

***SOUTH SHORE REGIONAL
CENTRE FOR EDUCATION
CUPE STAFF PENSION PLAN***

Possible Transfer to the Nova Scotia Public Service Superannuation Plan

JANUARY 2019



*NOT COMPLETE
WITHOUT COMMENTARY*

BACKGROUND

South Shore Regional Centre for Education CUPE Staff Pension Plan

- Traditional Defined Benefit (DB) Plan provided by South Shore Regional Centre for Education (“SSRCE”), who is Plan sponsor
 - Ultimate responsibility of SSRCE to meet promised pensions
 - Centre Staff provide oversight of the plan, supported by consultants preparing actuarial valuations and third-party administration
 - Regular meetings with Pension Advisory Committee to discuss pension issues
- Subject to Pension Benefits Act (“PBA”) minimum funding requirements
 - Exemption from funding solvency deficit
 - PBA funding regulations will be changing

South Shore Regional Centre for Education CUPE Staff Pension Plan

- Contributions for current service cost cost-shared between employee and employer, but special payments (deficit repayments) responsibility of employer
- Limited flexibility to meet benefit goals (e.g., inflation protection)
 - Pension Benefits Act requirements including solvency exemption limitations (must fully fund any benefit improvement)
 - Nature of DB pension deal – any improvement is permanent

SSRCE CUPE Staff Pension Plan Key Challenges

- For Plan Members
 - Maintaining purchasing power of pension benefits
 - Reasonable contribution rates
- For SSRCE
 - Managing the financial risk and responsibility of being a traditional DB Plan sponsor and guarantor
 - Managing the plan governance and administration responsibilities

*SSRCE CUPE STAFF PLAN TO
PSSP
ANALYSIS*

SSRCE CUPE Staff Plan and PSSP Comparators

	SSRCE CUPE Staff Pension Plan	PSSP
Valuation Date	December 31, 2016	December 31, 2017
Market Value of Assets	\$17 million	\$6.2 billion
Going Concern Funded Status	Fully funded today	Fully funded today
Estimated Pensionable Payroll	\$4,600,000	\$1,100,000,000
Solvency/Wind-up Status	Underfunded due to low interest rates Exempt from funding solvency deficit	n/a
Going Concern Funded Ratio*	109%	104%
Active Members	140	17,211
Pensioners & Others	150	16,629

* Note different funding and benefits policies and actuarial assumptions

PSSP Approach

- The PSSP is the pension plan for provincial civil servants and employees of various provincial agencies, boards, and commissions
 - Other employers in “broader public sector” have joined or are considering participation
- Governed by a Board of Trustees who have ultimate responsibility for the plan
 - Transitioned from Minister of Finance
- Day to day plan administration and investment management handled by a full-time professional organization: Nova Scotia Pension Services Corporation

Well-Defined Funding and Benefits Policy

- When plan has a funding excess
 - Trustees have the ability to provide indexing and/or improve benefits/reduce contributions
- When plan is in deficit recovery
 - Current contribution rates can cover some level of deficit
 - Otherwise, Trustees have the ability to adjust contributions and benefits (subject to constraints contained in governing legislation)
 - Trustees can't reduce accrued pensions
- Achieves the risk sharing and flexibility to provide long term sustainability

SSRCE vs PSSP: Plan Management

- Positives (of PSSP)
 - Economies of scale given size of plan
 - Investment opportunities not available to smaller plans
 - Plan expenses lower as a percentage of assets, more of each dollar going to member benefits
 - Dedicated plan administration corporation
- Positives (of SSRCE Plan)
 - Employer controls of all aspects of plan management

Expanding the PSSP Membership

- One of the goals of the PSSP Trustees is to increase the active membership of the plan
- Provincial Government supporting transfers by legislation
 - the “University Pension Plan Transfer Act” enacted in 2015
 - the “Municipal and Other Authorities Pension Plan Transfer Act” enacted in late 2016

