THE CPP CHRONICLES:

Alberta in her Wexit Girl Era

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WHAT IS THE CPP?

The CPP is a ***monthly taxable benefit that replaces part of your income when you retire.*** Starting in the 1960s, the CPP takes mandatory contributions from workers and their workplaces across all provinces except Quebec, which opted out of the plan from the very beginning (1). The CPP is one of the top ranked pension plans in the world, second to Norway according to Global Pension Transparency (2), and is highly regarded for its resiliency during economic crisis and its diversified investments. It is also separate from government funds, inaccessible to governments, and therefore protected from political interference (2).

The plan requires beneficiaries to be at least ***60 years old*** and to have made at least ***one contribution to the fund*** before they receive their benefits. CPP benefits include disability and survivor benefits, retirement pension, and post-retirement benefits (3). Everyone is entitled to CPP funding regardless of how many years they have worked, but the amount each person receives depends on their income as well as their contributions. The CPP is meant to supplement retirement income rather than fully finance individuals' retirements. Historically, it has replaced 25% of a worker's pensionable earnings, although this number is set to ***increase to 33%*** going forward. The CPP is therefore seen as the second pillar of Canada's retirement income system, which also includes the Old Age Security and the Guaranteed Income Supplement (the first pillar) and private savings (the third pillar) (4).

The Office of the Chief Actuary of Canada (OAC) assesses the financial sustainability of the CPP every three years. The latest OAC report in 2022 found that the CPP is projected to be financially stable for the next 75+ years (5).

HOW DO INDIVIDUAL, EMPLOYER, AND PROVINCIAL CONTRIBUTIONS FACTOR INTO THE CPP?

The CPP takes contributions from both employers and individuals at a combined rate of ***11.4%*** of a workers wage as of 2022, starting at annual incomes of ***$3,500,*** and maxing out at annual incomes of ***$64,900***, beyond which no additional funds are withdrawn. The amount paid on retirement is based on CPP pension credits: the more an individual earns and contributes to the CPP while they work, the more credits they will have, and the more pension they will be eligible for (6).

Employers & Individuals combined rate of 11.4%

Starting at

$3,500 → ***$64,900***

Maxing out at

Provinces do not pay into the CPP, and no level of government can access CPP funds, which are only available to individuals (7). Provinces can, however, choose to withdraw from the CPP, provided they implement a comparable provincial pension plan to transfer any eligible assets into. (8)

HOW DOES THE CPP HELP CANADIANS?

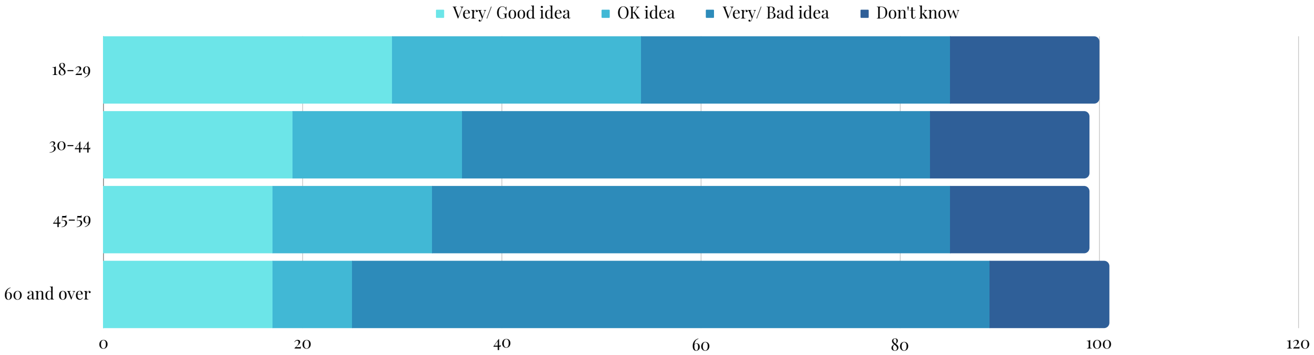
Canadians reap a lot of benefits from the CPP's large scale and stability. Due to its size, the CPP can better mitigate risks and has lower per-capita administrative costs than smaller retirement funds would. Because the program is nationally mandated, it also has the advantage of compelling employers to make retirement contributions for their employees. Canadians are also able to retire just about anywhere within Canada without any administrative difficulty (9). The CPP covers traditionally employed and self-employed Canadians alike, providing a stable financial base as people age out of the workforce (10), as well as income in the event of disability, and survivor benefits upon an individual's death (4). Because the fund is projected to be financially stable for at least the next 75 years, Canadians can be confident of some level of financial support later in life (5).

CPP Benefits

1. Mitigate risks
2. Lowers per-capita administration costs
3. Compels employers to make retirement contributions for their employees
4. Canadians can retire nearly anywhere in Canada without administrative difficulty
5. Provides a stable financial base as people age out of the workforce
6. Provide income in the event of disability, and survivor benefits upon an individual's death

WHY DOES AB WANT TO LEAVE THE CPP?

