Chalking up a new debt for taxpayers?

Submission to the Task Force on Teachers' Unfunded Pension Liability

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ABOUT THE CANADIAN TAXPAYERS FEDERATION

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the *Association of Saskatchewan Taxpayers* and the *Resolution One Association of Alberta* joined forces to create a national taxpayers organization. Today, the CTF has over 64,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a working partnership with the Montreal-based *Quebec Taxpayers League*. Provincial offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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EXECUTIVE SUMMARY

While no formal public offer has been made by the Alberta Teachers' Association (ATA), the Canadian Taxpayers Federation (CTF) is concerned about the request by the ATA for taxpayers (Alberta government) to take over the teachers' portion of the pre-1992 unfunded liability in the teachers' pension fund ($2.1-billion).

A teacher shortage has been regularly cited by the ATA as the impact of the additional 3.1 per cent of teachers salary required to fund their portion of the unfunded liability.

A 2003 Alberta government study suggested there is no wide-spread teacher shortage. Various sources (a *Nichols Applied Management* study, *Statistics Canada* projections, and a survey of superintendents) declared there likely would be a surplus of teachers by 2010-11 ranging anywhere from 3,600 to 14,000 teachers. There is however projected to be shortages for certain teaching specialities and in certain geographic pockets. The Minister of Education, Hon. Ron Liepert, has confirmed the same.

A review of various options was considered to see if any would be adequate compensation to taxpayers. It was determined linking teacher wages to an independent index would not be adequate, the 2002 offer by government for labour peace does not benefit enough taxpayers, nor in any great amount. Re-formation of the pension plan for new teachers into a "defined-contribution" plan has the most potential.

However, the CTF favours maintaining the current 1992 Memorandum of Understanding. The CTF also favours a full public vote of taxpayers prior to any new Memorandum of Understanding taking effect.

RECOMMENDATION #1
The Alberta government should reject any offer only linking teacher wages to the *Average Weekly Earnings of Alberta*.

RECOMMENDATION #2
The Alberta government should reject any offer involving labour peace, and declare education an essential service, thereby making teacher strikes illegal.

RECOMMENDATION #3
The Task Force request a full actuarial study into the benefits of moving all new teachers into a reformed "defined-contribution" pension plan.

RECOMMENDATION #4
The Task Force recommend the Alberta government consider retaining the 1992 MOU as the most "reasonable long-term solution."

RECOMMENDATION #5
The Task Force recommend the Alberta government require a full public referendum prior to any signing of a new Memorandum of Understanding.

INTRODUCTION

When asked, many Alberta taxpayers will proudly point to our debt-free status as one of the most significant public policy accomplishments of the past several decades.

While our operating debt has been paid-off, taxpayers and the Alberta government are still on the hook for $5.7-billion in pension obligations ($4.7-billion of which is for the Teachers' Pension Plan).[a]

These obligations are debt, plain and simple. A debt equal to $1,652 per man, woman and child.

However, the full debt owning to the teachers' pension fund is split between taxpayers (Alberta government) and teachers.

This debt, otherwise known as the "unfunded liability" has become a hot-button issue. The recent pique in interest is undoubtedly the result of a combination of strong lobbying by the Alberta Teachers' Association (ATA) and Premier Ed Stelmach's commitment during the Alberta PC Party leadership campaign to look at options surrounding it.

At issue is a request by the ATA that taxpayers, not teachers, pay-off their debt. Taxpayers taking over the teachers' debt would represent an additional $2.1-billion in debt, or an additional obligation of $602 per man, woman and child.

But what are the reasonable expectations of taxpayers and teachers? What are the benefits for taxpayers of taking over this debt?

These are the questions for which neither the ATA nor the Alberta government have provided answers. Presumably, this is also the reason why the Stelmach government initiated the Task Force on Teachers' Unfunded Pension Liability.

As Canada's largest taxpayer organization, the Canadian Taxpayers Federation (CTF) is pleased to provide our input to the Task Force.

This submission will review the various options that may be offered by the ATA and the government for a new agreement. Further, we will investigate some of the claims suggested by the ATA as to the impetus behind the desire to re-negotiate the 1992 agreement. We will provide feedback as to what we believe the best options would be for taxpayers.

