# Legislative Assembly of Alberta

The 29th Legislature
Second Session

## Standing Committee on Public Accounts

Treasury Board and Finance

Tuesday, May 31, 2016
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**Legislative Assembly of Alberta**
**The 29th Legislature**
**Second Session**

**Standing Committee on Public Accounts**

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Cyr, Scott J., Bonnyville-Cold Lake (W)
Dach, Lorne, Edmonton-McClung (ND)
Fraser, Rick, Calgary-South East (PC)
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Luff, Robyn, Calgary-East (ND)
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Miller, Barb, Red Deer-South (ND)
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## Standing Committee on Public Accounts

### Participants

Ministry of Treasury Board and Finance
Dale Beesley, Executive Director, Pension Policy
Nilam Jetha, Assistant Deputy Minister, Financial Sector Regulation and Policy
David Mulyk, Senior Manager, Public-sector Pension Policy
Lorna Rosen, Deputy Minister

**8:30 a.m.** **Tuesday, May 31, 2016**

[Mr. S. Anderson in the chair]

**The Deputy Chair:** Good morning, everybody. I'd like to call this meeting of the Public Accounts Committee to order and welcome everyone in attendance.

My name is Shaye Anderson. I'm the MLA for Leduc-Beaumont and the deputy chair of this committee, and I am chairing today's meeting. I'd like to ask that all members and guests introduce themselves for the record, starting on my right, please.

**Ms Goehring:** Good morning. I'm Nicole Goehring, MLA for Edmonton-Castle Downs.

**Mr. Dach:** Lorne Dach, MLA, Edmonton-McClung.

**Mr. Malkinson:** Brian Malkinson, MLA for Calgary-Currie.

**Ms Miller:** Barb Miller, MLA, Red Deer-South.

**Ms Luff:** Robyn Luff, MLA, Calgary-East.

**Dr. Turner:** Bob Turner, MLA, Edmonton-Whitemud.

**Ms Renaud:** Marie Renaud, St. Albert.

**Mr. Westhead:** Cameron Westhead, Banff-Cochrane.

**Mr. Gotfried:** Richard Gotfried, Calgary-Fish Creek.

**Mr. Fraser:** Rick Fraser, Calgary-South East.

**Ms Jetha:** Nilam Jetha, Treasury Board and Finance.

**Mrs. Rosen:** Lorna Rosen, Deputy Minister of Treasury Board and Finance.

**Mr. Beesley:** Dale Beesley, Treasury Board and Finance.

**Mr. Mulyk:** Dave Mulyk, Treasury Board and Finance.

**Ms Gibson:** Mary Gibson, office of the Auditor General.

**Mr. Ireland:** Brad Ireland, Auditor General's office.

**Mr. Saher:** Merwan Saher, Auditor General.

**Mr. Robe-From:** Nelson Robe-From, Auditor General's office.

**Mr. Hunter:** Grant Hunter, Cardston-Taber-Warner.

**Mr. Cyr:** Scott Cyr, MLA for Bonnyville-Cold Lake.

**Mr. Barnes:** Drew Barnes, MLA, Cypress-Medicine Hat.

**Ms Robert:** Good morning. Nancy Robert, research services.

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

**Mrs. Sawchuk:** Karen Sawchuk, committee clerk.

**The Deputy Chair:** All right. A few housekeeping items to address before we turn to the business at hand. The microphone consoles are operated by the *Hansard* staff, so there's no need to touch them. Audio of committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts are obtained via the Legislative Assembly website. Please turn your phones to silent as they may interfere with the audiostream.

The first thing we have is the approval of the agenda. Are there any changes or additions to the agenda as distributed? Seeing none, would a member like to move that? MLA Goehring. All in favour? Opposed? Carried.

Next is the approval of the minutes. Do members have any amendments to the May 24 minutes as distributed? If not, would a member like to move that? MLA Turner. All in favour? All opposed? Carried.

Today we have a meeting with Treasury Board and Finance on the status of public-sector pension plans. I'd like to welcome our guests from Treasury Board and Finance here today to speak to the status of public-sector pension plans, which the Auditor General addressed in his February 2014 report. Members should have the committee research document, the Auditor General briefing document as well as the updated status of Auditor General recommendations document, submitted by Treasury Board and Finance.

Before we hear from the officials from Treasury Board and Finance, I want to advise the committee of a proposal for time allotment for questions during today's meeting, similar to those approved and followed by the committee at its February 3 and April 12 meetings. With the appropriate adjustments to accommodate today's schedule, following introductions, the ministry's opening remarks, and comments from the Auditor General, the rotation would be: for the first 40 minutes the Official Opposition and government members for 15-minute blocks, followed by the third party for 10 minutes; then for the second rotation the Official Opposition, government members, the third party, the Alberta Party, the Liberal Party, if any, for seven-minute blocks; and then five-minute blocks, following the same rotation, for any time remaining. Would a member so move? MLA Miller. All in favour? Opposed? Carried.

We'll begin by inviting ministry officials to provide opening remarks of 10 minutes, and then we'll turn it over to the Auditor General for his comments. Thank you.

You have the floor.

**Mrs. Rosen:** Thank you and good morning. I really appreciate the opportunity to attend today's meeting to discuss public-sector pension plans and the Auditor General's February 2014 recommendations for those plans. We will also address any other questions you have regarding pension matters within Treasury Board and Finance.

I'm joined today by Nilam Jetha, assistant deputy minister of financial sector regulation and policy; Dale Beesley, executive director of pension policy; and David Mulyk, senior manager of public-sector pension policy. Also in attendance today are Ms Karen Adams, president and chief executive officer of the Alberta Pensions Services Corporation, and Mr. Kevin Uebelein, chief executive officer of the Alberta Investment Management Corporation.

Ensuring proper risk management oversight for Alberta's public-sector pension plans is a priority of this department. The minister has accepted the Auditor General's report, and we are currently working to address those recommendations.

In order to facilitate this discussion, I'll begin by providing a brief overview of the pension system. There are several types of pensions available to Albertans, including private-sector employment pensions, public-sector employment pensions, and federally administered pensions, including the Canada pension plan, old age security, and guaranteed income supplement. Various acts and regulations provide the legislative basis for these pensions; however, most provincial public-sector pension plans are governed by the Public Sector Pension Plans Act and its regulations. One notable exception applies to public and private school teachers. Their pensions are subject to the Teachers' Pension Plans Act. Since the Auditor General's 2014 report focused on public-sector plans that are subject to the Public Sector Pension Plans Act, the remainder of my comments will focus on those.

In Alberta the President of Treasury Board and Minister of Finance is both the trustee and administrator of provincial public-sector pension plans. Investment management of the plans is delegated to the Alberta Investment Management Corporation, also known as AIMCo, and the administration of the plans is delegated to the Alberta Pensions Services Corporation, known as APS. These two corporations, AIMCo and APS, are provincial agencies and are referred to as service providers.

The Auditor General of Alberta conducts independent audits of public-sector pension plan financial statements to ensure they are presented fairly and in accordance with Canadian accounting standards for pension plans. Alberta Treasury Board and Finance leads the development of legislation and policy for pension plans under the Public Sector Pension Plans Act, including the local authorities pension plan, the public service pension plan, the special forces pension plan, and the management employees pension plan. Members of the local authorities pension plan include employees of local authorities in Alberta, including organizations from the health care sector, cities, towns, villages, municipal districts, colleges, school boards, and other public-sector organizations. Public service pension plan members include employees of the government of Alberta, its agencies, boards, and commissions, and other participating public bodies. Special forces pension plan members are police officers working for participating local authorities in Alberta. Finally, management employees pension plan members include management employees of the government of Alberta, its agencies, boards, and commissions, and other participating public bodies.

Each of the four plans is represented by corresponding pension boards. Each board is responsible for undertaking actuarial valuations to ensure plan funding, setting general policy guidelines on the investment and management of plan funds as well as the administration of the plan, reviewing administrative decisions for the plan, and making recommendations to the minister.

