Chapter 3: Public Sector Pensions: Promoting Public Discussion

Key Messages:

- People and economy count on healthy pension plans in their retirement
- Three large plans are: health care workers plan, public service plan, teachers' plan
- Pension plans directly impact 110,000 members and their families
- Plans received $2.6 billion in contributions from Province and its employees over five years
- Plans paid $4 billion in pension benefits over five years
- The three plans have $17 billion in total assets
- Plans are in very different financial condition
- Unique risks with the three plans; the Teachers' Plan with a $1.4 billion deficit is a big risk
- Members face uncertainty relating to increases in their pension benefit and contributions

Key Observations:

Nova Scotia Teachers' Pension Plan (teachers' plan)

- Deficit of $1.4 billion
- The Province and teachers share deficit equally
- Teachers' contributions up 33% since 2014 but plan deficit the same
- Teachers retired after August 1, 2006: last increase in annual pension 2008
- Retiring teachers may not get pension increase for the foreseeable future
- Teachers retired before August 1, 2006: increases
- The Province typically pays $1 for every $1 contribution made by teacher
- The Province paid $93 million in matched contributions to the plan in 2017
- The Province also paid $52 million in special contributions in the past five years
- Maximum pension: 70% after 35 years of service
- Plan to members: action is needed to address the plan's serious financial condition

Nova Scotia Health Employees' Pension Plan (health care plan) and Public Service Superannuation Plan (public service plan): two separate plans as summarized below

- Surplus of the health care plan: $1.7 billion
- Surplus of the public service plan: $239 million
- Province not responsible if plans have deficits
- Province has no claim on any surpluses
- Contributions by members were stable in the last five years
- The Province pays to the health care plan $1 for every $1 paid by worker plus 1.4% of pay
- The Province pays to the public service plan $1 for every $1 paid by worker
- The Province paid $97 million in contributions to the health care plan in 2017
- The Province paid $82 million in contributions to the public service plan in 2017
- Retirees getting increases in both plans as per rules of the plans
- Maximum pension under both plans: 70% after 35 years of service

Members of Legislative Assembly Plans

- $109 million owing to 186 people
- Both MLA plans are unfunded with no actual assets
- The Province pays $5 for every $1 contribution made by MLAs
- Maximum pension: 70% after 20 years of service, members first elected after 2013
- Retirees getting increases in annual pension at the same rate as the public service plan

3 Public Sector Pensions: Promoting Public Discussion

Purpose

3.1 The purpose of this information chapter is to inform Nova Scotians on key matters related to pensions in the public sector in Nova Scotia. This chapter is not intended to comment on the merits of Government policy decisions relating to these plans. Furthermore, we are not commenting on any decisions taken by the respective pension plans, financial performance of these plans, or any of the entitlements these pensions provide.

3.2 The information in this chapter should be of interest to all Nova Scotians, but may not be all the information Nova Scotians may want to know. Plan members could use this information, as one tool, to assess how the financial position of their pension plan may impact their plans for retirement.

3.3 Additional information is available on the websites of the Nova Scotia Health Employees' Pension Plan, Public Service Superannuation Plan, and the Nova Scotia Teachers' Pension Plan.

The importance of pensions in the public sector

3.4 Pensions are critical for Nova Scotians and their families, because employees of the public sector, and other organizations, count on their pension being there when they retire. Many Nova Scotians have a direct or indirect interest in pensions. These include:

- employees in the public sector who are entitled to a pension, and the spouses and dependents of those in the pension plans;
- taxpayers of the Province who assume some legal liability for unfunded pensions; and
- all people that rely on the impact that $900 million in annual pension payments has on the economy.

Health Care, Public Service, and Teachers' Pension Plans

The three largest public sector pensions in Nova Scotia

3.5 Receiving an agreed-upon pension when you retire may be a significant factor that an individual considers relating to employment in the public sector, as it is an important component of the overall public sector compensation package.

3.6 Most employees of the Nova Scotia public service are members of a pension plan. The three pension plans providing pension benefits covering most of the Province's employees are identified below.

