Legislative Assembly of Alberta

The 28th Legislature
Second Session

Standing Committee on Public Accounts

Treasury Board and Finance

Wednesday, April 23, 2014
8:30 a.m.

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Standing Committee on Public Accounts

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Standing Committee on Public Accounts

Participants

Ministry of Treasury Board and Finance
- Darwin Bozek, Controller, Office of the Controller
- Ray Gilmour, Deputy Minister
- Aaron Neumeyer, Assistant Deputy Minister, Budget Development and Reporting
- Ellen Nygaard, Executive Director of Pension Policy
- Mark Prefontaine, Assistant Deputy Minister, Financial Sector Regulation and Policy

8:30 a.m. **Wednesday, April 23, 2014**

[Mr. Anderson in the chair]

The Chair: Good morning, everyone. I'd like to call this meeting of the Standing Committee on Public Accounts to order. I'm Rob Anderson, committee chair and MLA for Airdrie, and I'd like to welcome everyone in attendance here and via teleconference.

We'll first go around the table to introduce ourselves, starting on my right with the deputy chair, and please indicate if you are sitting in on the committee as a substitute for another member.

Mr. Dorward: My name is David Dorward, and I'm the MLA for Edmonton-Gold Bar.

Mr. Young: Good morning. Steve Young, Edmonton-Riverview.

Mr. Donovan: Good morning. Ian Donovan, MLA, Little Bow riding.

Ms Fenske: Hello. Jacquie Fenske, MLA, Fort Saskatchewan-Vegreville.

Mr. Sandhu: Good morning. Peter Sandhu, MLA, Edmonton-Manning.

Mr. Casey: Good morning. Ron Casey, MLA, Banff-Cochrane, substituting for Stephen Khan, St. Albert.

Mr. Allen: Good morning. Mike Allen, Fort McMurray-Wood Buffalo.

Ms Nygaard: Ellen Nygaard, executive director of pension policy, Treasury Board and Finance.

Mr. Prefontaine: Mark Prefontaine, assistant deputy minister, financial sector regulation and policy, Treasury Board and Finance.

Mr. Gilmour: Ray Gilmour, Deputy Minister of Treasury Board and Finance.

Mr. Bozek: Darwin Bozek, Controller, Treasury Board and Finance.

Mr. Ireland: Brad Ireland, Assistant Auditor General.

Mr. Saher: Merwan Saher, Auditor General.

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

Mr. Barnes: Good morning. Drew Barnes, MLA, Cypress-Medicine Hat.

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

Mr. Tyrell: Chris Tyrell, committee clerk.

The Chair: Thank you. I don't think we have anyone on the phone. No.

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If everyone could please make sure that they speak directly into the mikes when asking questions, that would really help our *Hansard* staff understand what you're saying so they can record it properly. Please don't sit back in your chairs, and please also do your best to keep your cellphones on silent or vibrate. That's important.

First we're going to approve the agenda, that's been circulated to everyone on the committee. Do we have a mover that the agenda for the April 23, 2014, Standing Committee on Public Accounts be approved as distributed? Mr. Sandhu. Those in favour? Any opposed? Carried.

We have several sets of minutes here. There are three sets of minutes to approve this week as we had our regular meetings on March 5 and 12 as well as a meeting with the office of the Auditor General on the evening of March 5 if you remember. They've all been distributed on the website and to you as committee members.

Do we have a mover that the minutes for the March 5, 2014, Standing Committee on Public Accounts be approved as distributed? Mrs. Sarich. Those in favour? Any opposed? Carried.

Do we have a mover that the minutes for the March 5, 2014, evening meeting of the Standing Committee on Public Accounts be approved as distributed? Any movers on that? Mr. Sandhu. Those in favour? Any opposed? Carried.

Do we have a mover that the minutes for the March 12, 2014, Standing Committee on Public Accounts meeting be approved as distributed? Mr. Allen. Those in favour? Any opposed? Carried.

Today we are meeting with Alberta Treasury Board and Finance. The reports to be reviewed are the Alberta Treasury Board and Finance annual report for 2012-13, any relevant reports of the Auditor General of Alberta with regard to recommendations made in regard to the Treasury Board and Finance department as well as the 2012-13 annual report of the government of Alberta, consolidated financial statements, and the Measuring Up progress report, also for 2012-13.

Members should all have a copy of the briefing documents prepared by committee research services – thank you very much for that – as well as the Auditor General, who also provided an excellent document for us to better understand the materials in front of us today. Based on committee discussions from March 5 and 12, they dealt primarily with the subject of pensions, but there was some discussion about the budgeting recommendations in previous reports as well from the Auditor General.

Joining us today are representatives from Alberta Treasury Board and Finance. If you would make an opening statement, which should last no more than 10 minutes, then we'll invite our Auditor General to make some comments as well.

Go ahead, Mr. Gilmour.

Mr. Gilmour: Thank you, and good morning. I'm here today to focus on a discussion of the public-sector pension plans and the Auditor General's recommendations for those plans, contained in his February 2014 report. We can also address any other questions you may have regarding other matters within Treasury Board and Finance.

This is the second visit to the Public Accounts Committee for Treasury Board and Finance as we had discussed the '12-13 fiscal year during our November 6 visit. That meeting was attended by representatives from our various entities as well.

I appreciate the opportunity to be here, and along with me are Darwin Bozek, our Provincial Controller; Mark Prefontaine, the assistant deputy minister of financial sector regulation and policy; and Ellen Nygaard, executive director of pension policy, who are all seated at the table beside me.

We're pleased to discuss with you the report of the Auditor General, released in February, regarding the department's oversight systems for Alberta public-sector pension plans. As the Auditor General noted in his report, audit activities ended in July of 2013, and he provided his report to the department in December. This coincided with a very important policy initiative on public-sector pension reform that was under way even as his audit proceeded.

In July 2012 Minister Horner asked the four pension boards to consult with plan stakeholders on plan sustainability and to provide their recommendations by March of 2013. The boards did this work and reported common concerns. They also highlighted the need for a new governance model. However, except for the Management Employees Pension Board none of the boards produced specific recommendations for plan design changes to improve plan sustainability.

Meanwhile the government released its consultation document proposing changes to the public-sector pension system on September 16, 2013. In his report the Auditor General summarized these proposals and provided some analysis. The minister invited feedback on the September proposals, and the Treasury Board and Finance department received thousands of e-mails and letters about the proposals. Based on the feedback, the changes announced February 24, 2014, were more modest than initially proposed but will still put the plans on a path to sustainability. The Auditor General's report was issued prior to the announcement of these changes.

As you know, Bill 9 was introduced in the House last week. This is the enabling legislation for the public-sector pension reforms that Minister Horner announced on February 24, 2014. Much of the detail regarding the pension changes will be set out in the regulations, which will be finalized over the coming months. The Auditor General has correctly pointed out that these reforms should be held up against the yardstick of a set of objectives or principles.

In announcing his vision for public-sector pension reform, the minister set out the government's principles. Here are some of them: preservation of benefits already earned; provision of highly secure, competitive benefits; and a system that is robust and adaptable to changing circumstances. These principles are aimed at the preservation and strengthening of the defined benefit plans for public servants. With the changes public servants will still have excellent pension plans with secure and predictable benefits at a reasonable price.

It is important to note that the changes do not affect benefits earned before 2016. This means there are no changes to the pensions of current retirees or to the benefits earned to the end of 2015 by current employees. Also critical is the fact that the core benefit, the basic pension formula, is not changing.

The government is making changes to add-on benefits; in particular, early retirement subsidies and cost-of-living adjustments, referenced as COLA. The change to COLA is from guaranteed to conditional cost-of-living adjustments. This allows the plans to better weather the financial storms with the flexibility to provide catch-up COLA when finances improve. To give the pension plans an opportunity to reset and improve their financial status, the legislation imposes a moratorium on benefit improvements until 2021.