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[a] http://www.finance.gov.ab.ca/publications/budget/budget2007/fiscal.pdf pg. 60

HISTORY

Virtually since its inception in 1939, the Alberta Teachers' Pension Plan has had an unfunded liability. As of August 31, 2006 that liability had grown to $7.109 billion,[b] and will continue to grow.

Like many "defined-benefit" pension plans, the teachers' pension plan started out much like a pyramid scheme. Those who were at the top (ie. those teachers who retired right after the pension plan started) barely paid anything into the retirement fund before collecting their pension benefits. Those at the bottom of the pyramid (ie. new teachers in 1939) saw much of the money they contributed into the fund used immediately to pay existing pensioners rather than build up the fund. And the cycle continued.

By 1953, the teachers' pension fund had already accrued an unfunded liability of $16.5-million.[c]

Starting in 1956, the Alberta government began to use a "pay-as-you-go" model for teacher pensions[d] (the same model used by the CPP for many years), not paying into the savings fund, but rather paying-out directly to retirees. This, combined with major improvements to pension benefits (including lowering the age at which pensionable service could be collected – and thereby the retirement age) without the needed increases to teacher contribution rates, accelerated the growth of the unfunded liability.

In 1992, the ATA and the Alberta government negotiated a Memorandum of Understanding[e] (MOU) effectively splitting the pre-1992 unfunded liability (currently sitting at $6.367-billion[f]) into two debts. The Alberta government on behalf of taxpayers assumed two-thirds of the pre-1992 debt (currently valued at approximately $4.288-billion), and teachers assumed one-third of the debt (currently valued at approximately $2.079-billion). Both parties also agreed to pay-off their respective debts by 2060.

The MOU also established that any newly created unfunded liability (post-1992) would be equally shared, with taxpayers paying one-half and teachers paying one-half. This unfunded liability is currently sitting at $742-million.[g]

In 2002, then Learning Minister, Dr. Lyle Oberg offered, on behalf of taxpayers, for the Alberta government to take over the teachers' portion of the debt in return for wage increases being fixed to the increase in the *Average Weekly Earnings of Albertans* (as

[b] http://www.atrf.com/documentsws/other_docs/presTPP06.pdf pg. 14
[c] http://www.teachers.ab.ca/Salary+and+Benefit/Pensions/The+Unfunded+Liability+of+the+Teachers+Pension+Plan/Evolution+of+the+Unfunded+Liability.htm
[d] http://www.teachers.ab.ca/Salary+and+Benefit/Pensions/The+Unfunded+Liability+of+the+Teachers+Pension+Plan/Evolution+of+the+Unfunded+Liability.htm
[e] http://www.taxpayer.com/pdf/1992_MOU.pdf
[f] http://www.atrf.com/plan_info/tpp_unfunded_liability.aspx?id=367
[g] http://www.atrf.com/documentsws/other_docs/presTPP06.pdf pg. 14

calculated by *Statistics Canada*) and ten-years of labour peace (no strikes). This offer was not accepted by the ATA.[h]

The Alberta government did however cover the teachers' portion of the unfunded liability for the 2002-03 school year. This was part of the agreement between the Alberta government, ATA and school boards, following the court ruling on whether the government was justified in ordering teachers back to work.[i]

In the 2007 budget, the Alberta government committed $25-million to pay part of the teachers' portion of the unfunded liability, again for one year.

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[h] http://www.gov.ab.ca/home/NewsFrame.cfm?ReleaseID=/acn/200202/11886.html
[i] http://www.gov.ab.ca/home/NewsFrame.cfm?ReleaseID=/acn/200204/12206.html

CRITICAL ISSUE?

Pensions, in general, make up a significant portion of government spending. Moreover, by their very nature, “defined-benefit” pension plans tend to have large unfunded liabilities.

These unfunded liabilities also tend to end up costing taxpayers more than they originally expected. The CTF favours the use of “defined-contribution” pension plans to ensure stability and predictability within pension funds, as well as ensuring taxpayers won’t be on the hook for more funds in the future to cover unfunded liabilities.

This is exactly the CTF’s concern about the ATA’s request for taxpayers to take over the teachers’ portion of the unfunded liability ($2.1-billion). Moreover, we are unsure as to what taxpayers are going to get in return to make a payment of that size worthwhile.

We’re also concerned the Alberta government will not maximize the benefits to taxpayers if they make a new deal with the ATA. This concern is not unfounded, considering taxpayers received no benefit in return for the $25-million contribution this year to the teachers’ portion of the unfunded liability.

