on behalf of our group.

The Chair: Go ahead, please.

Dr. Kaminski: Thank you for allowing us to address the standing committee. It is our intention to file a written report to the committee which amplifies the comments that follow and addresses some issues that are somewhat more technical in character. Our statement to you today is meant to telegraph some of the comment to follow in our written statement.

Before we get to discussing our thoughts on bills 9 and 10, we thought we'd provide you with some background regarding the UAPP. The UAPP goes back to the late '70s. The Provincial Treasurer was responsible for it until January of 2001, at which point the pension plan was managed by the faculty associations of the U of A, the U of C, the U of L, and Athabasca University, their corresponding boards, and the board of the Banff Centre. Governance of the plan is split between sponsors and trustees, each with different responsibilities and duties as set out in the sponsorship and trust agreement agreed to by all parties with the approval of the government of Alberta.

A major watershed moment occurred in 1991 when under the public service plans act government, employers, and participants were obliged to make payments to ensure that pension service earned to December 31, 1991, the pre-1992 unfunded liability, was eliminated before December 31, 2043. Academic staff and others hired at the four research-intensive universities and the Banff Centre automatically become members of the UAPP, with contributions to the plan being shared 50-50 between employers and employees at the U of A, the U of C, and the U of L and nearly 50-50 at the Banff Centre and Athabasca University. The contributions represent forgone income being set aside to the future and represent part of the freely contracted package of salary and benefits between the universities and their staff.

The UAPP has been keenly aware of the burden of both our pre-92 and post-91 unfunded liabilities and has been actively pursuing strategies to reduce the most worrying of these, our pre-92 unfunded liability. This pre-92 unfunded liability is of such concern because the pre-92 assets in place to cover the unfunded liability are expected to be depleted in the mid-2020s, at which point in time post-91 contributions will be meeting pre-92 pension obligations, representing an intergenerational transfer of wealth.

In the mid-2000s the UAPP sponsors had plan design changes that would have seen a significant reduction in pensions taken by those retiring early and proposed them to government in late 2007, early 2008 only to be frustrated by the dropping of an election writ and a subsequent lack of interest on the part of government in pursuing this.

After regrouping, the sponsors of the UAPP decided to continue without the support of government and proposed plan design changes, trading a modest COLA improvement for a dramatic reduction in early retirement subsidies. These changes were prospective in the sense that they would apply only to service earned after a certain point in time. In the proposal at the time, in 2013, the changes would have occurred on January 1, 2015. The proposed design changes were approved by the majority of faculty association groups, but unfortunately the sponsors for the boards of the two largest universities did not vote in favour of the proposed changes. Because of the nature of the governance mechanism for the UAPP this effectively killed the plan design changes and suspended another attempt to improve the sustainability of the plan.

The point of this last little item in the UAPP's recent history is to emphasize that the sponsors of the UAPP recognized the serious problems represented by sustainability issues and that we've been active in addressing it. It also underscores our willingness to consider benefit reductions in achieving these ends.

With that background in place, we'd like to turn to our concerns regarding bills 9 and 10 and the unproclaimed EPPA, 2012. We'll address Bill 10 and EPPA, 2012 first. Imagine the following circumstance. After decades of good service, of making pension contributions your whole working life, you decide to finally retire only to discover minutes before you leave your workplace for the last time as an employee that your pension has been reduced without your consent. Or worse, imagine that you've been retired for years, and now in your 80s you receive word that your pension is being reduced without your consent. These outcomes are reprehensible, and championing them would be regarded by most people as a form of moral bankruptcy, yet such outcomes are possible under EPPA, 2012 and the provisions of Bill 10.

The unproclaimed EPPA, 2012, in section 20, part 2, now provides for a plan administrator to reduce benefits with the consent of the superintendent of pensions and, worse, under the provisions of Bill 10 to change a defined benefit plan to a targeted benefit plan which can target accrued benefits. It is our position that any changes planned for a pension plan should be only prospective; that is, they should only be applied to pensionable service earned after a fixed time in the future. Retrospective changes – that is, changes applied to service already earned – must never be permitted. Such changes represent a violation of promises made in the past and in good faith and put us firmly into scenarios mentioned earlier. When the UAPP earlier pitched its planned redesign to its active, currently working members, there was a clear point in time in the future at which the rules would change. Members that were already retired were unaffected by such plan changes.

12:50

Also to be found in Bill 10 and EPPA, 2012 is language that references the notion of a jointly sponsored pension plan. The statute at various points delineates certain powers and procedures. In the case of the UAPP many of these powers are governed by the sponsorship and trust agreement, so if the UAPP is to be considered a jointly sponsored pension plan – and it also appears to fall into the category of a negotiated cost plan – then there is an evident conflict in place. What holds sway, the freely negotiated sponsorship and trust agreement or the act?

At present our sponsorship and trust agreement grants sponsors the power to negotiate plan benefits and governance. Section 20 in both EPPA, 2012 and Bill 10 appears to transfer authority to trustees, in the guise of the plan administrator, from the sponsors of the plan. Concomitantly, this has the effect of undermining the fiduciary role of the trustees by making them into a political body, and it defeats the intent of dividing authority over the plan into

sponsors and trustees. More tellingly, if jointly sponsored pension plans are private, why is the government intervening in matters that go beyond merely ensuring that minimal standards are met?

Finally, we have some concerns about the reach of Bill 9 in the setting of the UAPP. First, use is made of the word "Plan" in the early parts of Bill 9, but it is not clear what is meant by "Plan" with a capital P in this setting. With the removal of schedule 3 in Bill 9, it would seem that the UAPP should be out of scope from Bill 9 apart from the content of section 16.

On this matter we have a couple of serious concerns. First, what is the intent of the additional material inserted prior to schedule 1 with regard to the UAPP? Is it the intention of the legislation that the UAPP fall under the scope of sections 13 and 14? Second, section 16, part 1, grants cabinet unrestricted powers, and it is not clear to us why this should be the case. The UAPP has been operating for over 13 years after transitioning from the auspices of the PSPP. What is contemplated in section 16, part 1? At the moment sponsors and trustees governed by our sponsorship and trust agreement manage everything in the UAPP.

There is another matter bound up in section 16 of Bill 9 that is also of some concern. The language present in section 16, especially part 3, lets the minister determine for himself the discount rate in assigning a value of an unfunded liability for a plan, presumably with an eye to retiring an unfunded liability in a lump-sum payment. The problem here is that many assumptions go into assigning a value to an unfunded liability, and this ought properly to be a matter of discussion between the ministry and the plan and decided through negotiation rather than by administrative fiat.

These are the main concerns we wish to raise before you today. We will expand our commentary in our written submission to you and elaborate on certain points we have elected to gloss over in this oral presentation to you. It is fair to say that we regard bills 9 and 10 and the EPPA, 2012 as problematic and that they should undergo further study and possible revision.

Thank you.

The Chair: Thank you very much, Dr. Sutherland and Dr. Kaminski.

Our next presenter is Mr. Smith, with the Alberta Union of Provincial Employees. You may begin your presentation, please.

Mr. Smith: Thank you very much. I'd like to thank the committee for allowing me to speak to them again about these harmful pension legislation changes.

Just a bit of background . . .

The Chair: You're not coming tomorrow, are you?

Mr. Smith: Well, I don't know. What have you got on tomorrow?

Just a bit of background that I didn't offer yesterday. The Alberta Union of Provincial Employees is Alberta's largest union, with 83,000 workers who work on the front line in government services, health care, education, municipalities, and various boards and agencies. Out of that 83,000 over 70,000 are covered by either the local authorities pension plan or the public service pension plan.

While most public-sector union attention has been placed on Bill 9, I would argue that as far as public-sector pensions are concerned, Bill 10 is a Trojan Horse that poses an equivalent, if not greater, threat to our members' retirement savings. What I mean by a Trojan Horse is that we were all focused on the threat of Bill 9 at our front gates while Bill 10 was wheeled in behind us. It came to our attention that this was of huge concern to us. I'm not trying to be alarmist when I say that, but I do think that it's important to note that it's only thanks to this committee's inclusive and open approach that I've been given the opportunity to speak on Bill 10 from a public-sector union perspective.