Finally, to protect taxpayers and plan members from excessive contribution levels, the government will impose a cap on contribution rates for the cost of benefits on service after 2015.

The legislation also has provisions under which employers and employees can come together and agree on a new system of joint governance independent of government. In our responses to the Auditor General's recommendations we have indicated that the pension reforms taken as a whole will address the risk management issues that the Auditor General has identified. These reforms will be implemented over the next few years, after the enabling legislation and associated regulations come into force. We believe that taken as a package, the reforms will result in a better risk management system.

8:40

The first key feature is that the plan sponsors, being the public employers and plan members who bear the costs and risks, will be given the power and tools to assess and manage that risk.

The second key feature in the new system will be the constraints with which the sponsors will exercise discretion and manage risk. The constraint at the upper bounds is the contribution cap. The government will be issuing a consultation paper later this week on how the contribution cap will be set, which will start a dialogue with future plan sponsors through the summer. At the lower bounds the constraints are the minimum funding standards of the newly amended Employment Pension Plans Act.

These rules require the proper prefunding of benefits and the orderly payment of any shortfalls that arise. Therefore, they protect the future pensions of plan members.

As well, addressing the Auditor General's recommendation that the pension boards adhere to standards regarding funding and benefit policies, the new EPPA requires defined benefit plans to have such policies. The Auditor General has also commented on the financial risks associated with funding a defined benefit plan, especially where the plans are mature and the ratio of retirees to contributing members is growing. The announced changes will help these plans mitigate those financial risks. The joint sponsors will be in the driver's seat for risk management, but the government will protect taxpayer interests by ensuring there is a reasonable contribution cap and that members and employers share the costs 50-50.

The financial statements of the public-sector pension plans of MEPP, PSPP, LAPP, and SFPP are contained as supplementary information in the Treasury Board and Finance annual report. This reporting is in accordance with the Canadian accounting standards for pension plans. Based on the statements of financial position at December 31, 2012, for each of those plans the total assets are $34.8 billion, the liability is $42.2 billion, for a net deficit, or unfunded liability, of $7.4 billion. Of this, $2.7 billion is the government's share as the participating employer of these plans. It has been reported in schedule 10 on page 59 of the March 31 government's consolidated financial statements. The government's share reported is in accordance with the Canadian public-sector accounting standards. We are currently completing the reporting for the pension plans as of December 31, 2013, and for the government as of March 31, 2014, all of which will be available in the near future.

Mr. Chairman, I appreciate the opportunity to provide this overview of the pension plans and would be pleased to answer any questions.

The Chair: Thank you very much for those remarks.
Mr. Auditor General.

Mr. Saher: Thank you, Mr. Chairman. In our February 2014 report we reported on the Department of Treasury Board and Finance's oversight systems for Alberta public-sector pension plans. We made three recommendations to the department. These three recommendations are not yet ready for a follow-up audit. I anticipate they will be discussed this morning.

We have been advised that seven other recommendations, from 2007 up to 2012, are ready for our follow-up audits. These seven are listed at page 161 of our October 2013 report.

Thank you very much.

The Chair: Thank you.

With that, we will turn it over to the PC caucus for the first 17 and a half minutes, and Mr. Dorward will chair that.

Mr. Dorward: All right. Thank you, Chair. Thanks, everyone, for being here today to discuss this important issue. I think it's a wonderful thing that we're able to have Public Accounts and to bring together the ministry and department individuals and the Auditor General. I want to thank the Auditor General for the timely work that he's done in this area, not only with his report in the summer of 2013 but also the February 2014 report. It's an important issue to Albertans, and it's very good that we can get these kinds of issues on the record and ask the kinds of questions that are necessary to drill down to. So thanks, everybody, for being here and for the dialogues that we're about to have.

It seems to me, Mr. Gilmour, that there are three things that can be done in the pensions area. Either individuals, plan holders, can pay more in, the plan can earn more money as it goes forward to maintain the promises that are contained in the pension itself, or those promises can be changed. Are there any other mechanisms that can be used in the pension area to be able to deal with pensions as we understand them?

Mr. Gilmour: I think you've certainly highlighted the three main areas. As you look at the recommendations or as we approached the sustainability of these plans moving into the future, we also approached it from that regard in that when you look at benefits – and I think it's important to highlight that the proposed changes moving forward do nothing to impact the benefits earned by the public-sector employees, nor will anything impact their benefits earned up to the end of 2015.

There is a difference between core benefits and noncore benefits. As we look at the noncore benefits, which are traditional in the government plan, you earn 2 per cent for every year of service, and then you take an average of your five years of salary. Those will stay true, and those are true to a defined benefit type of approach to pension plans.

But there are other things that are noncore in nature which do touch on areas like early retirement. A lot of our plans right now – the four plans we looked at have a criterion which is 85-55: at 55 your years of service and age equal 85. We have taken a look at that, and we have suggested that that may be adjusted to a 90-60. As you look across the government of Alberta, the average person is retiring in their 60s with about 28 years of service. It tends to line up with what people are actually doing plus it helps reduce the cost of early retirement, of people retiring early.

The other noncore benefit is COLA, which is the cost-of-living adjustment. That is set at 60 per cent guaranteed for our plans right now. The idea is to set it as a target of 60 per cent. Hopefully, the plans continue to perform well when they look at investment returns, when they look at contributions and benefits, and it gives an opportunity to continue to do that. But if the plans do run into issues from a funding perspective or an investment return perspective, which is the second point you raised, it does give flexibility to the governance committee of the plans in the future to adjust accordingly to ensure, which the Auditor General highlighted, that the liabilities and the sustainability of the plans are met.

As you touched on those three areas, they're very deep areas, and they can expand into large areas, but those tend to be the three main areas.

Mr. Dorward: We don't know what the investments are going to earn, although I understand that there are set criteria that need to be followed relative to the investments within those plans, which get the proper balance between risk and reward. Therefore, there's always an issue of uncertainty with respect to this.

You made a bold comment, Mr. Gilmour, in your opening comments, that the plans are on a path to sustainability. The proposed changes that you've put out there in the releases that you mentioned, in February particularly: do those put the plans at a higher probability that the pension holders will get their pension cheques? Is that a fair way to state that given that there are no certainties with respect to that because of the investment side?

Mr. Gilmour: Absolutely. I guess the terminology we use is that this gives us a better opportunity to mitigate the risks in the future. You're right. An investment return is never a guarantee. These last few years we've had very good investment returns. When you look at the asset classes that a pension plan invests in, a portion of their money generally goes into very short-term, safe investments, and a portion goes into other investments like equities or bonds or those types of things, and you can never predict where those are at.

Mr. Dorward: Mr. Gilmour, I apologize for cutting you off. It's only because we have a lot of questions. I apologize for that. Certainly, I just should put it on the record that if you want to get back to us on anything in particular through the committee clerk, you can do that with respect to the expansion of any one answer. But I do want to get to a number of the other questions.

How many scenarios did the department or the ministry go through in order to determine whether or not these particular recommendations are the ones that are going to provide this higher probability that you mentioned?

Mr. Prefontaine: I'll take that one. Thank you very much. The number of scenarios that we ran would differ with each particular plan that we looked at. At a minimum, we ran a thousand scenarios looking at the probability of various investment returns over a long period of time to assess the probability of the likelihood of contribution rates having to increase further from what they already are. So in the thousands.

8:50

Mr. Dorward: All right. Thank you.

Plan holders are living longer. Can you talk about the issues relative to that and how you factored in the age? What is happening with the age? I hear different things. I hear that people are living longer. I hear: no; this generation is going to be the longest lived. Can you comment on how things have changed relative to the age that people are living that are members of these plans?