Furthermore, this payment violated the 1992 payment distribution as agreed upon in the MOU.

The potential for the Alberta government to make a new deal without fully benefiting taxpayers makes this an important issue for the CTF.

The ATA has repeatedly stated the unfunded liability is creating a problem for teacher recruitment and retention. Teacher supply is also a concern of the CTF. Taxpayers need to know whether there is an unusual shortage of teachers currently or on the horizon.

Both whether there is a teacher shortage and what would constitute a good deal for taxpayers will be examined in the upcoming sections.

TEACHER SUPPLY

As of yet, no formal public offer has been made by the ATA to the Alberta government (taxpayers) as to what taxpayers would get in return for taking over teachers' $2.1-billion debt.

This may be attributed to the ATA belief the additional payment of 3.1 per cent of teachers' salaries going towards the teachers' portion of the unfunded liability, is hampering teacher attraction and retention.

In fact, their website states: "Teachers are faced with a crippling contribution rate. The UFL (unfunded liability) affects the ability of school boards to attract and retain teachers."[j]

Further, according to a 2006 *Calgary Sun* column: "Bruseker [ATA President – Frank Bruseker] says the unfunded liability is something university students considering teaching as a profession are citing as a reason why they are deciding to pursue other career paths."[k]

It is presumable the ATA may not feel any additional offer is needed because the government (and taxpayers) will benefit by staving-off the teacher attraction and retention "problem."

However, before we consider the pros and cons of the various options for renegotiation, we must first determine whether teacher retention and recruitment is of serious issue. If these claims of widespread problems with teacher retention and recruitment are true, some of the options become less desirable while others become more desirable. Conversely, if the claims of problems with teacher retention and recruitment are not true, it could make some of the options much less desirable.

This leaves two questions: a) is there a widespread teacher shortage in Alberta? and b) would paying off the teachers' portion of the unfunded liability address any teacher shortage?

IS THERE A WIDESPREAD TEACHER SHORTAGE IN ALBERTA?

In 2003, the *Report of the Advisory Committee on Future Teacher Supply and Demand in Alberta* was released. The task force was asked to assess teacher supply and demand through 2010-11 and identify strategies based on the results.

The task force reviewed a study done by *Nichols Applied Management*, projections by *Statistics Canada* and a survey of school board superintendents.

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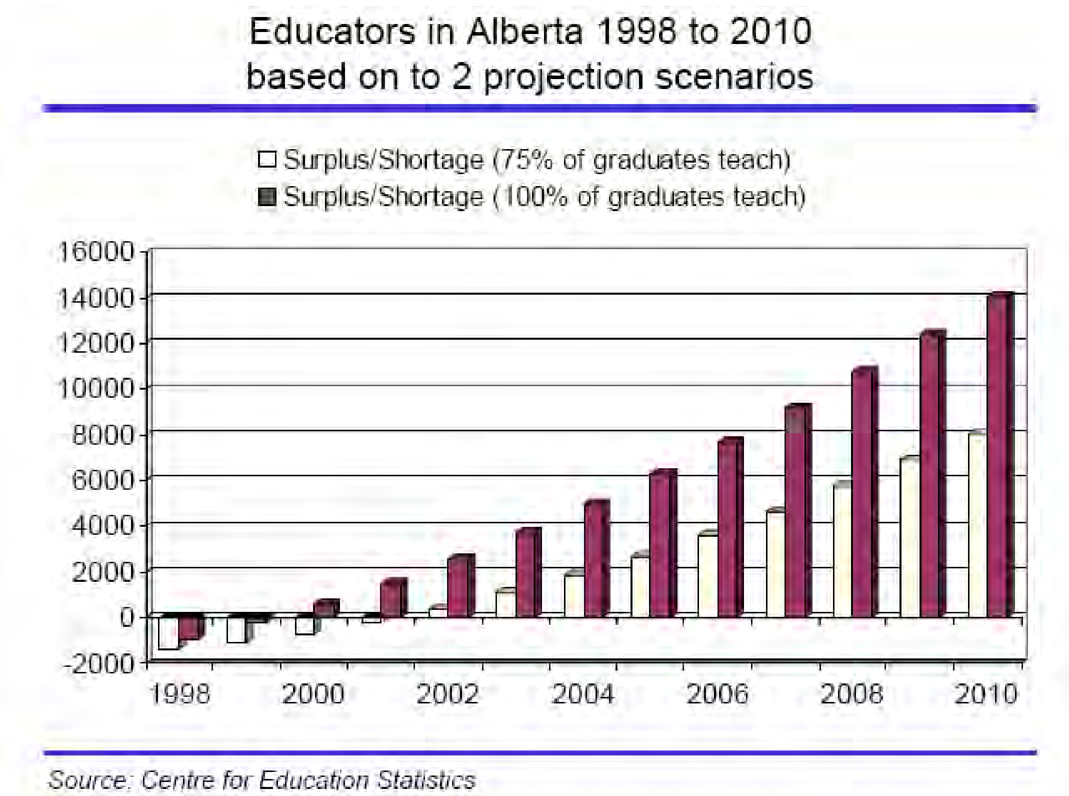
[j] http://www.teachers.ab.ca/Salary+and+Benefit/Pensions/The+Unfunded+Liability+of+the+Teachers+Pension+Plan/Invest+Now+for+a+New+Generation.htm
[k] http://calsun.canoe.ca/News/Columnists/Corbella_Licia/2006/10/04/1948744.html