Now, all the literature produced since the introduction of these bills last fall has been misleading insofar as it's clearly divided them into two categories. Bill 9 applied to the public sector while Bill 10 applied only to private-sector pension plans. I was disappointed, actually, to hear Alberta Finance perpetuate this confusion in their presentation on Tuesday. You heard that the public-sector pension plan is not under the Employment Pension Plans Act, the EPPA. That is true for now. That may have left you with the impression that our members have nothing to worry about in regard to Bill 10, but as I mentioned yesterday, the devil is in the details, or in this case the lack of details.

What the committee wasn't told is that upon establishing joint trusteeship for the PSPP and the LAPP, which is one of the government's stated objectives in Bill 9, the PSPP and LAPP will leave the scope of the Public Sector Pension Plans Act and could become a registered pension plan under the EPPA. Once that happens, of course, the PSPP and LAPP would be fully exposed to the ramifications of Bill 10. Those ramifications are outlined in section 5(b) of Bill 10, which amends section 20 of the EPPA to permit the conversion of defined benefit provisions of the plan to target benefit provisions. More fundamentally, section 5 of Bill 10 specifically provides for the conversion to apply to accrued benefits. Given that this explicitly contradicts what we and the committee have heard over and over again, that core benefits earned before 2016 are not at risk, I believe my Trojan Horse metaphor is, if anything, an understatement.

Our interpretation is based on the text of the legislation that is before us today, specifically section 5, as I just discussed, but also section 3(2), which explicitly places "publicly funded" plans under the act. Like you, we've been assured that the regulations would put all our fears to rest, but as you know, regulations are not subject to the same rigorous, democratic process we are engaging in today. Regulations cannot override the clear provisions of legislation. Furthermore, we are being asked to accept regulations that have not yet been written and cannot be written until Bill 10 has been passed by the Legislative Assembly and the authority to do so has been delegated to the minister or his deputies.

We have asked Alberta Finance to clarify these specific issues, and so far they have been unable to do so. So with the utmost respect, we cannot in good conscience ask our members to simply take faith in such assurances. As Bill 10 stands, even if Bill 9 were to disappear and even if we were able to successfully negotiate a joint governance model for the PSPP and the LAPP with the government, we could still lose. Bill 10 is another barrier, another roadblock to what both we and the government want to achieve, which is a negotiated joint-governance model that meets the needs of the employees and the employer. On that basis I submit that if the intent of the act is different from the plain meaning of its provisions, then the act ought to be rewritten from the ground up.

The perspective you heard from Finance on Bill 10 was not unique, of course. A number of panelists on Tuesday provided a very benign view of target benefit plans or, specifically, specified multi-employer pension plans, also known as SMEPPs. What none of them provided, though, was the proper context to understand what these plans mean from the perspective of the beneficiary. From the outset SMEPPs are established as negotiated plans. As you've heard not only from several labour leaders but also several employers, including the city of Calgary and the AAMD and C, bills 9 and 10 have not been negotiated. Rather,

they are a product of a style of government that everyone is quite eager to leave behind. That is one difference.

A second key difference is that participants in SMEPPs enter into them with their eyes wide open to the effects that the plan's design will have on benefits. Both parties from the beginning accept that benefits are intended to be adjusted to fit the market and plan funding at any point in time. In contrast, when our members entered the public service, they made those career decisions based on the total compensation offered, and the defined benefit was considered part of that compensation. Retroactively converting that benefit to a target that moves with the market undermines employees' career choices, it undermines the credibility of the employer with whom they'd struck the bargain, and as a result it undermines the trust between the parties.

1:00

I may not have been born here, as you can tell by my slight accent, but I have lived in this province long enough to know that that is not the Alberta way. I hope this helps you understand our members' fears about target benefit plans, my own concerns about the shortcomings of the legislative processes around bills 9 and 10, and the harm the bills cause to the trust that is needed for a productive relationship between employees and their employers. I think the most telling statement on target benefits came from Phil Rivard on Tuesday, who stated that "a target benefit plan is superior to no plan" whatsoever. Well, talk about setting the bar low.

Labour mobility is the focus of SMEPPs. The focus of defined benefit plans is employee retention. Bill 10 sets out the means by which the latter can be abandoned in favour of the former. The question I want you to ask yourselves is whether you want your public-sector employees to stay or to go. I would argue that the very debate we're having is sending them a message already. I fully recognize that our opinion on Bill 10 is not shared by all private-sector unions as there are provisions within Bill 10 that meet the labour mobility needs of the employees that they represent in different industries, and I certainly do not wish to stand in the way of the Legislature passing a statute that meets those unions' and those employees' needs, but in its present form Bill 10 overreaches by including public-sector pension plans.

I can't recommend amendments to solve the problem presented by section 3(2) of Bill 10, which prima facie appears to include the PSPP and the LAPP in the EPPA. Even if section 3(2) were eliminated, the problem remains because the establishment of joint governance would place the PSPP and the LAPP under the auspices of the EPPA and make the plan subject to conversion from a defined to a target benefit.

As you consider the options available, please remember what you set out to accomplish in the first place for all public-sector pension plans, which is joint governance and improved sustainability. As the legislative package stands, the provision of Bill 10 undermines the goal of joint governance, and furthermore it sends our members the message that they stand to lose the accrued benefits that they have paid for. This uncertainty has already led many employees to consider leaving the public sector, which actually harms the sustainability of the plan. If Bill 10 were passed in its current form, I fear that many more would follow.

In closing, I ask that whatever you do, please ensure that it restores public-sector employees' faith in the government, that it restores faith in their pension, and that it gives AUPE the ability to freely negotiate a proper governance model with employers, as every other province has.

Thank you very much for the opportunity to present to the committee today.

The Chair: Thank you very much, Mr. Smith.

Our final presenter on this panel is Mr. McGowan.

Mr. McGowan: Thanks to the chair and thanks to members of the committee. I'd actually like to begin by commending all of you on your patience and your fortitude. It's taken me more than 15 years to learn everything I know about pensions, and you've tried to do it in a few days, so my hat is off.

As you know, my name is Gil McGowan. I'm president of the Alberta Federation of Labour. The AFL represents 29 unions in our province's public and private sectors, who, in turn, represent more than 165,000 working Albertans. In addition to being president of the federation, I'm also chairperson of the labour coalition on pensions, and I've been active on the pension file for more than 15 years.

I'd like to begin my remarks today by contrasting bills 9 and 10. As our union coalition argued yesterday and on which you heard a little bit from Guy today, Bill 9, in our opinion, is a train wreck. It has unnecessarily and unjustifiably undermined both employer and employee confidence in Alberta's public-sector pension plans. It has inflamed tensions and helped to create a crisis mentality when, in fact, there is no crisis at all. If passed, Bill 9 would also act as an impediment to negotiation and transition towards truly effective jointly sponsored governance, which is something that employers, employees, and all the experts agree is the destination we should be aiming for. Bill 9, in other words, is a poison pill. It is, from our perspective, simply irredeemable, especially in an area as complex as pension law, where one small mistake can have far-reaching implications on the lives and life savings of thousands and thousands of people. Bill 9 is a piece of legislation that simply cannot be allowed to pass.

Our concerns with Bill 10, on the other hand, are a little bit more focused and specific. As you know, Bill 10 proposes amendments to the EPPA, the Employment Pension Plans Act, which was passed in 2012 but has yet to be proclaimed. The EPPA was the result of consultation between the governments of Alberta and British Columbia and between those governments and various stakeholders, including unions. Specifically, the EPPA was a response to the Joint Expert Panel on Pension Standards, or JEPPS for short, which was established by the governments of Alberta and B.C. to explore ways in which our two provinces could harmonize and improve pension legislation.

The AFL participated in the JEPPS process. As president I personally made two separate presentations to the JEPPS panel, and in general we are pleased with the panel's final report and many of its recommendations. We are not opposed to the JEPPS. We are also not opposed to everything in EPPA and certainly not to its goals of better regulating private-sector pensions and harmonizing rules between Alberta and B.C. However, we are deeply troubled by certain aspects of Bill 10 which, as I've said, would amend the EPPA.

We have two very specific but profound concerns. First, as we've heard from other presenters this afternoon, we're alarmed by section 20(2)(d) of the act. Under this section defined benefit plans may be converted into target benefit plans. As you've heard repeatedly over the past few days, the whole point of a pension plan, from a worker's perspective, is to provide income in retirement that is adequate, predictable, and secure. Defined benefit plans meet this test. They are adequate, they are predictable, and as long as they're well managed, they are secure.

