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November 13, 2008

Pension Review Panel
c/o Nova Scotia Labour and Workforce Development
Policy Division
PO Box 697
Halifax, NS
B3J 2T8

Dear Sir/Madame:

On behalf of the Nova Scotia Association of Health Organizations (NSAHO), I am pleased to have the opportunity to respond to the call for comments on the Pension Review Panel's Position Paper dated October 17, 2008.

The NSAHO Board of Directors has had an opportunity to review and consult on this paper. We have also had an opportunity to review the submission made by Mr. Calvin Jordon, CEO of the NSAHO Pension Plan, on behalf of the NSAHO Pension Trustees. We believe that Mr. Jordon's submission accurately reflects our position as settlors of the NSAHO Pension Plan. Mr. Jordon highlights very specific issues that we feel require attention. We also strenuously oppose the proposed new funding formula, which also concurs with Mr. Jordan's response.

I have attached Mr. Jordon's letter as reference. Thank you for the opportunity to provide comments.

Sincerely,

Mary Lee
President/CEO

att.

November 4, 2008

Pension Review Panel
c/o Nova Scotia Labour and Workforce Development
5151 Terminal Road, 5th Floor
Halifax, NS B3J 2T8

Dear Sirs:

**Re: October 17, 2008 Position Paper**

On behalf of the NSAHO Pension Plan Trustees, I am pleased to provide comments regarding the Pension Review Panel's October 17, 2008 Position Paper ("Paper").

The NSAHO Pension Plan ("Plan") is Nova Scotia's largest pension plan regulated by the Nova Scotia Pension Benefits Act ("Act"). It provides defined benefit pension benefits to much of the province's healthcare workforce.

The main focus of our comments are with respect to the minimum funding approach that is detailed in the Paper's Appendix B. Later in this letter we provide a few more detailed comments.

Proposed Minimum Funding Approach

It is critical for any funding approach to practically balance the long term security of member benefits against the affordability of current contributions. In jurisdictions throughout Canada this is achieved by:

- normal funding based on going concern assumptions that generally reflect a best estimate of the future with a reasonable provision for adverse deviation; and
- a solvency test based on an adjusted cost of discharging benefits in the event of a hypothetical plan wind-up. When this test is failed, funding is required to be accelerated.

The current solvency test referred to above makes the practical compromise of excluding certain benefits. Effectively, members share a limited part of the risk associated with wind-up. In exchange, our members and their employers are relieved from the need to fund amounts that are potentially greatly in excess of the expected going concern requirements of the pension plan.

Under the *proposed approach*, elements of the going concern and solvency basis are combined into a single valuation basis. In so doing, funding will target an increased level of benefit security (although still less than 100%) in the relatively unusual event of wind-up, but at the expense of an immediate increase in cost or curtailment of benefits.

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Under the *current funding approach*, surpluses are generally the *unexpected* outcome of better than anticipated experience. Under *the proposed approach*, surpluses would be *expected* to develop over time, this being the result of contributions that are higher than expected to be required. In the NSAHO Pension Plan's environment we expect that amortizing such surpluses by taking partial contribution holidays as described in the Paper would be impractical.

By way of example, our Plan's funded position under the current and proposed funding approach as of July 1, 2008 is as follows:

| | Current Approach | | Proposed Approach |
|---|---|---|---|
| | Going Concern | Solvency | |
| Assets | $2,671,000,000 | $2,666,000,000 | $2,666,000,000 |
| Liabilities | $2,642,000,000 | $2,503,000,000 | $2,925,000,000 |
| Surplus | $29,000,000 | $163,000,000 | ($259,000,000) |
| Current Service | 16.28% | n/a | 16.51% |
| Special Payments | n/a | n/a | 3.6% |
| Total Contributions | 16.28% | n/a | 20.11% |

In the above, the increase in contributions *significantly understates the impact* of the proposed approach. This is because our current going concern assumptions are very conservative (using a 3 ½% pre-retirement nominal investment assumption), resulting in contributions that are significantly higher than the minimum requirement. Despite this, you will note that the minimum contributions under the proposed approach are almost 4% higher than under our current "conservative" assumptions.

In addition to the above, we estimate that under the proposed approach there would be additional contributions with respect to the funding of deficiencies when members terminate of approximately 0.14% of payroll per year. As is the case with the current requirement for employers to fund solvency deficiencies and excluded benefits for terminating members, the protective value of such a requirement is normally small and the administrative burden disproportionately large. This appears to have been recognized in Ontario, where a similar funding requirement was changed so that funding is now only required if the cumulative transfer deficiencies since the last valuation report are more than 5% of plan assets. We recommend a similar threshold below which additional funding would not be required. We further recommend that Jointly Funded plans be permitted to share any such funding between employers and members consistent with the way in which they share other funding.

Implementing these changes at this particular time would be especially problematic. At the same time that other jurisdictions are providing funding relief to mitigate the impact of recent market turmoil, Nova Scotia would be making funding more difficult. If the capital markets do not recover significantly over the next few years it is likely that our Plan will face a solvency deficiency when our next valuation after 2008 is filed. In this environment, the proposed approach could represent additional special payments of about 5.9% in addition to the difficult funding situation that we could already be facing.