Across all four plans there are approximately 335,000 members and 480 employers. Included in the membership figures are members who are active, meaning they are contributing to the plan; pensioners and beneficiaries, who draw pensions from the plan; and deferred members, who have stopped contributing to the plan and will commence their pension at a later date. In each plan contributions collected from each of the employers and their employees are invested by AIMCo. The sum of these contributions and earned investment income is used to pay pension benefits to retirees now and in the future.

In February 2014 Alberta's office of the Auditor General released a report which included recommendations regarding the department's oversight systems for Alberta public-sector pension plans. At this time I would like to note that risk management systems are already in place, a fact which was acknowledged by the Auditor General in his report. The Auditor General's recommendation brought attention to the fact that no single organization had a clear responsibility to co-ordinate and monitor the performance of the public-sector plans. The Auditor General's report recommended the department establish a provincial public-sector pension plan risk management system to support the minister in fulfilling his responsibilities for the plans. The report also recommended the department set standards for public-sector pension plan boards to establish policies aligned with plan objectives, including investment funding and benefits policies, and that the department improve sustainability support processes.

Work is already under way in response to the Auditor General's report. The department is working with stakeholders to develop a comprehensive, sector-wide risk management framework to enable the minister to accurately assess the risks in the four major public-sector pension plans and the service providers.

Starting at the plan board level, each board has been asked to identify, assess, and prioritize the risks facing their plans through three basic policy tools: investment policy, funding policy, and benefits policy. We have received initial responses from the plan boards and are consolidating information to identify and understand the risks faced by each of the plans and the pension plan system as a whole. Department officials will continue to work with the Auditor General over the course of the 2016-17 fiscal year.

***8:40***

In addition, department officials are clarifying existing reporting mechanisms and developing comprehensive agreements detailing roles and responsibilities of all parties as we develop the risk management framework. As a specific example, department officials are close to finalizing a new investment management agreement between the Minister of Finance and AIMCo. The investment management agreement outlines the various roles and responsibilities of the government of Alberta, AIMCo, and the plan boards when it comes to the investment management of pension plan assets. In addition, the investment management agreement consolidates and replaces all other previous investment agreements and delegation between these parties.

We agree with the Auditor General that by viewing and reporting risk management activities at an enterprise level, the various parties will be better positioned to improve co-ordination and the plans' ability to manage risk appropriately.

The financial statements of the public-sector pension plans are contained as supplementary information in the Treasury Board and Finance annual report. Based on the statements of financial position as reported in schedule 10 of the March 31, 2015, consolidated financial statements of the province, the total assets of pension plans for which the government is a participating employer is $60.1 billion. The total pension obligation is $64.1 billion. The net deficit, or unfunded liability, is about $4 billion at this time; $1.7 billion of the unfunded liability is the government's share as a participating employer of these plans.

Based on figures reported in the 2014-15 government of Alberta consolidated financial statements, the province is also responsible for about $9.5 billion in pre-1992 unfunded liability obligations. The bulk of this commitment arose from the former government's commitment to assume responsibility for the teachers' pension plans' pre-1992 unfunded liability, which sits at about $8.4 billion.

All the figures I've referenced were prepared in accordance with Canadian accounting standards for public-sector entities as determined by the Public Sector Accounting Board. We are currently completing the financial reporting for government as of March 31, 2016, which will be available in the near future.

Mr. Chairman, I appreciate the opportunity to provide this overview of the pension plans, and I along with the members of my team would be pleased to answer your questions.

**The Deputy Chair:** Thank you for your opening remarks.

I'll now call on the Auditor General for some comments.

**Mr. Saher:** Thank you, Mr. Chairman. It had been my intention to read into the record the two recommendations that are outstanding from our February 2014 report. As the deputy minister has

essentially done that in her presentation, I will have no further comments at this stage.
Thank you.

**The Deputy Chair:** Okay. Thank you very much.
Now we will open the floor to questions from members, following the rotation approved earlier. I'd remind everybody to go through the chair and to stick to the AG's report, please. Thank you very much.
The Official Opposition. Mr. Cyr, are you first? Okay.

**Mr. Cyr:** Thank you, Mr. Chair. I'd like to thank everybody that's here today. I know this is a busy time of the year for everybody. We'll get through these pension questions fairly quickly, I'm sure. I myself am not a pension expert, so give me some leeway here in my questions.
I would like to start on page 11 of the government of Alberta's 2014-2015 annual report. The total pension liabilities are stated to be approximately $11.2 billion. Only two of the smaller plans are fully funded. Are the underfunded Alberta pension plans sustainable? What plans are in place to tackle this underfunding of the plans?

**Mr. Beesley:** When you're referring to the $11.2 billion, as the deputy minister did point out, most of that liability comes from the teachers' pension plans. When you talk generally about the sustainability of the plans, when the plans have good or bad years, we do have different processes to address how the plans work. There are contributions that come in from members, from employers, and if there are losses, they can be put out over 15 years.
The minister wears many hats for the pension plans. He's the investment manager, he's the administrator, and there are trustees. The board of trustees does actuarial valuations each year through an independent actuary, and that independent actuary files these valuations every three years. Based on that, the contribution rates are then adjusted, and the plan goes on. I will say that due to low interest rates, people living longer, and involatile investments, the pension plan system has had its challenges over the last number of years, but over the course we do believe that the plans are sustainable over the long term.

**Mr. Cyr:** Mr. Chair, I'm seeing that – and, again, my understanding might be imperfect on this – the Alberta teachers' pension plan there, pre-1992, is funded at zero per cent right now. Is that correct?

**Mr. Beesley:** It's funded through the GRF, so basically there is no additional funding because that is considered to be closed. It seems that about every 20 years something happens in the pension world, and 1992 seems to be what we'll call a line in the sand. There was a deal struck, as the deputy referred to, with the previous government that involved some labour negotiations for the teachers' pension plan, and there is a payment plan in place to pay that down by 2060. I believe that begins to peak at about the year 2020, and then it goes down. So there is a plan in place to get rid of that pre-92 liability.
As far as the other pre-92 liabilities for the other plans, they are funded out of the general revenue, and as people pass on or their spouses pass on, those liabilities decrease and eventually will be nothing. But the reason we consider it a closed plan is because there are no new members allowed into the plan, and when there are no new members allowed into the plan, the plan becomes very mature, as we would call it.

**Mr. Cyr:** Okay. Is it similar to the public service management closed membership plan as well? That one there is at 1 and 2 per cent funded.

**Mr. Beesley:** Yes. Again, in 1992, with that line in the sand of new pension plans, those plans were closed. There have been no new members allowed in. The only people who would be in those plans would be deferred members, but more likely, because 1992 was a long time, it would consist of people that are retirees or their spouses. There would be no new members into the plans, so there would be no new contributions into the plans.

**Mr. Cyr:** This might be redundant, but the UAPP is the same as well?

**Mr. Beesley:** A little similar but a little bit different. The UAPP is the universities academic pension plan, and that pension plan is jointly governed. That plan moved to a joint governance status, but there was a bit of pre-1992 liability that both the UAPP and the government still assumed. That plan is not closed. It does have new members in it. It's just in a different state, I guess, as a jointly governed plan.

**Mr. Cyr:** Mr. Chair, I'd like to go on to a different topic here. Now, this was studied by the Auditor General in February 2014. That was two years ago, and it seems that we're taking quite a bit of time to be reviewing his recommendations and implementing the risk management system. What is taking so long for your department? You stated earlier in your comments that you're only doing four of the major plans. Why are we not doing all of the plans?