Target plans, on the other hand, are less reliable. As the name implies, instead of providing a guaranteed benefit, they only promise to try to reach a point where they can provide a certain level of benefit. If things work out well in terms of investment

returns and overall management of the plan, then the target will be met. If they don't, the benefit will be reduced. As a result, from the point of view of working people and retirees, target benefit plans are inferior to defined benefit plans.

Target plans are better than nothing, certainly, and nothing is what far too many Albertans have. They are better than RRSPs or defined contribution plans, but they don't meet the three-point test that I just mentioned. They might be adequate, they might be secure, and they are almost certainly not predictable.

For all of these reasons, we in the labour movement will never get as excited about target plans as some of your previous witnesses have. That's not to say that we oppose target benefit plans outright. As I've said, they are certainly better than nothing, so if a target plan is the best that can be obtained in a given workplace in negotiation between workers and employers, then we will support them. That's why we had no problem with the original EPPA, passed in 2012, when it opened the door for the negotiation of more target benefit plans. It provides a framework for employers and employees to negotiate these plans if that's what they choose.

But Bill 10, if passed in its current form, will allow employers to go far beyond negotiating new target plans. It will also go far beyond allowing employers and employees to negotiate the conversion of existing defined benefit plans into target benefit plans for pensionable service going forward. It will – and this is really the troubling part for us – allow the conversion of defined benefits that have already been earned into target benefits. In other words, people who have been paying into a pension for years and years, making their plans based on the assumption that they were going to receive a certain benefit in retirement, will have that certainty ripped away from them. The same would be true for people who have already retired. They would face the prospect of losing adequate and predictable income in their retirement years.

The problem with Bill 10 literally leaps off the page. As I've said, Bill 10 would add section 20(2)(d) to the EPPA, and this is actually what that section says:

> If the plan text document of the plan contains a defined benefit provision, [the plan administrator] may amend the plan text document to convert . . . the defined benefit provision to a target benefit provision, which conversion may apply to accrued benefits.

This is a radical change. As pension law expert Murray Gold told us on Tuesday, this portion of Bill 10 is basically the same as the Alberta government telling employers that they have the government's blessing to break contracts.

1:10

In addition to being a radical change for the existing EPPA, this provision breaks with the spirit of the act on the subject of harmonization with legislation between Alberta and B.C. Specifically, with Bill 10, Alberta will allow the conversion of all defined benefit pension plans regulated by the EPPA into target plans, including single-employer plans, multi-employer plans, and jointly sponsored plans. The B.C. legislation, on the other hand, focuses exclusively on multi-employer plans and imposes strict rules requiring consent of all affected parties before conversion can take place.

In response to the concerns that we've raised and others have raised about section 20, Finance Minister Horner has said two things. First, he has said that all stakeholders have been consulted and that they've signed off on the proposed changes. Second, he said that the regulations being developed by his department will ensure that no benefit plans are converted without express consent from the affected parties, both from employers and employees.

On the first point, consultation, the minister is simply wrong. It's true that his department set up something called the joint advisory group, or JAG for short, and it's true that some unions were represented on that committee, but the only unions on that committee were construction unions with members in multi-employer pension plans. That seemed fine at first, when everyone thought that Bill 10 would only deal with multi-employer plans, as was the case with B.C. legislation and plans in construction, but as we've seen, this act has a much broader scope, having implications for unions in other sectors with single-employer benefit plans, and it also has implications for public-sector plans. None of the unions with single-employer pension plans and none of the unions with members in public-sector plans were invited to sit on the JAG. None of them were ever consulted, and from our perspective that is entirely unacceptable.

On the second point, consent, the minister is also wrong. About a week ago the department released the draft of the EPPA regulations, about 300 pages, to our federation on a confidential basis. We've asked our lawyers to look through this package, which they have done, and to put it bluntly, there are no consent requirements in the regulation whatsoever despite what the minister told you and other Members of the Legislative Assembly during the last session. There is some language protecting pensions that was negotiated as part of a collective agreement, but many defined benefit plans in Alberta were not constructed this way. In general, there is no requirement that employees, unions, or retirees consent to a conversion of accrued benefits from a defined benefit to a target plan. The bottom line is that it appears that the minister's reassurances are empty ones.

The second big concern that we have with Bill 10 is the one that Guy has already laid out in quite a bit of detail. Specifically, it's clear that if we're successful in finding a way to move big public-sector pension plans like LAPP and PSPP to a joint-sponsorship model, they would no longer be regulated by the Public Sector Pension Plans Act. They would instead fall under the EPPA. Once under the EPPA, we're concerned that the LAPP and PSPP would then be exposed to the same threat that single-employer, private-sector plans would be exposed to; namely, the threat of conversion to target benefit status, both going forward and for accrued benefits. This, put simply, is unacceptable to us.

In his presentation at the beginning of this process Assistant Deputy Minister Mark Prefontaine attempted to reassure us that the act would never be used in this fashion, but the draft regulations, which I've just referred to, are as vague on this point as they are on the other points that I've mentioned. When it comes to pension law, vague is simply not good enough.

Before I move to my conclusions and recommendations, I'd just like to make two other points. First, over the past three days several presenters have made the argument that target plans should be seen as a tool that can be used to bring pension coverage to a greater proportion of the Alberta labour force. We agree that expanding pension coverage should be a clear and specific goal of all governments in Canada, perhaps especially the provincial government right here in Alberta because we have the lowest rate of pension coverage in the country. However, we think that it's at best naive and at worst a smokescreen to suggest that allowing easier access to target plans will solve the problem.

If limiting liability and reducing exposure to risk were the only things stopping employers from offering pension plans, we'd already have target plans or defined benefit plans in every private-sector workplace in the province. We don't. The reality is that the new mechanisms in Bill 10 that allow conversion of defined benefit plans to target plans are much more likely to be used to convert existing defined benefit plans into inferior target plans

than they are to be to create new target plans. This won't increase the quantity of pension coverage we have in the province; it will just degrade the quality of the coverage that already exists.

If the goal of this government and this committee is to truly expand the number of people who have access to robust mechanisms for saving for their own retirement, there are really only two options. First, we should get behind the campaign to expand CPP. The CPP is stable, it's secure, it's cheap in terms of administration, and it's portable from job to job. The Alberta government simply has to abandon its opposition to expanding CPP. There's probably no better way to quickly and efficiently improve retirement security for Albertans than CPP reform.

Second, our government, frankly, should make it easier, not harder, for people to join unions. There is almost a perfect correlation between the presence of unions in a workplace and the presence of pension plans. Most unionized workplaces have pension plans of one kind or another. Most non-union work sites don't. It's as simple as that. So if you want to make sure that Albertans are prepared for their retirement as opposed to facing the prospect of living in poverty or being a drain on tax-funded programs like OAS, make it easier for them to join a union.

Finally, I just want to make a few brief comments about the very legitimate concerns that were raised yesterday by representatives from the ironworkers' pension fund and the labourers' pension fund. They urged you to pass Bill 10, and they did that for a very specific reason. Their members are enrolled in what are called special multi-employer pension plans. The problem that those plans face is that they are subject to the solvency rules that have been designed for single-employer plans. The problem with this is that every member in these multi-employer pension plans, because they're subject to the same solvency rules as single-employer plans, is required to set aside a very significant amount of money in order to cover their obligations in case they go bust.

The reality is that in many of these plans – just imagine a hundred employers in a plan. If one employer goes bust, that does not necessarily mean that the plan will go bust. So we think it's inappropriate to require that employers in these plans be subject to the same kinds of solvency rules. What these plans have been told, however, is that if Bill 10 is allowed to pass and if EPPA is proclaimed, they will be exempted from solvency rules. But I would like to point out that that kind of exemption can be granted to multi-employer plans at the pleasure of the cabinet without the passage of this piece of legislation.