The task force determined, "Alberta is not predicted to have an overall shortage of teachers in the next ten years, but that particular subject areas and regions of the province are likely to experience continued or intensified hiring difficulties."[l]

According to the findings of the review by *Nichols Applied Management*, Alberta was likely to have a surplus of teachers through 2010-11. In fact, under a high population growth scenario (average annual population increase of 1.4 per cent) by 2010-11, Alberta could have a surplus of 4,600 teachers.[m]

The *Statistics Canada* projections from 2001, suggested Alberta could have a surplus of 8,000 teachers by 2010 if 75 per cent of education graduates opt to teach, 14,000 if 100 per cent of education graduates want to teach.[n]

Chart 1 – *Statistics Canada* projections on teacher supply in Alberta



Furthermore, during the 2007 Budget debate, Education Minister, Hon. Ron Liepert said: "(I)n a general sense our research is not indicating that there's going to be a teacher shortage. Indications are that because our enrolment has remained relatively stable – a

[l] http://www.education.gov.ab.ca/ipr/TeacherSupply/CommitteeReport.pdf (letter to Minister)
[m] http://www.education.gov.ab.ca/ipr/TeacherSupply/CommitteeReport.pdf pg. 2
[n] http://www.education.gov.ab.ca/ipr/TeacherSupply/CommitteeReport.pdf pg. 4

slight increase but nothing dramatic – the universities are in all likelihood able to keep up with the numbers required."[o]

As per the minister's claim, it does not appear there has been a decrease in the number of education students who are applying for teacher certification each year.

Table 1 - Number of Alberta graduates who applied for teacher certification

Calendar Year	2000	2001	2002	2003	2004	2005	2006
Number of applicants	1,774	1,948	1,956	1,846	2,024	1,821	2,024

Source: Alberta Education

It would appear the facts do not point to a widespread teacher shortage in Alberta. There is however some evidence of both geographic and subject-based pockets of teacher shortages.

A 2002 survey of school board superintendents suggested: "hiring difficulties were expected to be most acute in the subject areas of Career and Technology Studies (CTS) technology education, senior high physics, senior high pure mathematics, senior high chemistry, senior high applied mathematics, CTS human ecology and French immersion as well as in the category of principals."[p]

The survey further suggested school boards in the north and north-central geographic areas of the province were most likely to anticipate teacher shortages.

A letter from the Minister of Education, Hon. Ron Liepert to the CTF indicated similar beliefs within the department of Alberta Education:

"In some areas of the province (northern and rural distant locations in particular) there are unfilled teacher positions while many school jurisdictions report difficulty in attracting teacher specialists in subject areas like special education, high school physical sciences, mathematics and career and technology studies."[q]

Conclusion:
There does not appear to be a widespread teacher shortage currently or on the horizon. There does however appear to be subject areas and geographic locations which will experience some teacher shortages.

[o] http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/hansards/han/legislature_26/session_3/20070605_1900_01_han.pdf pg. 1564, June 5, 2007.
[p] http://www.education.gov.ab.ca/ipr/TeacherSupply/CommitteeReport.pdf pg. 5
[q] Letter from Hon. Ron Liepert, Minister of Education to Scott Hennig, Alberta Director – Canadian Taxpayers Federation. June 19 ,2007.