**Mr. Beesley:** I think one of the reasons that it's taking a period of time to do this is that there are a lot of stakeholders in these plans. For example, the local authorities pension plan has over 450 employers and 50 unions. There is quite a bit of work to assemble and engage the stakeholders.
Also, when the recommendations came out in 2014, the government had two bills proposed before the House, bills 9 and 10, and one had some significant reforms to public-sector pensions. During the all-party committee and whatnot we weren't doing a lot of work on risk management frameworks because we didn't know the status of those bills, to the point that the Auditor General had a recommendation in his report around implementing the new stuff out of the act. That has maybe been delayed a little bit, but I think that the process of engaging stakeholders through the pension system does take time.
What we had done is that we got together with each of the pension boards, prepared a template, and worked with them to agree on it. We have gone back to them. We have asked them to identify their risks based on investment, funding, and benefits, and now we're sort of gathering information.

*8:50*

To the second part of your question, why we're not including the whole pension system, where we are engaging the four major pension plans and the two service providers, namely APS and AIMCo, we will as part of the overall risk management framework allude to the overall public-sector pension system as we prepare our report.
I think it would be irresponsible of us not to include the liability from the teachers' pension plan, for example, as it's so large. So it will be part of the overall assessment, but we felt that engaging the four major pension plan systems and the two service providers was enough for us to get the information that we needed. We will still, maybe more informally, work with them. But eventually, as we stage this through, we will hope to have the minister have the full, comprehensive view of the entire pension system, which would include things that you've referred to earlier, such as the pre-92 liabilities and whatnot.

**Mr. Cyr:** Now, Mr. Chair, the Auditor General has thrown out a concern that the contribution rates have a detrimental effect on our employees through the fact that they're not going to take a government of Alberta job if it gets too high. What are we doing to address the fact that it continues to go up for contribution rates? Right now it looks like some of these plans are, well, 24, 22 per cent contribution combined between the two parties. Are we looking at 30 or 40 per cent contribution rates with the baby boom going through?

**Mr. Beesley:** I don't think it necessarily has anything to do with the baby boom, but I will acknowledge that contribution rates have gone up. That's a fact we cannot not acknowledge. The value proposition has changed since the time, for instance, when I started in government, when the contributions were whatever per cent to what they are now. People are receiving the same benefit for a higher cost, both the employers and the employees. So we do acknowledge the affordability concerns. Some of the things we're doing to look at that continue to be working with the boards around recommendations that the boards could make around changes to benefits in the pension plan, be it auxiliary benefits.

One of the challenges we've had over the last number of years that's really hurt the pension plans is the low interest rate environment, and it's been sustained for a long time. If we were in a different environment, say 10 per cent interest rates, we could really derisk the plans. We do know that people are living longer. The markets are volatile; however, we have experienced some good, strong, significant years of gain through our investment manager, AIMCo. As losses do come on the pension plans, it's not that they're put on the plans instantly. They are spread out over a period of time.

I'm not sure if that fully answers your question.

**Mrs. Rosen:** Maybe one thing that I could add to that is that the contributions may be higher and the benefits on an annual basis may be similar, but the benefits are lasting for a longer period of time because people are living longer. So the total amount of the benefit is greater than when the cost was less.

**Mr. Cyr:** My colleague would like to ask a question.

**Mr. Hunter:** Thank you, Mr. Chair, and thank you for being here. I just have another question regarding the pre-92 liability that you talked about. What is that costing us? You said that it would be paid off by 2060. I know what the liability is, what was passed on to us, but what is that costing us per year?

**Mr. Beesley:** I don't have the per-year figure on me right now, but I can commit to the committee to get it back.

**Mr. Hunter:** Let's just say that – how much was it again? Eight point something billion?

**Mr. Beesley:** Are you speaking strictly for the teachers?

**Mr. Hunter:** Yes.

**Mr. Beesley:** Yes, for the teachers it is $8.4 billion, I think we'd said.

**Mr. Hunter:** So what is the cost? Is there interest on that, or are we paying that back amortized over a period?

**Mr. Beesley:** It's amortized to 2060. That was the agreement that was made in 2007 with the Alberta Teachers' Association and the government.

**Mr. Hunter:** At an interest rate?

**Mr. Beesley:** Sort of. It's a bit of a deferred thing. It's sort of like a mortgage.

**Mr. Hunter:** Compounding?

**Mr. Beesley:** It's sort of like it's spread out. I'd have to provide the exact details, but the payments do peak at about 2020 or 2024 – I just don't remember exactly offhand – and then go down each year to about 2060.

**Mr. Mulyk:** To supplement Dale's answer, the unfunded liability for the teachers' pre-1992 pension plan does not have any assets that are secured against the liability. So the government of Alberta pays the benefits as they come due, and as Dale mentioned, with the bulk of the members in that plan now being retirees, in essence the annual cost to the government of Alberta would be largely reflective of the pension payroll, which is reimbursed to the plan. The actual value of the liabilities is calculated through the production of an actuarial valuation report that is done, at minimum, once every three years if not more frequently, and at that time, at each valuation date, the plan actuary is required to take into consideration any number of economic and demographic factors or realities in the present day.

One of the items that Dale had touched on is the historically low interest rates, which has had the effect of increasing the liability. Nevertheless, the unfunded liability is on track to be amortized by the 2060 date, and as prevailing market conditions change, you can expect to see the liability on that plan fluctuate up or down. If my recollection is correct, I believe this year's budget anticipated a reduction of approximately $150 million in the liability. Of course, that's an estimate. The actual position of the plan will be released in the government's consolidated financial statements, which would be, I think, anticipated towards the end of June.

**Mr. Hunter:** Okay. Thank you, Mr. Chair. As you've assessed these other pensions, these unfunded liabilities, do you foresee any other of these pensions potentially at a risk to the government as well?

**Mr. Mulyk:** Defined benefit pension plans by their very nature do have inherent risks. The current interest rate environment is one that we've mentioned a couple of times. The increasing longevity of plan members living longer and a number of other factors can go into some of the inherent risks of DB plans. When calculating the actuarial valuation report, the plan boards, working with their actuaries, will fully consider not only what the prevailing expectations are for future economic growth, investment, and returns, using the information that, for example, is provided by AIMCo in their forecast, but they're also bound by the professional standards of their organization, the Canadian Institute of Actuaries. Just recently the CIA, as they're called, implemented a new mortality table reflecting the longer lives of Canadians. So those factors certainly increase the liabilities. But now, in my opinion, the plans are in a much better position in recognizing what the true liability will be for the plans.

When an unfunded liability is established in a given year, legislation requires that slice of unfunded liability to be amortized over a period not exceeding 15 years. A number of the unfunded liabilities that were present at the time the Auditor General produced his report were in respect of years that had already come and gone, and as amortization payments are made towards those unfunded liabilities, they'll start to fall off the books. So the overall cost eventually will start to decrease.

There certainly is a risk that future negative impacts to the plan could create new unfunded liabilities. But, in my opinion, the plans are in a much better position in valuing the liabilities in recognition of the potential of those adverse effects coming at some point eventually into the future. [A timer sounded]

**The Deputy Chair:** Perfect timing.

All right. As discussed before, we will move on to the next allotted time limit, which is for the government side. Who is speaking? Mr. Malkinson. Thank you very much.

**Mr. Malkinson:** Thank you very much, Mr. Chair. Numerous studies have shown that public-sector pension plans increase retirement savings for participating employees. A study of the public pension plans in British Columbia done by the Conference Board of Canada shows that a defined benefit plan resulted in increased contributions by plan members. Plan members are also charged lower management fees, resulting in greater plan efficiency and cost-effectiveness. There's also a positive impact on those plans, that 70 per cent of the additional savings are invested back into the Canadian economy.

For defined benefit plans in British Columbia the total contribution of employers and members ranged between 16 per cent and 27.5 per cent of an employee's total compensation. By contrast, only one-quarter of B.C. workers who do not have a trusteed pension plan contributed to an RSP. Their average savings were much lower, at 14.1 per cent of compensation. It is clear that defined benefit plans encourage savings and therefore encourage a dignified retirement for workers.