Expanding the PSSP Membership

- Recent new participating employers include
 - Acadia University, University of Kings College, Université Sainte-Anne, Cape Breton University
 - Sherbrooke Restoration Commission
 - Halifax Harbour Bridges
 - South Shore Public Libraries
 - Cape Breton Regional Municipality
 - Others are reviewing
- New groups have added almost 1600 active members and 700 retirees

KEY COMPARISONS

Type of Pension Plan

- SSRCE CUPE Staff Plan: Year-by-year accrual (career average)
 - Base year upgrades and ad-hoc indexing
 - Last increase 2002
 - Upgrades must either be funded or allocated from plan surplus and are subject to PBA requirements
- PSSP: Best 5-year average earnings plan
 - Automatic pre-retirement inflation/wage protection
 - Conditional indexation based on funding policy
 - No PBA limitations

Retirement Benefits

	SSRCE CUPE Staff Pension Plan	PSSP
Benefit Formula	Year by Year accrual (Base year 2002)	Best 5-Year Average Earnings
Lifetime pension amount	2% of earnings All years of earnings prior to 2002 replaced by 2002 earnings	1.3% of Best 5 earnings up to average YMPE plus 2% of Best 5 earnings in excess of average YMPE, multiplied by credited service
Bridging amount (additional benefit to age 65)	Not applicable	0.7% of Best 5 earnings up to average YMPE, multiplied by credited service
Credited service	No cap on credited service	Credited service limited to 35 years
Post-retirement indexing	None	Subject to plan's funding and Trustee approval (5 year review)

YMPE: "Years Maximum Pensionable Earnings" – maximum earnings on which CPP contributions are made

Early Retirement

	SSRCE CUPE Staff Pension Plan	PSSP
If commenced employment prior to April 6, 2010	Age 55, subject to reduction	Age 55, subject to reduction If age + service equal 80 , no reduction Can retire as early as age 50
If commenced employment on or after April 6, 2010	Age 55, subject to reduction	Age 55, subject to reduction If age + service equal 85 , no reduction
Age 60 Unreduced Eligibility	No – Normal Retirement Date is age 65	Age 60 with 2 years of service
Early retirement pension if don't meet unreduced early retirement rule	Pension reduced by 6% per year for first 5 years, 4% per year in excess of 5 years from age 65	Pension and bridge reduced by 6% per year from <u>projected unreduced retirement date</u> (assuming no further service)

Required Contributions

	SSRCE CUPE Staff Pension Plan	PSSP
Employee contributions	6.71% of earnings	8.4% of earnings up to the YMPE (\$57,400 in 2019) and 10.9% on excess
Employer contributions	Employers contribute 122.3% of employee contribution, plus potential additional contributions when in deficit	Match employee contribution

SSRCE vs PSSP: Benefits

- Positives (of PSSP)
 - Best 5 years automatically provides pre-retirement indexing
 - Rule of 80/85
 - Post-retirement indexing has high priority for surplus use
- Positives (of SSRCE)
 - 2.0% accrual vs 1.3% on earnings below the YMPE
 - Employer guarantee

SSRCE vs PSSP: Contributions

- PSSP
 - Total contributions are in excess of current service cost
 - Total cost of benefits approximately 12.8% of payroll vs contribution total of 17.6% of payroll
 - 4.8% of payroll difference can absorb demographic changes and some deficit recovery
 - Any change to funding is shared 50%/50% between employee and employer
- SSRCE
 - Contributions equal cost of benefits accrued plus amount required to fund deficit
 - Cost of benefits allocated 45% to employees / 55% to employer
 - Any change to demographic profile of plan members reflected immediately in contributions

SSRCE vs PSSP: Deficit Recovery

- PSSP
 - Contribution risk is shared with employees and subject to funding policy
 - Current contributions in excess of cost of benefits
 - Buffer can absorb some demographic changes and deficit recovery
 - Benefits can be adjusted by the Trustee and subject to funding policy
 - Not subject to PBA funding requirements
- SSRCE
 - Funded by SSRCE
 - Cannot reduce vested benefits accrued to date under the PBA and Plan rules