In conclusion, here are my recommendations. First, we think that we should scrap Bill 10 and deal with the very legitimate concerns about solvency rules and the effect that they're having on multi-employer plans. We should deal with those separately. If the committee decides not to scrap Bill 10 and to proceed with it, we think that if you're considering amendments, you should at the very least consider removing section 20(2)(d) and section 3(2). Whatever is passed, we should make it clear that the rules in terms of conversion apply only – and I stress only – to multi-employer plans. Whatever is passed should also provide adequate protection for accrued benefits. Whatever is passed should be actually harmonized with B.C. legislation as opposed to going off in a different direction entirely. Finally, whatever is passed, if it is passed, should have a clear exemption for public-sector pension plans like the LAPP and PSPP.

We would actually consider that this committee recommend either scrapping the bill or amending it in the ways that I have suggested and also consider proposing that we withhold proclamation of the EPPA until these very legitimate concerns have been addressed.

Thank you.

1:20

The Chair: Thank you all very much.
I'll open up the floor for questions.

Mr. Eggen: Sure. I'll take a question.

The Chair: Mr. Eggen.

Mr. Eggen: Thanks. Thank you so much for your presentations. I have quite a number of issues I just wanted to carry on with. We had a presentation just previous about the urgency of passing Bill 10. I think, as you correctly pointed out, if you hive off that solvency issue, I mean, that's the immediate thing we need to deal with, but we can do that through order in council, or the government can – sorry; I'm part of the NDP opposition. There's a way by which we can address that issue.

My other question or concern: I know that people have a concern about mobility of labour – right? – for different trades, so how can we ensure that we are protecting the integrity of the mobility of trade labour without necessarily having the onerous parts of Bill 10 going forward?

Mr. McGowan: Well, I think it's important to point out that the construction sector is different in some very significant ways than other sectors of the economy. Work in construction is by its nature contingent, short term, so people will be working for many different employers throughout their career on many different projects. That's why the pension plans run by Alberta's building trades unions have been structured the way that they are. They're not attached to particular employers; they're often held either by the union themselves or jointly by a group of unionized contractors. That's also one of the reasons that most of them are essentially target plans already. If you want to enhance mobility, especially in that sector, then we should maintain the plans as they are right now.

The problem is that many of them are at risk because of the solvency rules. Solvency rules that were designed for single-employer plans simply don't fit the multi-employer model, so we've run the very real risk of watching these pension plans that, you know, people have been paying into for years – and I think it's about 150,000 construction workers in Alberta that have been paying into and rely on them – failing, not because they don't have money and not because they're not well managed but because arbitrary rules that are designed for a different set of pension plans are making it hard for them to run. So I would suggest that we have to address the solvency issue.

In other jurisdictions, most notably places like B.C. and Ontario, instead of using the solvency rules that we have here, they ask multi-employer plans to observe what they call going concern solvency rules, which have a little bit of a lower threshold, and they're designed to recognize the fact that a multi-employer plan is not going to fail if one particular small employer fails. I would suggest that we look at adopting the Ontario or B.C. approach to using going concern versus the solvency rules that we have right now. In Alberta what they're proposing is something called going concern plus, which is somewhere in between, but I would argue that even that is too onerous.

Outside of construction the mobility issue is also very important. Once again, I'll go back to the importance of expanding CPP. CPP is a great program, but its big problem is that it provides benefits that are too low. The big upside of using CPP as a vehicle

to help people save for their own retirements is because there is no other pension in the entire country that provides as much opportunity for mobility. Basically, you can work in any sector in any province in any region of the country and still pay into the same plan, so if mobility is your goal, CPP reform is your answer.

Mr. Eggen: Thank you.

My supplemental is just in regard to – I've heard mention over the last couple of days of Bill 10 making it easier for an employer to move a benefit from a defined state to a target benefit. I suspect I know why they would do that. Is it going to be cheaper? Is it a question of money? The temptation if we open the door to move from defined benefits to target benefits on the employer side will be large if it is, in fact, a cheaper way to go for them. So if we open that door, is it just a question of money?

Ms Warnock: Yes, it is. I mean, as I said in my remarks, what employer, private or public sector, is going to resist the ability to reduce their liabilities if there's this door that's been opened to them? The point for our members is that those were benefits that were negotiated and promised between the two parties, and this bill presents them with an out, without any consent from our members.

Mr. Eggen: So, I mean, it's obvious that – who wouldn't do it, really?

Ms Warnock: It's a potentially huge windfall for shareholders of those companies.

Mr. Eggen: Right. And a big transfer of wealth from the workers to the employers.

Ms Warnock: Yeah. It's wealth care at its worst.

The Chair: Are you okay, Mr. Eggen?

Mr. Eggen: Yeah.

The Chair: Mrs. Sarich.

Mrs. Sarich: Thank you. I'm trying to keep up with all the information, and it's a lot. There are lots of nuances. You had mentioned some general concerns about some of the comments made by Mr. Prefontaine, and I'm looking at the *Hansard*. This would be June 3 that they came, and for your own reference it is page 573 if I'm reading it correctly. If I may, Mr. Chair, I'd just like to highlight a couple of the things that he had said, and I'd like to listen to your comment because these are those finer points that you're bringing forward in your presentation, and I just want to see how they fit or what the concerns may be from some of the things that he pointed out. It would help me clarify a number of things that have been said already around Bill 10.

On this page he has said that

> Bill 10 allows private-sector sponsors the option to convert to a target benefit plan retroactively. The Employment Pension Plans Act of 2012, already passed but not yet proclaimed, allows the option for plan sponsors to convert a pension plan to a target benefit plan prospectively. Bill 10 would extend that option to allowing it to occur retroactively.

And then he says that he would like to

> emphasize that in the context of the sponsored pension plan, that would either be an employer who is the sponsor or an employer and a union who are joint sponsors. Bill 10 also makes a number of housekeeping changes to the unproclaimed [EPP] Act from 2012.

That's the first point. Do you have anything to comment from your perspective on what he had presented there?

Then there is one other section on this page as well that I'd like to address.

Mr. McGowan: Okay. On the subject of the regulations, Guy actually hasn't had a chance to look at the regulations because we only received them very recently. There is only one section in the regulation that even purports to provide any protection for people like us who are concerned about the conversion of accrued benefits, and that is section 102(3) of the regulations. It prohibits a conversion from one plan type to another, for example from defined benefit to target, on a retroactive basis. That's why Mr. Prefontaine uses the word "retroactive."

But we don't think that this means that the accrued benefit cannot be converted. It only means that the conversion must be effective as of a date in the future, not a date before the date of the converting amendment if that makes any sense to you. So it's about the timing of the conversion; it's not about protecting accrued benefits. Our reading of the regulation is that despite the fact that there are 300 pages of regulation here, there is no protection for people who are concerned about the conversion of accrued benefits. None.

Mrs. Sarich: Okay. I don't know if any other stakeholder has a comment, but I'll proceed.

The Chair: Go ahead.

Mrs. Sarich:. Yes. Thank you, Mr. Chair. Also on page 573 of the *Hansard* he says:

> I'll say again that the amendment to section 20 does not force nor require pension plans to move to target benefit. It simply provides an option. To ensure the fair treatment of members, stakeholders will be consulted, and rules on how the conversion will be permitted will be set out in regulation.

Obviously, something that you're aware of today.

> The key feature to this process will be the need for employee consent. Consultation regarding this type of conversion has already begun and been had with collectively bargained multi-employer plans, predominantly construction trade plans, here in the province.

Any comment on that?

1:30

Mr. McGowan: Yeah. A couple of things. As I said in my presentation, the only consultation that has been conducted by this government on Bill 10, any of its provisions or implications, has been consultation with unions that have members in multi-employer plans. They've sat down with not all but a few construction unions. So the consultation has not been thorough. They have not talked about other unions whose members are going to be affected by these changes. For example, they have not spoken with AUPE or any other public-sector union about how it could affect the local authorities pension plan or the PSPP. They have not sat down with any unions with members in single-employer plans. Everyone who works at Suncor has been paying into Suncor's single-employer plan. They weren't consulted. Weyerhaeuser. There are more than 300 private-sector defined benefit plans in this province, some large, some small. Almost none of those people were consulted. The consultation has been very abbreviated.

Sorry. What was the first part? The options? Oh, the rules and fair treatment.

Mrs. Sarich: Rules on how the conversion will be implemented, yeah.

