

February 7, 2017

At the Fall, 2016 meeting of the Stakeholder Consultation Group (SCG), four stakeholders provided a response to Question 6 on their evaluation forms. **(Is there a question from today's session that you would like the LAPP Board of Trustees to answer?)**

The Board is providing a written response (below) to the following four questions:

1. The LAPP Board vision seems somewhat strange. What is meant by helping members achieve their retirement dreams? Member's dreams might be too high and misguided.
2. What are the options in order to get the attention of the current government?
3. Why is COLA for pensioners only 60% of CPI? Pensioners still consume the same basket of goods – food, fuel/heating, carbon tax? COLA should be 80% - 100% of CPI.
4. SFPP was left alone from pension reform because of ad hoc COLA adjustments. If sustainability becomes an issue, why can't LAPP adopt this one single change that makes sense?

LAPP Board responses:

**Stakeholder Question 1:** The LAPP Board vision seems somewhat strange. What is meant by helping members achieve their retirement dreams? Member's dreams might be too high and misguided.

**Answer:**

LAPP Board's vision for the Plan is:

***"A leading pension plan helping members achieve their retirement dreams"***

The LAPP Board chose this vision because it wants to serve the needs of its members beyond just providing a pension on retirement. LAPP's Board wants members to understand exactly how their pension works so they are able to plan their retirement in advance and ensure they have enough retirement income, from LAPP and other sources, to meet their retirement dreams.

The vision is to **"help"** them achieve their retirement dreams by:

1. providing the security of a defined benefit (DB) pension,
2. educating them about the value of that pension, and
3. providing the tools they need to plan for their retirement.

Everyone's definition of an adequate retirement income will differ and it depends on what kind of retirement they want. Many members, especially those who have not been participating in LAPP throughout their career, may not have enough money with just their LAPP pension and will need other sources of retirement income to achieve their dreams.

1. Providing a DB pension helps because:
  - The member has a pension for life
  - The member has a pension that is predictable
2. Educating members about the value of the pension helps because it:
  - engages them at a younger age to plan for the retirement they want
  - encourages them to build other retirement savings to support their pension
  - helps them set goals that are realistic to their means
  - engages them as advocates in supporting the Plan
3. LAPP helps by providing the tools members need to plan for their retirement:
  - January 2017, LAPP launched a new website to engage and educate members
  - Online tools are available to estimate pension income and plan ahead
  - Links are available to help members learn about government pensions
  - Members are encouraged to set and plan their retirement goals
  - Members are encouraged to seek out independent, qualified financial advisors/planners

Helping members to achieve their retirement dreams is about so much more than just providing a pension on retirement. It is about teaching members the value of their pension, and to plan ahead, so their dreams are not "too high and misguided."

**Stakeholder Question 2:** What are the options in order to get the attention of the current government?

**Answer:** The LAPP Board continues to be in contact with Alberta Treasury Board and Finance officials on a regular basis. In addition, since the current government was elected, representatives of the LAPP Board, together with the CEO of Alberta Local Authorities Pension Plan Corp. (ALAPP) have met with the President of Treasury Board and Minister of Finance (Minister) three times.

The latest meeting was held in December and also included officials of our sister pension plans (PSPP, MEPP and SFPP). At that time, the Minister indicated his government supports the idea of governance reform and he understands the need to move forward on any outstanding items on the pension file. The Minister also indicated

that other matters on the government's agenda continue to take precedence and did not provide any timelines as to when further conversations will take place.

In addition to in-person meetings, LAPP provides information to the Minister on a regular basis and advises him, as Trustee of the Plan, on any issues, opportunities or risks facing the Plan. The Minister is also briefed by his own staff. The Board continues to explore every option for engaging the Minister and his staff with respect to the LAPP pension file.

**Stakeholder Question 3:** Why is COLA for pensioners only 60% of CPI? Pensioners still consume the same basket of goods – food, fuel/heating, carbon tax? COLA should be 80% - 100% of CPI.

**Answer:**

The annual Cost of Living Adjustment (COLA) for LAPP is set at 60% of the Alberta Consumer Price Index (ACPI). The amount is set out in legislation and under the current rules would require the agreement of Alberta's Government to amend the legislation to change it. The rate of 60% of ACPI is pretty standard for pension plans here and across Canada at the time they were established.

Any increase in the percentage formula for COLA would result in a substantial increase in the cost of providing pensions today and into the future. The cost of that increase, and how it would be covered (likely through increased contribution rates for members and employers) would have to be factored into any decision regarding whether COLA should be increased or not. Another aspect to consider is that current retirees only paid contributions based on the current rate of 60%. If raised, they would get a benefit they did not pay for. Other factors to take into consideration would include the Plan's funded ratio, the maturity of the Plan and other future funding risks.

The Board has an ability to increase COLA without Cabinet's approval, but only where the Plan meets minimum funding and solvency requirements set out in pension legislation, which is currently not the case. Therefore, under present circumstances, any increase in COLA would be considered a change to Plan benefits and as such, would require a two-thirds-majority vote of the LAPP Board of Trustees just to recommend the change the Minister. In turn, the Minister would then need to support the recommendation and seek the majority support of Cabinet to amend the legislation to allow it.

Any change to Plan benefits, whether the intent is to improve the benefit or decrease it, would go through this process under the current governance structure. The Board's position is that it should be up to those who pay for the Plan to decide what the level of benefit should be and at what price. That is why the Board continues to seek independence of LAPP and move it outside of statute, so these are not government decisions.

**Stakeholder Question 4:** SFPP (Special Forces Pension Plan) was left alone from pension reform because of ad hoc COLA adjustments. If sustainability becomes an issue, why can't LAPP adopt this one single change that makes sense?

**Answer:** There are a number of reasons why the former government left SFPP out of some aspects of pension reform, as there were a variety of factors at play. One factor is that police pensions are funded entirely at the municipal level and not at the provincial level, like other public sector plans. Also, as SFPP was already negotiating plan benefits with sponsors, the former Minister said he would allow that to continue. In addition, while government was not proposing specific benefit changes for SFPP, the plan was still subject to other proposed restrictions like a cap on contribution rates and other provisions around a funding policy and governance.

With respect to LAPP, however, the stakeholder question previous to this one points to the fact that not all agree that removing guaranteed COLA is "a change that makes sense." Another stakeholder might prefer to see other plan benefits change instead of COLA, if sustainability were an issue.

Certainly the Board heard a number of different preferred and non-preferred options for possible cost reductions when it formed its Ad Hoc Committee on Sustainability to get stakeholder input as requested by government. As mentioned above, a decision to increase or decrease COLA (or make it conditional) would depend on other factors related to the cost of plan benefits and the level of contribution rates.

Many pension plans, especially those more mature than LAPP and facing sustainability issues, did look at making COLA conditional to provide a lever to help with funding in tough times. While this might be an option if LAPP had issues with sustainability, some Plans have discovered that in today's low-interest-rate, low-inflation environment COLA is less of a powerful lever than had been anticipated.

Nevertheless, as the Plan approaches full funding and while the Board pursues a prudent plan to hold onto margin and be prepared for adverse events, the Board does not believe sustainability is an issue. If it were, the Board's hope is that LAPP would have a new governance system in place where those who pay for the Plan (the sponsors) would have an opportunity to look at these and other ideas, decide what the level of benefit should be and what they can afford to pay for it. That is the Board's goal, to achieve a new governance model that allows decisions to be made by Plan sponsors and not imposed by government.