Mr. Prefontaine: Certainly. I'm happy to address that question. The good news is that people are living longer and that the rate of decrease in mortality continues to improve. In fact, if we look at information from 1966 – and we use that date because that was the date that the Canada pension plan was established – a male that was 65 years old at that time was going to live to the age of 79, on average; a female was going to live to the age of 82. Based on recent studies by the Canadian Institute of Actuaries, in a Canadian pension and mortality table released earlier this year, it's our understanding that a male now at age 65 is going to live to the age of 88 and a female to the age of 90.

So life expectancies are increasing, and that rate of increase is continuing to increase. So that is the good news.

Mr. Dorward: I'm going to change gears fairly quickly here. There's a supposition in this overall scenario, as I mentioned at the start, that the contribution rates could be simply increased. Can you tell us if between September, for example, and February – I think, Mr. Gilmour, you said there was a lot of feedback to the minister, to the department – you heard from plan holders about where they feel their contributions are? Indeed, tell us what those are. I suppose it varies between plans, and there are a lot of employers and a lot of plans, but can you make some generalizations about that? How can Albertans be sure that on paying inside, we can't just increase that now and then we're fine, that these unfunded liabilities will come down to zero, and everybody will be happy?

Mr. Prefontaine: Current contribution rates based on information available at the end of December 2012, which was the last time that these plans undertook, on average, actuarial valuations, showed that on average we're looking at total contribution rates, so both member and employer rates combined, of 27.7 per cent for the four plans that we're talking about. Those include the management employees pension plan, where the total contribution rate is 34.65 per cent, and this is a percentage of earnings; the special forces pension plan, where the total contribution rate is 29.52 per cent; the public service pension plan, which has a total contribution of 25.62 per cent; and the local authorities pension plan, a total contribution rate of 24.16 per cent. Those represent, again, total contributions shared between employers and members and are among the highest in Canada.

To follow up on your question of what did we hear from stakeholders during the consultation period of September to December, we received a lot of feedback from both employers and members that contribution rates were getting to the point where they found it very difficult to understand why they should have to pay those rates.

Mr. Dorward: All right. Thank you.

Let's get to the part that the Auditor General discussed in his February report relative to who is managing the pension plans. Are we using appropriate and proper tools to be able to manage these pension plans and to measure them properly and appropriately going into the future? Maybe respond to some of those Auditor General recommendations and where you're sitting at this time on those. I know that's a big question, so I'll maybe not cut you off this time quite so fast.

Mr. Prefontaine: So if I understand the question correctly: are we using the proper tools to assess the risk that these plans represent? There are a number of tools that are available for managing risk within a defined benefit pension plan, and the first comes with ensuring that the plans are being measured properly. Right now each one of the plans has fairly solid risk management practices that derive out of their actuarial evaluation reports that are conducted at least every three years as required by legislation and done in accordance with actuarial principles and standards. That's the first major tool that's available.

The second major tool that's available for the current state of these plans in terms of managing their risk is that they have pension boards that have both employer and member representation and have certain statutory responsibilities. That certainly has managed some of the risks within the plans. Those would be two.

The third is certainly the fact that currently the minister is trustee and has some responsibilities and accountabilities to taxpayers regarding these plans.

Those would be some of the tools that are used to manage these risks.

Mr. Dorward: I think I heard the words before that this legislation has been proposed as a framework – is that the right word to use? – to be able to do the things that you see are necessary and that the Auditor General has requested you do.

Mr. Prefontaine: Certainly, this legislation that's being discussed has been framed as being enabling. A lot of the specifics around the plan changes are in fact intended to be found in the regulations associated with each plan. The Public Sector Pension Plans Act doesn't contain the specifics of the benefits for each plan. Those benefits are actually contained in the plan rules, which are the regulations to that act, specific for each plan.

When it comes to the changes that the deputy minister referred to regarding early retirement as well as cost of living, those would in fact have to be changes to those regulations. The legislation certainly is enabling from the benefits side, but it's also enabling from the governance side in terms of the plans having the ability as early as January 1, 2016, to move to a jointly sponsored bicameral structure, having sponsors at a table and then having an expert board of trustees at a table managing the plan.

Mr. Dorward: Thank you.

Mrs. Sarich, we have around four minutes left in this segment. Would you like to take some of that time?

Mrs. Sarich: Yes, please. Thank you very much.

I'm going to switch out. Let's take a look at some of the financial reporting. Under the Fiscal Management Act with Budget 2013 the government presented its budget in the form of three specific areas: an operational plan, a capital plan, and a savings plan. This is quite different from how the actual results in the financial statements are reported. I'm wondering: why is a constructed budget for financial reporting purposes necessary? Why isn't only one budget prepared that can be compared to the actual results in the financial statements reported, using generally accepted accounting principles? In that same vein, I was very curious when I had a look at all of this. Why aren't the capital grants to municipalities included in the operational expense if the province doesn't own the resulting asset? How does this treatment improve accountability? Let's start with those.

Mr. Bozek: Okay. I'll start with the accounting perspective, and then I'll let my colleague Aaron Neumeyer potentially talk about the budget in terms of how we treat certain transactions for reporting.

Canadian audited financial statements are required to follow PSAB, obviously. The budget is not required to be prepared under those standards. For accounting, obviously, we need to prepare that. We want a clean audit opinion from the Auditor General. Part of that requirement is for the PSAB report, the audited financial statements, to be prepared on a comparison of actuals to budget results.

Given the changes within the FMA this year we needed to change the way we reported the actual-to-budget comparison. Under the changes to the FMA we recognized that we would have to prepare a budget on the same basis and scope that is consistent with the financial statement reporting. We will also include that in the statement of operations and the statement of change in net financial assets, and we will include a reconciliation of the constructed budget with the budget for reporting purposes as presented under the FMA. That will be presented in our 2013-14 audited financial statements in the annual report that's going to be released by June 30.

As the controller my main responsibility is to prepare the consolidated financial statements, and they need to be prepared under PSAB. Again, to meet those standards and to get the clean audit opinion from the office of the Auditor General, we will prepare it on those bases, and we will prepare the constructed budget to reconcile to the fiscal plan.

9:00

Now, just in terms of major changes or differences, I guess. We prepare the financial statements on a larger scope, meaning that the revenue expenses; assets; liabilities of the Crown-controlled subsector entities, which are schools, universities, colleges, health entities; Alberta Innovates are presented on a line-by-line basis in our consolidated financial statements. They are not included in the fiscal plan. We also include changes in the valuation of the pension liabilities in our audited financial statements. We also defer the recognition of revenues transferred from the federal government for capital purposes in the audited financial statements. The major difference from an accounting perspective, if you will, would be the treatment, as you mentioned, of the capital grants provided to municipalities.

Mrs. Sarich: Okay. Could you provide any other details to the committee? Could you move to answer: why aren't capital grants to municipalities included in the operational expense if the province doesn't own the assets?

Mr. Bozek: Well, under PSAB rules, again, while these grants may be provided for capital assets, these capital assets are not owned by the province; therefore, the accounting requirements are not to capitalize that. The accounting side of that transaction is treated properly, but from the budget perspective, from the fiscal perspective, we bring those into capital investments only.

Maybe I'll pass that to Aaron to answer.

The Chair: All right. Okay. Go ahead.

Mr. Neumeyer: Good morning. I'm Aaron Neumeyer, assistant deputy minister, budget development and reporting, with Treasury Board and Finance. As this committee discussed extensively last November, the budget is a policy document. It's the policy choice of government and how to present these amounts. Under the Fiscal Management Act we kept the capital grants in the capital plan, so that keeps the capital plan spending consistent on a historic basis.

The Chair: Thanks.

All right. We'll go to our caucus. I'll be doing the questioning as I'm the critic in this area, so we'll hand over chairing to Mr. Dorward.

[Mr. Dorward in the chair]

The Deputy Chair: Thank you, Mr. Chair. Go ahead.