Mr. McGowan: This is what we heard from the assistant deputy minister and the minister. They've reassured us that the plans would only be converted after a process was followed to achieve the consent of the affected parties. They've said that the process for achieving consent would be outlined in the regulations. I have them here. In all these 300 pages there is not a single word about consent. There's not a single regulation dealing with how, under the regulations of EPPA, the pension administrator would be able to demonstrate that consent had been received either from the employer, the employees, or retirees. That's different than the regulations attached to the legislation in places like B.C., which actually clearly outline the process for establishing consent. It's just not here.

Dr. Kaminski: Just to follow up on that, is there any place in the act where a burden of consent of employees and retirees is solicited or required?

Mr. McGowan: No.

Dr. Kaminski: Everything is buried in regulations.

Mr. McGowan: Yeah.

Dr. Kaminski: One other thing that I'd like to mention while I have the floor here is that moving to a targeted benefit plan from a defined benefit plan has important implications for attracting, recruiting, and retaining faculty. It's a competitive environment in universities to retain top-flight academics, and we do look at all of these aspects of our compensation package, including whether our pension plan is a defined benefit plan. A targeted benefit plan is not going to have much traction with our particular sector.

Mr. Smith: If I can just comment on Mrs. Sarich's comments.

The Chair: Yeah. Go ahead.

Mr. Smith: We've tried to get some assurance from Mark Prefontaine personally on the fact that your publicly funded pension plans are referred to in Bill 10, and he has not been able to give us any proof that those plans would not be subject to the provisions of Bill 10. The fact that his comments talk about negotiations, consultations – while a lot of those plans under EPPA are part of the collective bargaining process, are part of negotiations, the LAPP and PSPP are not. We've mentioned and talked about over the last couple of days that the negotiation part as it affects those plans will come in, setting up a joint governance model that clearly meets the needs of all parties. It's that governance body that then needs to have the abilities, the tools, and the levers to determine how the pension plans are run. If they're imposed on by legislation or interfered with by legislation, that's not joint governance. As I said, that's an obstacle to achieving what we've all stated and what you've heard lots from various stakeholders on, which is where we want to go.

I have to say with due respect to this committee that the level of trust between unions who represent tens of thousands of members in these plans and the government is at probably the lowest it's been in history for a number of reasons. We're trying to rebuild that trust. I think it's important that you're aware of that, that certainly AUPE and other unions, too, are trying to rebuild something that has been damaged in the past. This kind of legislation, based on trust – it's not there. We cannot reach that point yet. The trust will be gained through very extensive discussions around moving forward together, and that's why legislation like this is in the way of that.

I wanted to be frank with you on that because that's, unfortunately, the situation we find ourselves in. Hopefully, we're coming out of that situation, to be perfectly frank. Hopefully, we're on our way now to rebuilding. One of the ways to do that is through dealing with this whole pension issue appropriately.

The Chair: Go ahead, please.

Ms Warnock: Yes. Don Boucher, our area director, deals with many, many workplaces in Alberta in the private sector that have defined benefit plans. This bill takes a very narrow approach to pension sustainability. We're very, very concerned that the focus is entirely on the interests of pension sponsors wanting to reduce their pension costs. The government surely needs to take a more balanced approach and include the interests of our plan members and their right to retire with adequate income after years of work. These are benefits that were bargained at the table, hard fought, and we just urge you to really step back from the road this is heading down.

Mrs. Sarich: Well, Mr. Chair, if you don't mind.

The Chair: Go ahead.

Mrs. Sarich: You know, I really appreciate that comment because I think that's another from the perspectives that we're hearing as a standing committee, that the issue of pension when it is tied to that bargaining piece is an emerging theme for us to be very aware of, and it adds to the complexity. I would thank Mr. Smith for being very frank. The reason why we're here as a standing committee is to hear the diversity of the perspectives, listen very carefully. We have a goal in mind at the end point here after the whole process, which is to develop a comprehensive report back to the Legislature and also to think about what would be the best recommendations that we might make given everything that we've heard. In all fairness, one of the themes is governance, and then the other part is those nuances of pension and then the opportunity for regulation.

I'd just like to end with this. Would it be a fair statement, then – you held up, Mr. McGowan, a confidential document, a very extensive document. Looking at that as an opportunity to provide comment – it's a confidential document, and it's been shared your way – you've pointed out this afternoon that there are some things missing. Do you view it as an opportunity to provide comment, you know, from your perspective and others that you've come to understand, to point these subtleties back and see where it takes you? Would that be a fair comment?

Mr. McGowan: We've already expressed a willingness to the department in general and to the assistant deputy minister in particular to engage in discussions on these regulations. However, as Mr. Smith pointed out, there is a very low level of trust based on the government's track record even related to this process. I mean, these regulations are the result of more than two years of consultation through the so-called joint advisory group, but the Federation of Labour, which represents 165,000 unionized workers in this province, was never invited to participate in that process. We're only being asked to look at this now, two years after the fact, when the government is starting to feel some heat. In answer to your question: yes, we'll talk with them, but there's a very low level of trust.

1:40

On the subject of moving forward, however, yesterday there were several questions asked by members around the table about what's the best way to move forward, and as Guy pointed out, we feel strongly that the real place to have discussion and negotiation is through a jointly sponsored governance process. The question is: how do you get there? How do you create a jointly sponsored model? How do we create a space for us to have that discussion? I just wanted to present the committee with a document that I think you'll find very interesting and useful, perhaps, in terms of formulating your report and recommendations. What it is is a memorandum of understanding between our labour coalition on pensions and the government of Alberta and other employers involved in the local authorities pension plan.

This is a memorandum of agreement on the creation of a jointly sponsored governance model for the LAPP. This memorandum of agreement was reached in 1997 after the Finance minister of the day, Steve West, sat down with unions in the province in good faith and agreed with us that Alberta should follow other provinces towards the goal of achieving a jointly sponsored plan. We negotiated, we came up with an agreement, this is the model, and unfortunately Mr. West moved on from one portfolio to another. Without his leadership in terms of sealing the deal, it didn't happen, okay?

I want to present this to you as a model that we would continue to support if we were to reach it but also to show that we can get there. If there's a political will, we can get there. This is almost a done deal. We got to the point of actually negotiating the details and specifics of a jointly sponsored plan for the local authorities pension plan. All we had to do was sign on the dotted line, and then we would have had the kind of governance in Alberta that other plans have in other parts of the country. It didn't happen because the minister leading the charge moved on, and his successor let it languish. I'm just putting this on the table as a concrete example of what can be done. I think that the fact that we've done it before means that we can actually move pretty quickly towards it if there's a political will.

Mrs. Sarich: Thank you for your comments.

The Chair: Thank you.

Those who are on the phone, we still have some time with this panel. Do you have any questions?

Hearing none, Dr. Kaminski, Dr. Sutherland, Mr. Smith, Mr. McGowan, Ms Warnock, and Mr. Boucher, on behalf of the committee . . .

Dr. Kaminski: Excuse me. Just one quick question before you dismiss us.

The Chair: Okay.

Dr. Kaminski: We're delighted that the AFL was able to get their collective paws on the draft regulations, and I'm just wondering if the other stakeholders in this could have a similar opportunity of getting a peek at the regulations if only to inform us going forward.

The Chair: Actually, these are government documents, so we didn't have these documents. Ask them where they got them from, not us.

Thank you, again, for your presentations today and for answering the committee's questions. The *Hansard* transcript of the full day's proceedings will be available in a few days via the Legislative Assembly of Alberta website. The audio of the meeting is also available via the Assembly site. If you wish to provide additional information for the committee, please forward it through the committee clerk. Thank you very much.

Committee members, we will be recessing for about 25 minutes. We must be back here and on the record at 2:15 p.m.

[The committee adjourned from 1:44 p.m. to 2:15 p.m.]

The Chair: Good afternoon, ladies and gentlemen, and welcome to our presenters. We are back on the record, and we will be moving on to our final presentation of the day.

I would ask that we go around the table and introduce ourselves for the record, and then I will call on the members teleconferencing to introduce themselves.

I am Moe Amery, MLA for Calgary-East and chair of this committee.

Ms Kubinec: I'm Maureen Kubinec, Barrhead-Morinville-Westlock, MLA.

Mr. McDonald: Good afternoon. Everett McDonald, Grande Prairie-Smoky.