A public pension plan member can expect an annual retirement income that is $35,000 higher than a person simply using an RSP to save for retirement. The lower benefit is due largely to the higher contribution rates and lower managerial fees. My question: do we know how many Albertans are currently participating in a pension plan in comparison to those who are simply using an RRSP?

***9:00***

**Mr. Mulyk:** The exact figures I do not have available to me immediately. We provided some statistics around the membership in public-sector plans. On the private sector – and I'm working from memory – the office of the superintendent of pensions regulates private-sector pension plans in Alberta or perhaps registered in other jurisdictions but having Alberta members. At last count I believe there were approximately 650-odd plans registered with the superintendent of pensions. The number of plan members, unfortunately, I do not have immediately recallable at the present time.

Certainly, though, on the other items that you raised, around the savings as a savings vehicle to help secure retirement security, the income that you would receive as a member of either a private- or a public-sector pension plan would help to, you know, sustain those individuals in their retirement as opposed to individuals who are only contributing to RRSPs. Statistics around RRSPs, to the extent that they would be available, would likely be compiled by Finance Canada. I would anticipate that with the current annual census under way, if the census will also do a survey of household wealth and savings, we may have a better picture at that time of the number of Canadians that are contributing towards RRSPs and the accumulated value of those accounts.

**Mr. Beesley:** To supplement what David said, in the opening remarks by the deputy minister we did acknowledge that there are about 335,000 members and 480 employers in the four major sector pension plans.

Another comment that was made was around the investment and the investment strategies. AIMCo, the investment management body arm of the provincial government, does add value and has proven to add value through the investment management of the assets of the plan and usually through the economies of scale when a book, as they call it, or the assets exceed $70 billion. There are definitely indications of economies of scale that everyone sees.

**Mr. Malkinson:** Perfect. Thank you. It's the importance of statistics, then.

The next question. There's no question that defined benefit plans offer considerable positives for workers. Plans of that nature are key to ensuring a secure retirement for our retirees and older workers. This particular meeting was quite relevant to me as I was talking to my grandparents, actually, on Sunday before driving up here. You know, for them, they actually ended up living much longer than one would have normally known when they retired approximately 25 years ago. They continue to live in the 1960s home that they raised my mother in, and as children of the '30s they don't live lavishly and they know how to stretch a dollar.

One of the things they were mentioning to me was, you know, that their predictable income from their defined benefit plans, one from my grandfather from his time as a teacher and one from my grandmother from her time as a bank teller, really allowed them to stretch their savings and to make small changes as they aged to stay in their home. My grandfather recently just bought a self-starting lawn mower because he takes pride in being 86 and still mowing his lawn.

As a result, you know, there are a lot of benefits, and it's not just for workers. Defined benefit plans are a better option according to a research paper entitled Shifting Public Sector Defined Benefit Plans to Defined Contribution: The Experience So Far and Implications for Canada. I quote from an article about that report.

> After examining the literature on the experience in other jurisdictions and modelling what the ramifications would be in converting a large Canadian [defined benefit] plan to [a defined contribution], [we found] that none of the stakeholders . . . would ultimately be better off.

Now, with that said, it appears that the increase in pension liability since 2006, even though they have begun to decrease in recent years, is largely due to a combination of early retirement and longer life expectancy. My question is: what can be done to decrease these liabilities while still ensuring predictable and stable income for retirees?

**Mr. Mulyk:** Thank you for the question. I appreciate the opportunity to provide a response to it. There are many elements to your question, and I'll try to address them in a piecemeal fashion.

We mentioned earlier that we're working with the plan boards around the identification of the risks that are present in each one of those plans. The sustainability of those plans has been raised as a topic in which the plan boards are mindful of and are considering making recommendations to the Minister of Finance in order to address some of those risks.

Now, some of the changes that could potentially be contemplated would involve a change in plan design, changing the benefit structure. We have seen in other Canadian jurisdictions some pension plans change how they provide cost-of-living allowances on a go-forward basis to new retirees, to be changed from guaranteed to targeted. Other plans perhaps will secure additional contributions at the request of the plan members, who have valued guaranteed COLA over other plan design elements. Those are explicit to the structure and the design of the plan.

Other options that can be undertaken to help ensure that the benefits that are promised are guaranteed and provided in the future include things such as the recent years of investment returns that we've seen. A lot of the plans have not been fully reflecting all of the gains on their actuarial evaluation reports. They've been building up actuarial reserves, actuarial margins so that in the event that there is a potential future negative impact to the plan, the plan already has reserves which can be used as a buffer against future adverse experience. Those kinds of strategies are internal to the plan. You would not necessarily see them publicly because the plan rules have not changed, but those are definitely strategies that the plans are implementing at the current time to take advantage of the remarkable years of investment returns that we've seen of late.

**Mr. Beesley:** To supplement what Dave was saying, if there was to be a conversion from DB, which is defined benefit, to defined contribution plans, many reports, academic and otherwise, have said that governments would face an increased financial risk from closing a DB plan to running a parallel DC plan. Depending on where the status of the plan is, where the liabilities are at the time, they can be a significant financial exposure to the government on top of that.

**Mr. Malkinson:** Would you be able to elaborate on what those risks might be?

**Mr. Beesley:** Well, I think that when you close the plan, as we talked about earlier, we're getting into plans that are like the pre-92 plans, where you have no new members coming in. When you close the plans, the plans become very mature. There are no new members coming in, so you're just getting more retirees, and the last person in, you know, is paying. With no new members in, the plans become very mature, and the liabilities can start to exceed from there. You can see numbers that are not quite similar to what the pre-92 numbers are. You could, in time, see that. Also, you are now running two parallel plans, which administratively would be more cumbersome and harder to explain.

**Mr. Malkinson:** Perfect. Thank you. I appreciate the clarification.
I'm now going to cede the remainder of my time to Mr. Westhead.

**Mr. Westhead:** Thank you very much, Mr. Chair. I just want to state for the record that I'm really pleased to be here at this meeting today. In 2014, when there were public hearings on the public-sector pension plans, I had the privilege of speaking to that in Red Deer. It was the first time I had ever seen my name in *Hansard*. You know, it was delightful to be part of the political process. I'm really proud and pleased to be here today. Thank you very much for the information that you're providing for us.

In 2014 an American survey demonstrated that employees who are satisfied with their retirement benefits are up to about 30 per cent more likely to want to continue working for their employer until they retire. In Canada defined pension plan members of all ages report substantially higher levels of satisfaction with their retirement benefits than those on defined contribution plans. Some of those reasons Mr. Beesley has just mentioned in what he was saying. Defined benefit employees are much more likely to say, when they're surveyed, that their retirement benefits give them a good reason to keep working for their employer. What may be surprising is that Canadian workers expressed a preference for more generous retirement benefits over higher pay. My question is: are human resources issues like staff retention based on pension composition taken into account or are only financial considerations such as liabilities taken into account when considering the benefits of various plan options?

**Mr. Beesley:** While I can't speak for the entire government of Alberta, pension plans, similar to health benefits, dental benefits, long-term disability, are part of the overall compensation package of the government of Alberta. The government of Alberta does look to recruit and retain valued employees. One of the main advantages, of course, to defined benefit pension plans, at least in my opinion, is that it does take the risk out of investing for people, and it does provide you with a stable, predictable income. I think that's one of the major advantages over, say, an RRSP or a defined contribution.

***9:10***

I think, you know, the government of Alberta and other public-sector employers have been able to attract, recruit, and retain people in part due to the advantage of the public-sector pension plans. For myself, it would be difficult for me to go to another job in another industry that didn't have one at this point in my career, but that being said, everybody is different. This also applies in the private sector. We have a number of private sectors that have DB plans. But for the most part, yeah, it is part of overall compensation. In my opinion, it is an attractive feature of the government of Alberta's overall compensation package.