Mr. Anderson: All right. Staying on that line – we'll go back to the pensions here in a second – Mrs. Sarich I think was right to question and get into an explanation of why capital grants to municipalities are not included in the operational expense. I would ask the Auditor General to comment on what he feels on that subject. Should it be included as an operational expense under accounting rules, in your opinion?

Mr. Saher: Well, the Fiscal Management Act is not based on accounting rules, and, as has been said, it's a policy document. The Minister of Finance is preparing his budgets in accordance with that policy document. As simply as I can explain it, the policy document has a budget treatment which is not in accordance with accounting principles. I'll just take this opportunity, if I may, to speak a little bit longer.

In my opinion, it would be best for Albertans to have a budget presented before the start of the year in the same way that the actual results will be presented. The clearest picture of the province's finances comes from the audited consolidated financial statements. A constructed budget constructed at the end of the year is, in my opinion, second best.

The time spent interpreting the Fiscal Management Act budget takes away from time available to understand the province's financial condition. So for us to spend time here debating and trying to understand this phenomenon of how the MSI grants are treated in the budget under the Fiscal Management Act – they are not treated as an expense – is a contradiction to how they will be treated in the consolidated financial statements that the Controller has said that he prepares in a way that he will obtain a clean audit report.

Here we are discussing differences in how things are presented. It's my opinion that all of that time spent discussing these differences distracts from the real task that I think Albertans need from their MLAs and those that manage government affairs: time spent on understanding what is the actual essence of the budget, how the province's financial condition is changing, what are the initiatives in the budget. From my experience in just observing from the sidelines, a lot of time is spent interpreting these different formats. In my opinion, that time could be better spent on actually debating the essence of the budget itself.

Mr. Anderson: All right. Thank you very much for that, Mr. Auditor General.

To the department. I think those were some very clear comments by the Auditor General with regard to, first of all, the need for having consistent documents both in the original budget and then the actuals at the end. That would include, of course, the quarterly updates as well so that everything is in the same format and is according to GAAP standards. So why aren't you doing that?

Mr. Neumeyer: Well, Mr. Chair, again, the budget is a policy choice of government. A government of the day could choose to move to a budget that has a financial statements basis at some point in the future. That has not been the choice of government. If you actually go back I think to about 2004 or so, the reconciliation was quite simple, but once the financial standards started to evolve, where we initially went to bring in the SUCH sector on a modified equity basis and then, ultimately, on a line-by-line basis, that's where the changes started to become significant. But I would like to point out to the committee that government has always provided a detailed reconciliation of the differences between the budget fiscal plan and the financial statements. You see that in the annual reports, in the very detailed executive summaries. It has always been provided.

Mr. Anderson: Okay. Basically, we have a difference. The Auditor General is stating that he thinks it should be in one format that is in line with generally accepted accounting principles, the budget and the actuals and the quarterlies and everything, and the department's position is that you are not going to follow that advice, that, in fact, you're going to continue to use the budget as a policy document rather than an accounting document. That's it? You disagree, and you're going to continue to do it this way?

Mr. Gilmour: No. Mr. Chair, the department follows the public accounting standard rules when it does it. I think the biggest area of concern or the difference in what the Auditor General has discussed is the timing of the constructed budget. We do that. We do it every year. We do it when the annual report comes out to reconcile the budgeting process with the annual report. The Auditor General has suggested his preference. He would like to see that earlier in the stages as it unfolds.

The challenge you face when you do that is that when you do your budget, of course, it's for the government. It doesn't necessarily include all of the SUCH sector, so you have to make those estimates. It's a basis of where you make the estimates: at the start of the year or you do them at the end when you do your constructive budget. So it's not an issue of supporting GAAP rules or not; it's an issue of timing on the constructed budget, is my take on that.

Mr. Anderson: One of the reasons we have an Auditor General, of course, Mr. Gilmour, is to ensure that our accounting documents are the best they can be and as clear and as transparent as possible, so when the Auditor General says that the way you're doing it now is second best, perhaps that's something that the public would like you to look at and make it first best. Just a suggestion.

With regard to capital grants to municipalities not being included in operational expenses – again, I mean, I've been having this debate with the minister in the House for years now – why are you not including municipal grants? They are grants. They don't go on your balance sheet as assets. Why are those not being included as operational expenditures?

Mr. Gilmour: Again, as you look at your annual report and you do your constructed budget, they are treated accordingly in that. As you look at the budget document, when it breaks out the operational, the capital, and the savings plan, it's just simply a way of showing it from an operational and a capital perspective. If you put them in the operational side, then you've got some of your capital. Your money that goes toward capital is showing up in operating. Under the current format and the Fiscal Management Act all the capital is lumped into one area to show everybody what's going into the capital side versus what's going into the operating side. I guess that's, you know, basically the difference as it unfolds when you do the budget today.

9:10

Mr. Anderson: Thank you.

Is there any discussion in the department right now about changing the way that you do the budget to comply with the suggestions of the Auditor General? Is there going to be a move towards that? Is there a discussion to do that, or are you just going to keep doing it this way regardless of who tells you that it's not right?

Mr. Gilmour: We have ongoing discussions with the Auditor General in a multitude of areas, this being one of them, and certainly support your comment earlier. We work very closely with the Auditor General's office and continually look at ways that we can improve and strive to meet his comments and other people's comments as well. There's always a general open discussion going on about ways that we can improve.

Mr. Anderson: Okay. I mean, I just can't imagine how much time we'd have on our hands if we had put this to bed and we didn't have to debate it anymore, you know, and then Albertans would probably have a more clear understanding.

Moving to pensions in the last half of my time, switching gears a little bit. In the February 2014 Auditor General's report one of the recommendations he gave was to "cost and stress-test all proposed changes" to the pension arrangement "to assess the likely . . . future impacts on Alberta's public sector pension plans." Obviously, you rolled out Bill 9, as you discussed in your opening comments, and I would like to know whether you've (a) done a cost and stress test for these proposed changes under Bill 9, and (b) where I can find that cost and stress test.

Mr. Prefontaine: Yes, we've done the costings regarding the plan changes, and, yes, there is ongoing stress testing. The important point to note regarding the stress testing is that it's very much subject to current conditions. One of the things that the deputy minister pointed out in his opening comments is that the changes that are being planned are for January 1, 2016, onward. The stress testing that we're doing certainly is reflective of current conditions, but we'll have to have some ongoing stress testing that is reflective of the conditions at that point in time to understand truly – and even into the future the stress testing will need to continue to reflect those current conditions to get a true understanding of what the impact of these changes are. Earlier I mentioned the thousands of simulations that we ran regarding the likelihood of contribution rate increases if nothing was done. We've done the stress testing and will continue to do the stress testing on the plan changes.

Regarding the costings, we could certainly make that available to the committee. It's an important thing to note that because we have no certainty on what the conditions will be at January 1, 2016, we can look at how these plan changes would impact costs today, but it would be more important to know how these plan changes will impact costs at that point in time based on those conditions.

Mr. Anderson: Sure. You can make suggestions or predictions as to what – I mean, we can make long-term predictions as to the stock market and returns. We've got lots of historical data. So is it really that big of a deal to do stress testing in that regard? We have a lot of historical data to work with. Is it that hard to move forward with the stress-test analysis?

Mr. Prefontaine: No. Like I said, we've been doing the stress testing, and we've done the costings based on what we know today, based on the plan information more specifically at the end of 2012 as that's the most recent date that's available. When we look at the costs that will be mitigated because of the plan changes, we're looking in the neighbourhood of 3 to 4 per cent of salary, all subject to the plan you're talking about and looking at the total package. That said, referring to the increasing life expectancies that we're all enjoying, these plans have not fully accounted for those increasing life expectancies, so those are costs that have yet to come into the system.

What is most significant is the net effect of costs that are being taken out of the system by the plan changes and costs that will come into the system because of the mortality that I talked about, investment experience between now and the end of 2015, as well as any other experience that differs from assumptions for the plans in that time.