Most polling suggests that a majority of Albertans do not want to leave the Canada Pension Plan (11, 12), although support has risen from 21% to 27% in the last year, with most of this increase coming from UCP partisans (13). Younger voters are much more likely to support the Alberta Pension Plan than older voters; 29% of Albertans aged between 18 and 29 think it's a good or very good idea, whereas only 17% of voters aged sixty or over agree (12). Since this idea clearly hasn't emerged following a groundswell of public support, it's important to examine the case that the Albertan government is making in its favour.



Alberta has a younger population than most provinces and territories (14) and has a higher median wage than every other province (15). This means that Albertans, who comprise about 11.5% of the country's population, are currently contributing 16% of the funds in the Canada Pension Plan, and are withdrawing much less. Presuming that i) an independent Alberta Pension Plan would have performed as well as the CPP over the years (11), ii) Alberta would be entitled to *53%* of existing CPP funds to build its own plan (16), and iii) that the population will remain relatively young and high-earning indefinitely (9), then, mathematically, an independent pension plan might actually benefit Albertans.

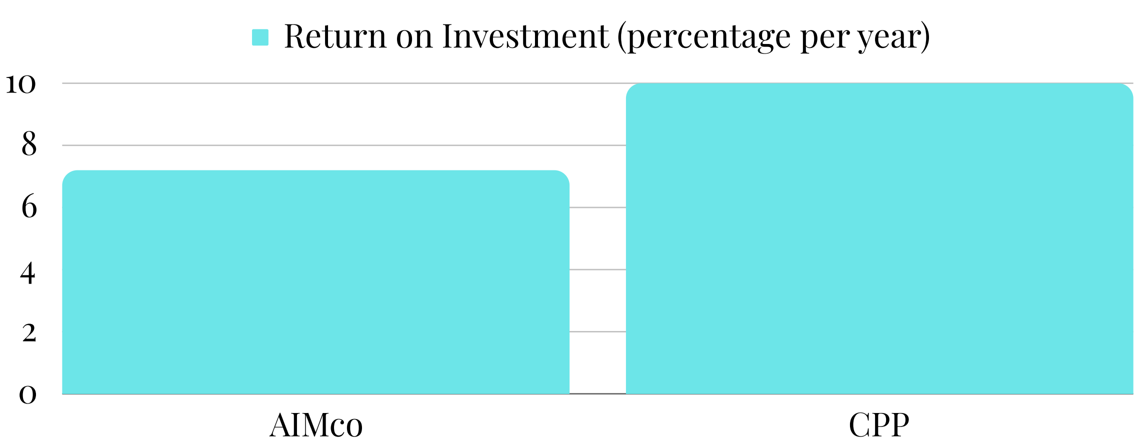
Given that the Canada Pension Plan is one of the best performing in the world, this is a lot to presume. Many commenters have therefore emphasized the ideological reasons that the Albertan government is pushing for a provincial plan. The infamous "firewall" letter of 2001, for example, called for such a plan as part of a movement towards greater Albertan independence from the Federal government (17). The rift between province and country has been growing steadily since the Trudeau government first came to power, with carbon emission and clean energy targets being a particularly sore spot for the two levels of governance (18). Notably, before she became premier, Danielle Smith suggested that an Albertan Pension plan could be used to support the oil and gas sector, which she views as being "punished" by "the big banks and the big pension funds" (19).

WHAT ARE THE CONSEQUENCES OF ALBERTA LEAVING THE CPP?

If LifeWorks' numbers are correct, ***Alberta would leave the Canada Pension Plan with more than half of its current assets***. At the very least, this would cause contributions by every other Canadian to increase by as much as $284 per year (1, 8, 31) and for the fund to be destabilized, lowering is otherwise very high international ranking and leading to worse outcomes for its recipients (20). However, it is far more likely that any sign of success on this front would push Ontario and British Columbia to race to leave as well to protect their own residents. If they used LifeWorks' formula, these three provinces alone would be entitled to 128% of existing CPP funds (8, 21), making their withdrawal devastating not just to the fund itself, which would collapse, but to the economy of Canada as a whole. Given that Albertans have not contributed more than half of the CPP's current assets, absconding with this amount at the grave expense of other Canadians could reasonably be called selfish and greedy.