GOVERNANCE OF PSSP

Governance of PSSP

- The PSSP is exempt from the provisions of the Nova Scotia Pension Benefits Act, instead it is governed by its own legislation: Nova Scotia Public Service Superannuation Act (“PSSA”)
 - Not subject to Pension Benefits Act minimum standards
 - Not subject to any statutory limitations on benefit changes

Governance of PSSP

- PSSP Trustee Inc. (“PSSPTI”) is the Trustee of the PSSP and is responsible to oversee the administration and investment management of the plan and fund
 - 13 Directors of PSSPTI
 - 6 appointed by the Nova Scotia Government (as employer)
 - 3 appointed by NSGEU
 - 1 appointed by CUPE
 - 1 appointed by Retiree Association
 - 1 appointed by non-bargaining employees
 - Independent Chair
- Prescriptive actions based on plan’s funded status

Well-defined Funding Policy

- Act requires Trustee to review financial position of the plan every 5 years (2020 is the next review) to determine cost of living adjustments for the next 5 years and any other adjustments to contribution rates or benefits

Funded Ratio at Review Date	Trustee Action
96% - 100%	Increase contribution rates by up to 1% for each employer and employees to achieve 100% funding over next 10 years
90% - 96%	Increase contributions by amount necessary to achieve 100% funding over next 10 years (if maximum rate permitted under Income Tax Act reached, must adjust plan eligibility and benefits to meet target)
Less than 90%	Increase contributions to at least the amount necessary to achieve full funding over 10 years if the funded ratio were 90% and adjust plan eligibility and benefits to achieve 100% funding over next 10 years

Well-defined Funding Policy

- Act requires Trustee to review financial position of the plan every 5 years (2020 is the next review) to determine cost of living adjustments for the next 5 years and any other adjustments to contribution rates or benefits

Funded Ratio at Review Date	Trustee Action
100% - 110%	Use a portion of the surplus to fund a strategic reserve; remainder can be used to provide pensioner indexing at a fixed rate over next 5 years (rate cannot exceed 50% of change in CPI)
110% - 120%	Use at least 50% of surplus to fund a strategic reserve; use at least 50% of remainder for pensioner indexing at a fixed rate (not to exceed change in CPI) over next 5 years; and rest to modify contributions and/or benefits
Greater than 120%	Similar to when funded ratio is between 110% and 120%: combination of strategic reserve, pensioner indexing and modification of contributions/benefits

APPROACH TO TRANSFER

Key Conditions for Transfer

- For active plan members, transfer service to the PSSP
 - 10 years of SSRCE CUPE Staff Plan service = 10 years of PSSP service
 - Benefits calculated based on PSSP formula
- However
 - The pension earned for each individual under the CUPE Staff Pension Plan as at the transfer date will be fully protected in the PSSP
 - \$10,000 annual pension with CUPE Staff Pension Plan the day before the transfer, \$10,000 annual pension with PSSP day after

Key Conditions for Transfer

- For pensioners and deferred members, pension amount would not change, but would be paid by PSSP
- Pensioner payments will continue in the same form (e.g., joint and survivor, life with guarantee) as under SSRCE CUPE Staff Pension Plan
- Eligible for future indexing same as other PSSP pensioners (pro-rated in first year of participation in PSSP based on time in PSSP)
 - For example, if join PSSP on October 1, first year's indexing will be 3/12ths of regular, full year indexing

