

# Intelligence MEMOS



From: Bob Baldwin  
To: Canada Pension Plan Observers  
Date: November 20, 2023  
Re: **HOW TO RESOLVE THE ALBERTA PENSION ISSUE**

---

Many commentators, including the prime minister and leader of the opposition, have now weighed in on the downsides of Alberta withdrawing from the Canada Pension Plan (CPP) and creating its own Alberta Pension Plan (APP). The Alberta proposal puts at risk a plan that has been providing secure retirement, survivor and disability benefits for nearly 60 years.

Much of the criticism and concern revolves around the \$334 billion that a [report](#) prepared by the actuarial firm LifeWorks (now Telus Health) for the Alberta government says the province should claim in compensation for assuming responsibility for paying the future benefits Albertans earned while their province was part of the CPP. The amount is 53 percent of CPP's current assets and greatly exceeds Alberta's 16-percent share of contributions to the CPP over the years.

One aspect of that report is drawing less attention than it deserves. The CPP legislation includes a roadmap for a provincial withdrawal, including how much it should receive as compensation for paying benefits earned up to the date of withdrawal. LifeWorks argues that if this section of the legislation is taken literally, Alberta would be entitled to \$747 billion – an unlikely 118 percent of CPP assets.

LifeWorks concedes this is an unreasonable outcome, so it turns to a modified version of the legislated formula and comes up with the \$334-billion proposal. This recalculation signals the reality that any payment to Alberta is likely to be determined through negotiations that may in the end have little connection to the existing wording of the CPP legislation.

The most important problem with the relevant section of the legislation is that it ignores the contributions that have been required in order to build up the CPP reserve fund so it can generate the income needed to stabilize the contribution rate in the face of population aging. In order to achieve this objective, the provinces have since 1997 been paying more into the CPP than has been paid out in benefits.

Given the legislation's lack of clarity, there are two alternate approaches to settling what should be paid to Alberta: Either pure and open-ended negotiating under the existing legislation or amending the legislation to make it clear and workable. I prefer the latter approach.

It seems to me three closely related standards need to be met in any reasonable resolution of the issue. First, any settlement has to be fair for all provinces in the CPP, not just the one leaving. Second, the payment to any departing province should be no more (or less) than what would be paid to it if all nine participating provinces left simultaneously. In other words, we should simulate a break-up of the plan and give the exiting province no more (but no less) than its share of the break-up value. Finally, the break-up value in question cannot exceed the value of CPP's current financial assets.

In principle, these standards could also be applied in negotiations that would take place under the existing language of the CPP legislation dealing with the appropriate payment to a province that leaves the plan. But trying to settle the issue based on the existing, somewhat opaque wording of the legislation is likely to involve prolonged and difficult negotiations punctuated by court cases.

My view is that we should instead make it a priority to amend the section of the CPP legislation dealing with asset transfers to a province that leaves. No doubt agreeing on and legislating new language will also involve difficult negotiations. But this approach would have the advantage of lending clarity to how any transfer of assets is to be determined, either in the immediate case of Alberta or off in the future if other provinces exit.

Amending the relevant section of the CPP act requires agreement between Ottawa and two-thirds of the provinces with two-thirds of the country's population. Even so, it may well be more attractive an option to provinces than an open-ended negotiation over money. It also provides the perfect opportunity to clean up a section of the CPP legislation that cannot in its present state be made operational in a reasonable way.

It may seem unfair to change the rules in the middle of the game, as it were. But a negotiated settlement under the existing legislation is unlikely to bear much resemblance to the current wording of the legislation. And the ultimate rationale for whatever amount of money finally did emerge from such a process might be essentially mysterious, as many political outcomes are.

The alternative of explicitly changing the legislation before Alberta's exit would have the clear advantage of codifying the logic behind whatever the transfer to Alberta ultimately was.

*Bob Baldwin is co-chair of the C.D. Howe Institute's pension policy council. He would like to acknowledge helpful discussions with colleagues on the panel on income security of the Council on Aging of Ottawa.*

*To send a comment or leave feedback, email us at [blog@cdhowe.org](mailto:blog@cdhowe.org).*

*The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.*

*A version of this Memo first [appeared](#) in the Financial Post.*