

SUBMISSION TO THE ALBERTA FAIR DEAL PANEL ON THE POSSIBILITY OF ALBERTA CREATING ITS OWN SELF-MANAGED PENSION PLAN

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Prepared for: Preston Manning, Oryssia Lennie and Alberta Fair Deal Panel Members

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Please may I first express my appreciation as an Albertan for the work that all of you are doing on this panel. There's no question in my mind that the focus of your deliberations, and the process that you are managing will have value for all Albertans.

I am offering this brief submission as a contribution to the assessment of whether Alberta should consider creating its own Alberta-managed Pension Plan (APP) and extract itself from the Canadian Pension Plan (CPP).

I was born and raised in Alberta and I have spent my career in the investment banking, advisory, and management business. I am a Founder and Partner of ARC Financial, which is the largest energy focused private equity investment management company in Canada. More specific and relevant to the APP issue, I was one of the founding directors of Alberta Investment Management Corporation (AIMCo) when it became a crown corporation in 2008. I served in various board capacities for ten years, and most importantly, I was Chair of the Board of Directors in years 2015 to 2017. A summary of my background is attached for your reference.

From a business overview and financial perspective, there's no question in my mind that there is strong logic for Alberta to give serious consideration to the creation of an Alberta Pension Plan separate and distinct from CPP. There are clear substantial financial benefits for Albertans and, in my opinion, the uncertainties and downside risks can be minimized through diligence and careful management.

Based on available data, it is clear that Alberta's workers are contributing to CPP at a much higher level than Alberta retirees are consuming as beneficiaries. The approximate numbers for 2017 (most current data) are that Alberta workers account for 16.5% of total contributions, but Alberta retirees are receiving only 10.6% of CPP expenditures (Fraser Institute).

The net contributions or subsidy in 2017 from Albertans was \$2.9 billion. Over the ten-year period from 2008 to 2017, Albertans made a cumulative net contribution or subsidy to Canadians (excluding Quebec which has its own independent pension plan) of approximately \$28 billion.

The factors which explain this are well understood. Alberta has a younger workforce than the average in Canada, a higher than average employment rate within the available workforce, and higher than average earnings.

The opportunity for Albertans is to essentially capture the approximately \$3 billion annual subsidy while maintaining base benefits to Alberta retirees at a level comparable to CPP.

The other qualitative benefit is the continued build out of what has now become a world-class institutional asset manager located in Edmonton, with an incumbent increase in knowledge-based jobs and diversification for the benefit of all Albertans. This is at a time when Alberta is losing the participation of leading corporations and head offices in its economy. I believe this part of the APP opportunity represents a meaningful benefit to Alberta. AIMCo is a world-class investment manager, successfully operating and competing in global markets. It was created and resides in Edmonton which offers many ancillary benefits, including high-quality, high-paying jobs, benefits to the university, and general benefits to the vibrancy of the Edmonton community.

The pension plan contribution is best understood as a tax on income. For all Canadians (excluding Quebec), the contribution rate or the tax on income is approximately 10% which is contributed into CPP. Different analytical groups within Canada have put the contribution rate for Alberta on a self-managed pension plan at somewhere between 6 - 8% of income. This is de facto a meaningful tax reduction for all Alberta workers.

One risk identified is the loss of economies of scale, going from a \$400 billion plus fund, to a \$150-200 billion fund. I am not convinced that this risk is in fact real. CPP is of a size where they may well have reached diseconomies of scale. AIMCo would likely still benefit from increasing economies of scale, and the addition of increased depth of expertise and capabilities would benefit all Alberta public pension beneficiaries.

A second risk identified relates to longer-term changes in workforce demographics and income levels. This is a risk that needs to be thoroughly assessed through actuarial projections and scenario analysis. My expectation is that the size of Alberta's disproportionate contribution to CPP will provide ample room for long-term trends that might work against the advantage of creating a separate APP.

A third risk relates to the cost to create and administer an autonomous APP. The uncertainty in doing this has to be acknowledged but this responsibility should not be viewed as simply a negative to be avoided. It is also an opportunity to be created and captured; to build these administrative capabilities within Alberta and to create the related jobs. The challenge, and the real possibility, is to do this at cost levels that are more favourable than CPP.

The fourth risk relates to concerns about the complexity to negotiate and implement this restructuring. I am sure that there will in fact be many complexities and challenges to overcome, but again the size of the benefit to Albertans should provide ample motivation to take on these challenges. The creation and building of AIMCo itself was enormously complex and there were many naysayers pointing to what appeared to be overwhelming limitations and hurdles. We started with a government department that basically relied on third party managers, most of whom were in Toronto, Montreal, or New York. Today, AIMCo has established proven capabilities to directly and successfully manage Alberta's public pension funds, endowment, and government capital, and to do it within Alberta.

The fifth risk, often noted, is the possibility that the Alberta government will interpose itself to influence the investment decision-making process within AIMCo. More specifically the concern is that the government might direct pension fund capital into a capital starved oil and gas sector or towards its own politically inspired initiatives. This gets to the heart of the Canadian pension fund model. It is the envy of the world and the principal reason is because of the independence and arm's-length nature of these entities from political process. I can confirm to you in my ten years on the Board of Directors of AIMCo, there wasn't one single example that I was aware of and I believe, that management was aware of, where the government attempted to influence our investment decision making.