Impact on accrued pensions

- Why are all pre-65 pensions the same or higher on the transfer date?
 - In the event of retirement prior to age 65, PSSP pays a bridge benefit which ends at age 65 – formula is 0.7% of best average earnings (“BAE”) up to the final average YMPE (“FAYMPE”)
 - Therefore, both plans’ accrual rates are the same for benefits payable prior to age 65
 - 2.0% for SSRCE CUPE Staff Pension Plan and $1.3\% + 0.7\% = 2.0\%$ for PSSP
 - Pensions higher for members with at least 5 years of service and with salary increases over the past 5 years
 - The best 5 year average earnings is greater than year-by-year (lifetime) average
 - PSSP pensions unreduced at age 60 (or Rule of 80/85 if earlier)

Impact on accrued pensions

- Why are most post-65 pensions **lower** on the transfer date?
 - SSRCE CUPE Staff Pension Plan formula is **2.0%** of earnings in the year
 - PSSP formula is **1.3%** of BAE up to the FAYMPE plus **2.0%** of BAE in excess of the FAYMPE
 - Lifetime pension lower for most members on date of transfer since FAE impact is not enough to offset impact of lower formula
 - However, PSSP will guarantee that upon termination, retirement or death, a member's post-65 PSSP pension in respect of transferred service will not be lower than their accrued SSRCE CUPE Staff pension at the date of transfer

EXAMPLES

Active member pension – Example

Data

BAE at date of transfer: \$36,500

SSRCE service: 24.7 years

FAYMPE at date of transfer: \$54,440

Age: 50

SSRCE Pension at date of transfer: **\$12,900 (annually) payable from age 65**

SSRCE Pension payable from age 60: **\$9,030 (annually – reduced by 30%)**

PSSP Pension (Pre-65): $[1.3\% \times 36,500 + 0.7\% \times 36,500] \times 24.7 = \mathbf{\$18,000}$

PSSP Pension (Post-65): $[1.3\% \times 36,500] \times 24.7 = \mathbf{\$11,700}$

But \$12,900 minimum would be payable after age 65

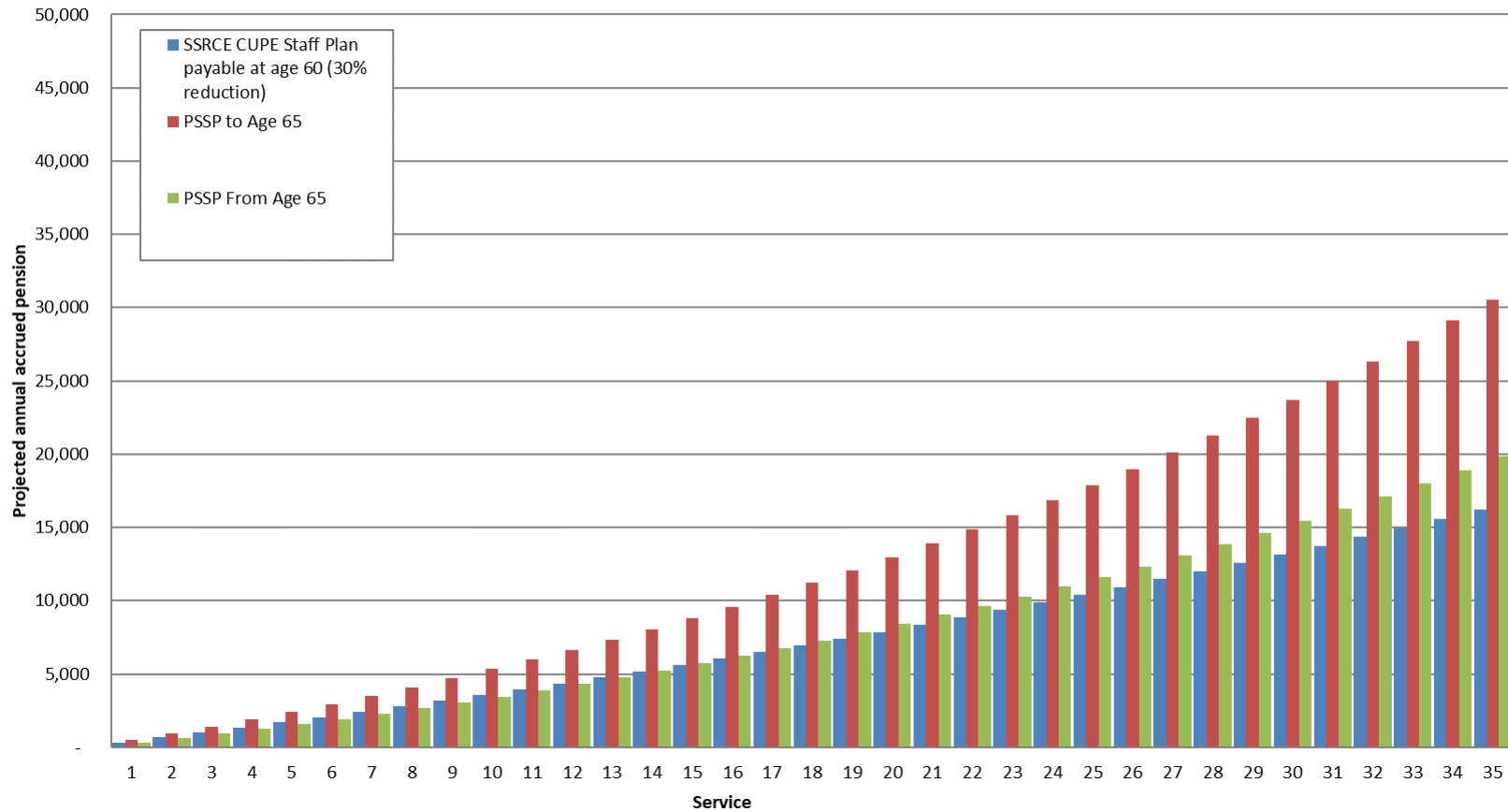
Ratio of PSSP to SSRCE Pension payable from age 60 =
199% pre-65 and 142% post-65