**Mr. Westhead:** Thank you. Just speaking from personal experience, my father was a high school English teacher, and he retired before I really started my career. Seeing how much he loved his job and the reasonable pension that he is enjoying in retirement is something that I certainly took into consideration when I became a nurse and took a career in the public service. Having a good retirement down the road is something that I certainly considered as part of my compensation package, so I agree completely with what you've said there.

From both a personnel retention perspective and a compensation cost perspective, defined benefit plans clearly outstrip defined contribution plans. In times of economic restraint it may be more cost-effective to improve pension benefits than salary. This can be done without hurting staff retention, staff satisfaction, or productivity. Those who advocate for defined contribution plans seem to put little interest in staff retention or satisfaction, but the cost of a hiring process, training staff, and professional development is a significant cost and ought to be treated seriously. With that background in mind, my question is: what systems are in place to ensure that decisions are made in the best interests of both employers and employees, who are the ones bearing the risk of the pension plans?

**Mr. Beesley:** I think what's most important to know is that we talked about the minister's hats with investment management and administration. When we get to the trustee role – and I'll just use the local authorities pension plan – these are representative boards that are made up of members of both employees and employers. So while we have 450 employers, 50 unions at the table that the decisions are made at around contribution rates, around plan benefits changes, there is a mix of members from both the employer and employee sides. This also applies to the public-sector pension plan, and it also applies to the special forces pension plan, where the police associations and the cities represent the police officers. The exception would be in MEPP, the management employees pension plan, where that is more of an advisory board.

To answer your question, to ensure that the benefits are protected, you just can't make changes without involvement from both these representative groups, and there is a board appointment process, a very thorough board appointment process, for these people to get onto the boards.

**Mr. Westhead:** Thank you very much.

I'll hand some of the rest of the time over to my colleague MLA Luff. [A timer sounded]

**The Deputy Chair:** Look at that. Perfect timing again. It's like you guys know what you're doing out here.

All right. We will now move on to the third party for a 10-minute block. Mr. Gotfried.

**Mr. Gotfried:** Thank you, Chair. Thank you to our presenters today for being here to answer our questions.

I've got a few questions here. It seems to me that sort of the key issue of risk management is one. Obviously, the liabilities that are felt with respect to the payouts, the pension payouts, that are expected now and into the future are key, but it seems to me that the issue with the defined benefit pension plan that we're now on is that the current employee and employer contributions are not able to meet that. Is that correct? Is that what causes that liability, the unfunded liability, to be borne by the taxpayer?

**Mr. Beesley:** No. The contribution rates are set based on the actuarial evaluations, and if I get some of this wrong, I'll get Dave to supplement. In essence, we can have bad investment years, right? We have our AIMCo, which is our investment manager. Not every year is good. We have had some very strong double-digit returns over the last years, but we also had a 2008, and we will have another one.

**Mr. Gotfried:** Okay.

**Mr. Beesley:** Over the course of the pension plans, as Dave said, as the losses are spread out over 15 years, the intention is, you know, that the market will go up, but you can have issues with investment rates. These pension plans and no other pension plans in Canada or the world are immune from that.

**Mr. Gotfried:** Okay. But the $11.2 billion that we're now looking at, the unfunded pension liability, is at this point time considered as being borne by the employer, the government of Alberta. Is that correct?

**Mr. Beesley:** Partially. But, again, we go back to the discussion we had around the teachers' pension plan with that $8.4 billion. The previous government had made a labour-related deal in 2007 to develop an amortization to cover both the employee and employer end of that liability. So of that amount, the lion's share of it: those liabilities were a result of that. Also, the other liabilities, for the most part, relate to closed plans, but having said that, the main plans together today, if you added up all their solvency rates, are still in a minor deficit position.

**Mr. Gotfried:** So it's pretty tough to actually separate the collective bargaining process from what the pension risks are, I guess.

**Mr. Beesley:** Pensions are not collectively bargained.

**Mr. Gotfried:** Okay.

**Mr. Beesley:** Just to be very clear on that.

**Mr. Gotfried:** But the unemployment liability can be.

**Mr. Beesley:** I wouldn't say that it's been collectively bargained. I think there was a labour deal in 2007 that you can look up.

**Mr. Gotfried:** Okay. Wrong terminology. But yes. Okay. It's through an agreement.

I'm hoping that my questions are in line with what's allowed here. I'm assuming the goal is to really ensure that there are fair and competitive salaries and benefits and total compensation and that the pension plans are to manage the pension side of those risks with respect to total remuneration. Would that be correct?

**Mr. Beesley:** I think the pension deal or the pension benefits were created at the time. I would say again that from 1992 to today perhaps the value proposition has changed and the pricing of the plan is a bit more expensive for employees and employers. But as I mentioned, pensions are part of the overall compensation for employees in the government and are useful as a recruiting, retention, and attraction tool.

**Mr. Gotfried:** Right. We've talked about the pension promise that is currently in place, which I'm going to assume is a little bit competitively above the defined contribution plans that are probably the norm in the private sector today. I'm assuming the solution is to either raise the employee or the employer contributions to address these unfunded pension liabilities. Are there other alternatives available to us in terms of rejigging or creating a new equivalency with the other sectors to mitigate that risk to the taxpayer?

**Mr. Beesley:** As Dave mentioned, there is a core benefit to the plan, but there are also ancillary benefits such as the cost of living, early retirement provisions. There are things like that that some plans across Canada have adjusted, so you can target your COLA, as they say, so if there's a bad year on investments, the COLA is not guaranteed. These are all done through plan recommendations by the plan boards to the minister. As I mentioned just a couple minutes ago, these plans are representative in nature, so there's both employee groups and employers on these plan boards.

**Mr. Gotfried:** You mentioned earlier that there was a study done into some equivalency between the public sector and the private and other sectors – I'm assuming nonprofit and NGO sort of sectors as well – and that you did have some percentages. I know you referenced that and said that you'd bring it forward. I'd be very interested in seeing what the latest studies are in terms of equivalency between the public sector and the private sector or at least statistics that would illuminate what's actually happening between the two sectors.

**Mr. Beesley:** I think the study was referred to by one of the members over there.

**Mr. Gotfried:** Oh, okay.

**Mrs. Rosen:** I do believe what we committed to doing is to provide the statistics with respect to how many are in public plans versus how many are in private plans and whatever we could gain in terms of information from those statistics. We can provide that.

**Mr. Gotfried:** Okay. So that might tell us what defined benefit versus defined contribution is as well as a statistic?

**Mrs. Rosen:** It may. I think, though, that if you're looking at public-sector compensation versus private-sector compensation, there's more to be taken into consideration than just pension plans. What you really do need to look at then is the total compensation package because it's a matter sometimes of balance or trade-offs, what attracts an individual to a certain occupation. Very often it's not just compensation driven. In terms of the compensation that's afforded in certain occupations, one might have a greater pension in some situations and a greater salary in others, so I think that the total compensation is something that's important to look at overall if you're going to draw comparisons.

*9:20*

**Mr. Gotfried:** Absolutely.

That leads me, I think, to my next question, which is very appropriate. I guess in terms of devising the total compensation within the public sector, of which the pensions are a significant component, is it part of your responsibility to take a look at that total compensation with respect to public-sector employees? We've seen some studies, whether they're correct or not, that say that public-sector salaries are in fact as good as or better than private sector in some areas, a high degree of job security, at least currently. If we're to move to a new equivalency, do you think that there would be a lack of competitiveness in the public sector if there were to be a balance between what's happening in the private sector in terms of both salary benefits and job security and pensions, or would a new equivalency be a possibility that would not render the public sector uncompetitive?