- Health care employees working in the public sector typically belong to the Nova Scotia Health Employees' Pension Plan (health care plan)
- Employees of public sector employers are generally members of the Nova Scotia Public Service Superannuation Plan (public service plan)
- Teachers participate in the Nova Scotia Teachers' Pension Plan (teachers' plan)

3.7 The total plan membership is shown in the following table.

Pension Plan Membership Information

	Health Care	Public Service	Teachers'	Total
Future retirees	30,528	17,028	12,832	60,388
Retirees*	10,674	15,751	13,165	39,590
Inactive **	1,244	2,105	5,847	9,196
Total members	**42,446**	**34,884**	**31,844**	**109,174**
Active member for every 1 retiree	2.86	1.08	.97	NA

** Retirees include surviving spouses/ex-spouses, children and dependents*
***Inactive employees have terminated employment, but have not yet retired or removed their funds from the plan*

3.8 With membership at 110,000 people, a significant number of Nova Scotians are therefore impacted by these pension plans, directly or indirectly, and rely on them for retirement income.

Trustees responsible for overall plan operations and investing decisions

3.9 The public service and teachers' pension plans are governed by the Public Service Superannuation Act and the Teachers' Pension Act, respectively. The health care plan is administered under the Pension Benefits Act and its "Plan Text", and is monitored and protected by the Nova Scotia Office of the Superintendent of Pensions.

3.10 The plans' oversight structures have all evolved over recent years. The Minister of Finance transferred sole governance responsibility of the teachers' and public service plans to trustee organizations jointly controlled by the Province and employees in 2005 and 2013, respectively. This transfer in responsibility resulted in the new trustee organizations inheriting the assets and liabilities of the plans. During 2012, health care employees became jointly responsible for the health care plan.

3.11 The oversight of these three pensions is the responsibility of trustee organizations that oversee the administration of the pension plans and are responsible for the overall operations, including investing decisions. Trustee membership is generally represented by an equal number of employee and employer representatives.

Contributions and benefits paid are critical components of plans

3.12 The health care, public service, and teachers' plans are all defined benefit plans; employees and employers contribute a percentage of the employee's salary, and employees earn a benefit that provides a pension upon retirement. A member's pension benefit is based on their annual salary during employment, years of service, and if applicable, some inflation adjustments.

$2.6 billion paid into pension plans by public servants and the Province over the last five years

3.13 Both employees and the Province contribute a significant amount annually in pension contributions. The Province's contributions to the public service and teachers' plans generally match the amounts paid by employees; however, in the case of the health care plan, the terms of the plan require the Province to contribute an additional 1.4% of earnings.

3.14 During 2017, the Province's contributions to the three plans totaled $272 million.

- Health care plan $97 million
- Public service plan $82 million
- Teachers' plan $93 million

3.15 In addition to the mandatory annual contributions to these three pension plans, the Province also agreed to make a special contribution under the Teacher's Pension Plan Regulations when the plan's liabilities exceed the plan assets by more than 10%. Over the past five years, the Province has made over $50 million in special contributions to the teachers' plan, and this amount is anticipated to increase over the foreseeable future.

2013 to 2017 Pension Contributions (millions)				
Contributions	**Health Care***	**Public Service***	**Teachers'**	**Total**
Province – Employer				
Matched	$486	$416	$387	$1,289
Unmatched			$52	$52
Total	$486	$416	$439	$1,341
Employee				
Matched	$416	$416	$385	$1,217
Total Contributions	**$902**	**$832**	**$824**	**$2,558**

** Approximate employee contributions based on the terms of the pension plan and the Province's contributions*

Teachers' contributions have increased by 33% over the past three years

3.16 Employee contributions are a percentage of their salary and are paid through regular payroll deductions. The following table shows the current member rates and what the rates were four years ago.

Employee Contribution Rates						
	Health Care		Public Service		Teachers'	
Year	Earnings up to YMPE*	Earnings above YMPE	Earnings up to YMPE*	Earnings above YMPE	Earnings up to YMPE*	Earnings above YMPE
2017	7.82%	10.18%	8.4%	10.9%	11.3%	12.9%
2013	7.82%	10.18%	8.4%	10.9%	8.3%	9.9%

** YMPE – Yearly maximum pensionable earnings is an amount established by the Government of Canada –$55,300 in 2017*

3.17 As noted above, in 2013, the teachers' annual contribution rates were comparable to the rates of the other plans. However, in 2014, to improve the financial position of the plan, the Nova Scotia Teachers' Union and the Province agreed to increase both employee and employer contribution rates by 1% in each of the next three years. As a result, working teachers in 2017 contribute 33% more to their pension plan than in 2013. For example:

- in 2013, a teacher earning $70,000 contributed $6,112 in annual pension contributions; and
- in 2017, a teacher earning $70,000 will contribute $8,145 in annual pension contributions.

