6M Nov. 6/97

The CPP is gouging Alberta

STOCKWELL Day, the Treasurer of Alberta, recently announced that he would take another look at the amendments to the Canada Pension Plan being pushed through Parliament this fall. It shouldn't take Mr. Day long to discover that Alberta is uniquely disadvantaged by the pay-as-you-go design of the CPP.

Under pay-as-you-go, the contributions of those who are employed pay directly for pensions and other benefits conferred by the plan; there is no trust fund or savings account belonging to the individual. It is notorious that, because contribution rates were initially set too low, the pay-as-you-go design will cause a huge intergenerational transfer of wealth from younger to older workers. Those now entering the work force will end up paying more than twice as much into the plan as they can hope to draw out of it, while those about to retire will receive about twice as much in pensions as they have paid in.

Critics of the proposed amendments to the CPP — the Reform Party, the Fraser Institute, the C.D. Howe Institute and the Canadian Taxpayers Federation — have called attention to this shameful intergenerational transfer, but they have not yet pointed out that Albertans disproportionately bear its weight.

Demography is the first reason for this. Alberta has the youngest population among the Canadian provinces. In the 1991 census, about 9 per cent of Albertans were 65 and over, compared with about 11.5 per cent for the Rest of Canada (ROC). This means proportionally fewer Albertans receive CPP payments than people in ROC.

The second reason is economic. Alberta has a higher rate of participation in the labour force. The numbers vary from year to year, but its rate is consistently over 70 per cent, compared with about 65 per cent for ROC. There is a lot of variation in ROC; Newfoundland is consistently below 55 per cent, while the western provinces are usually above 65. Nonetheless, Alberta's rate is always much higher than that of any other province, partly because the population is younger and partly because there is less unemployment and less welfare dependency in Alberta than in ROC.

A younger population plus a higher rate of employment means that an Alberta Pension Plan with the same design and same benefits as the Canada Pension Plan would cost only about three-quarters as much to run. Why? Because there are more employed workers in Alberta to pay for each pension.

Three-quarters is admittedly a rough estimate, but another approach yields almost exactly the same result. In August, 1997, Albertans paid 12.7 per cent of all contributions to the CPP but received only 9.7 per cent of all benefits. Divide 9.7 by 12.7 and the ratio expressing Alberta's disadvantage is 0.76. Those little decimals stand for large amounts of money.

Albertans pay more than $2-billion a year into the CPP. If they get back only three-quarters of what they pay, they are subsidizing the plan by at least $500-million a year at the current contribution rate. That rate is scheduled to rise from 5.85 per cent in 1997 to 9.9 in 2003. Throw in population growth and aging, and the size of the annual transfer from Alberta to ROC will reach $1-billion within 10 years, if not before. A squadron of economists and actuaries could develop a more precise model, but the general conclusion is obvious: Alberta is getting hosed.

PENSIONS were originally a provincial matter under the British North America Act, which was amended in 1964 to make the CPP possible. But that amendment — Section 94A — preserves the right of provinces to organize their own pension plans.

Quebec has exercised its right from the beginning, and the Quebec Pension Plan has done better than the CPP. It has pursued a better investment strategy, and it has kept a tighter rein on disability benefits, which have become a disguise for early retirement in many provinces, particularly in Atlantic Canada.

Maybe it was right to ignore the issue when the amounts of money were smaller, but now it's time for Alberta to start flexing its muscles in CPP negotiations.

Albertans probably wouldn't posit a separate Alberta Pension Plan as their first choice, because there are some advantages in pooling risks over a larger population, but they might prefer having their own plan to being forced indefinitely to subsidize the CPP by $1-billion a year.

Using separation from the CPP as a "knife to the throat" of ROC, the government of Alberta could begin to work to reform the pay-as-you-go design of the CPP, with its inherent and iniquitous cross-subsidies. Government in a free society should make it possible for people to plan and save for their own retirement, not force everyone into a single plan where the young subsidize the old, Alberta subsidizes ROC and politicians make promises they know they cannot keep.

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