Mr. Anderson: Okay. Can you provide to the Auditor General, if you haven't already, and this committee the cost and stress test analysis for this?

Mr. Prefontaine: Yes.

Mr. Anderson: Okay. I'd appreciate that.

The Auditor General also recommended that the department "conduct or obtain further analysis of the impact of proposed pension plan design changes on employee attraction and retention." Of course, that's an issue that's often brought up. You know, the reason a lot of folks go into the public service is that although they take a little bit less money on the front end than they could make, say, in the oil and gas sector, et cetera, they decide to go into the public sector with the view that they're going to receive a certain pension at the end that's going to hopefully make up a little bit for that sacrifice on the front end. Has that analysis been done? I mean, from the stakeholder group push-back it would seem that this might be a problem. Have you done that analysis?

Mr. Gilmour: Yeah. Mr. Chair, when you look at the compensation package of public-sector employees, of course, you look at three main areas. You look at their salaries, you look at their benefits, and you look at their pension plans. As we continue to move forward, as I had touched on in my comments, there is no impact to core benefits here in people's pension plans. We have done some analysis when we look at the full compensation package. As an organization we continue to discuss where we should be with the compensation packages and moving forward, but at this point in time there are no changes to any core benefits. The changes are to the potential guaranteed COLA in the future and/or to early retirement. When you look at a compensation package, you don't generally take early retirement as a factor per se around that. What you look at is the total package that would be available – and you mentioned it – through salary and/or retirement at that point in time. Since there are no changes to the core benefits for anybody, it's still, as we look at the full compensation package, something that we certainly are aware of.

Mr. Anderson: Some folks might say that they do factor in early retirement, especially if you go and talk to a police officer, if you go and talk to some folks that are in high-stress positions. They do make decisions and investment decisions and plans based on early retirement. They often do. I'd be careful about saying that no one factors that in.

Mr. Gilmour: Sorry. I don't want to say that it's not, but it is a different way of looking at it than just looking as if you were changing the core benefits. I do recognize the comment you made around some occupations in the province. Those changes are being looked at as well.

Mr. Anderson: Okay. Going to the governance, talking a little bit about the governance of these pension plans, please describe the current relationship between the Alberta pension boards and the government-owned and -operated Alberta Pensions Services as well as AIMCo. Are there any glaring challenges arising from the fact that the pension boards must deal with government agencies when we're talking about the governance of these pension plans? Do stakeholders feel that they have – do they have a proper place at the table in this regard?

Mr. Prefontaine: I'll deal with each one of the service providers separately. As part of your last question in terms of a seat at the table each one of the four plans that are being discussed currently – the management employees pension plan, the local authorities pension plan, the public service pension plan, and special forces pension plan – has a representative on the board of the Alberta Pensions Services Corporation. Full disclosure: by virtue of my position I'm also a director of that corporation. So in terms of them having a seat at the table, they literally have a seat at that table.

Regarding AIMCo, it is a nonrepresentative corporate board. The plan boards do not have a literal seat at the table. That said, the tone of the discussion amongst the plan boards and the relationship with AIMCo has been quite good the last number of years. When you look at AIMCo and its performance, it is certainly doing well when compared to its peers, other major pension funds across Canada. What we're seeing is certainly a good level of discourse and discussion between AIMCo and the plan boards. In terms of representation they differ, but in terms of relationship and governance issues between the two service providers and the plan boards there are certainly improvements.

Mr. Anderson: Okay. The last quick question here before my time is ended. Mr. Auditor General, have you been provided with that cost and stress test analysis for these new changes? What mechanism would you suggest be provided to you or to the public regarding that? Is this something that should be provided up front so that all can examine it before we change it, or is this something that comes after or during? Or is it an internal document? What's the best way to put this cost and stress test out for proposed changes to pension plans both now and in the future?

9:20

Mr. Saher: Well, I think I stick with the fundamental principle that it's up to those who prepare documents. It's their responsibility to consider whether or not and how that documentation should be put into the public arena. I noticed that when you asked the assistant deputy minister for that documentation, you asked that it be provided to us at the same time. I thought that was useful. If it is provided to us, it will give us an opportunity to begin to work on the implementation of the recommendation we made. I think working on implementation in real time is better than waiting until later on, so we'd be happy to receive it. If we had observations on it, we would make those observations directly to the department.

Mr. Anderson: Excellent. Thank you.

[Mr. Anderson in the chair]

The Chair: We'll turn it over to the NDP.

Mr. Bilous: Thank you, Mr. Chair. I'm just going to take a moment to introduce myself as I didn't have the opportunity. Deron Bilous, Edmonton-Beverly-Clareview. Thanks for being here.

I'm going to jump right into further questions on pensions. Over the past year I'm assuming that you folks developed some evidence for your position on pensions because it runs contrary to what you've made public so far. In January a third-party actuarial study was released that shows that Alberta's public-sector pensions, even without any changes, will return to fully funded status within nine years. Your government's own Minister of International and Intergovernmental Relations admitted the plans will be fully funded within 12 years. But even with the information in your hands you're still pushing forward with unilateral pension changes. My first question. Albertans deserve to know: what evidence do you have that contradicts what your own minister has said and what actuarial reviews have said?

Mr. Prefontaine: Thank you very much. Just as a brief introduction to the response to that I can address a previous question regarding stress testing. Some of that information currently is available on the website pensionsustainability.alberta.ca. Some of the stress testing regarding the public service pension plan is available there currently.

In terms of the evidence on why the government has taken the position that changes are required now, a lot of that information is on that website and focuses on a number of things, including the likelihood of contribution rates having to increase further from levels they're already at; the likelihood of not being able to attain the assumed discount rates that are currently being used by the various plans; the evidence regarding the life expectancy increases in longevity that we're seeing, including links to the report recently released by the Canadian Institute of Actuaries; as well as a number of comments taken from the pension plan boards themselves regarding concerns about sustainability that they've had, in some cases now, for years. So in terms of why these changes are required, there are certainly a number of points of evidence that we have available.

One of the significant issues – and this is evidenced by looking at each of the plans that we've seen – is the plan maturity. Plan maturity can be measured in a couple of different ways. Most commonly you see it either as looking at what is the dollar value of the liabilities for your contributing members, your active members, when compared to your noncontributing members, who are your deferred members and your retirees. In the local authorities pension plan since 1992 the number of active members has doubled, which means the number of contributors to that plan has doubled. That's good. Unfortunately, the number of inactive members, the people that are not contributing but that have liabilities either just sitting there or are drawing a pension, has tripled, and that trend is not improving.

These plans are getting more and more mature, and what happens is that as a plan matures, it becomes less able to respond to volatile returns in your investment portfolio. The report that you've referred to, that stakeholders have provided as evidence that these plans are sustainable now in their current form and are doing well, identified as the major risks investment returns being lower than those returns assumed in the valuations. That report then used the returns assumed in the valuations and assumed that those returns would simply continue every year, year after year, and we would achieve that said investment return.

Defined benefit pension plans across Canada, across North America, and around the world do not earn a single rate of return year after year after year after year. There is volatility in those returns. As plans mature, they're less able to respond to that volatility. So even as we speak today, those plans would be less able to deal with a similar circumstance as we had in 2008, when investments declined significantly in a very brief period of time. The reason for that is because the number of contributors that have to burden that risk compared to the number of people that are not contributing but still have an interest in the plan: that ratio has just gotten worse.

Mr. Bilous: Well, you know, I'd like to follow up by asking this. One of the responses from the 2008 stock market drop and the drop in the value of the plans was the increase in the contribution rates or the cap rates. I find it interesting that the government is now handcuffing contributors by putting a limit on the cap rates. I would love to know: how many front-line workers has your ministry consulted with? Where did you come up with the figure or the statistic that there is no more room to increase contribution rates? Where did that come from? If the plan got into a similar situation or if 2008 repeated itself, I can tell you that the workers that I've spoken with have said that they would increase their contribution rates, as was done back in 2008, in order to cover that difference to get the plans back up to fully funded status.

