NSSBA Response to Certain Sections of the Nova Scotia Pension Review Panel Position Paper

Funding:

We welcome the fact that under your proposed funding method, all plans, including Universities, Municipalities and MEPPs, will be treated equally. While we still believe that going concern funding should always be a requirement, the proposed method will provide sponsors with some funding relief without jeopardizing employee benefit security. We have the following comments on specific points of the proposed minimum funding requirement:

- Regarding assumptions
    - The use of an annuity purchase discount rate for post-retirement seems overly conservative.
    - We do not see the necessity of using a pre-defined salary increase scale. Sponsors should use a scale that represents their best estimate of future salary increases, adding a margin for conservativeness if necessary.
    - Sponsors should select their retirement scale based on plan experience rather than being forced to use a retirement scale with at least 50% of members retiring at the age that maximizes the value of their benefits, provided that sponsors indicate the rationale for using the retirement scale.

- Regarding the amortization

  We agree with the main points of the proposed amortization method. However, we change formulas a. and c. from page 30 and page 31 respectively to the following:

  a. Assets > Liabilities x 1.05

     Minimum funding = MFCSC minus (Assets – Liabilities x 1.05)

  c. Assets < Liabilities x 0.95

     Minimum funding = MFCSC plus (Liabilities x 0.95 – Assets)

  These formulas would eliminate situations where, for example, a plan with a funding ratio of 1.051 could contribute less than a plan with a funding ratio of 1.049.

- Sources of funding

  We understand the rationale for not allowing the sponsor to use the surplus if it results in the sponsor having paid less than half of the MFCSC but would like the Pension Panel to expand on the method of determining these amounts. In addition, the current inclusion of excess contributions in member benefits already

ensures that employees do not pay for more than half of the value of their benefits.

- Other elements of funding
  With respect to "top-ups" in the case of an underfunded plan paying out commuted values, we believe that there should be exceptions for plans with low commuted value payments or a small number of payments, similar to what is already in the Pension Benefits Act (deficiency less than 5% of YMPE and total payments less than 5% of the assets).

- No retroactive contributions
  Having been in this situation in the past, we strongly agree that additional contributions should not be made retroactively to the valuation date but should, instead, increase future contributions from the date the report is filed. This will avoid difficult situations for many employers where a significant increase in contributions paid retroactively in a lump sum was not budgeted for that year.

Province-Wide Pension Plan

As we pointed out in our original comments, we strongly believe in province-wide plans .

Surplus

As we pointed out in our original comments, rules already exist to ensure that employees do not pay for more than 50% of the value of their benefits and therefore we do not believe that the proposition to ensure that employers have paid at least 50% of the net contributions over the past 10 years is necessary.

We agree with the proposition to allow sponsors to use surpluses to fund current service contributions over a period of 8 years. This proposed rule would provide some contribution flexibility to sponsors while ensuring a certain cushion.

Grow-in benefits

We noted in our original comments that we believe that legislation should not require grow-in benefits to be provided at wind-up and we therefore are in agreement with the proposition to offer or not grow-in benefits.

Unlocking

Allowing employees to transfer up to 50% (for DB plans) or up to 100% (for DC plans) of the value of their benefits to a non-traditional vehicle may be beneficial to some retirees as this would give them some flexibility that would not typically be available in a pension plan. Allowing plans to offer such an option also gives the sponsor more flexibility with respect to plan design. However, we do not believe that this option should be made mandatory for each pension plans as many sponsors believe that one of the main purposes of a registered pension plan is to provide a steady stream of retirement income and protect retirees against longevity risk.

Governance

While good governance for pension plans is very important, we believe that a mandatory Governance Plan would be an additional administration burden for sponsors and therefore disagree with this proposition.

Safe Harbour

As we pointed out in our original comments, we believe that as long as a sponsor follows "best practice", some form of Safe Harbor should be provided.

With respect to the annual statement showing the expected pension they can expect to receive under several investment return and interest rate scenarios, we agree that this could be useful information for members and may increase the employees' understanding of their pension plan and retirement benefits. However, since there are a number of options as to what employees can do with DC money at retirement (purchase an annuity, LIF), there should be guidance as to what type of information should be shown on such statement. We also wanted to point out that although many DB plan sponsors show a projected pension at Normal Retirement Date and/or Unreduced Retirement Date, it is not currently a requirement in Nova Scotia and the Panel should consider recommending this information to be mandatory to be consistent with DC plans.