**Mrs. Rosen:** With respect to compensation planning, that's actually the purview of corporate human resources, not Treasury Board and Finance. But just to comment on your question, I would suggest to you that it's actually very complex. Typically, some of the occupations that you find in the public service absolutely have equivalencies in the private sector but not always, depending, of course, on what occupation or what service or program you're actually trying to deliver. I do believe that this government is interested in looking at compensation for the public sector in a systemic way, and I think that you'll find that over the next year or so there will be some discussion around how that might actually unfold.

**Mr. Gotfried:** That's great. From the pension plan management groups that you are dealing with, do you feel that there's an appetite there for higher employer contributions, that those might be acceptable in terms of mitigating some of this unfunded pension liability risk?

**Mr. Beesley:** I think that pension plan boards do look at the actuarial evaluations each year. They file them every three years. As I've said, the value proposition has changed, and one of the members has referred to the pension plans being over 25 per cent of payroll. You know, at what point is it unaffordable? That's hard to say, but I will acknowledge that there are plans when we do hit those deficit years to spread out the liability over the 15 years. The pension plans do have the ability to make recommendations to plan changes for the pension plans that can be considered and approved by the minister. So there are some options through there. We have no direction or anything right now to change the existing framework. We do take the recommendations that come in from the pension plan boards, and as policy officials we do provide advice to the minister on those.

**Mr. Gotfried:** Thank you. [A timer sounded]

**The Deputy Chair:** Timing again.

I'll move on to the second rotation, back to the Official Opposition. We'll be at seven minutes. Okay.

**Mr. Barnes:** Thank you, Mr. Chairperson. Thank you all for being here today, and thanks for your work on behalf of Albertans. I'd like to start and focus my questions around the Auditor General's recommendation 2. The department of Treasury Board and Finance should "establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for those plans." I might as well come right to the big question. If the government cannot fully fund its liabilities for defined pensions, who's ultimately responsible?

**Mr. Beesley:** The government of Alberta is one employer into these pension plans with many other employers in the pension plan system. Where the minister fits in is that the minister is trustee, investment manager, and administrator of the plans. There are plans in place, as mentioned. While these plans are not currently at a funded status, they are very close compared to some other plans in other jurisdictions. Some of the challenges, as I think we've referred to throughout the morning, have been around the low interest rate. If interest rates were a lot higher, that would be different, but we are in a sustained low-interest environment.

To answer your question, "Who's ultimately responsible?" like, the employees and employers of these plans. There are plans in place as we do get into years that are not as good as others to spread out the liabilities over up to 15 years, and we do look at the contribution rates. The contribution rates, as I acknowledged a few minutes ago, have increased to the point of 25-ish per cent of payroll. The pension plan boards do have the ability to make recommendations to the minister to – I'm not saying reduce benefits – adjust ancillary benefits of the plan, and those can be considered by the minister. So there are some release valves, so to speak.

**Mr. Barnes:** There are some release valves, but one of them is spreading the liability out over 15 years, which kicks the can down the road, and of course if the employer is a citizen of Alberta, would Albertans not be ultimately responsible?

**Mr. Beesley:** Well, I would say that from the investment perspective we do have good investment years and we do have strong, sustained investment years, so when we do have good years, the good years balance off with the bad years from the investment perspective. The duties of the pension plan boards as trustees are to ensure that the plan does have a plan in place to ensure that the plans are sustainable over the long term. It's very difficult at any point in time to say where the plans are because if we looked at the charts back to 1992, we have had plans that were in surpluses and now deficits and back and forth. The worse thing that can happen, of course, is strong investment years that are very poor like in 2008. Those can really hurt the plan, and pushing those liabilities over the 15 years can hurt it, but there's always new money coming into the plan from the employers and employees that do make the plan sustainable over the long term.

**Mrs. Rosen:** Maybe if I could just supplement a little bit.

**Mr. Barnes:** Please.

**Mrs. Rosen:** In my introductory comments I also talked about the fact that currently there is a $4 billion deficit, and of that the province as an employer would be responsible or accountable for approximately $1.7 billion. It's really important to understand that there are two roles that we're talking about here as it relates to the province: one where they're an employer and actually are participating, then, in the funding of the plans for their employees, but another role which is more the subject, I believe, of the Auditor General's recommendation, which is the role the minister has in actually administering and being a trustee for all of the plans, whether or not the province is an employer of those plans.

**Mr. Barnes:** Okay. Thank you.

The Auditor General, I thought, did excellent work a couple of years ago when he identified the fatigue that employees had paying up to 14 to 15 per cent contributions. When the previous government went around the province and talked to stakeholders, I was able to go to a couple of the meetings, and I discovered that that was absolutely true, that a lot of good Alberta employees were concerned that they were paying so much of their pay already, and they thought that they were at a limit. Then, of course, at the opposite end we have the defined benefit that we have to pay out upon retirement and, again, as the Auditor General has identified, an increase in early retirement, increase in longevity. It seems now that he's clearly identified that it looks like your department uses a higher discount rate which potentially defers the higher cost of funding these pension plans, again, to future contributors that are already feeling contribution fatigue.

I have some notes here that historically you're between a 5.8 and 6.9 per cent rate that you're hoping to achieve. You've pointed out, Mr. Beesley – and I appreciate it – that if rates go higher, that would be good in terms of an investment return, but my concern would be that at 5.8 to 6.9 per cent you're considerably higher than a risk-free bond of some kind. If I understand defined benefit right, if interest rates go higher and inflation is higher, don't you have to pay out more, too? I'm concerned about using 5.8 to 6.9 per cent in this environment.

**Mr. Beesley:** Okay. I'll start with the discount rates. The discount rates are set by the boards based on, you know, returns that the investment manager, AIMCo, is getting. If you look over the last couple of years, AIMCo's return I think last year or the year before was about 14 per cent. We know that is not going to happen every year, and we know there's going to be another 2008 or another poor market year coming. When we average them out over the plans, the discount rates, which do sort of help price the plan, are set by the boards, so the boards have that responsibility. When the discount rates are set, those discount rates are also used by the actuary in part of the overall pricing of the plan, which do contribute to adjusting contribution rates.

I do acknowledge that there are some concerns as the value proposition has changed in the last 20 years from the pension deal that was struck, where you're getting the same benefit that you did in 1992 that you're getting in 2016, but the pricing is different. Both the employer and the employee are paying different. There are some affordability concerns. I think that's where we look to the boards to make other recommendations to the plan. [A timer sounded]

***9:30***

**The Deputy Chair:** Thank you. Sorry about that. The time is allotted.

**Mr. Beesley:** Can't do it every time.

**The Deputy Chair:** We've been pretty good so far.

The next seven minutes go to the government side. MLA Luff.

**Ms Luff:** Thanks, Mr. Chair. I guess we know, you know, that we're in tough economic times right now and that, given that, the government has chosen to use countercyclical spending to keep Albertans working and to build infrastructure. Some folks would suggest that austerity in these times is maybe a better choice although that's shown to be not effective in the long term in dealing with downturns.

Some countries like the Netherlands have chosen to move away from defined benefit contribution plans, and this is actually shown to have a negative, detrimental effect on their economy, particularly on young people who are trying to get into the workforce. I'm just wondering if perhaps you could touch on how economic downturns affect the viability of pension plans and if you are aware of any studies or have done any studies that speak to how cuts to pension plans might affect the economy here in Alberta.

**Mr. Beesley:** Sure. A lot of good points there. I'm just going to cover a few. First of all, the investment manager of the government: AIMCo's investments are world-wide. So if there is a downturn in the Alberta economy, AIMCo can still be making investments, sound investments, across the world. So just putting that into context.

As far as, you know, when you're looking at countercyclical investment, the one thing I will say about pension plans with a defined benefit is that one thing that would be tough to argue is that they are very stable. There's stability. There's predictability in the return that the person is receiving, be it the retiree – this is more on the retirees. As far as labour practices around employees and layoffs and stuff, that would be more of a question for corporate human resources. But I will say that the investment strategies of AIMCo do sort of shield us from the economic downturn we're currently experiencing in Alberta because the investments are made world-wide.

