# SOUTH SHORE REGIONAL CENTRE FOR EDUCATION SUPPORT STAFF PENSION PLAN

**Possible Transfer to the Nova Scotia Public Service Superannuation Plan**

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Regional Centre for Education

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# *NOT COMPLETE WITHOUT COMMENTARY*

# *BACKGROUND*

# South Shore Regional Centre for Education Support 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 Support 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 Support 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 SUPPORT STAFF PLAN TO PSSP ANALYSIS*

# SSRCE Support Staff Plan and PSSP Comparators

| | SSRCE Support Staff Pension Plan | PSSP |
|---|---|---|
| Valuation Date | December 31, 2016 | December 31, 2017 |
| Market Value of Assets | $27 million | $6.2 billion |
| Going Concern Funded Status | Fully funded today | Fully funded today |
| Estimated Pensionable Payroll | $7,100,000 | $1,100,000,000 |
| Solvency/Wind-up Status | Underfunded due to low interest rates<br><br>Exempt from funding solvency deficit | n/a |
| Going Concern Funded Ratio* | 113% | 104% |
| Active Members | 215 | 17,211 |
| Pensioners & Others | 116 | 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 Support 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 Support Staff Pension Plan | PSSP |
|---|---|---|
| Benefit Formula | Year by Year accrual<br>(Base year 2002) | Best 5-Year Average Earnings |
| Lifetime pension amount | 2% of earnings<br><br>All years of earnings prior to 2002 replaced by 2002 earnings<br><br>One additional ad-hoc increase for NSGEU members | 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<br>(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 Support Staff Pension Plan | PSSP |
|---|---|---|
| If commenced employment prior to April 6, 2010 | Age 50, subject to reduction | Age 55, subject to reduction<br>If age + service equal 80, no reduction<br><br>Can retire as early as age 50 |
| If commenced employment on or after April 6, 2010 | Age 50, subject to reduction | Age 55, subject to reduction<br>If age + service equal 85, no reduction |
| Age 60 Unreduced Eligibility | Yes – Normal Retirement Date | 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 60 | Pension and bridge reduced by 6% per year from projected unreduced retirement date<br>(assuming no further service) |

# *Required Contributions*

| | SSRCE Support Staff Pension Plan | PSSP |
|---|---|---|
| Employee contributions | 8.35% 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 Support Staff Plan service = 10 years of PSSP service
  - Benefits calculated based on PSSP formula

- However
  - The pension earned for each individual under the Support Staff Pension Plan as at the transfer date will be fully protected in the PSSP
  - $10,000 annual pension with Support 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 Support 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 Support 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

# *Impact on accrued pensions*

- Why are most post-65 pensions **lower** on the transfer date?
  - SSRCE Support 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 Support Staff pension at the date of transfer

# *EXAMPLES*

# *Active member pension – Example 1*

**Data**

BAE at date of transfer:  $36,500

FAYMPE at date of transfer:  $54,440

SSRCE service: 24.7 years

Age: 50

SSRCE Pension at date of transfer: **$12,900 (annually)**

PSSP Pension (Pre-65):  [1.3% x 36,500 + 0.7% x 36,500] x 24.7 = **$18,000**

PSSP Pension (Post-65):  [1.3% x 36,500] x 24.7 = **$11,700**

Ratio of PSSP to SSRCE Pension = **140% pre-65** and **91% post-65**

Assuming 2% per year salary/YMPE increases and retirement at age 60, annual pension **<u>in respect of transferred service</u>** would be approximately:

- $21,900 (170% of SSRCE) pre-65, and
- $14,250 (110% of SSRCE) post-65

# *Active member pension – Example 2*

**Data**

BAE at date of transfer: $21,800

FAYMPE at date of transfer: $54,440

SSRCE service: 13.9 years

Age: 58

SSRCE Pension at date of transfer: **$5,400 (annually)**

PSSP Pension (Pre-65): [1.3% x 21,800 + 0.7% x 21,800] x 13.9 = **$6,100**

PSSP Pension (Post-65): [1.3% x 21,800] x 13.9 = **$3,900**

Ratio of PSSP to SSRCE Pension = **113% pre-65** and **72% post-65**

Assuming 2% per year salary/YMPE increases and retirement at age 60, annual pension **<u>in respect of transferred service</u>** would be approximately:

- $6,300 (117% of SSRCE) pre-65, and
- $4,100 (76% of SSRCE) post-65 but minimum $5,400 would be payable