Mr. Prefontaine: Right. During September to December, the consultation period, we received a lot of feedback from individual plan members as well as employers that addressed that specific issue of increasing contribution rates. We have a large contingent of public service workers that have seen their contribution rates double in the past 10 years. A number of those individuals have expressed a lot of discontent with having contribution rates to their plans double. So we've received a lot of feedback that contribution rates were getting to unsustainable levels.

You raise an excellent point about the contribution cap. As Mr. Gilmour referred to in his comments earlier, we are issuing a consultation paper this week which will seek feedback on exactly how that contribution cap should work and how that level should be determined. It has not yet been determined exactly what that level will be.

Mr. Bilous: Okay. So, Mr. Prefontaine, the report will be released publicly, this consultation report?

Mr. Prefontaine: The consultation document, yes. Yes.

Mr. Bilous: It will be. Okay. Great.

I only have a couple of minutes here. Just really quickly I'll read these into the record if I can. I've heard a lot of concern from my constituents regarding changes made to the permitted hours of casinos at the start of the month. Edmonton's and Calgary's community league federations have been some of the vocal critics of the change. In particular, they're obviously concerned about the impact it's going to have on the ability of charities to find volunteers to complete fundraising. No volunteer wants to help out counting cash until 5 a.m. Fundraising is important, and Alberta has some really dedicated volunteers, but that's asking too much. I'm curious to know: what was the motivation for these changes? How much additional revenue are casinos expected to take in based on these extended hours?

AGLC has mentioned that stakeholders were consulted and that 61 per cent were in favour, but which and how many stakeholders were consulted is still unclear. So what was the breakdown of stakeholders you consulted with? How many reported in that 61 per cent number were volunteers versus casinos? And I would honestly love, and I will ask the minister as well, your definition of consultation.

Thank you.

Mr. Gilmour: We can certainly get you something.

The Chair: Did you ask for that to be on the record?

Mr. Bilous: On the record.

The Chair: On the record. Okay. Excellent. If you could get back to him, that would be great.

We're going to switch it up a little bit. We're going to give 17 minutes to the PCs to finish their piece, and then for the remaining eight minutes we're going to go back to the opposition in one form or another.

Go ahead.

9:30

Mr. Dorward: Actually, I have a question for Mr. Saher. Page 17 of your Auditor's report of February 2014, regarding the sustainability review portion, the second paragraph – so it's about the middle of page 17 – is the reference. Just for the record I'd like to read part of that in there.

> The department's options for reform were also constrained by the existence of significant unfunded liabilities for past service that need to be funded. An option used in the private sector to manage pension risk is the conversion of defined benefit pension plans to defined contribution pension plans. This option was considered by the department in its analysis but was not pursued because of the existence of significant unfunded liabilities that are being paid for jointly by the contributions of employers and current employees. If the defined benefit plans were changed to defined contribution plans, it would be more likely that employers would have to pay a much larger share of the current unfunded liabilities than they are currently paying under the existing joint funding model.

Would the same kind of concern be there if new hires, for example, in the public service were brought in under a defined contribution plan rather than a defined benefit plan?

Mr. Saher: I think your question was: with a clean slate going forward, would that concern exist; I mean, if new defined contribution plans were brought into being going forward?

Mr. Dorward: Yes.

Mr. Saher: I don't believe that the concern – well, it's not a concern. We're setting out a fact on page 17. The facts would be different, I believe. But I think you could put that question to the department. Mr. Prefontaine is an expert, so I'd like him to confirm my take on your question.

I'll give you my answer again. A clean slate going forward, the use of defined contribution plans: the concern or the facts that we've stated on this page would not apply.

Mr. Dorward: Okay. Well, then, let me go to Mr. Prefontaine.

Mr. Prefontaine, you've probably reviewed the Auditor's comments in that paragraph. What are your thoughts relative to his comments on that page, and could you see any way whereby the government public service could be converted over to a defined contribution plan that would make any sense, and would that increase the risk to the province of Alberta relative to those unfunded liabilities, for example?

Mr. Prefontaine: Moving to a defined contribution plan from a defined benefit plan can happen in a number of different ways. You can do it simply for new hires, as you alluded to in your question. The challenge that would exist is, as I referred to earlier, that any additional risk or any additional unfunded liabilities that develop in a plan would be shouldered by the remaining members in that defined benefit pension plan. Those costs currently are shared between employers and members, but as plans are closed, the pressure would be put on employers to shoulder a bigger share of that burden, and early on in our process it was made clear that that was not something that was going to be acceptable. By moving new hires into a defined contribution plan, you do increase the risk of the remaining defined benefit pension plans.

Mr. Dorward: Thank you.

On page 16 of the Auditor General's report 2014 it states that "these plans are not unique. Many other defined benefit plans face the same problem." How do contribution rates for the Alberta public service pension plan compare to other pension plans for Canadian public service employees?

Mr. Prefontaine: You look at what's happening across Canada. I already talked about what the contribution rates are for the four plans that we're talking about, and they're all around 25 per cent or higher. When we compare those against other pension plans across Canada, they are among the highest.

Mr. Dorward: MLA Luan, did you want to ask a question?

Mr. Luan: Thank you. It's good to have our experts here at the committee, but I do want to bring a number of questions that mostly came from my constituents. This is representing Joe Public, who doesn't really understand sophisticated details but has questions that need to be clarified by our experts here.

To begin with, I want to open with a generic question. People are saying that the pension system that we currently have is the result of a social insurance concept that started in the early '30s, pretty much to say that it's a concept where younger members contribute to the plan through whatever the contribution rate is, and then the retiring population relies on the contribution from those who are paying currently to support those who are retiring. Put another way, if that's the case, I want to hear our experts confirm that, yes, it is. Then I have a number of other questions to follow that.

Mr. Prefontaine: The current model of pension plans that we have for our public-sector defined benefit plans is a concept that goes back many years and, in some cases, centuries. The early concept behind a defined benefit pension plan was a reward for long service. The current thinking has evolved around that, and it's no longer being considered a reward for long service as much as a pension is deferred compensation as part of your package. Certainly, the thinking around pensions has evolved, but the defined benefit construct goes back many, many years.

The issue that you raise about current workers supporting retired individuals: certainly, a defined benefit pension plan, the attractiveness of it and the reason that they can work so well, is the sharing of risk within the plan, which includes sharing the risk across generations within reason.

Mr. Luan: I get that. Sorry to interrupt you. Quickly, my question is this. It's the concept of the design I'm questioning. You talked about increased life expectancy and so on and so forth. I also have questions about the aging population. If the concept is a natural phenomenon of demographics, that means it was particularly true in the early '30s because at that time life expectancy, I believe, was somewhere around 55. When you defined the pension concept at that time, when you retired by 55, 60 years old, less than 5 per cent of the population is still alive. You have the vast majority still there supporting it. My concern is that if that was the original concept, it does not surprise me now when I hear you talking about every defined pension plan across the nation, internationally, across all countries, having troubles. What we are seeing now is that population aging is a given phenomenon for all developing countries, including Canada. The increase of life expectancy from the early '30s of an average of 55 to today, where you were mentioning 89, 90, definitely impacts the concept of the pension design.

The reason I'm asking you this is: if that's true, I want you to communicate to Albertans because most people don't know. Some of them understand this kind of a reduction of benefits as a cost-saving exercise for government. From what I'm hearing early on, you were talking about: the role of government is really trying to find a sustainable way so that we can preserve this. Can you tell the sharp difference from what Joe Public is hearing and asking MLAs questions about and what you as experts are presenting to us? There's a huge distance between what people take from this and what you're doing.