3.18 The scenario above shows that the monthly take-home pay of a teacher earning $70,000 per year has decreased over the past three years by approximately $170 per month due to the increases in pension contribution rates.

3.19 Contribution rates for members of the health care and public service plans have not increased over the past five years. The following are the annual pension contributions that active members earning $70,000 currently would contribute: health care plan – $5,821; public service plan – $6,248.

$4.2 billion in pension benefits paid out by plans over the past five years

3.20 Up to the age of 65, the pension benefit formula is similar in all three pension plans: 2% for each year of service times a salary base, as determined by the plan provisions. At age 65, the pension benefit is reduced subject to Canada Pension Plan integration rules. These three pension plans are paying pensioners approximately $900 million a year, and in total paid out $4.2 billion over the past five years. These pension payments contribute significantly to the Nova Scotian economy.

Pension Benefits Paid Out by Each Plan (millions)				
	Health Care	Public Service*	Teachers'	Total
2016	$208	$340	$388	$936
2015	$186	$323	$384	$893
2014	$157	$294	$380	$831
2013	$148	$279	$374	$801
2012	$136	$266	$364	$766
Total	**$835**	**$1,502**	**$1,890**	**$4,227**

* *Information from April 1, 2013 to March 31, 2017*

Province is responsible for half of the $1.4 billion teachers' plan deficit

3.21 On June 22, 2005, the Province and the Nova Scotia Teachers Union agreed to joint and equal participation in the governance of the teachers' plan. The trust agreement clearly indicates that the Province is responsible for half of the pension plan, including pension plan deficits and surpluses. This means the Province is responsible for 50% of the $1.4 billion teachers' pension plan deficit shown in the 2016 Teachers' Pension Plan financial statements.

Financial Information from Teachers' Pension Plan (billions)			
	Pension Obligation	Assets Available for Benefits	Deficit
2016	$6.3	$4.9	($1.4)
2015	$6.1	$4.7	($1.4)
2014	$6.1	$4.7	($1.4)
2013	$6.1	$4.6	($1.5)
2012	$5.9	$4.2	($1.7)

3.22 The Province's responsibility to the health care and public service plans is limited to its annual contributions.

Positive financial position for health care and public service plans; negative financial position for teachers' plan

3.23 The funded status of a pension plan is a primary indicator of the plan's financial health. A fully funded pension plan means its plan assets can cover its pension benefit liabilities.

3.24 The following is a five-year funded status comparison of the three plans which assumes the plans will continue to operate in the foreseeable future. As the table shows, the three plans have very different financial positions. Since 2012, the health care plan has consistently been fully funded; the public service plan has been mainly fully funded; and the teachers' plan has remained significantly underfunded.

Five-Year Comparison of the Pension Plans' Funded Status			
	Health Care	Public Service*	Teachers'
2016	131.7%	104.1%	77.7%
2015	132.1%	99.1%	76.7%
2014	126.4%	106.5%	77.3%
2013	118.5%	104.4%	75.0%
2012	108.0%	100.5%	71.6%

* *For fiscal periods March 31, 2013 through March 31, 2017*

3.25 The seriousness of the teachers' plan deficit position is addressed in the Nova Scotia Teachers' Pension Plan 2016 Annual Report. In the message from the Trustee Chair, he indicates

> *"The Plan's maturity continues to increase with the number of retirees continuing to grow. There is no immediate risk that the Plan will be unable to meet its ongoing pension obligations; however, actions should be considered by the Plan sponsors to improve the long-term health of the Plan. Without such actions, the Plan's financial position is likely to further deteriorate going forward."*

Retiring teachers unlikely to get a pension increase for many years to come

3.26 The health care, public service, and teachers' plans are unique pension plans with provisions governing employee contributions, retirement eligibility, and the determination of pension benefits for members. The financial position of a pension plan can determine if members will receive a cost of living (indexing) increase on their pension.