Nevertheless, it would be prudent to undertake a review of AIMCo legislation and regulations to tighten down any uncertainties that might exist relating to possible undue influence in investment decision making or possible incursions into AIMCo's established governance process. In my experience with AIMCo, we did have to deal with certain efforts of the government of the day relating to board of director responsibilities for selecting directors and also responsibilities for establishing market-based employee compensation. Although I believe that AIMCo's governance structure is inherently strong, the perceptual risk of possible undue political influence could be reduced with additional process to absolutely ensure that this risk does not materialize under any future Alberta government.

In my opinion, there is a compelling business case for Alberta to review its arrangement with CPP, and to consider exercising its right to withdraw. I see the main challenge in this process being social and political. Retirees are understandably very conservative by nature and this structural change and the complexities of pension fund fundamentals may feel worrisome, if not threatening to some people. The natural tendency for some may well be to defend the status quo even if it is costing Albertans a lot more. This represents an education and communication challenge to gain the necessary public support. Similarly, there will be a natural tendency or bias from outside Alberta to be negative and critical of this initiative. We would be challenging the existing system and it will mean that Canadian workers (excluding Quebec) will have to contribute more to receive the same level of base benefits.

Thank you. I hope that these comments and perspectives are helpful for you in your deliberations.

Yours truly,



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MAC VAN WIELINGEN

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Past director of
15
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3
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Speaker in
80+
Engagements



Mac Van Wielingen has been called “Calgary’s corporate radical” for his progressive thinking and unique grasp of corporate leadership, strategy, and governance. Mac’s knowledge and expertise is the product of over 35 years in the financial and energy sectors. He is a founder, Director (1989 - 2018), and Partner (Present) of ARC Financial Corp. ARC Financial is the largest private equity investment management company in Canada focused on the energy sector with approximately \$6 billion of capital under management. He joined the inaugural Board of Directors of Alberta Investment Management Corporation (AIMCo) in 2007 and served as Chair from 2014-2017. AIMCo manages over \$100 billion on behalf of The Province of Alberta. Mac is also a founding partner of the Creative Destructive Lab - Rockies (CDL-R), a Director of the Institute of Corporate Directors (ICD), and the Vice-Chair and founding member of the Business Council of Alberta (BCA). Most recently, he was appointed to serve on the advisory committee that created the Alberta Indigenous Opportunities Corporation (AIOC).

Mac is a founder and former Chair (1996-2016) of ARC Resources Ltd., a leading Canadian oil and gas company with a current market capitalization of approximately \$3 billion. In 2015 and 2016, while Mac was Chairman of the Board, ARC Resources was ranked #1 in Brendan Wood International’s Shareholder Confidence Index in the Energy and Power Group and was selected as the TopGun Board of the Year. ARC Resources remains recognized as a top Board, ranking among the top 1% of 1,400 companies surveyed globally by Brendan Wood International in 2017.

In 2012, Mac co-founded the Canadian Centre for Advanced Leadership (CCAL) at the Haskayne School of Business at the University of Calgary, and served as Chair of the External Advisory Group from 2012-2020. His lifelong passion for learning and sharing keeps him actively involved in speaking engagements, writing pursuits and community events, with the goal of advancing positive change in corporate ethics, governance, and business leadership.

Currently, he is founder and Chair of Viewpoint Group, a private family-owned group of companies which includes Viewpoint Foundation through which the Van Wielingen family have invested in over 100 charitable organizations since 2001, and Viewpoint Investment Partners Corp., a private wealth management firm with a multi-asset global focus. Viewpoint Group also includes Viewpoint Research, established in 2010 to explore the conditions of sustaining superior business performance, and the role of business in society.

AWARDS & RECOGNITION

- 2017: Fraser Institute Founders’ Award
- 2016: Calgary Business Hall of Fame Laureate
- 2016: Fellow of the Institute of Corporate Directors
- 2015: Chairman of the Year, Alberta Oil
- 2014: Distinguished Business Leader Award
- 2014: Honorary Doctor of Laws, University of Calgary
- 2013: Ivey School of Business Alumni Award – “Global Ivey Day”
- 2012: Francis Lefavre Award, United Way Calgary
- 2011: Ernst and Young Entrepreneur of the Year Award, Prairies

PUBLICATIONS

- Van Wielingen, M. (2019). “Perception is not reality: Canada’s energy sector is the best in the world.” *Calgary Herald*, Opinion.
- Van Wielingen, M. (2019). “Canada’s energy policy, and its increasingly fact-free discourse, demands a rethink.” *Globe and Mail*, Opinion.
- Van Wielingen, M. (2017). “Culture as governance and the link with performance: The evolving role of the corporate board.” *Conference Board of Canada*, Briefing.
- Van Wielingen, M. (2015). “The evolving role of the corporate board: Governance, strategy and the imperative of performance.” *Conference Board of Canada*, *Stewardship Review*, 2-21.
- Van Wielingen, M. (2012). “Ethical Leadership: It sustains performance over time.” *Leadership Excellence*, GILD, 2012.

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