I want to give you an opportunity to respond to that question again. In terms of the purpose of this reform, why are you doing it? What's your role?

Mr. Prefontaine: The purpose of the changes that are planned to the pension plans is to make sure that they're sustainable and well governed into the long term. The government has been fairly clear with its intent to maintain the defined benefit pension plan promise, which is why there have been no planned changes to the core benefits, which is why the planned changes to early retirement are modest when compared to what's happening with other public-sector plans across Canada and around the world, and which is why the planned changes to the cost-of-living adjustment are also considered modest when compared to other plans across Canada and around the world.

9:40

The issue that you raise regarding, again, that distribution between retirees and currently contributing members is about: what's the appropriate distribution of risk within the plan? By introducing the concept of a contingent COLA, which will be funded under the plan changes, which means that the probability of that COLA being paid year after year is high because it is funded, it provides another lever so that when the plans do come under stress again, if we get another situation like 2008, it represents another option that the boards of trustees would have to manage the defined benefit promise. But the key thing is that the core benefits are not being changed.

Mr. Luan: Thank you for that.

Can I put another question? Just, again, I want to hear from you as an expert from a scientific sort of perspective. If I say, not getting people really into the details, that the concept of the public pension plan that was designed years ago is no longer working today simply because of the changing demographics and life expectancy change, if that's the case, is it safe to say that if we don't reform, we are guaranteed to fall apart, that the promise made for paying the future pensioners will never be able to be sustained? Is that true?

Mr. Prefontaine: I wouldn't frame it as that it's guaranteed because what we don't know is what exactly will happen in the future. What I will say is that right now the plans are on a path that is not sustainable based on what we understand. However, they're not in a crisis. There are examples across Canada and around the world where they are in a crisis, and more drastic changes have had to be implemented. What these changes will do is provide additional risk management tools that the plans will have available to them to help ensure the sustainability of the plans and the high likelihood that they won't run into the same crises that other plans have faced around the world.

Mr. Dorward: Thank you, Mr. Luan. You will have a chance to read them into the record if there are any other quick questions you have.

I'd like to just ask a quick question. Then Mrs. Sarich will finish off our little section. Page 30 of the February Auditor's report has a chart on it which discusses the elements and components of an appropriate evaluation of the pension plans. I took a look through that, and I don't have time to ask as many questions as I'd like to, but I did want to focus on the discount rate. His comment on page 30 of the Auditor General's report was: "Unclear whether return on plan assets is consistent with benefit security level." There's a fulsome discussion of this on page 37 of the Auditor's report, and it's an intriguing and interesting area for myself and probably very, very boring for most of the public.

If you'd just very briefly, maybe only take a minute, and I certainly would accept your desire, potentially, to get back to us in writing on this: does the private sector deal with this issue differently than the public sector does, and are we looking at this area enough? Do we really have the full economic cost of the benefits in our analysis?

Mr. Prefontaine: Both the public and private sectors, when you look at how funding is determined for a pension plan on a going-concern basis, have to adhere to the same actuarial principles and standards whether, again, you're looking at a public- or a private-sector plan. When you compare what's happening with the Alberta public-sector plans to other public-sector plans across Canada and what's happened with private-sector defined benefit pension plans, Alberta is not a leader in this process. A lot of private-sector plans have altered early retirement provisions, have altered cost-of-living adjustment provisions, and a lot of public-sector pension plans across Canada have done the same thing. As well, they've all responded in a similar fashion regarding their discount rates, and you've seen discount rates come down over time in both private- and public-sector plans.

Mr. Dorward: Okay. That's enough for now.

Mrs. Sarich.

Mrs. Sarich: How much time is left?

Mr. Dorward: Unfortunately, we only have about three minutes left.

Mrs. Sarich: Okay. I'll just ask a number of questions and expect that you'll try your best to answer as many as you can, and whatever is left over then, you'll provide in writing to the committee.

It's our understanding that the minister is the legal trustee of the plans, and he's also the delegated authority over the investment management. We're turning some attention back to AIMCo and Alberta Pensions Services. That being the case, how does the minister manage any apparent conflicts that may occur with Alberta Pensions Services or, for that matter, AIMCo? Also, why is it mandatory for those two entities to provide pension administration and investment management services, and is there any opportunity in the future to expand that to include any other providers? How do boards hold AIMCo accountable for investment decisions? If there are actions that require further involvement of the minister as the trustee, what are the implications of that?

Mr. Prefontaine: Regarding the management of potential conflicts between the minister as trustee of the plans and the minister as representative of the shareholders of two of the largest service providers to the plans, that comes in a number of different ways, the first of which is that each of the plan boards has some statutory authorities regarding their particular plan. In the example of setting investment policies and guidelines, the boards have that authority. It's not with the trustee or with the minister. They can provide that direction to AIMCo. There are also a number of operating protocols that have been established between the department, the minister, and the plan boards that address a number of these issues. Also, as a requirement under APAGA the mandate and roles documents provide clarity on roles and responsibilities. So there are a number of different mechanisms to manage those potential conflicts.

To your point around . . .

The Chair: Can we get that last answer in written form? Their time is up.

Mr. Prefontaine: Okay. Yeah.

The Chair: Okay. That leaves roughly seven minutes for the opposition to question here. I'm going to give a question, and I know Mr. Bilous has a question as well.

The Treasury Board, obviously, has oversight over the government air fleet. The Auditor General has provided several past recommendations with regard to this. One of them is that no family member should ever fly on the government plane except if the spouse is officially invited. That's an Auditor General recommendation. No family member should fly except if a spouse is officially invited. That was the recommendation. That recommendation, to my understanding, was first accepted but then recently was changed. My question is: why was this change made when there was an Auditor General recommendation? It was accepted. Why was it changed?

Obviously, last year about $7 million was spent on the fleet to maintain the fleet. I know you won't have this number off the top of your head, so I'm giving it to you so that you can look it up. How many times last year was the fleet used to go to a location where a party fundraiser was coincidentally on the same day? In other words, there's a legitimate government business meeting booked somewhere, the plane is taken there, and then there just so happens to be a party fundraiser in that same location at that same time. Could you please provide that information when you can?

With regard to a question you can answer right now, why was the family policy, the spouse policy with regard to the government plane changed from the Auditor General's previous recommendation?

Mr. Gilmour: I'll probably have to get back to you on that, Chair. I mean, the Auditor recommendations came out in '05 and '06, I believe, at that time. I'm certainly familiar with the current policy that talks about travel on there, but I'll have to get back to you on that. I can't answer that right now.

The Chair: Okay. I'd appreciate that as well as the specific number of times that the fleet was used in that regard.

Mr. Bilous.

Mr. Bilous: How much time do I have, Chair?

The Chair: Just four minutes or so.

9:50

Mr. Bilous: Beautiful. If I could, I'm just going to read questions into *Hansard* and, you know, request that you respond to us in writing.

Number one, given the abuse of government planes, is your ministry going to review past years' flight logs, demand justification beyond government business, and try to recoup the cost of inappropriate flights where they exist? What have you learned from the clear misuse of government resources that you'll be taking forward to plane-use policies?

Very briefly, last year your government made devastating cuts to postsecondary education. Those had significant impacts on students, on the ability to recruit high-quality staff. Mid-year there was a partial return of some funds, one-third of the cuts. The advanced ed minister stated that he had gone on his knees to the Treasury Board. My question is: what's the review process for a mid-year request like that? How is it evaluated and balanced against other cuts?

Finally, Mr. Prefontaine, earlier you said that there is no impact to core benefits, talking about pensions. I'd like to point out that in Bill 9 the Lieutenant Governor in Council, a.k.a. the cabinet, has the power to reduce benefits prior to 2016 through regulation. There's also power to regulate COLA, cap rates, and the direct effect that it'll have to reduce benefits. If you restrict those, there's no other option but to reduce benefits if the market drops again. To me, Bill 9 is putting pension plans in jeopardy, not the defined pension plans themselves.