WOULD TAKING OVER THE TEACHERS' DEBT ADDRESS ANY TEACHER SHORTAGES?

The teachers' portion of the unfunded liability is being recovered through increased contributions by teachers. As such, if the Alberta government (taxpayers) took over this payment, all teachers would benefit.

Since the facts point towards there only being small pockets of teacher shortages around the province, it would seem taking over every teacher's portion of the unfunded liability to be "over-kill." Moreover, because each teacher and teaching position would still be on equal footing it would seem this assumption of debt could be completely ineffective. The relative comparison between teaching positions around the province would still be the same, with teachers favouring positions outside of north and north-central Alberta.

There may be some improvement in attraction of some specialized teachers where they would be using those skill-sets currently in the private sector (ie. CTS, physics, and chemistry), but again, this method of attraction would be "over-kill."

Conclusion:
Taking over the teachers' portion of the unfunded liability would seem to be a highly inefficient action to address small pockets of teacher shortages. Moreover, it would likely only be effective for some specialized subjects and not necessarily geographic-based shortages

OPTIONS / RECOMMENDATIONS

Reviewing the various options that may be considered in any renegotiation with the ATA is extremely premature. Moreover, as the ATA has been the party most wanting to renegotiate, it would seem incumbent upon them to first make a formal offer.

Without first knowing what the ATA is willing to offer, no legitimate assessment of the options can take place.

It bears reminding the 1992 MOU signed by the Alberta government and the ATA does not have a sunset clause and does not expire. If the ATA does not make an offer, or the government and the ATA cannot reach a new deal, the 1992 MOU remains in effect.

However, even though no official offer by the ATA has been made, the CTF still considered those options informally offered by both the ATA and the Alberta government in the past, even though none has led to substantial discussions.

OPTION 1: LINKING WAGES

What: Exercising this option would link teacher wages to the percentage increase (or decrease) in the *Average Weekly Earnings of Albertans* (AWE) each year as calculated by *Statistics Canada* for four years.

Why: ATA President, Frank Bruseker has suggested if the government offered teachers a deal where wage increases were linked to the change in the *Average Weekly Earnings of Albertans* for four years, he would look upon that offer favourably.[r]

Pros:

- Linking wages would offer an assurance to taxpayers their government would not be increasing wages beyond what taxpayer wages (and thereby income tax revenues) would be increasing by each year.
- Linking wages would allow for teachers' wages to come down if taxpayers' wages also dropped.
- Increased transparency.
- Labour unrest would likely decrease as compensation is often a major point of contention by unions.

Cons:

- AWE calculation is made for the entire province rather than smaller geographic areas within the province. This would take away the ability for school boards to address local needs.

[r] http://local38.teachers.ab.ca/NR/rdonlyres/A926AA9B-948F-43D5-A9A7-B09B06694C5B/0/PartD.wmv (time: 1:00-1:17)

- AWE also includes other public union wages in the calculation which could mean the ATA may encourage sympathy strikes by teachers to increase other union wages and thereby the AWE calculation, and thereby teacher compensation.
- AWE increase combined with equivalent of a 3.1 per cent pay increase (from not having to pay the unfunded liability) would result in a higher than needed wage increase for teachers.

Facts:

- Doug Griffiths, MLA (Battle River-Wainwright) tabled Motion 541 in 2007 asking the government to: "index the salaries of all government employees to the average weekly earnings index and provide salary adjustments based on supply and demand pressures within one year following a provincial general election."[s] It will not likely be voted on this year.
- Alberta MLAs and Edmonton and Calgary City Council all have their wages adjusted annually by the change in the *Average Weekly Earnings of Albertans*.

Conclusion:
Simply linking wages does not provide taxpayers with virtually anything in terms of compensation for taking on an additional $2.1-billion debt. Furthermore, it would take away the local power to address local needs. Inequities created by this system would likely only be addressed with bonus pay for those who it was deemed were getting under-paid, and not for those being over-paid.

The stability, predictability, and transparency of AWE wage increases are attractive however, and would likely lead to less labour strife.

But again this option alone, as suggested by the ATA, would not come anywhere near being acceptable as compensation to taxpayers for taking on a new $2.1-billion debt.