3.27 Indexing a pension provides pensioners with an increase to their cash flow to help keep up with overall cost increases in goods and services. All three pension plans have indexing available to their members; however, the terms under which indexing applies vary between the three plans.

3.28 Teachers retiring after August 2006 last received a cost of living adjustment in 2008. In accordance with the terms of the pension plan, this group of retired teachers may be entitled to a cost-of-living increase if the funded status of the plan is more than 90%.

3.29 The following table shows the indexing received by retirees over the past five years.

2013 to 2017 Actual Indexing Rates				
	Health Care	Pension Public Service*	Teachers Pre-2006**	Teachers Post-2006
2017	1.30%	.85%	.6%	0%
2016	1.00%	.85%	.3%	0%
2015	2.00%	1.25%	.7%	0%
2014	1.10%	1.25%	.2%	0%
2013	1.20%	1.25%	0%	0%
Total 2013 to 2017	**6.60%**	**5.45%**	**1.8%**	**0%**

* *Rates set to 2020 by Public Service Superannuation Plan Trustee Inc.*
** *Pre-2006 – For pensions with an effective date before August 1, 2006, indexing is available*

3.30 As detailed in the Province's 2017 Public Accounts, the cumulative Consumer Price Index (CPI) increases over the past five years totaled 6.3%. Therefore, as shown in the exhibit above, the health care plan is the only plan that has kept up with inflation.

3.31 Indexing rules vary between the plans. The plans measure the change in the CPI index differently, which can result in different inflationary adjustments. The following is a summary of the indexing provisions of each plan.

Indexing Rules				
	Health Care	Public Service	Teachers Pre-2006	Teachers Post-2006
Indexing guaranteed	Yes	No	Yes	No
Amount of indexing	CPI (3% maximum)	If funded status ≥ 100%, discretionary increase based on CPI	CPI less 1% to a maximum of 6%	If funded status ≥ 100%, discretionary increase based on CPI If funded status >90% and <100% • 50% of CPI • discretion of Trustee
Review timeframe	Annually	Every 5 years	Annually	Annually

Employees need to continually examine and understand their pensions when planning for retirement

3.32 The ability of a retiree to keep up with the increase in the cost of living may be contingent on how their annual pension benefit gets indexed. It is critical that employees understand how indexing works with regard to their pensions.

3.33 The 4,320 members of the teachers' plan who retired after August 1, 2006 have not received an increase in their pension for nine years. For this group of retirees, their annual pension benefits can be indexed if the plan's funded status is greater than 90%. The last time the teachers' plan reported a funded status greater than 90% was December 31, 2007.

3.34 To illustrate this indexing issue, we projected what the annual pension benefit would be in 10 years under each of the three plans for an individual that retires today. We make the following assumptions for illustrative purposes only.

- Health care plan indexed at Province's projected long-term inflation rate of 2% (CPI guaranteed)
- Public service plan receives indexing at 2017 rates, assuming plan is fully funded
- Teachers' plan remains below 90% funded for the next 10 years (no indexing)
- $42,000 is the annual pension benefit

Retiree Pension – 10 Years Out			
	Health Care	**Public Service**	**Teachers'**
Retire today – current annual pension	$42,000	$42,000	$42,000
Assumed indexing rate %	2.0%	.85%	No indexing
Projected pension in 10 years	$51,000	$46,000	$42,000

3.35 In this example, after 10 years of no indexing, the retired teacher's annual pension benefit is $4,000 to $9,000 less than a retired member of the health care or public service plan initially earning the same annual pension at retirement. Consequently, working teachers and teachers who retired since August 1, 2006 may want to plan for no increases to their pensions because their plan is not expected to be in a position to offer indexing for the foreseeable future.

3.36 While the public service pension plan is currently financially healthy enough to provide a level of indexing to its retirees, based on the Province's projected long-term inflation rate of 2%, as noted above, public servants would receive $5,000 less in pension benefits than a retired member of the health care plan.