The Chair: You have about a minute to respond to that, and then we have an independent member that needs to ask some questions, too. If you can't get them done in a minute, you can supply them in writing, of course.

Mr. Prefontaine: I'll do a brief response to the pension plan question. The provision in Bill 9 that you're referring to is the enabling provision to make the plan changes that are necessary regarding early retirement provisions and cost-of-living adjustments. One thing I will point out: there is nothing in the current legislation that guarantees any of the benefits under any of the plans. Right now the plan boards have the authority to make any recommendations they feel fit to the trustee, to the Minister of Finance, which could include a reduction of any of the plan benefits, but the intent is certainly to maintain the defined benefit promise.

The contribution rate cap: again, the consultation will begin on that this week, and that will be an important part of the discussion going forward.

Mr. Bilous: It seems like you've gone backwards. You're consulting now, once legislation is already tabled in the House.

The Chair: All right. Point well made.

All right. Let's move over to our independent member, the Member for Fort McMurray-Wood Buffalo. You have three minutes.

Mr. Allen: Thank you very much, Mr. Chair, and thank you all for being here today. It's a very timely discussion indeed. I've actually learned an awful lot this morning just through the discussion. Many of the questions I had have already been asked and answered.

One thing that I wanted to get out there. Earlier, I think, Mr. Prefontaine, you had addressed the input or the relationship between the boards and their involvement with AIMCo and the Alberta public service, but what we left out here is the employees. Politicians have one set of ways of discussing things. I know that accountants and actuaries have a language all their own. What we're hearing out there every day on the street is our employees in the public service pension plans saying: you're making radical changes to this pension that are going to limit my ability to retire, period.

I understand, and I'm a big fan of pension reform to make them sustainable. What you've told us this morning makes a great deal of sense, but how do we explain that back to these folks? I guess, to put it in real terms and real language, speak to me like I'm a 20-year-old. Have you put any models together that have said: "Here's a 45-year-old teacher. He's been teaching for 15 years in the system and plans to retire at 55. If he retires early, at 55, here's what his pension would have been in today's dollars, and here's what it would mean to him after these changes in 2016"?

Mr. Prefontaine: I'll first point out that the Alberta teachers' retirement fund is not part of this discussion, just to clarify your example.

When we look at what's available to members to help understand how these changes affect them, I would encourage all members to visit the website of their particular plan, whether it's local authorities or public service or management employees or special forces. There are estimators available on each of those sites that can look at and see what their pension would be at retirement, based on the date that they choose to estimate for retirement, both under the new rules and under the old rules. What most people will find is that to get the same dollar amount that they would like to have at a particular retirement age, the length of time that they would actually have to work, assuming that it's within an early retirement zone and not right to age 65, because there's no difference at that point, would be a matter of months and not years. [A timer sounded]

Mr. Allen: Thank you. That'll be very helpful.

That was my time?

The Chair: Yeah. You bet. Thank you very much.

Thank you very much to our guests for being here. Obviously, those were some pretty pointed questions, and I thought your answers were clear and direct. We look forward to getting the ones that you said you would put on the record, that you didn't have. Thank you very much.

We have two items of other business to address before we leave today. First, back on March 12 a motion was passed that in addition to the chair, deputy chair, committee clerk, and researcher,

> an additional two members of the Standing Committee on Public Accounts be approved to attend the 2014 CCPAC conference in St. John's, Newfoundland, in August subject to confirmation from the director of House services that the funds are available out of the existing committee's budget, that all members fly economy class, and that any flight expense incurred by partners and/or family members not be reimbursed by the committee budget.

This year's CCPAC conference runs from August 9 to 12 in St. John's. I have been advised that there will be a partners' program scheduled for anyone accompanying MLAs.

Any members of the committee interested in putting their names forward to attend should e-mail the committee clerk directly. The draw for the two spots will be held at our next meeting on May 7. So please get those names in to Chris as soon as you can. Four additional names will also be selected as alternates should the chair, deputy chair, or other two MLA delegates be unable to attend. The committee clerk will send out an e-mail reminder later today, which MLAs can reply to directly.

Secondly, I've been informed that the hon. Solomon Namliit Boar, a Member of Parliament from Ghana, will be visiting Alberta from the afternoon of May 28 to June 3, 2014. He is a member of Ghana's Public Accounts Committee and is interested in sitting in on one of our PAC meetings to learn a little bit while he is here. So I wanted to ask the committee how they would feel about pushing back our May 28 meeting with Alberta International and Intergovernmental Relations one day, to Thursday, May 29, so that we could have Mr. Boar attend. Another option would be to move the June 4 meeting with Alberta Culture forward to June 2, the next week, and do it then. How would folks feel about one of those two options to give this gentleman an opportunity to participate? Is May 29 a problem for anybody?

Mr. Dorward: That's caucus for us.

The Chair: What about the idea of moving the June 4 meeting with Alberta Culture to June 2?

Mrs. Sarich: We're not available that day.

Mr. Dorward: June 3, Chair, is a Tuesday.

The Chair: Would that work, or is he flying out?

Mr. Tyrell: Yeah. He's flying out.

The Chair: Well, okay. If we cannot find another day, would it be okay if we scheduled it for the Thursday? That interferes with all of our caucuses, I imagine, but, I mean, it would just be a good opportunity for that individual. It would be a good opportunity for outreach to the Ghana Public Accounts Committee. Is that okay?

Mr. Dorward: Well, I don't think it's okay. Without me going back to the whip – and I'm the deputy whip. I'd just have to go our caucus and say: is it okay for nine of our members not to be at the caucus meeting?

The Chair: It's unlikely you'll have caucus that day, though, remember, because we'll probably be out.

Mr. Dorward: Well, if the House is not sitting, will we be meeting as Public Accounts, then, at all? That's the first question. Because normally we don't.

The Chair: I think we'd go ahead with the scheduled meetings, I would imagine. We won't schedule any more.

Mr. Dorward: Well, that's the first question that we need to address, then.

Mrs. Sarich: We usually don't, but we can. Sorry for speaking out of turn.

10:00

Mr. Dorward: You're not speaking out of turn, no. This is an open discussion on the issue, and, you know, I just think that that's the first question. I totally understand. If we have a plan, Chair, to continue to meet regardless of whether the Assembly is in, then likely Thursday would not be a caucus meeting, and then Thursday would be fine. Tentatively, why don't we go with that, and then maybe we could add to the agenda next week as to what we're going to do. Well, we don't meet next week, right?

The Chair: We don't.

Mr. Dorward: It's the week after.

The Chair: I just think that because the sessions have become so short, we do need to conduct our business in Public Accounts if we can continue our meetings to where we thought they were going to be. We can't control whether the Legislature shortens the session or not. Certainly, we shouldn't book any additional dates when we're not in session, but, you know, having two or three dates in a spring session for Public Accounts – it's hard to get our job done in such a short amount of time, in my view. You're right, we should discuss this in two weeks.

Mrs. Sarich.

Mrs. Sarich: Yeah. Just as a suggestion, there is a projection on the sitting days for the House, and with respect to that should something change, we've also discussed as a PAC that there would have been a preference to consolidate these meetings into a full day, as an example . . .

The Chair: Yeah, that would be an idea, too.

Mrs. Sarich: . . . so that we wouldn't spread them over a number of weeks. In consideration to the visitor that is coming, that would be an exception.

The Chair: Okay. Let's talk about this in two weeks, but I think it's a good idea that we maintain these meetings. Perhaps we can consolidate them into one day, as Mrs. Sarich has said.

Anyway, thank you for your time today.

Do I have someone moving to adjourn? Mr. Sandhu. Those in favour? Any opposed? Thank you.

[The committee adjourned at 10:02 a.m.]

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