Pension Example - Future Service Only

- Sample Member joins today with a \$30,000 salary
 - Salary is assumed to grow at 2% per year
- SSRCE Pension
 - Assumes no base year updates occur
- Compare total benefit payable prior to age 65 (pension plus bridge) and lifetime pension payable after age 65
 - Reflects SSRCE penalty applicable if pension commences at age 60

Pension Example - Future Service Only

Pension Estimate



Active member pension – Putting it together

FAE at date of transfer: \$36,500

SSRCE service: 24.7 years

FAYMPE at date of transfer: \$54,440

Age: 54

SSRCE Pension at date of transfer: **\$12,900 (annually - payable at age 65)**

SSRCE Pension payable at 60: **\$9,030 (annually – reduced by 30%)**

PSSP Pension (Pre-65): $[1.3\% \times 36,500 + 0.7\% \times 36,500] \times 24.7 = \mathbf{\$18,000}$

PSSP Pension (Post-65): $[1.3\% \times 36,500] \times 24.7 = \mathbf{\$11,700}$

At age 60 with minimum guarantee: \$18,000 to age 65, \$12,900 thereafter

Pension earned from 54 to 60 under SSRCE plan: **\$3,100 (reduced)**

Pension earned from 54 to 60 under PSSP: **\$4,500** to age 65, **\$2,900** thereafter

Total SSRCE Pension: **\$12,100** per annum payable from age 60 (**not indexed**)

Total PSSP: **\$23,100** per annum to age 65, **\$15,800** thereafter (**indexed per PSSP**)

NEXT STEPS

Next steps

- Member vote on proposed PSSP transfer
 - All active members, eligible former members and retired members will have the opportunity to vote
 - If a majority of those voting are in agreement, the proposed transfer process can continue
 - More information will be provided on voting dates and processes in the coming weeks
- If the vote is no, process is finished
- If the vote is yes
 - Further discussions between SSRCE and union representatives
 - Further discussions with PSSP Trustees and additional analysis
 - SSRCE will then make final decision as to transfer, after further discussion with union