Other Pension Plans in the Public Sector

3.37 In this chapter, we outline the three pension plans covering the majority of public sector employees in Nova Scotia. There are a number of other smaller public sector pension plans that are individually important to members; we have not included them in the earlier analysis. These plans, although smaller than the others discussed earlier, still have an impact on the Province's finances. These plans include, but are not limited to:

- Members' Retiring Allowances Plan
- Members' Supplementary Retiring Allowances Plan
- Sydney Steel Corporation Superannuation Fund

3.38 The following table highlights the pension obligation of each plan as of March 31, 2017.

How Much is Owed to these Pension Plan Members	
MLA – Members' Retiring Allowances Plan	$40 million
MLA – Members' Supplementary Retiring Allowances Plan	$69 million
Total MLA pensions	**$109 million**
Sydney Steel Corporation Superannuation Fund (Sydney Steel Fund)	$153 million

3.39 The Nova Scotia Minister of Finance and Treasury Board is the Trustee of the MLA plans. The two pension plans are governed by legislation called the Members' Retiring Allowances Act. The Act sets out the plan details, including contribution and benefit amounts. However, unlike the health care, public service, and teachers' plans, the MLA plans do not own segregated plan assets that would assist in providing retirement benefits to MLAs. Pension benefits are paid directly from the accounts of the Province.

3.40 Some key aspects of the two MLA plans are outlined below.

How Many People are Covered by the MLA Plans	
Current members of the House	51
Pensioners and Survivors	127
Other	8
Total plan membership	**186**

3.41 The total pension obligation owing is $109 million and covers 186 people made up of current and former MLAs and their survivors.

3.42 In accordance with the Act, Members contribute 10% of their pay towards the plan. The Province contributes a matching amount, plus additional contributions to cover plan obligations as calculated annually. The March 31, 2017 audited financial statements show the contributions by each contributing group.

How Much are Members and the Province Contributing to MLA Plans Annually			
	Plan 1: Members' Retiring Allowances	Plan 2: Supplementary Retiring Allowances	Total Contributions
MLA contributions	$543,000	-	$543,000
Province's contributions	$1,223,000	$1,558,000	$2,781,000

3.43 For the March 31, 2017 year end, the Province, as the employer, paid $2.8 million toward MLA pensions, while MLAs paid $543,000 toward the plans. The Province paid five times what the members paid toward their pensions in order to fully cover the pension obligation of the plans.

3.44 MLAs are entitled to a pension after two years of service and receive pension benefits in accordance with the provisions of the MLA pension plans. At a high level, this means that for members first elected on or after October 8, 2013 the benefits are:

- 3.5% earned per year-of-service time as a MLA, and
- 20 years-of-service time will provide the maximum pension (or 70% of salary).

MLA Pension		
MLA Salary	Serve 10 Years	Serve 20 Years
$90,000	$31,500 annual pension (3.5% x 10 years = 35%)	$63,000 annual pension (3.5% x 20 years = 70%)

3.45 The increases that retired MLAs receive is tied into the indexing that public service plan pensioners receive. This means that from now to 2020, a retired MLA will receive a 0.85% annual increase to their pension.

3.46 Sydney Steel Fund was established in 2001 with the objective to fund the pensions of former employees of the Sydney Steel Corporation. There are no contributing members in this plan. The Minister of Finance and Treasury Board is responsible for the Fund and all benefit payments and administration expenses are funded by the Province.

Appendix I

Highlights of Nova Scotia's Pension Plans

Key Aspects of the Health Care, Public Service, Teachers' and MLAs Pension Plans				
	Health Care*	**Public Service**	**Teachers'***	**MLAs****
Plan assets (investments)	$6.6 billion	$6.0 billion	$4.9 billion	-
Surplus (Deficit)	$1.7 billion	$239 million	$(1.4) billion	-
Members contribute percent of salary	≤YMPE 7.82% >YMPE 10.18%	≤YMPE 8.4% >YMPE 10.9%	≤YMPE 11.3% >YMPE 12.9%	10%
Maximum pension (percent of salary)	70%	70%	70%	70%
Maximum years of service	35 years	35 years	35 years	20 years
Indexing in 2017	Yes – currently	Yes – currently	No – post 2006 Yes – pre 2006	Yes – same as Public Service
Province's contribution to plans	Match 1:1 + 1.4% of pay	Match 1:1	Generally Match 1:1	Unmatched 5:1
Active member for every 1 retiree	2.86 health care worker	1.08 public sector employee	.97 teacher	.40 current members

** For year ended December 31, 2016*
*** For members first elected on or after October 8, 2013*