Mr. Hoekstra: Good afternoon. Brad Hoekstra, secretary of the Alberta Fire Fighters Association and a fire captain with Edmonton fire rescue.

Mr. Macdonald: Good afternoon. Craig Macdonald, president of the Alberta Fire Fighters Association, and I'm currently a lieutenant with Strathcona emergency services.

Mr. Christie: Good afternoon. I'm John Christie. I'm the consulting actuary working with the Alberta Fire Fighters Association on this very technical area.

Mrs. Sarich: Good afternoon and welcome. Janice Sarich, MLA, Edmonton-Decore.

Mr. Eggen: Good afternoon. My name is David Eggen. I'm the MLA for Edmonton-Calder.

Ms Sorensen: Good afternoon. Rhonda Sorensen, manager of corporate communications and broadcast services.

Dr. Massolin: Good afternoon. Philip Massolin, manager of research services.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: Thank you.

Members on the phone, please introduce yourselves.

Mr. Luan: Good afternoon. Jason Luan, MLA, Calgary-Hawkwood.

The Chair: Thank you, Mr. Luan.

Mr. Stier: Pat Stier, MLA, Livingstone-Macleod.

The Chair: Thank you, Mr. Stier.

Ms Pastoor: Bridget Pastoor, MLA, Lethbridge-East.

The Chair: Thank you, Ms Pastoor.

Anybody else?

Good. Well, thank you, gentlemen. I'm pleased to welcome your participation in panel 11, which will be addressing Bill 9. Your organization has 15 minutes to make your presentation, and

then I will open the floor to questions from the committee. Welcome. You may begin your presentation.

Alberta Fire Fighters Association

Mr. Macdonald: Thank you. I thank everybody for having us this afternoon for what we think is a very important topic on behalf of over 4,000 professional firefighters in Alberta that we represent.

If we can move on to the first slide, John. Today we're going to talk about our key position on pensions, present pensions for firefighters, unique pension requirements for firefighters, our response to the current Bill 9 as we see it today, and a suggested addition to pension legislation.

Moving on to our key positions on pensions: eliminating the proposed changes in LAPP contributions and pensions outlined in Bill 9, continuing with the proposed governance changes to the new model – that would be two plan sponsors, the employers and the employees, and the board of trustees of experts; we feel as the provincial association that this governance model should carry on – and we'd like to enshrine in legislation the ability for employers to withdraw from LAPP for designated groups of employees like firefighters. We currently do not have the ability within our current legislation to remove ourselves from the current LAPP and create a jointly sponsored pension program. We'll talk about that further today.

Discussing our present pension plans for firefighters. As I'm sure you've all heard this week numerous times, the current LAPP, the local authorities pension, the 1.4 per cent, 2 per cent formula: we currently have retirement security from age 55 and 85 points, and we do have the guaranteed index at 60 per cent.

Currently in Alberta we have three supplementary pension plans, which you probably haven't heard about this week, in Calgary, Edmonton, and Grande Prairie. That covers about two-thirds of the members of our association. About 2,800 firefighters in Alberta are covered under these individual-sponsored supplemental programs. Each of these supplemental programs is negotiated at the municipal level with the employee and the employer. They increase the LAPP pension benefit to 2 per cent less the CPP offset, and they provide for retirement security from age 50 or 30 years of service. I'd just like to identify that seeing 50 or 30 years of service would really be an anomaly in anybody's pension. To retire at 50, you're looking at an employee starting at the age of 18 to 20 and working their entire career. So it's a number that's there, but it certainly isn't a number that would be common. Most firefighters retire between 57 and 58 years old.

Unique pension requirements for firefighters. The unique nature of the work is reflected in their pension plans: retirement security from age 55 and guaranteed indexing are important. If I could just capture – firefighters are typically the only occupation that works a single career for a single employer. You'll typically start early in your career as a young firefighter in your mid-20s and retire out at 57 to 58, working an entire career for one employer. That particular firefighter would be expected on the last day on the job, if he retired at 58, to be a front-line firefighter. It's one of the rare occupations that doesn't have a large administrative role to move into. If I can provide an example that I think we could both understand, if we look at the city of Edmonton, it's about 1,250 firefighters. There are currently four members of that administrative team that would no longer be front-line firefighters. So that's a very broad look at how a firefighter works his entire career as a front-line, working firefighter. It is a very different working demographic.

Incentives for this unique role. We think it maintains the service mandate for public safety. What we mean by public safety is the ability for our customers that we go to, the calls that we go to, and even our municipalities to have the right age of employee going to the right call. As we call it, you know, you need the right blend of young, energetic employee with the right coaching and mentoring through the entire career to exit at retirement at the right age. We think that public safety could really be a factor there. We need to permit the ongoing hiring of younger members for a long service career. We need security in retirement after a dangerous and physically demanding career. I don't think we need to get into detail surrounding that.

We do feel that it does contain costs for municipalities in three ways. One is direct payroll. Typically a firefighter will be hired early in their mid-20s and start at what we call 50 per cent salary. Throughout their career they'll make their way to what we would call 100 per cent salary. That's moving through the rank of a rookie to a first-class firefighter to a lieutenant to a captain to a battalion chief. Obviously, keeping the aging workforce longer isn't going to increase those payroll costs for the municipalities. Also, with the senior workforce the amount of vacation accrual is going to increase, and that's going to be a direct cost back to the employer. It goes without saying that lost time for sickness and disability will increase with an aging workforce in this occupation. It's one of the few occupations where I think we have no control over the environment that we might work in. I'd hazard a guess that there's no other occupation quite like that.

In response to the current Bill 9 the Alberta Fire Fighters Association believes that the current proposed changes in LAPP pose significant challenges. It's not clear right now that LAPP is unsustainable. Currently the defined public safety officers include many types of employees with different occupational realities. As I describe public safety officers right now, they would include us with emergency medical services, sheriffs, corrections officers, all of which are different occupations than firefighters. There would be a hard cap on contributions. The FFA sees the proposed new governance model in this bill as a very positive step forward, and we think we should continue down that road.

Costs and risks in the current Bill 9. There's an ongoing risk of being subject to future changes in LAPP. I talked earlier about the supplementary pension programs; they will be impacted into the future. For the two-thirds of our firefighters in the Alberta Fire Fighters, about 2,800 members, currently in LAPP and the supplemental programs any reduction in LAPP benefits increases costs of the supplemental programs. I'll show you that in a slide. The costs reduced in LAPP are downloaded to the municipalities as well as the firefighters. For the third of the Alberta Fire Fighters members who are currently only in LAPP, present risks in LAPP are contribution increases shared by members and employers, and the proposed risks in LAPP are benefit reductions borne only by the member.

In slides 8 and 9 I'm going to give you a graphic. If you can just capture it, on slide 8 the red portion will illustrate what the current LAPP is, the 1.4 per cent, 2 per cent formula. The green surrounding it would be the supplemental programs that are in place today. The blue program off to the right would be CPP, which would start at 65. As we advance to slide 9, I'd like you to notice the top of the red portion and how that's going to decrease, and the green portion will increase. We'll move to slide 9. So you'll see now in slide 9 there's what we call the makeup portion of the firefighters' supplemental plan. The problem we see with this portion is that as we move forward with Bill 9 and the uncertainty of what the pension cost might be, there's no clarity in what LAPP will provide as a benefit. In turn, that gap above will have to increase or decrease, and in turn the municipalities will have no idea of what those costs might be.

2:25

We think we have a resolution to this problem. Move to slide 10, John. What we'd like to suggest is a legislated ability for employers and designated employees like firefighters to establish a stand-alone pension plan where appropriate. We currently do not have this legislated structure in place. In the next few slides I'm going to show you what that might look like in the future.

A single, stand-alone province-wide pension plan for firefighters. This would be the merger of LAPP benefits for all active firefighters with the existing three supplemental plans: Calgary, Edmonton, Grande Prairie. This will meet the unique need of municipalities and firefighters to ensure that public safety continues to be met. It'll be overall cost-neutral or savings to municipalities, with no material increase in pension costs, meeting the 50-50 cost sharing which was presented by the Finance minister in the announcement of September 2013, and the firefighters' contributions will increase by 2 per cent of pay. I think that really shows the commitment on behalf of the firefighters to their own pension uniqueness and security.