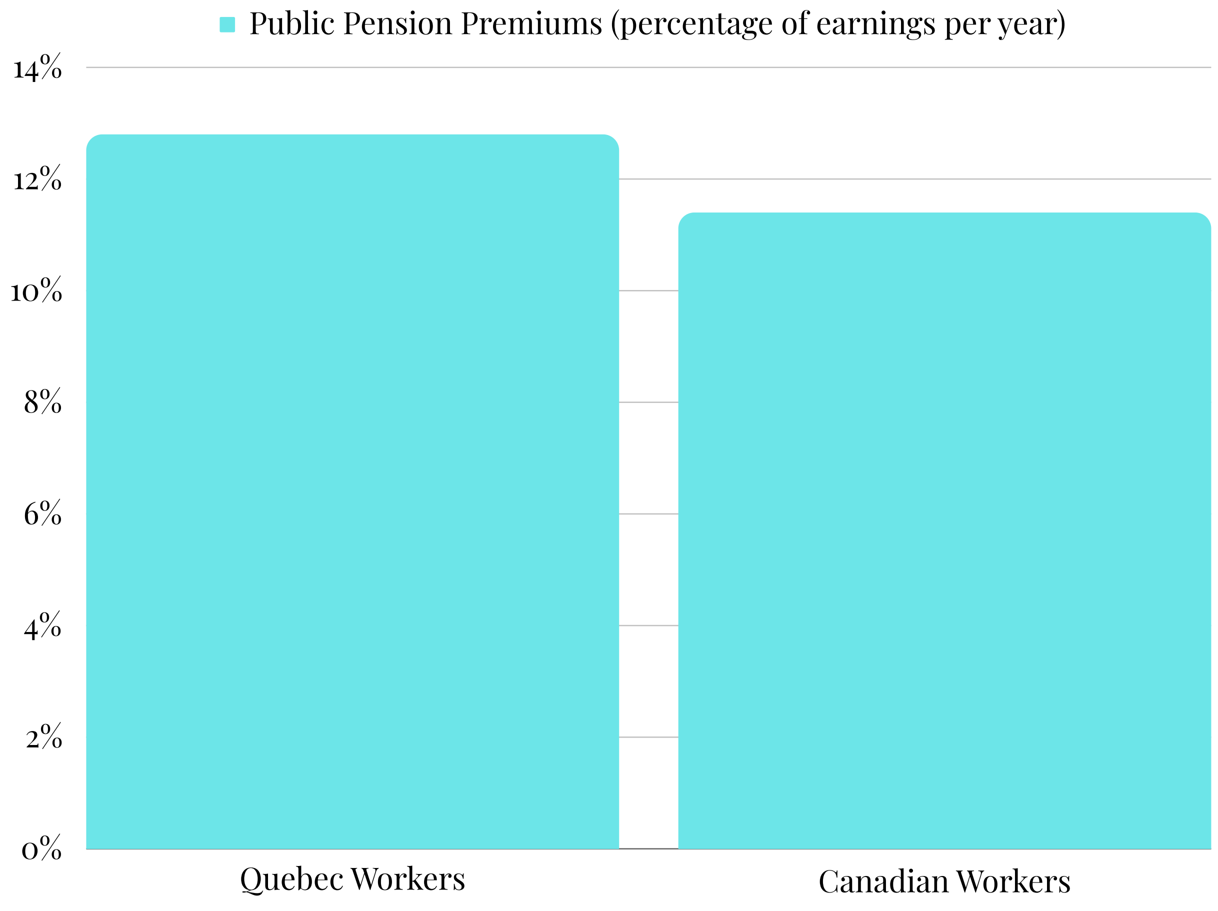
Because of this catastrophic potential, neither the Federal Liberals nor the Federal Conservatives endorse the Alberta Pension Plan (8), and few economists agree that Alberta would be successful in its bid for 53% of the existing funds. A protracted battle on this front would likely end up at the Supreme Court, causing ongoing instability and uncertainty for Albertans and for potential investors in the province (9, 22).

Were Alberta to withdraw from the CPP with a more modest proportion of its funds – something closer to the 16% that Albertans have contributed – the smaller initial investment pool and higher per-capita administration costs would quickly deplete the benefits promised by LifeWorks' report, even if the other assumptions in that report are correct and the fund is invested wisely (12, 18, 23). On top of that, many believe that the fund would be managed by AIMco, which has significantly worse returns than the Canada Pension Plan (7.2% vs 10%; 9).



Danielle Smith's desire to use the fund to support oil and gas may also be unwise. Notably, Norway's fund, which derives much of its wealth from the same sector, manages risk by not investing in Norway's own volatile industries, allowing it to better weather downturns (9).

Some sources have also cast doubt on Lifeworks' other assumptions about the nature of Alberta's workforce. It was a relatively young population that prompted Quebec to stay out the CPP in the first place, but as the decades have passed, this advantage has dried up, and now Quebec's relatively small work force must pay higher premiums than other Canadians (12.8% of an employee's earnings in 2023, versus 11.4% for the CPP; 24, 32). There are also concerns that uncertainty around both the stability of the plan and the administrative work required to move between provinces will weaken Alberta's ability to attract labour from across the country, further compounding this issue (1, 19, 25).



SHOULD ALBERTA LEAVE THE CPP?

Given the high potential risks and little guarantee of reward, it isn't hard to see why most experts agree that

Alberta should not leave the Canada Pension Plan

(19, 26, 27), or why this is one of the few areas that Justin Trudeau and Pierre Poilievre (somewhat) agree on (8, 28). Notably, following much public consternation, the Albertan government has now put a pause on its plan, seeking greater clarity on the amount of CPP funding it would be able to withdraw (29). Instead of following through with this ill-advised, short-sighted, and greedy plan, Alberta might consider a supplementary, opt-in fund similar to the Saskatchewan Pension Plan (30) in order to provide greater financial stability for Albertans in their later years. This voluntary, tax-sheltered fund works similarly to an RRSP, but follows pension laws, is very low risk, and offers extremely low fees relative to other plans (33).