

## NSSBA Response to Certain Sections of Nova Scotia Review Panel Discussion Paper

### **4.1 – DB vs DC Plans**

Should regulators permit DB plans that may be more attractive to employers by reducing funding risks?

- Yes!! One of the significant reasons for the decline in DB plans is over regulation, certainly with respect to funding. Employers have the ultimate risk. If employers are supposed to guarantee DB plans 100%, then there should be some agreement for the use of surplus by the employer subject to appropriate safeguards for members. DB plans are being wound up because of the onerous funding restrictions. Some thought should be given to a relaxation of funding risks without overly jeopardizing the members' right to their pensions.

### **4.2 – Pension Plan Funding**

#### Overview:

Your statistics on the number of members covered in plans that were fully funded on a solvency basis are disturbing. We understand the impact of declining investment yields in 2002 and 2003. However, those yields rebounded sharply and this is not reflected in your numbers. For all plans, we believe that maintaining a 100% solvency ratio, given the stringent solvency assumptions, is not only not advisable, but potentially dangerous. This is especially so for pension plans dependent upon government funding where the solvency risk is lower, as well as Multi-Employer plans in general.

We are also disappointed and concerned that you would grant solvency relief in Nova Scotia to a University Plan (Education sector and government funding), specified Multi-Employer Plans, and a plan for municipalities (again government funded containing some school board employees) while not considering similar relief for our plan (Education sector, government funding, and several employees). While we applaud your flexibility in applying solvency rules in these circumstances, we feel that you might have considered our situation given the fact that

nearly 50% of the non-teaching school board employees are employed by the H.R.S.B.. These employees are covered under the municipalities plan which did receive some solvency relief.

In Response to Your Questions:

- The rules for measuring and remediation of solvency deficits need to be overhauled. Perhaps a threshold less than 100%, varying by type of risk, could be employed.
- Exceptions to rules can be problematic as we have outlined in our case where we feel we are very similar to all 3 of the current exceptions. Rather than exceptions, the rules could be varied by degree of funding risk.
- Going concern funding should always be a requirement. Current rules are adequate.
- Promises to future benefit accrual should not be regulated.
- Full funding at wind-up is a desirable goal. However, the current wind-up scenarios (over-inflated CV's for active members, low annuity rates for pensioners) are problematic. Some allowance should be made to avoid these overly conservative mandated wind-up scenarios.
- We strongly believe in province-wide plans for either public or private employers. We, after all, operate such a plan. We believe that these plans should operate in a "Multi-Employer" Pension Plan environment.

### **4.3 – Surpluses**

In Response to Your Questions:

- Regulators should not remain silent on the ownership of surplus. However, the regulations should not be such that they inhibit employers from establishing DB plans and creating surpluses. Rules already exist to ensure that employers pay for at least 50% of a member's benefit at retirement or termination. Surpluses should be encouraged and somehow, the current 10% CRA restriction should be removed.
- The concept of "deferred wages" is not as valid as it once was. In terms of bargained pension contributions, these are no longer universally viewed as deferred wages as they have been bargained NOT to be wages.

#### **4.4 – Multi-Employer Plans**

##### In Response to Your Questions:

- Funding concerns for MEPP's should be addressed simply by adopting relaxed funding standards for solvency, reflecting the risks of these plans. The 85% approach taken in some jurisdiction is a positive step. While the Quebec hybrid model has some advantages, it should not be viewed as a total solution to the current MEPP funding concerns.
- Going concern funding costs and modified solvency costs should apply to MEPP's.
- Regulators should facilitate the development of hybrid models and the Quebec model may be attractive to some Nova Scotia employers.

#### **4.9 – Unlocking Funds**

##### In Response to Your Questions:

- Regulators should step cautiously when regulating an employee's right to access funds. A 50% access to pension funds may be appropriate if the 50% approximately represents the employee's own contributions. If the plan has been 100% funded by the employer, no access to these funds should be given.

#### **4.10 – Grow-in Benefits**

##### In Response to Your Questions:

- Subject to an overall review of funding requirements at wind-up, we believe that legislation should NOT require grow-in benefits to be provided at wind-up. We believe this is a onerous requirement which has been abandoned in most other jurisdictions. In the essence of harmonization this should be changed.
- See above response.

## **5.1 – “Safe Harbour” Rules**

### In Response to Your Questions:

- We are somewhat reluctant to comment on DC rules as our plan is almost exclusively a DB plan. However, we do have a small DC component which could grow. As long as an employer follows “best practices” (CAPSA guidelines) we believe that some form of Safe Harbour should be provided.

We thank you for providing the opportunity to make a submission and look forward to the results of your review.