



EXCLUSIVE INTERVIEW:

Today I am pleased to be talking to Scott Sweatman, a partner in the firm of Spectrum HR Law LLP.

Between October 2007 and November 2008, Scott and his partner Chris Brown were Co-Chairs of the Alberta-British Columbia Joint Expert Panel on Pension Standards (JEPPs) which recommended the establishment of a new Alberta/B.C. DC Plan which came to be known as “The ABC Plan.”

Given developments since the release of the JEPPs report, I asked Scott to join me today to answer the question, “Is the ABC Plan dead?”

Q. Scott, can you recap to me the key findings of the JEPPs which led the Panel to recommending establishment of the ABC Plan?

A. Well it was really a process of elimination and conclusion. When we reviewed the answers to the various questions that were proposed in the paper that we wrote at the beginning of our mandate and sent out to stakeholders, it became quite apparent to the Panel that establishment of some sort of occupational pension plan open to all B.C. and Alberta employers and employees would be pretty well received.

We thought this new plan’s main focus should be how to increase pension plan coverage in the private sector for both our provinces. When we wrote the other 10 sections of our report we thought our recommendations in terms of fixing some of the irritants and harmonizing Alberta/B.C. legislation were reasonable and they have, as it turned out, been quite well-received. But they didn’t really get us to the coverage part of our mandate, which many people may not recall was a key deliverable for our Panel.

Improving pension coverage in our two provinces was what recommendations around the ABC Plan were intended to accomplish.

Q. Could you briefly tell me what that plan was going to look like?

A. Well, it's not dissimilar to what people are now talking about in terms of the supplemental Canada Pension Plan. The idea was to essentially provide a plan that would be available to all employers and employees in B.C. and Alberta where you would be in it unless you opted out. It would be based on a simple DC formula with in most cases we were hoping — perhaps naively — a matching employer/employee contribution rate.

All employers and employees including self-employed individuals earning employment income or self-employment income in either of our two provinces would be eligible to participate in the plan.

There would be auto-enrolment of all employers and employees, but employers and employees would be permitted to opt out of participation if they chose to do so. The plan would be able to take advantage of economies of scale, which is a key attribute as we learned from Keith Ambachtsheer's various articles and others who have implemented similar structures globally.

The goal is to provide "best in class" investment management by a group to be determined. It could be the BC Investment Corporation or the Alberta equivalent AIMCO, or a new similar body. You would not have investment choice which we believe would add more moving parts and more cost. But you would have an account that would follow you for life as you move from employer to employer, much like your own individual RRSP account.

Over time we think this fund would get to sufficient size to enable annuitization within the plan itself to guard against end date sensitivities like we just went through. You would not have wanted to retire under a traditional DC Plan in 2008.

It would be built on the premise that large scale plans can deliver, best in class investment and administration at the lowest cost — no more than 50 basis points — which would put those in the private sector on some level playing field with the public sector plans in terms of at least delivery, cost and expertise.

Q. Your report was so well-received that in September 2008 B.C. Premier Gordon Campbell jumped the gun before it was publically released promising to establish "a privately-financed DC plan that will be available to employers, employees and self-employed people on a voluntary basis." At one point it looked like Saskatchewan and Nova Scotia were buying into the idea.

That certainly wasn't what we heard at the Finance Ministers' Pension Summit in PEI. What happened since the release of your recommendations?

Is the ABC plan dead?

A. Well what happened remains to be seen. I'm being a little cute with you but in a nutshell, the pension file has taken on national proportions with Ontario, Nova Scotia and the Feds having their own commissions looking long and hard at pension reform.

The term pension reform has been misconstrued as well. Certainly we have seen some reforms federally and in Ontario, most of which are reacting to the market meltdown, low interest rates and the solvency crisis in this country. But pension reform has taken on a new face, which is, "What do we do about the coverage issue across the country?"

As Ministers across the country have suddenly become pension experts, the topic has taken on a life of its own, but I think the ABC concept is far from dead. The term they use out here is "Pensions One." I think what you are facing now is that you have got the various Ministers who are trying to work together under the Pension Innovation Forum so their hands may be tied because they are supposed to cooperate and work together.

To launch ABC on its own for the moment may be seen as a break from the consortium of Ministers trying to get it right. I think ideally what we might see is a national type of ABC Plan. Personally I don't care where it comes from but we need to provide low cost, large scale, best in class pension coverage for those that are not otherwise in a pension plan.

Q. You suggested earlier that your plan bears some similarity to the proposals to enhance CPP but my understanding is that the CPP enhancements would continue to be a DB benefit and there likely wouldn't be any opt out.

A. I agree and I didn't mean to confuse the two at all. In fact they are separate and I hope they stay separate whether or not the CPP is enhanced — which incidentally I'm not in favour of. I think the current CPP structure is just fine for its intended purpose.

The only analogy I would make is that CPP's national delivery system makes some sense and so it has great appeal for certain people. My problem with that mix is that one is a savings plan and one is a DB pension plan and I think the two should be kept separate and apart.

Q. The solution to the DC piece of pension reform that Finance Minister Flaherty suggested was enabling legislation to allow financial institutions to administer larger industry or other private MEPPs. Do you think that that will effectively resolve the problems of poor workplace pension plan coverage and high fees that led your Panel to recommend the ABC model?

A. I am rather sceptical about that. I don't see — with great respect to the insurance industry and financial institutions — any evidence that they are able to provide what we are talking about and at the cost we are talking about.

Certainly they do quote 60-90 basis points for large plans already in existence, but those are large plans. I suppose they could deliver it but I'm not certain I want the future of pension coverage in this country being provided by insurance companies. I think they have enough of the business in this country in other areas and I would rather see an arms' length entity from government providing this with no influence from insurance companies.

Q. Why do you think Alberta's Finance Minister Ted Morton is opposing the Flaherty/Duncan proposal?

A. I can't speak for Mr. Morton. I'm just guessing that Mr. Morton's view is that this is another form of taxation and on the surface that's exactly what it is. Employers right now can ill afford another tax, especially where we are at in the economic cycle. I'm guessing that his view is that it's a federal taxation grab, but you'd have to ask him that question directly.

I think the other issue is that some people are viewing an increase in CPP contribution rates as a take away from other employers that are trying to provide pension plans. If the CPP benefit goes up — and who knows, because the devil is in the details — would there be an offset in integrated DB plans? I think there is a safe bet that there would have to be.

Q. It is widely acknowledged that the JEPPs report was an exemplary piece of work with very practical recommendations. After spending almost two years of your life on this project, how do you feel about Alberta/BC pension reform progress to date?

A. I'm pretty happy about where it is going. There is as you know a joint advisory group in Alberta and B.C. working on implementing and reviewing the recommendations in the JEPPs report.

From my observation it appears that most of the recommendations will be implemented. My understanding is that we will have nearly identical legislation in Alberta and B.C. which is a huge first step towards harmonization. Stepping back a bit, when we were appointed, one of our mandates was to look at harmonizing legislation.

And if we are going to talk pension reform in this country we are losing track of what we really need, which is a harmonized pension act that results in nearly harmonized pension legislation in each of the provinces, perhaps using the federal legislation as a model. We do not need a hodge podge of pension statutes. So let's hope what we are doing in Alberta/B.C. does set the pace for similar models and similar cooperation nationally.

It's a concept we have to focus on because it makes Canada less competitive when you have to comply with five or six provincial pension statutes. It drives us all crazy.

Well that's another discussion for another day Scott. Maybe if Mr. Flaherty can get a national securities regulator, then he can turn his mind to uniform pension rules. Thanks so much for sharing your views today.

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