CPP Pension Users: Alberta Leaving CPP Could Hugely Impact Your Pension

Description

Is the proposal to break away from the Canada Pension Plan (CPP) to form the Alberta Pension Plan (APP) advantageous to Albertans? The advocates of the pullout contend the move has tangible benefits, given the predominantly younger generation. It could mean a dramatic 25% reduction in annual premiums.

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Some proponents even argue that Alberta is unable to function in a bear market because of government measures. The province wants to stand up for its oil and gas industry. If the CPP exit pushes through, Alberta can become an attractive investment place again.

Potential impact

Why fix it when it isn't broken? That seems to be the opposing argument. The CPP Investment Board (CPPIB), the independent fiduciary board tasked to invest for, and on behalf of the CPP beneficiaries, is doing a good job.

The $400 billion CPP fund is returning an average 10% annually. Also, the latest actuarial report by the CPP is showing that the current contribution rates could be stable for 75 years. By 2032, the fund is expected to be $1 trillion.

Furthermore, the CPP is universal, well managed and embedded with inflation protection. The same rate for contributions and pensions applies across the country.

If ever Alberta decides to make a monumental change, the contribution rates could be lower. But there are far-reaching consequences in case the Alberta fund underperforms because of a suffering industry. Workers will be hit hardest due to lower wages and fewer jobs.

There may be a need to increase contribution rates if employment does not grow significantly. With the CPP, there is more protection since contribution rates depend on a steadily growing employment earnings base. Albertans must study the proposal carefully and factor in all risks.

CPPIB as inspiration

Retail investors can adopt the same long-term view of the CPPIB when investing. For instance, there is a heightened interest in well-established companies with a global reach. Among the board's top 10 **TSX** stock holdings is **Manulife** (TSX:MFC)(NYSE:MFC).

This $44.49 billion company is a known life insurer all over the world. The company can be resilient in the face of wide-ranging market and economic conditions. In the last 20 years, the stock's total return was 402.69%. Currently, the dividend yield is a respectable 4.66%.

In 2019, Manulife's total revenue grew by 108.83%, posting a net income of $5.27 billion or a 12.75% increase versus 2018. Analysts are estimating an annual growth rate of 12.9% in the next five years. Also, their price target in the next 12 months is $34, which represents a 48.92% capital gain.

The CPPIB chooses stocks like Manulife because it can help the CPP fund manager sustain long-term returns without incurring undue risk.

Clear downside

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I'm not sure how serious Alberta is about creating a pension plan separate from the CPP. The province could inherit nearly $180 billion in liabilities by making this move. Its share of assets in the CPP is about $40 billion. But a massive unfunded liability should be a vital concern.

In conclusion, the mix of a smaller population base and a volatile economy is an unhealthy brew. Alberta could be losing more in the long run.

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2. Investing

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