There are overall cost savings for municipalities in operational costs, as I described earlier, in pay, vacation, sick time, and disability, and savings for the municipalities with the supplemental plans in governance and administration, obviously reducing three separate governance and administration models down to one sole governance and administration model.

We feel that there are a number of advantages for the government of Alberta, the municipalities as well as the taxpayers. It ensures the continuation of fire service public safety goals and allows the municipalities to attract and retain long-service firefighters. We need the ability of our municipalities to bring the employee in at a young age and to retire out at the appropriate age and to keep that ongoing mentoring and coaching.

No future risk of downloading pension costs to the municipalities: if I go back to slide 9, that's that line we talked about where we wouldn't know where LAPP would be in the future and our municipalities would not be able to understand how to cost out their pensions into the future.

It's overall cost neutral, as I said earlier, to the municipalities, with no increase in pension benefits, no material increase in pension costs, and a 50-50 cost sharing with members as described in September by the Finance minister. This would delegate control of the plan to municipalities and the Alberta Fire Fighters Association as suggested by the government of Alberta and requires no ongoing involvement of the government of Alberta.

If I could finalize today and sum up really what it is we're here to talk about: eliminate proposed changes in LAPP contributions and pensions, continue with the governance model suggested by the GOA – that's the two plan sponsors, employers and employees, and the board of trustees of experts; we need to continue down that road – and we need to enshrine in legislation the ability for employers to withdraw from LAPP for designated groups like firefighters in order to form their jointly sponsored programs so that they can look after their pension interests into the future.

Thank you.

The Chair: Thank you very much.

Anybody else? No?

Okay. We'll open it up for questions. Mrs. Sarich.

Mrs. Sarich: Thank you very much, and gentlemen, thank you for your presentation this afternoon. I had one question on the stand-alone proposal. The 50-50 pension cost sharing with members: had you had any thoughts about a shared-risk plan?

Mr. Macdonald: We have not discussed a shared-risk plan. We have discussed a jointly sponsored plan with our own governance, following much the same model and template that we've seen in the current LAPP formula, just with our own governance model.

John.

Mr. Christie: Just to supplement that, I would say that our view of the jointly sponsored plan is that it would be a defined benefit plan. The risks would be shared by the employers and the employees because the employees and employers would agree to share 50 per cent of the contribution rates in that plan. That is how the risk would be shared, by changes in the contribution rates, which could go up or could go down. But it would be shared equally by the employees and the employer in that jointly sponsored plan.

Mrs. Sarich: Thank you.

The Chair: Mr. McDonald.

Mr. McDonald: Thanks, Chair. You know, you said that you're not sure that LAPP isn't sustainable. You have a $4.8 billion liability. Is there going to be a miracle cure that comes along? Are we going to see that much of a change in the stock market? What do you think can sustain that and get that back on track? They're upside down by 15 per cent, which is the major portion of your funding.

Mr. Macdonald: Thanks for the question. I'll defer this to John. Thanks.

Mr. Christie: The present situation of LAPP is that about two-thirds of the total contributions are being paid for current service costs, and one-third is being paid to amortize these unfunded liabilities. The amortization is scheduled to go for no more than 15 years. It's actually less than 15 years at this point, but when the unfunded liability was discovered by the actuary, it was then amortized over 15 years. The current contribution rates to LAPP are approximately 24 per cent of salary, shared by the members and the employees. Once these unfunded liabilities are paid off, it will go down to just over 16 per cent. Our view is that that projection over the next 10 or 12 years, when the amortization payments finish, shows that LAPP in its present form is sustainable.

Mr. McDonald: Okay. Do you think that's maybe a little bit hopeful, that there would be no change, that you're going to see a flat line until then?

Mr. Christie: Well, it may be optimistic. It may be pessimistic. Who knows what the future is going to be? All we can do is make what we believe are reasonable projections, and those are the projections that are made by the LAPP actuary and reviewed every time the LAPP actuary does his or her actuarial valuation. It's a moving target. It can go up; it can go down.

Mr. McDonald: I know. Okay. Thank you.

Ms Kubinec: My question is somewhat related. A large portion last year lost money. We're dealing with a $4.8 billion unfunded liability. You see no unfunded liability being created over the next 15 years? Is that correct?

Mr. Christie: Well, it's hard to tell. I'm not a fortune teller, nor is any other actuary, nor is any other economist. All that actuaries can do is make what they believe are reasonable projections of the

future. The LAPP actuary has made her reasonable projections, and based on these reasonable projections, the unfunded liabilities will be paid off over approximately the next 12 years. The future experience can be worse than she is projecting, in which case there will be more unfunded liabilities created. That's one possibility. Another possibility is that the future experience might be better than she is projecting, in which case the unfunded liabilities could be paid off quicker than 12 years.

Certainly, if you look at the last 10 or 12 years, since the year 2000, in most pension plans the experience has been relatively unfavourable. However, I'm old enough – you see a few grey hairs here – to remember the 1990s, when the experience was generally much more favourable than the actuarial projections. During those years there were surpluses, and the surpluses were used in various ways to improve benefits, to give members and employers contribution holidays. Who's to say that that won't be repeated? We don't know, and I think we have to be honest and say that we don't know. We do what we can to adjust our funding targets from time to time to take into account what are now, based on what we know today, reasonable future expectations.

Ms Kubinec: Thank you.

The Chair: Thank you very much.
Any other questions? On the phones, do you have any questions?

Mr. Lemke: Chair, I just wanted to apologize. I was having some phone issues.

The Chair: That's not a question.

Mr. Lemke: No, it's not a question. It's a statement.

The Chair: Okay. Thanks, Ken.

Mr. Lemke: You're welcome.

The Chair: All right. Well, gentlemen, thank you very, very much for your presentation. It was a pleasure having you here this afternoon.

2:35

Mr. Macdonald: Thank you for having us here today.

The Chair: Thank you.
Now we will move to other business. Ms Kubinec.

Ms Kubinec: Yes. We are talking a lot about governance structure in this committee hearing. I would like to request that we get some information on how other jointly sponsored boards in other provinces are set up, the makeup of the boards, the contribution rates if it's a jointly sponsored board, and if those rates have remained the same over, say, the inception of the board. We've heard from Ontario, and I think we know some from B.C. But for other provinces if we could get some information on how they were set up, a little bit of the history of them, and if they've changed over time.

The Chair: We'll ask research to do some work on that.

Dr. Massolin: Yes. We can certainly put that together. I think it's a big request. If we can have a little bit of latitude to narrow it in terms of which plans and which provinces and what time frame. I think that if you bring them all in, with the length of these – some of these plans have been around for 50, 60 years, right? Mr. Chair, if we could just sort of use our judgment to provide the committee useful information that way and sort of circumscribe it that way if that's all right.

The Chair: That would be acceptable?

Ms Kubinec: That would be acceptable, yes.

The Chair: Okay. I think that the other item that we have under other business is for the committee's information. Based on the volume of requests to present in Edmonton and Calgary, adjustments are being made to extend the meeting schedule to 10 p.m. instead of 9 p.m. in those two locations and to limit the presentation time to three minutes in order to accommodate as many Albertans as possible.

Mr. Eggen: In all locations?

The Chair: No, no. Just in two locations, just in Edmonton and Calgary.

Mr. Eggen: Edmonton and Calgary. Yeah. Sure. No problem.

The Chair: You know, we're getting a lot of requests and a lot of phone calls, and we still have a week to go for Edmonton and two weeks for Calgary. We're expecting to get a lot more requests and a lot more people interested in presenting to the committee, and that's the purpose of having these public meetings. I think it is the right thing to do to extend the time from 6 to 9 p.m. to 6 to 10 p.m. and shorten the presentations to three minutes from five minutes. So it'll make the presentations and the questions a total of five minutes.

Mr. Quadri: Do you want me to move that?

The Chair: I don't think we need a motion. However, are we in agreement? Great. Thank you.
Yes, Mrs. Sarich.

Mrs. Sarich: Thank you, Mr. Chair. Earlier today we had a presentation from the superintendent of pensions for the province of New Brunswick, Ms Angela Mazerolle. I referred to a document, and she also in her presentation referred to the New Brunswick regulation of 2012-75. I did hand off a copy to the clerk for circulation.