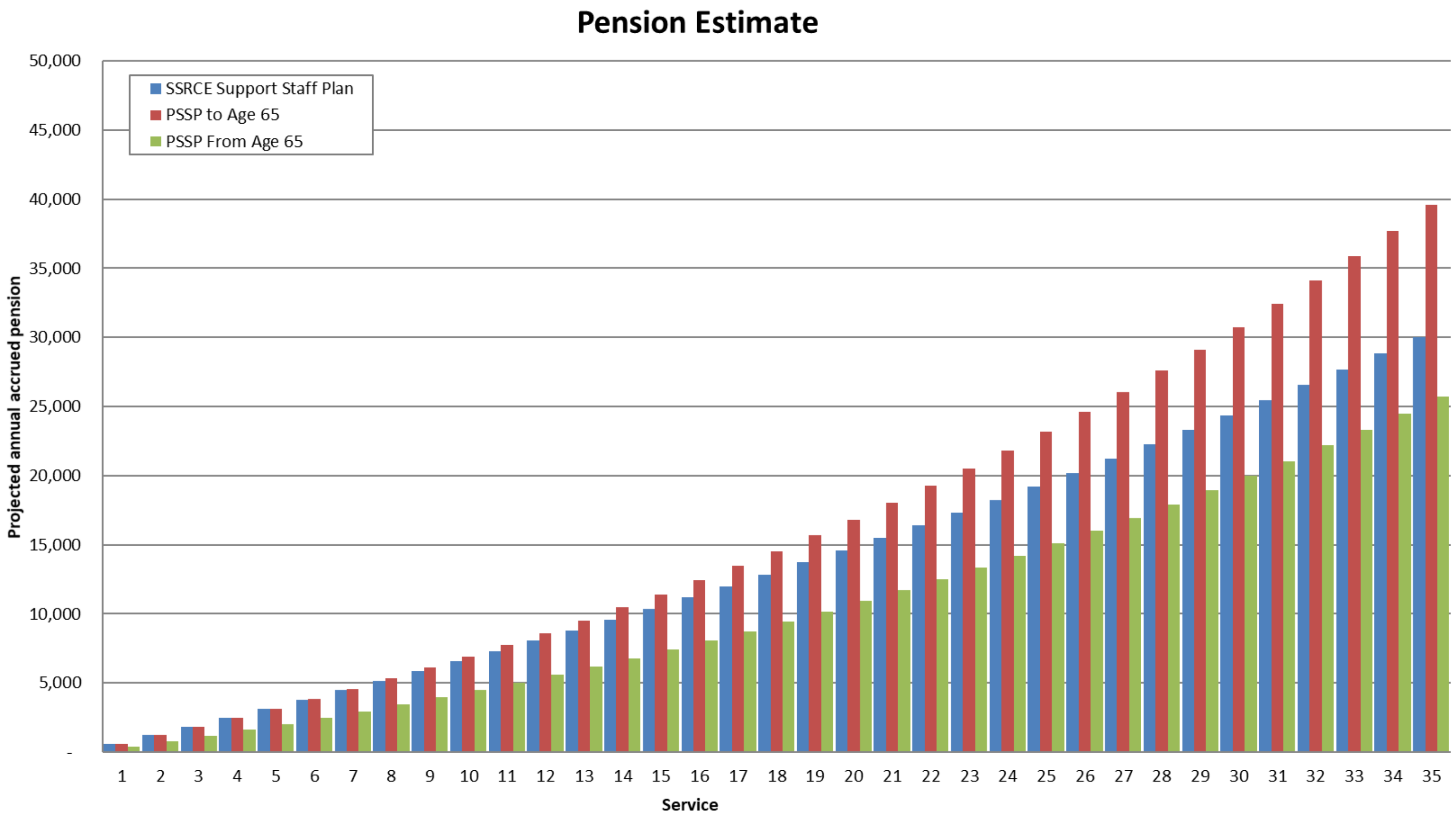
# *Pension Example – Future Service Only*

- 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
  - Doesn’t reflect any penalties for retiring prior to earliest unreduced retirement date

# *Pension Example – Future Service Only*



# *Active member pension – Putting it together*

FAE at date of transfer: $21,800

FAYMPE at date of transfer: $54,440

SSRCE service: 13.9 years

Age: 54

SSRCE Pension at date of transfer: **$5,400**

PSSP Pension (Pre-65): [1.3% x 21,800 + 0.7% x 21,800] x 13.9 = **$6,100**

PSSP Pension (Post-65): [1.3% x 21,800] x 13.9 = **$3,900**

At age 60 with minimum guarantee: $6,900 to age 65, $5,400 thereafter

Pension earned from 54 to 60 under SSRCE plan: **$2,900**

Pension earned from 54 to 60 under PSSP: **$2,950** to age 65, **$1,900** thereafter

Total SSRCE Pension: **$8,300** per annum payable from age 60 (**not indexed**)

Total PSSP: **$9,800** per annum to age 65, **$7,300** 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 unions


how
which
why
when
where
what
who