RECOMMENDATION #1
The Alberta government should reject any offer only linking teacher wages to the *Average Weekly Earnings of Alberta*.

OPTION 2: 10-YEAR LABOUR PEACE AND LINKED WAGES (2002 OFFER)

What: Exercising this option would guarantee no job action (strikes, work-to-rule, etc) by the ATA for 10-years as well as teacher wages linked to the *Average Weekly Earnings of Albertans*.

Why: The only firm public offer made by the Alberta government (a ten-year deal linking teachers' wages to the *Average Weekly Earnings of Albertans* and disallowing

[s] http://www.assembly.ab.ca/ISYS/LADDAR_files%5Cdocs%5Chouserecords%5Cmo%5Clegislature_26%5Csession_3%5C20070307_1200_01_mo.pdf

any strikes during that time) was not accepted by the ATA. That offer would have expired in 2012, 48 years sooner than teachers are going to be able to pay-off the debt on their own.

Pros:

- No strikes would reduce disruption of student learning.
- Linking wages would offer an assurance to taxpayers their government would not be increasing wages beyond what taxpayer wages (and thereby income tax revenues) would be increasing by each year.
- ATA union dues could drop with no strike fund to fill, which would leave more money in teachers' pockets.

Cons:

- Sympathy strikes by other public sector unions may increase, disrupting other core services for taxpayers.
- Many taxpayers are not directly inconvenienced by teacher job action, and then may see very little benefit.
- Teacher job action is not all that common in Alberta.
- Education is an essential service and as such strikes should be illegal. If this was done, it would neuter this option.

Facts:

- The last and largest strike was in 2002 with approximately 21,000 out of 32,500 Alberta teachers striking. The last major strike prior to 2002 was in 1992 with 6,600 teachers striking for five days. The longest strike was 4,500 Calgary teachers striking for 44 school days in 1980.[t]
- There were roughly 303,000 K-6 students in Alberta this year, 55,000 grade 12 students, and 1,100 support staff.[u],[v]

[t] http://www.nswtf.org.au/world/20020222_alberta.html
[u] http://www.education.gov.ab.ca/ei/statistics/studpop/studpop.asp
[v] http://www.education.gov.ab.ca/ei/statistics/certstaff.asp

Conclusion:
With major teacher strikes historically only occurring once every 10 years, a 10 year deal for labour peace would likely only delay one major strike.

Further, many taxpayers are not directly and significantly inconvenienced during a major teachers' strike. Single parents or parents who both work and have children in K-6 (can't be left home alone) would be the most inconvenienced taxpayers. Grade 12 students planning to attend post-secondary would be the most inconvenienced students. People who rely on the education industry for their income (bus drivers, school librarians, vending machine owners, etc) would also be impacted.

It could be argued, the people who would most benefit from a labour peace agreement would be the politicians who are targeted by teachers and impacted parents during a strike.

Furthermore, the government should declare education an essential service and avert all strikes anyway, leaving only work-to-rule as the remaining job action to inconvenience students and parents.

This clearly is not enough compensation for taxpayers to take on a new $2.1-billion debt.

RECOMMENDATION #2
The Alberta government should reject any offer involving labour peace, and declare education an essential service, thereby making teacher strikes illegal.

OPTION 3: DEFINED-CONTRIBUTION PENSION

What: Exercising this option would likely mean freezing new entry to the existing teachers' "defined-benefit" pension plan and creating a new, less-onerous, "defined-contribution" pension plan for all new teachers as of a certain date.

Pros:

- Predictability. "Defined-benefit" pension plans rely on actuarial ability to predict future demographics to ensure unfunded liabilities are not created, and contribution rates don't unexpectedly rise. "Defined-contribution" plans never have unfunded liabilities because each recipient account is maintained separately.
- Lack of potential for unfunded liabilities and contribution increases mean taxpayers won't be saddled with surprise tax increases to cover shortfalls.
- It would more accurately reflect private sector realities.