**Ms Luff:** Awesome. Thank you.

I actually enjoyed reading this because I learned a lot more about pensions than I had known previously, which is, you know, helpful because I was a teacher in my former life and contributed to a pension plan. Doing this reading and learning more about pensions have been weirdly enjoyable for me.

One of the questions that I had was – I did notice, you know, the graphs, that the liabilities, the unfunded liabilities, have been growing. Then in recent years they have actually been decreasing, which is contrary to perhaps what was predicted to happen. I'm just curious about the forecasting methodology that you use and wonder if this needs to be adjusted or if the ministry has considered any alternative methods for doing the forecasting.

**Mr. Mulyk:** When establishing the contribution rates for funding purposes, the actuary working with the plan boards does certainly take into consideration the current world economic picture. It would influence the assumption setting, but it would not completely dominate it.

The reasons are twofold. The first is that the pension plans are valued on a long-term, going-concern basis, assuming that the plan operates not only today but well into the future. Furthermore, the discount rate, which is the single largest driver of the liability, the expected rate of return, is also based on the current invested portfolio of the plans. An option certainly would be to value the liabilities using a risk-free rate based on government of Canada long bonds, but the actual investment composition of the plans is equities, corporate bonds, and other fixed-income instruments. The actuary is making an assumption on the basis of his best estimate of future economic circumstances. Certainly, the economic environment today influences it, but he also maintains an eye to the future for what the returns are.

To the extent that you do another valuation report three years down the road and you determine, as is often the case, that your assumptions that you set three years earlier have not necessarily been borne out by actual plan experience – that is completely expected. There could be better-than-expected returns, which creates, of course, an actuarial surplus to the plan, which is used to offset old existing unfunded liabilities, or – and no one desires this – it could be the case that your experience is less than anticipated. That creates a new unfunded liability, and under the funding requirements of legislation a new 15-year amortization period on that new unfunded liability is created.

On balance and over the long term you do expect that there will be gains and surpluses and deficits over time, and you attempt to adjust your valuation assumptions accordingly. In addition to setting the discount rates and expectations for how long people are going to live and things of that nature, the plans also do bring in their own additional margins to underlie the best-estimate returns in recognition of the fact that a risk-mitigation strategy does include the fact that there is an uncertainty in future events. The plan actuary in consultation with the board will apply additional margins, typically to the discount rate, but it could appear in many other economic assumptions.

**Ms Luff:** Thanks. That was helpful.

Those are my questions.

**The Deputy Chair:** Who's going next? Mr. Dach.

**Mr. Dach:** Thank you very much, Mr. Chair. I appreciate your professionalism this morning. I wanted to also mention that since I was elected, I've been constantly impressed with the high level and quality and the skills and the intense dedication to service demonstrated by our public servants throughout every Alberta government department. I find that this panel and other panel members have been no exception. I wanted to commend you all on the quality of your work. The preparation that goes into these meetings, I know, is quite intense. Really, it's duly noted and much appreciated.

I'm thinking that perhaps part of that dedication comes from the knowledge that your pensions are well managed and that the retirement income you can expect is secure. I was in a unique position in a 30-year real estate career preceding my election over a year ago. I had a unique opportunity to consult with hundreds and hundreds of couples and families at every stage of their family life and financial planning cycles. There was a very noticeable difference in the anxiety level exhibited by different families. Very clearly, those with defined benefit pension plans were much more confident and relaxed about their future as they planned their moves with respect to their real estate. They could plan their retirement with great certainty.

Now, it's clear that the Official Opposition doesn't value public-sector workers as highly as those working in the public sector.

**An Hon. Member:** Out of order, please. Point of order.

**Mr. Dach:** This is clear on a number of levels . . .

**The Deputy Chair:** Mr. Dach, your time is up, okay? Sorry.

We're on to the third party for seven minutes.

**Mr. Fraser:** Thank you, Mr. Chair. Thanks for coming today. Just to be clear, you had mentioned something earlier in your presentation. I know that the Auditor General has made some recommendations, you know, dating back to 2014. Are you saying that if you were to hive out the unfunded liability and the deal that was made in 2007 – you said that there's about a $1.5 billion liability amongst the pension plans.

**Mr. Beesley:** Yeah. Let me just refer back . . .

**Mr. Fraser:** The unfunded liability, roughly.

**Mr. Beesley:** Yeah. The government of Alberta share: I think the deputy had said that it was $1.7 billion for the GOA as the employer.

**Mrs. Rosen:** The unfunded liability in whole at this point in time for current plans is $4 billion, of which Alberta as an employer – our share would be $1.7 billion.

**Mr. Fraser:** Right. Just to be clear on what you mentioned before, if we just keep the status quo, it seemed to me that you said – is your assumption that the unfunded liability will take care of itself over time?

**Mr. Beesley:** Yeah. It's more than an assumption. There is a plan to do that. As David referred to, it's reviewed every year from an actuarial perspective. It's based on mortality, the number of individuals in the plan, many, many inputs. It will be paid off by 2016. We believe that it'll peak between 2020 and 2024 just with people living or passing away and then steadily decline.

*9:40*

**Mr. Fraser:** Right. I guess I just wanted to again clear some things up because I think that what happens in these meetings is that people make assumptions. When we talk about the unfunded liability from the deal in 2007, it sounds like the unfunded liability for the teachers' pension may be a negative, but it's really paying out the benefit to teachers that are already retired, that need those benefits, correct?

**Mr. Beesley:** Yeah. And to be clear, the deal that was made in 2007 picked up both the employee and employer ends.

**Mr. Fraser:** Right, to make sure that retired teachers had those benefits in their entirety.

**Mr. Beesley:** They would have had the benefits. It was just: who was paying for them? They could have been paid for by the employees. The deal that was made allowed the employer to pay both ends of the liability, if that makes sense.

**Mr. Fraser:** Yeah. Absolutely.

**Mrs. Rosen:** The value proposition is, absolutely, that teachers have a good pension, and the value proposition with respect to pensions is that they do provide employees with a good retirement income. So, yes, you're right with respect to there being a value side to that unfunded liability.

**Mr. Fraser:** Right. I know that in some of the discussion that we had, with bills 9 and 10 going through the House previously, with our civil service and people in general just living longer, about changing some of the equation, you know, from the 85 factor to the 95 factor, and a couple of other things: I'll just throw them at you. Just tell me what you think. If we were to switch to a 95 factor, I don't believe, just for the record, in my opinion, that that would be the right thing to do in every single case in the civil service.

Secondly, what about folks that take their cumulative value? That seems to be a problem, when folks come in and they take their cumulative value – it's essentially early retirement – and they take that large amount of money out and it's no longer getting a return. If we have a number of folks doing that all at once, it could seriously damage the plan for future retirees. So those are some mitigating things. What are your thoughts on that?

**Mr. Beesley:** Sure. I'll start with your first question, around ancillary benefits. This is towards COLA, the targeted COLA, or early retirement benefit provisions. Early retirement benefit provisions, like the 80 factor, the 85 factor, do not save the plan as much as the COLA. The bigger release valve would be COLA versus the magic number, so to speak. That being said, the plans do have the ability to make recommendations on that and other issues to the minister for consideration.

To the commuted value, which is a good question: the reason the commuted value payments are high – and maybe I can provide just a bit of context if you just indulge me for a second. Commuted values would be when you would leave the plan or become deferred and no longer a member of the plan. What you can do then is that you defer your pension until your retirement age, or you can take it as what's called a lump sum. The lump sum is looked at as a risk-free value annuity. Because the interest rates are so low, these payments are a lot bigger than they should be.

There is work being done by the pension boards on this issue. They are aware of it because there are significant, you know, pulls out of the plan, and we are intending for people to have defined benefit pension plans, not defined commuted value plans. So there is work being done, and the pension plan boards have made recommendations. I'm happy to say that that was also identified by all of the plans that will be going into the risk management framework. They'll be presented to the minister and the Auditor General.