The Chair: I was just advised that we have a copy of that document, and it will be posted.

Mrs. Sarich: Very good. Thank you.

The Chair: Great. Any other questions?
The date of the next meeting. As per our schedule our next meeting will be on Monday, June 16, starting at 6 p.m., in Edmonton in this room, right?

Mrs. Sawchuk: Yes.

Mr. Quadri: And the public meeting?

The Chair: The public meeting is going to be here on Monday, June 16, starting at 6 p.m., and it will go to 10 p.m. So please be here.

Mr. Quadri: I'm also wondering: are we changing the schedule for our, you know, road trip?

The Chair: No.

Mrs. Sawchuk: Edmonton and Calgary.

Mr. Quadri: No, no. I'm talking about: are we coming back from Fort McMurray?

The Chair: Everybody will know by tomorrow.

Mr. Quadri: So it's still the same as whatever we had. We've already booked the time in our calendars.

Mrs. Sawchuk: Yes. We'll get it out as quickly as we can.

Mr. Quadri: Okay. Thank you.

The Chair: I think the timing and the dates are still the same. However, you might be sleeping in a different bed.

Mr. Quadri: Or not.

The Chair: Or not.
Mrs. Sarich.

Mrs. Sarich: Thank you, Mr. Chair. You know, I'm sorry. I have to apologize. Maybe I should have made the comment when you were talking about the swell of response for Edmonton and Calgary and pushing the time frame to 10 o'clock in the evening. I fully support that. I'm just wondering. I think the clerk was signalling that there's about a week to go. Will we have an opportunity to re-evaluate? Would we go past 10 p.m., or would we look at the option of setting another day? If people are going to come into this in the two big metro centres like that because they're eagerly wanting to present to the committee, at some point we may have to set another day, possibly.

The Chair: Go ahead.

Mrs. Sawchuk: I think, Mr. Chair, just for the committee's information, the Edmonton schedule, based on the original five-minute presentation time, is completely full. If we are, you know, creating these extra time slots by reducing the speaking times to three minutes, we are freeing up time to accommodate the ones who have got existing requests in and are waiting for responses and any other requests that might come in between now and next Friday. I guess the one option the committee would have is scheduling another meeting at another time if we completely fill up the 6 to 10 p.m. time slot. Calgary still has one or two slots available, but they've got two weeks yet to register. It's very busy in the two main larger city centres.

The Chair: Mr. McDonald.

Mr. McDonald: Thanks. Well, we did talk about extending into September, maybe having something at the end. I would suggest that you don't want to keep stacking it. By shortening it to three minutes, you're starting to push their opportunity to present. You might be better off to keep it where it is, and if it's full, say: look, we may schedule a day in September to have this again. It might be easier to do that than it is to start crowding. I mean, after a couple of hours we start to get antsy. After four hours we're not really that alert here anymore.

The Chair: Well, I know that if somebody is coming to present in June and then you're going to push them to September, it might not be the right thing to do. Then you're probably going to have to do another advertisement and the cost of transportation. I don't think that that would be the right way to go.

Mr. McDonald: Okay. Just a point.

The Chair: But, you know, if we can ask them to shorten their presentations to three minutes – I mean, we have experience with the two-minute members' statements. Look at what they can do to us in two minutes in the House.
I am sure we're going to be hearing a lot of the same thing because, especially in the public meetings, everybody is going to be coming in and telling us his or her own story. They'll be all similar, so they can shorten it to three minutes.

Mrs. Sarich: Well, I'd like to come at this from a different angle. Maybe the best advice is to take our cues from Albertans and see how it goes when we open in Edmonton. If it's generating a lot of interest, then as a committee we'll have to evaluate that and make a decision at that point, but I don't feel comfortable making anything too hastily.

2:45

The Chair: Mrs. Sarich, I think that's why we left it open, in case we need to meet a day or two in September. Wasn't that the reason for that?

Mrs. Sawchuk: I believe so.

The Chair: If we have to.

Mrs. Sawchuk: Yeah.

Mrs. Sarich: Thank you.

The Chair: For these two locations are we okay with going from 6 to 10 and reducing the presentation time from five minutes to three minutes and making the total presentation plus questions five minutes? Are we in agreement? All in favour? Great. Excellent.

Mr. Lemke: Chair, I have a question.

The Chair: Go ahead. Who is this?

Mr. Lemke: Ken.

The Chair: Yes, Ken.

Mr. Lemke: Has anybody looked at the possibility of doing some of these out-of-town trips by teleconferencing, similar to what happened on Monday or Tuesday? First of all, the cost is going to be fairly high for taking the entire group out to various communities, and there is time in the plane that we could be spending listening to Albertans. I'm just wondering if anybody has looked into whether or not that would be possible, say, in Fort McMurray or Grande Prairie or Medicine Hat or wherever, to have people present by teleconference.

The Chair: Ken?

Mr. Lemke: Yeah.

The Chair: Karen will speak to that.

Mrs. Sawchuk: Okay. Just for the benefit of the committee, video conferencing is specific to the equipment that's available on both ends. We have the video conferencing capabilities here in our committee room, where all the members can be in attendance. For people wanting to participate via video conference, they also have to have access to those same types of facilities on their end. It's not always that simple. I mean, even in a large centre like Toronto we were scrambling at times to find available video conferencing

facilities for the presenters that appeared before the committee during these past three days. In the smaller centres . . .

The Chair: So you won't be able to find that in Lac La Biche.

Mrs. Sawchuk: Well, you might be able to because there is a university there, but it doesn't always mean that it's compatible with our system, Mr. Chair. All I'm trying to say is that it's not as simple as: yes, they can video conference in. It has to be a system that's compatible so the committee can actually hear them and see them.

Mr. Lemke: Can we think about this for a second? We've got all the committee members. We've got security that has to go. We've got all of the staff. We've got overnight trips planned. Surely it would be far cheaper to take the equipment and one technician and fly that one person plus the equipment to Fort McMurray or Medicine Hat or whatever, set up the equipment, and then go on to Grande Prairie or wherever he has to go while the rest of us stay in Edmonton. Clearly, that's possible.

The Chair: Mr. Lemke, it's a good idea, but that has already been decided, so we can't do anything about it.

Mr. Lemke: We can't change our minds because it's been decided?

The Chair: We can't change it or revisit it, no. It's been done.

Mr. Lemke: Yeah. Well, all right. Works for me.

The Chair: Okay.

Ms Kubinec: I'd just like to say . . .

Mr. Luan: Chair, can I say something after you're finished with MLA Lemke?

The Chair: Just one second, Jason.

Mr. Luan: Thank you.

Ms Kubinec: I do want to address this. I think that it's very important that the public see us. We're the committee. Yes, it is more costly, but they want to talk to the committee and to see the whites of our eyes. So I think that it's very important that we do make our very best effort to get to as many of those as possible.

The Chair: Thanks, Ms Kubinec.
Jason.

Mr. Luan: Yes. Thank you for that. I'm just wondering that if the video components make this so challenging, what about only having the audio part available? In that way the dialogue is still preserved versus seeing the video effect. I'm with Ken, you know, in terms of the cost-benefit analysis . . .

The Chair: Jason.

Mr. Luan: . . . and the intensity of those meetings throughout the whole province.

The Chair: Jason.

Mr. Luan: Yeah.

The Chair: The train has left the station already. Not our train, but the train has left the station already. It's already been decided, and we're going to go ahead with what we have decided and voted on.

Mr. Luan: Chair, what I'm saying isn't changing your train per se. It is how to get the maximum participation versus – I understand there are two days right now that are really tricky. We don't have enough people to be a quorum to begin with.

The Chair: Jason, I agree. Perhaps we can talk about this in the future. Right now we have already booked the venues and the flights and the advertising and everything. It's too late to revisit this, but it's a good idea. Perhaps we can discuss it in the future.

Mr. Luan: All right. You're the chair. You kind of completely shot down my ideas. I don't even want to talk about it.

The Chair: Thank you, all.
Ladies and gentlemen, I need a motion to adjourn.

Mr. Quadri: I move the motion to adjourn before we change anything else.

The Chair: Thank you, Mr. Quadri, and I see seconded by Mr. MacDonald. All hands are up.
Thank you, and have a great day.

[The committee adjourned at 2:51 p.m.]

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