



2014 June 4

Moe Amery, Chair
Legislative Policy Standing Committee
on Alberta's Economic Future
513 Legislature Building
10800 - 97 Avenue
Edmonton, AB T5K 2B6

Dear Sir,

It is my pleasure to attend this meeting of the Legislative Policy Standing Committee on Alberta's Economic Future. I represent The Corporation of The City of Calgary (The City), one of the largest public sector employers in Alberta. We are a highly diverse and complex organisation with employees working in hundreds of different occupations over many varied lines of business. We also have collective bargaining agreements in place with 10 union jurisdictions. In total, more than 14,000 of our employees currently participate in either the Local Authorities Pension Plan (LAPP) or the Special Forces Pension Plan (SFPP). These employees, and their families, are vitally interested in the deliberations of this Committee with respect to the proposed legislation and public sector pension plan changes. As an employer in the highly competitive Calgary labour market, the review being undertaken by this Committee is equally important to The City. So thank you for this opportunity to speak to you today. I hope this is the first step in what will be a comprehensive dialogue on the future of public sector pension plans in Alberta.

From the outset of the Government of Alberta's (The Government) pension reform process in the summer of 2013, The City has participated in all opportunities to consult with The Government. As stated in our letter to the Minister in December 2013, we were assured that The Government was "committed to an ongoing dialogue with all the stakeholders, continuing into 2014 when all the stakeholder feedback had been gathered." We were disappointed, therefore, when this did not occur before the February 2014 announcement of plan changes, and the subsequent introduction of Bills 9 and 10. Against that background, we were very pleased when The Minister decided to "briefly hit the pause button" and referred the Bills to this Committee. We trust our presentation will be helpful to you with your mandate to examine how the long term sustainability and affordability of our public sector pension plans can be managed, taking into account intergenerational fairness for members and taxpayers and with a view of protecting the defined benefit pension promise.

In our December 2013 response to The Government, The City articulated five principles which framed our response on the subject of pension reform and the process that should be followed. These principles are:

- A balance must be struck between the need for plan and governance changes against honouring the “pension promise” made to City employees when they joined the LAPP or SFPP;
- The City is committed to the retention of sustainable and affordable defined benefit pension plans;
- Changes to the plan must enhance The City’s ability to attract and retain its employees and thus deliver services to the citizens of Calgary;
- Ongoing consultation between The Province, The City and other stakeholders will be essential as enabling legislation, applicable rules and regulations are developed and the Employment Pensions Plans Act (EPPA) is amended; and
- As the largest municipal employer of members of the Local Authorities Pension Plan (LAPP) and the Special Forces Pension Plan (SFPP), we see that The City has a leading role to play in developing, and participating in the governance structure of the plans.

These principles remain the foundation of our viewpoint and are equally important to us today. Our presentation is based on our understanding of the proposed legislation in Bill 9 introduced on 2014 April 16, and Minister Horner’s announced pension changes on 2014 February 24. If either of these is altered we would like the opportunity to review our submission.

A balance must be struck between the need for plan and governance changes against honouring the “pension promise” made to City employees when they joined the LAPP or SFPP

Since our December 2013 response, it has become increasingly evident to us that the imposition of pension plan changes undermines the pension promise that was made to City employees. The City believes that the pension deal promised to our employees at the time of their hire should be honoured; that “a deal is a deal”. If changes are imposed, these commitments can only be honoured by ensuring that our employees are **fully** ‘grandfathered’ in the current plan. By this, we mean that employees who are participating in the plans continue with the existing plan until they terminate or retire from The City.

We acknowledge that The Government is prepared to grandfather service up to the end of 2015. In addition, this February, The Government unexpectedly introduced another form of grandfathering, but only for public safety occupations, who could retain an unreduced pension as early as age 55 with the ‘85 factor’. As an employer who has a multitude of occupations throughout our workplaces, providing this to only one group within the LAPP membership will cause us both internal equity and labour relations challenges.