It should also be noted that section 3.3.2(e) of the Paper that prevents benefit improvements when the funding ratio is less than 105%, would be very difficult under our current plan design (career average plan with periodic base year improvements). Specifically, we would be prevented from making a Base Year improvement unless a surplus remains after the improvement of at least 5%. This would mean that we would not be able to make a Base Year improvement until our funded position improves by about 17% from our July 1st position. Plans that exercise prudence by providing some benefits by way of periodic ad-hoc improvements (such as career average plans or plans that provide ad-hoc indexing) should not be punished for their prudence by the combined impact of 3.3.2(e) and the conservatism of the proposed funding basis.

We strenuously object to the proposed new funding approach. This approach will have very negative consequences to our members and their employers even with a lengthy transition period. And in the absence of such a transition period this approach is simply not workable for us.

<u>More Detailed Comments</u>

- Page 9: Funding sources – Members are not listed as a possible funding source. Jointly Funded Plans in which members share responsibility for contribution changes represent an important means of sharing risk, but face certain logistical issues. One such issue is alluded to in the section #5 comment on page 31 of the Paper in which the possibility of delaying deficit funding is mentioned. It is desirable for jointly Funded Plans and the logistical issues that they face to be provided for in the Act.
- Page 14: Amortization – We note that the proposed new funding approach would apply from the next valuation date onwards. Given the significant contribution increases that will frequently result under the proposed new approach, exacerbated by the financial challenges that many pension plans are already facing, we respectfully suggest that a longer transition period is necessary.
- Page 15: 3.3.1(e) – We appreciate the recommendation to allow plans that share contribution increases with members to avoid retroactive contributions to the valuation effective date. It would be helpful if this applied regardless of whether the contribution sharing is codified in the pension plan text or in collectively bargained documents.
- Page 17: Partial Wind-ups – We suggest that your recommendation be modified to fairly reflect the circumstances applicable to Jointly Funded plans with multiple participating employers.

  In particular, for plans with multiple participating employers, when there are deficits associated with a departing employee it would seem fair to allow a pension plan to make the departing employee's employer (not other participating employers) solely responsibility for any employer funding.

  Further, for Jointly Funded Plan plans, page 32's phrase "unless completely jointly funded" suggests that the employer "top up" funding should only be the proportion that is

the agreed upon employer funding share. If this approach were used, would this mean that the departing member's benefit would be reduced by any remaining deficit?

- Page 19: Governance – In section 3.7(d) we would suggest that governance model changes for a Trusteed Plan should only require the approval of the Settlor, the Board of Trustees and the Superintendent.
- Page 19: Advisory Committees: We suggest that Trusteed Plans that have member representation on the Board of Trustees above a specified threshold should not also be required to have an Advisory Committee. If the Panel rejects this suggestion, we respectfully suggest that burdening a pension plan that has member Trustee representation, with the added expense of professional advisors to a seperate Advisory Committee is unreasonable.
- Page 22: Phased Retirement: The statement is made that: "There would be appropriate actuarial adjustments where needed to recognize the later receipt of the deferred and additional pension benefits". This would appear to lead to the inequitable result where a Phased Retirement member who starts some negligible portion of their pension would benefit from an actuarial adjustment, whereas a member who continues to work and does not start their pension at all does not get such an actuarial adjustment.
- Page 23: Access to Information: Where access to lengthy documents is in paper form, the right should exist to charge a fee to defray associated costs.
- Appendix B: Assumptions: The commuted value for terminating members is unfairly reduced by a pre-retirement risk premium, causing the value of their benefit to be reduced relative to retaining a deferred benefit. Further it seems unfair to reduce the value of commuted values by assuming that deferred members will have the same retirement pattern as active members. On the other hand, grossing up a commuted value to reflect future salary increases that an employee might have received if they had not terminated seems excessively generous, especially if no corresponding increase is provided to deferred members (while the future salary increase assumption will have little impact on our current Career Average design, we may have an interest in a Final Average design in the future).

If the retirement decrements are to be based on plan experience, but further increased so that at least 50% retire at the most expensive date, this will result in an overall assumption that will generally be more conservative in aggregate than actual plan experience.

Appendix B: Results: The one year delay that is permitted in the amortization of deficits for plans in which contribution increases are shared with members, should also extend to increases in the MFCSC.

Appendix B: Sources of funding / influence of funding policies: Consider a plan in which contributions are shared 50% / 50% between members and employers. When there is no surplus and no deficit, the members and employers would each contribute 50% of the MFCSC. When there is a deficit the members and employers would each contribute 50% of the MFCSC and 50% of the amount required to amortize the unfunded liability.

When there is a surplus, if it is used to reduce contributions, we understand that the surplus would be used 100% for the benefit of members as the employer's contributions could not be less than 50% of the MFCSC. Is this really what the Panel intends?

If you have any questions regarding our comments, please do not hesitate to contact the undersigned.

Regards,

Calvin Jordan
CEO, NSAHO Pension Plan