**Mr. Fraser:** Right. Just my last question. Again, I understand that these boards are made up of employees, union members, and the like. There is a regular consultation ongoing in terms of how to mitigate these risks, and I'm just curious, you know, because – again, just to the Auditor General: how often did those types of reports get to the Auditor General to ensure that there is sustainability? We do get the sense that action does need to be taken on some of these items to make sure that the plans are sustainable. Again, how often from the actuarials that the Auditor General or the government would receive is there just a direct line of sight from the top to the bottom?

**Mr. Beesley:** Sure. I can provide a bit of context, and if the Auditor General wishes to supplement, he can. The Auditor General does audit the financial statements of each of the plans, which would include some of the actuarial information. The Auditor General does have entry meetings, exit meetings with the plans to identify risks. So it's treated no differently, sort of, than the departments' financial statements.

I'm not sure if they wanted to supplement.

**Mr. Saher:** Certainly. As the auditor of the pension plans, we have made available to us all of the actuarial reports necessary for us to substantiate the liabilities disclosed in the plans, but I think that perhaps you were referring to risk management reports prepared by the plans. Do we have sight of those? Not as a regular process. We would have access to information available to the trustees, to the plan boards, as we require, but not as a regular practice because the Auditor General's office is not the overseer, if I can put it that way, of the sustainability of the plans.

**Mr. Fraser:** Okay. Thanks very much.

Thank you, Chair.

**The Deputy Chair:** Thank you.

All right. As agreed upon, the Wildrose will have a final five minutes to ask questions. Mr. Barnes.

**Mr. Barnes:** Thank you again, Mr. Chair, and thank you for your continued help. Nancy Robert has put together our background research, and on page 4 we have figure A, a summary of Alberta's public-sector pension plans for the year ending March 31, 2015. The pension plan, the third one down the list, management employee, MEPP: I'd just kind of like your thoughts on this one. When I look at the numbers, it looks very, very concerning: active number of employees, 5,300; number of retirees receiving benefits, 4,400; average age of active employees is 48, so in my opinion young but maybe some more retirement; and employer contributions are 62 per cent of the cost. That doesn't look very sustainable. That looks like a lot of risk for the Alberta government and taxpayer. Can you comment, please?

**Mr. Beesley:** The management employees pension plan is a little bit different than the other three major pension plans. That is the plan that I'm in. That is the plan that the Auditor General would be in. Again, I go back to that pension plans are part of overall compensation. There is a different benefit paid for that plan versus the other three plans, and that is sort of reflected in the contribution rates being a bit higher. The split of the benefit between the employee and the employer is different than in the other plans. The other plans are a little bit different, but that plan is more different. But, again, it's part of the overall compensation plan that the government of Alberta as one of the employers and the other employers and the other agencies use to attract, recruit, and retain people into management positions.

As far as the age, no one really starts a management job at 18 years old. Usually you progress through your career. So you're entering that plan at a later time. A typical, for illustrative purposes, example would be myself, who had come into the government of Alberta after I graduated at whatever, 25 years old. I would, you know, move my way up through the ranks, so to speak, and then I would enter the management. If I was promoted to management, I would enter the management pension plan at, say, 30 or whatever years old. So you're not getting a lot of 18-year-old people coming into the management plan. That explains why the average ages are what they are.

**Mr. Barnes:** Thank you. The first part of your answer, Mr. Beesley, seems to support the question that the Member for Calgary-Fish Creek asked earlier about the compensation package being linked to your pension. You know, that's, I think, important for taxpayers to know going forward.

One more question about the $11.2 billion unfunded liability that the government of Alberta and taxpayers have and the 15-year system, where when you have a year where returns don't meet the expected or the norm, you can amortize that over 15 years. Does the $11.2 billion include all of the liabilities and obligations that are out there for up to 15 years?

**Mr. Mulyk:** I can answer that. The pre-1992 system that existed in Alberta was very similar to a lot of public-sector pension plans across the country in that they were pay-as-you-go. There was not a dedicated reserve of assets that were held separate and apart from government assets. In 1992 the current structure, by and large, that we see today was enacted by the government of the day. That clearly established a requirement to have prefunding of benefits and a systematic and rigorous process for the funding of those plans.

The question that was outstanding, of course, was what to do with the legacy that had been earned up until that point in time. So the $11.2 billion in unfunded liability in totality is a mix between a significant portion which is in respect of pre-1992. There were specific provisions put in place at that time around the amortization of those very large unfunded liabilities going out many years. For the more recent items, since 1992 onwards, there is a dedicated and systematic approach to amortizing those unfunded liabilities over no more than 15 years. So it straddles two periods.

***9:50***

**Mr. Barnes:** So they're not included in the $11.2 billion, then.

**Mr. Mulyk:** The $11.2 billion would be a combination of pre-92 and post-91. There are different funding schedules for post-91.

**Mr. Barnes:** Okay. I understand that in 1977 Saskatchewan went to a system where everybody that was working for the government was grandfathered and the defined benefit pensions continued. Everybody new went to a new pension system. You spoke earlier about problems with parallel systems and problems with this. Could you get back to me with what the benefits would be? What benefits did Saskatchewan receive from doing this?

**The Deputy Chair:** All right. Thank you. The time is allotted. I'd like to thank the officials from Treasury Board and Finance for the presentation today and responding to the committee members' questions. We ask that any outstanding questions be responded to in writing within 30 days and forwarded to the committee clerk, please.

Now other business. Are there any other items for discussion? Ms Renaud.

**Ms Renaud:** Thank you, Mr. Chair. I have a couple of questions that I really think we need answers to, just to ensure effective functioning as we go forward. I'm just wondering if you can update us on the status of our chair of this committee, MLA Fildebrandt, what the status of his role is. Will he be returning, and is there a timeline for us? I know we've got a really busy schedule going forward.

**The Deputy Chair:** That's not something I know about at this present time. As a deputy chair I step in any time that the chair is gone. We're hoping to get an update sooner than later, but right now I don't have any update for the committee.

**Ms Renaud:** Okay. Thank you, Mr. Chair.

**The Deputy Chair:** Any other business?

**Mr. Gotfried:** Just to echo that, I think we've got a very busy schedule, you know, next week. Obviously, there are many other things in terms of the session scheduling as well, but I think that many of us are concerned that we move forward. We have a very busy agenda ahead of us, irrespective of what happens in terms of the session ending as well.

**The Deputy Chair:** Sure. Thank you. You bet.

Anything from the Official Opposition? Do you guys know anything as of yet? Okay. All right. As soon as we know, we'll let the committee members know. I was hoping to discuss, possibly, with the Official Opposition House Leader today if I could at some point, just to see.

Mr. Gotfried.

**Mr. Gotfried:** Just one other question. There was close to a point of order raised here earlier that didn't get officially recorded. I just wanted to remind members of the committee that the functioning of these committees – as was shared with us by the parliamentary committee that we met with very early on, these committees function when we collaborate well and we don't attack each other and when we work with our guests here to do what's best for the taxpayer. I'd just like to put that on the record, that we remind each of us not to attack each other, as opposition or as individual.

**The Deputy Chair:** You bet. I did miss that because I was discussing some of the timing here. I sent a note to the opposition that I didn't actually hear what was said. I apologize for that. Okay.

**Mr. Cyr:** We accept the apology. Thank you.

**The Deputy Chair:** All right. If there's no other business, the date of the next meeting is Monday, June 6, with Executive Council, Municipal Affairs, and Alberta Health. The meeting is scheduled from 2:30 to 4 p.m., and the premeeting briefing is at 2 p.m.

I will now call for a motion to adjourn. Would a member like to move? MLA Westhead. All in favour? Opposed? Carried. Let's get to the House.

[The committee adjourned at 9:53 a.m.]

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