Cons:

- None

Facts:

- In Canada only 38.5 per cent of paid workers have a pension plan of any type.[w]
- 84 per cent of public service employees have a pension plan, while only 26 per cent of private sector employees have a pension plan in Canada.[x]
- 82.5 per cent of all the defined-contribution pension plans in Canada are held by private sector employees.[y]
- "Defined-contribution" pension plans have significantly lower risks to the contributors, and allow the recipients the ability to self-direct the funds upon retirement.
- A significant number of companies in North America have either restricted entry, or cancelled their "defined-benefit" pension plans over the past few years.[z] Many have done so proactively to ensure the financial health of their companies and the future employment of their staff. Some companies have done so because they were about to collapse under the weight of their pension plans (eg. General Motors who had to pass on an additional $1,800 into the price of a new vehicle to cover their pension plan costs).

Conclusion:
A reformed, predictable "defined-contribution" pension plan for new teachers would offer taxpayers stability and would remove the risk of a cash call in the future. It is unknown whether the potential savings would be adequate compensation to taxpayers to take on an extra $2.1-billion in debt.

RECOMMENDATION #3
The Task Force request a full actuarial study into the benefits of moving all new teachers into a reformed "defined-contribution" pension plan.

OPTION 4: RETAIN 1992 AGREEMENT

Why: This plan is already in place and does not expire.

What: Exercising this option would mean no new agreement would supersede the 1992 MOU, leaving the unfunded liability to be paid-off by both teachers and taxpayers.

Pros:

- Taxpayers do not take on an additional $2.1-billion in debt.
- Taxpayers not having to bear the whole risk of demographic changes growing the size of the unfunded liability (eg. less students, longer lives, etc), leaving

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[w] http://www.statcan.ca/Daily/English/070621/d070621b.htm
[x] http://www.statcan.ca/Daily/English/070621/d070621b.htm
[y] http://www.statcan.ca/Daily/English/070621/d070621b.htm
[z] http://crr.bc.edu/images/stories/Pension_Freeze_Fact_Sheets/table2.pdf

taxpayers saddled with an agreement appearing acceptable at the time, but much worse later.

Cons:

- No opportunity for getting a better deal for taxpayers.
- Government may continue to violate the MOU by paying part or all of the teachers' contribution, as has happened in 2002-03 and 2007-08 with taxpayers not getting anything in return.

Conclusion:
Making no deal and retaining the 1992 MOU is a much better option than signing a deal that is worse for taxpayers. The government should however, stop violating the 1992 MOU to the detriment of taxpayers.

RECOMMENDATION #4
The Task Force recommend the Alberta government consider retaining the 1992 MOU as the most "reasonable long-term solution."

1992 AGREEMENT

IS THE 1992 MOU NOW A BAD DEAL FOR TEACHERS?

The growth in the level of income required to cover the teachers' portion of the pre-1992 unfunded liability (from 1.6 per cent of income in 1992 to 3.1 per cent today) is not simply because of the government's teacher and salary cuts of 1994, as the ATA wants Albertans to believe.[aa],[bb]

In June 2006, a review of teacher salaries across Canada was done by the *Alberta School Boards Association*. The review confirmed in virtually every matrix of education and experience, Alberta teachers are the highest paid in Canada. The review further points out Alberta teachers enjoy the highest employer paid health plan contributions.[cc]

The relatively minor reduction in teacher salary in 1994 has clearly been recovered, and is not a source of the higher than expected contributions by teachers towards their portion of the unfunded liability.

Demographic changes, particularly the expectation Alberta's K-12 population would continue to grow at the same rate, has had the most significant impact. The K-12 population and therefore the teacher growth rate were expected to increase by 1.5 per cent per year. The teacher growth rate has since been re-evaluated down to 0.25 per cent per year.

However, things could have been much worse for teachers.

Table 2 – K-12 student-teacher ratio in Alberta

Year	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
Students	581,723	583,675	590,441	590,906	594,332	592,731	592,328	591,912	596,677
Teachers	31,435	31,435	31,553	32,524	32,347	32,637	35,854	36,844	36,823
S/T Ratio	18.5	18.6	18.7	18.2	18.4	18.2	16.5	16.1	16.2
* Preliminary									

Source: Alberta Education[dd],[ee]

The number of teaching jobs in Alberta has grown by 17.1 per cent in the past 8 years. The number of K-12 students grew by 2.3 per cent during the same period.

