

The LAPP (your pension) is changing

People are living longer. The average lifespan for Canadians, if you live to 60 years, is 87 for men and 89 for women. Pensions, originally designed when the average lifespan of Canadians was 67, built in early retirement incentives/ subsidies. Additionally we have entered a period of time in which rates of return on investments are more modest. These factors have put significant strains on the finances of the pension plans. This has resulted in increased contribution rates.

On September 16, 2013 Minister Doug Horner laid out his and the Government's vision for Alberta's public service pensions. ACIFA's overriding concern is maintaining a commitment to a defined benefit plan. A defined benefit plan commits to a set retirement income based on salary and length of service within the plan.

The key points in Minister Horner's vision are [on a go forward basis after December 31, 2015]:

- 65 will become the standard retirement age
- No more early retirement incentives/subsidies on service after this date (85 factor, early retirement reductions to go from 3% to about 6%, similar to the CPP).
- Inflation protection in retirement will no longer be guaranteed but established annually based on the financial strength of the plan. However 50% of API [Alberta Price Index] will be budgeted for in actuarial assumptions and contribution rates.
 - How this works for accumulated service [example]:
 - Individual has 25 years of service until 2016, 5 years afterward, total 30 years
 - 60% of inflation is guaranteed on 25/30 of retirement income , 5/30 is subject to an annual decision
 - Same process for 85 factor
- We will be able to contribute to the Plan beyond 35 years.
- The Government through regulation will place a Cap on contributions. Currently contribution rates from the employee and employer have reached about 24%. This may potentially be limiting on Plan flexibility if the Cap is ratcheted downward and there is an adverse performance from the Plan's assets.
- The Plan will become jointly sponsored between employers and employees. The Board of Trustees will assume fiduciary responsibility from the Minister. A concern is that the Board will be "experts" [definition still unknown].

The changes mean that as we go forward we will be working longer and there will be added risk to the inflationary improvement on retirement income. However there should be a positive effect on contribution rates. The changes proposed should result in a 3.5% reduction in the combined contribution rate of the employee and employer, other things being equal. This could result in annual savings to the employee of over \$1,000.

We will continue to advocate for protection of the defined benefit and more solid inflation protection for retirees. There are other "tweaks" to the Minister's vision that we are optimistic can be enacted and work for the benefit of our members.

Doug Short

ACIFA – President and Representative on LAPP Stakeholders Group