A commitment to grandfather current plan participants would not preclude the parties from exploring new approaches to cost saving and stabilizing measures, designed to ensure the LAPP and SFPP remain on a sustainable course, and moving to a joint governance structure. Furthermore, the parties can turn their minds to creating a "new deal" with respect to pensions for a new generation of public servants. Employers such as The City will have an opportunity to position ourselves to attract new employees based on this new deal.

In the absence of a commitment on fully grandfathering our participating employees, The City will face some practical issues. Most significantly, our employees have a right to adequate information and time to fully understand the impact of the proposed changes and how these changes will affect them and their families. The City is not aware of any plan on the part of The Government to provide the kind of face-to-face, clear and transparent communication our employees will need in order to understand the changes and make informed decisions. Decisions based on emotion or insufficient information can have a negative effect, not only on employee retention, but on the financial health of the pension plans.

The City is committed to the retention of sustainable and affordable defined benefit pension plans.

The City believes that the LAPP and SFPP Boards have done a good job in managing these plans. The Boards have a funding strategy in place to manage the short and long term risks to the plans of volatile investment markets, lower interest rates, longevity and growing plan maturity due to the increasing ratio of retirees to active members of the Plan. Each Board conducts regular valuations to assess the ability of the plan to meet its current and future obligations and set the contribution rates. LAPP performs annual valuations whereas SFPP follows a 3 year valuation schedule, with one currently in progress for 2013, a year ahead of schedule. It is important to note that the Boards have a plan in place today to address the unfunded liabilities over a 15 year timeframe.

The City acknowledges that the cost of these plans is significant. The members and employers of LAPP and SFPP pay for their share of the ongoing costs as well as their share of the total unfunded liabilities for these plans. In looking at the rate history over the last 10 years, from 2005 to 2014, the LAPP Board has increased contribution rates 8 out of the 10 years and in 2009, rather than a one-time significant increase for members and employers, the Board phased in rate increases over a 3 year period (for the years 2010, 2011 and 2012). These prolonged periods of contribution rate increases were a result of LAPP's plans to fund the unfunded liabilities over the required 15 year period. The LAPP Board has indicated that these liabilities will begin to decrease by 2019 and expect they will be paid no later than by 2026 unless there are unforeseen conditions. Over the same 10 year period, 2005 to 2014, the SFPP

board increased rates once (in 2010). This increase in rates is intended to fund the SFPP's unfunded liabilities on post-1991 service by 2023.

It is very difficult to assess whether the proposed changes will make the plans sustainable and affordable. This uncertainty makes it difficult, if not impossible, for The City to calculate the financial impacts of the proposed changes to The City's future budgets and its taxpayers.

Therefore, we support undertaking a comprehensive dialogue among stakeholders on the future plan funding elements such as contribution rate caps and cost sharing and on the future plan design elements such as appropriate early and normal retirement ages, pension formulas and cost of living adjustments. Unless common ground is found among the stakeholders, we question whether a meaningful plan that is sustainable and affordable across generations will emerge. Taking the necessary time to engage shareholders will build a common understanding of the challenges facing these defined benefit plans and strengthen our ability to make meaningful decisions when we enter into a joint sponsorship governance structure.

Changes to the plan must enhance The City's ability to attract and retain its employees and thus deliver services to the citizens of Calgary:

The ability to offer a defined benefit pension plan is one of our few advantages to attract employees when faced with competition from other employers. Retaining the employees who already serve our citizens is equally essential. We recognize that many of our employees could choose to work for other employers who offer attractive compensation programs with long and short term incentives, generous perquisites and supplemental benefits. Our employees have told us that faced with that choice; access to a secure, unreduced pension motivates them to stay with The City. Imposing unilateral changes to the pension deal, including changes which are seen by our employees to be detrimental, will drive up our turnover which, in turn, will adversely affect our ability to provide effective citizen service. We see ourselves at risk with both:

- Mid career employees who may find it in their financial best interest to leave The City earlier than intended to pursue other more lucrative employment (27% of the workforce or 3,200 employees in LAPP on 2016 January 1), and
- Long service employees who are eligible for an unreduced pension and may retire from The City earlier than intended. These employees may opt to retire as the Province states in its Frequently Asked Questions about LAPP that, "These changes will not impact anyone who is currently retired or anyone who retires before January 1, 2016." (12% of the workforce or 1,450 employees in LAPP on 2016 January 1)

Some examples of front line positions with a high number of employees eligible for retirement include: 40% of Transit Operators; 40% Roads staff; 27% of Waste/Recycling staff; and 41% of Water Services staff.

Although one would assume that speaking about pensions is a logical conversation, it actually invokes many emotions among our staff. Generally speaking there is a lack of understanding about the pension plan. The announced changes add another layer of complexity that can be confusing and frightening to our employees. These emotions may result in employees resisting the proposed changes and leaving or retiring, especially before 2016 January 1 in order to avoid having their pension affected by the changes.

Ongoing consultation between The Province, The City and other stakeholders will be essential as enabling legislation, applicable rules and regulations are developed and the Employment Pensions Plans Act (EPPA) amended.

Our discussion here today is the beginning of what we hope will be a comprehensive consultation process. Although we have now seen the enabling legislation on pension reform, we have not seen the applicable rules and regulations for either the Public Sector Pension Plans Act (Bill 9) or the Employment Pension Plans Act (relating to the unproclaimed Bill 10 of 2012). Forging ahead without a full understanding of the details of changes of this magnitude makes it difficult for The City to assess the implications for us, as an employer, or for our employees.

We feel that it is essential that The City be given adequate opportunity to review the rules and regulations in order to assess the financial and workforce impact on our organization. We respectfully request a copy of the regulations well in advance of its proposed implementation and any subsequent versions of the legislation.

As the largest municipal employer of members of the Local Authorities Pension Plan (LAPP) and the Special Forces Pension Plan (SFPP), we see that The City has a leading role to play in developing, and participating in the governance structure of the plans.

Our final principle speaks to the very important issue of pension plan governance. Successful pension plan governance requires effective stakeholder engagement and participation. If this foundation is lacking, the plans will lose credibility in the eyes of both employees and employers. The presence of effective stakeholder involvement is critical to the success of any reforms that may be required now or in the future.

The City agrees with The Government's proposal for a joint governance structure in which the powers devolve from the province to the LAPP and SFPP employers and member representatives. The success of such a process has been demonstrated in British Columbia where all of the major public sector pension plans moved to a joint governance framework

more than a decade ago. We feel, however, the current governance structure should be kept in place until an agreed upon joint sponsorship model has been developed with the roles and responsibilities of the parties clearly defined. We also feel it is important that the new governing bodies are empowered to make plan design changes without the imposition of the constraints as prescribed by The Government. We still believe that, as we stated in our December letter, given the innovative governance structures being proposed, latitude may be required to adapt the models, after their implementation, in order to address unforeseen implications.

In conclusion, I wish to reiterate The City's willingness to collaborate with other stakeholders on the future of public sector pension plans in Alberta. Our understanding is that the plans are not "in crisis". Changing an existing pension plan has a significant impact on the members of the plan and their families. Translated throughout all of the public sector, hundreds of thousands of Albertans will be impacted by these decisions. Given the tremendous ripple effect on the economic and social well-being of the members, the employers and, ultimately, the province as a whole, these decisions warrant very careful consideration. Let us take the time that is necessary to generate a new vision for these plans which honours our commitments to current members, involves all stakeholders in a meaningful way and addresses future challenges. If it would be helpful to your deliberations to review, in greater detail, the complex implications for our organisation, we would be happy to have you meet with our team.

We are happy to respond to any questions or concerns and remain available for further consultation.

Respectfully submitted by: The City of Calgary