In fact, class size initiatives have meant more teachers being hired. This is not only evident in the difference in number of teachers from 2003-04 to 2004-05 in Table 2

[aa] http://local38.teachers.ab.ca/NR/rdonlyres/A926AA9B-948F-43D5-A9A7-09B06694C5B/0/PartD.wmv (time: 11:43-11:56)
[bb] http://www.teachers.ab.ca/Salary+and+Benefit/Pensions/The+Unfunded+Liability+of+the+Teachers+Pension+Plan/Facts+About+the+Unfunded+Liability+of+the+Teachers+Pension+Plan.htm
[cc] http://www.asba.ab.ca/services_for_boards/labour_data/memorandums/min_max_salaries_0506.pdf
[dd] http://www.education.gov.ab.ca/ei/statistics/certstaff.asp
[ee] http://www.education.gov.ab.ca/ei/statistics/studpop/studpop.asp

above, but also in the student-teacher ratio. The student-teacher ratio in 1998-99 was 18.5 students per teacher; in 2006-07 it was 16.2.

Had the government not lowered class sizes, it is likely teacher contributions to the pre-1992 unfunded liability would be even larger today.

Furthermore, many of the actuarial assumptions made in 1992 have worked in favour of the teachers (as well as taxpayers), and not against them.

Table 3 – 1992 Government-ATA agreement assumptions vs. 2006 valuation and net impact to teacher and taxpayer contributions

Assumptions	1992 Agreement	2006 Valuation	Difference	Result for contribution rates
Nominal Rate of Return	7.00%	7.25%	+ 0.25%	**POSITIVE**
Real Rate of Return	3.00%	4.25%	+ 1.25%	**POSITIVE**
Inflation Rate	4.00%	3.00%	- 1.00%	**POSITIVE**
Teacher Growth Rate	1.50%	0.25%	- 1.25%	NEGATIVE

Source: Alberta Teachers' Retirement Fund Board[ff]

Other assumptions, such as both the nominal and real rate of return on the investment fund, as well as the long-term inflation rate have all come in better than expected. These "wrong" assumptions have worked in favour for both teachers and taxpayers.

IS THE 1992 MOU NOW A BAD DEAL FOR TAXPAYERS?

Much like with teachers, taxpayer contributions to cover the taxpayers' portion of the unfunded liability have increased since 1992. In the 1992 MOU, the taxpayer contribution towards the unfunded liability was 3.3 per cent of payroll, now it has ballooned to 6.4 per cent.[gg]

Again, as per Table 3 above, many of the 1992 assumptions have turned out better than expected, resulting in positive results for taxpayers as well as teachers.

However, it still could be argued because the post-1992 unfunded liability (currently sitting at $742-million[hh]) is split evenly between taxpayer and teacher contribution, while the pre-1992 unfunded liability is unevenly split – 67.35 per cent taxpayer contribution and 32.65 per cent teacher contribution – the government signed a poor deal for taxpayers in 1992.

[ff] http://www.atrf.com/documentsws/other_docs/presTPP06.pdf pg. 13
[gg] http://www.atrf.com/plan_info/tpp_unfunded_liability.aspx?id=368
[hh] http://www.atrf.com/documentsws/other_docs/presTPP06.pdf pg. 9

Conclusion:
By the very nature of the "defined-benefit" pension plan, it could be argued both taxpayers and teachers have signed a bad deal. Regardless, there is a debt owing and it must be repaid. New teachers, much like new taxpayers, are going to be unfairly burdened with paying-off an unfunded liability they had no part in creating. (Not unlike the CPP).

If new teachers are unhappy with the 1992 MOU, they need to be unhappy with the ATA and those who voted in favour of accepting the MOU.

If new taxpayers are unhappy with the 1992 MOU, they need to be unhappy with their government and those who were in power in 1992 and voted to accept the MOU.

NEXT STEPS

Clearly the CTF favours moving the teachers' pension plan from a "defined-benefit" to a "defined-contribution" system for all new teachers. However, until the actuarial research is done by the government to determine the impact on taxpayers, no new deal must be signed.

Since there is no emergent need to renegotiate the 1992 MOU, it should be retained as the most reasonable long-term solution at this point.

However, if the Alberta government and the ATA opt to begin negotiations, taxpayers need to be assured no new Memorandum of Understanding is signed by the government without taxpayers receiving maximum benefit.

The only way to ensure this is to require a full public referendum on any new MOU signed by the Alberta government and the ATA.

RECOMMENDATION #5
The Task Force recommend the Alberta government require a full public referendum prior to any signing of a new Memorandum of Understanding.