Presentation to Law Amendments

April 29, 2010

Bill 24 Financial Measures Act

Presented by Dave Peters

Introduction

By way of introduction, I am the immediate past president of NSGEU, having served on many committees and attending many conferences across the country over many years. For the past 18 years I have served on the Public Service Superannuation Advisory Committee to the Minister as a labour representative for NSGEU. After digesting and understanding what the legislation was doing I phoned the Minister's office and resigned my committee position effective immediately on April 13, 2010. Clearly to me they were dismantling the indexing in the Plan. The real truth is in the details of what happens after 5 years or what doesn't happen. There is no guarantee of ever getting indexing again. Read about the choices the Trustee(s) can make after 110% funding. I have followed our plan intently for the past 45 years, having worked for 35 years and retired for the past 11 years.

Never, ever, in all my years have I witnessed such cloak and dagger behavior to slip through such devastating changes to any pension plan. The arrogant dictatorial approach to taking away the pension indexing promise is unbelievable and certainly unacceptable. If anyone in this day and age can imagine that the Minister of Finance, the Trustee of the Superannuation Plan, could or would make such a significant change without talking to any retiree or the NSGREA prior to making any decisions. Telling us the way it is going to be after final decisions are made is not consultation.

Let me help you understand my feelings and i'm sure they reflect the feelings of many employees, both retired and working . For 35 years at the end of each month the money deducted from my pay and matched by my employer was deposited into a pension trust account. The Minister of Finance as sole Trustee was responsible to invest the funds and to ensure that the pension promises were kept. This is my money. It is not Dept of Finance money. It is not taxpayer money. It is my savings for retirement. I believe the Minister may have seriously violated the responsibilities of a pension trustee. We will see.

The Pension Fund--(a little history)

The earliest actuarial report I can recall was in 1973 when there was $125Million in the fund and it was only 57% funded. All investments up until the late 80's were in long term bonds. Very safe but not very much growth. Gradually the fund was diversified and by 1997 the Plan was 123% funded. The problem was one of overfunding. The Trustee of that time approved a contribution holiday for one year for both the employees and the employers. Because of continued overfunding the contribution holiday was extended for a second year into 1998. Other benefit improvements were also made and the one most worthy of note was the indexing adjustment that was made to long time pensioners who did not receive any indexing prior to 1980. One surviving spouse, well into her 90's, received a 70% increase. This shows how critical keeping up with inflation is. Somewhere between $400 and $500 Million of surplus money was expended at that time. Wouldn't it be nice to have that today?

Another cost to the plan over the years is the cost of the three early retirement programs. Without getting into all of the details here the actuaries have long since acknowledged there was a significant cost to the pension plan. I wrote to the Minister of Finance asking him for the information because the Dept of Finance would not give it to me even as a member of the Minister's Advisory Committee because it was "confidential". You cannot even begin to imagine the arrogance of the senior bureaucrats over in Finance. Our pension funds paid for the actuaries to do the work. I am ashamed to advise that the Minister has not even acknowledged receiving my letter let alone replied to my questions. So why am I not surprised.

Following the few years of overfunding along came the "tech crash" in 01-02 causing markets to contract then in 08 came the mortgage meltdown in the US causing the worst financial market situation in 80 years. This was followed by Central Banks around the world lowering interest rates to historic lows and bailing out huge corporations. The current Bank of Canada interest rate is at 0.25% which is an unprecedented low.

The Actuary

It is with these events in hand that the Actuary has valued the assets and liabilities of the Plan--------the spending of $400---$500 million, the cost to the fund of early retirement programs and other government actions, the sharp downturn in market values, lowest interest rates in history. As a result the actuary has recently valued the Plan as being about $1.5B underfunded.

One of the key assumptions that the actuary makes is the interest rate assumption. All actuaries must adhere to certain standards when making their assumptions to measure the health of all pension plans. This is so that stakeholders and regulators can have confidence that the same basic standards were used to measure any and every plan.

In making an interest rate assumption the actuaries select a rate that is approximately the 10 year government bond rate. Currently this rate is around 4%. So the actuary assumes a "real" rate of return on assets of around 4% . This rate is used to project the value of assets in the future.

So it is the low interest rate assumption and the current depressed market valuations that have produced the unfunded liability in all defined benefit plans. These unfunded liabilities only turn out to be true if the assumptions turn out to be accurate.

Last year the Plan had a "real" return on investments of approx. 15%. Of course the investments will not produce that same return for the next 30 years. On the other hand it is not reasonable to expect that "real" returns of 4% each year is acceptable rather it is saying you are can be reasonably assured of the health of a plan when measured using this very conservative.

It is for these reasons that the Department of Manpower and Development has changed regulations to allow some 167 defined-benefit an extra 5 years, from 5 years to 10 years to recover from any funding problems. On Nov. 4, 2009 Minister Marilyn More said "We recognize, as do our counterparts in other provinces, that pension-plan investments were hard hit by the unprecedented changes in financial markets that swept the world a year ago".

Why not follow that same logic for the superannuation plan . Give it some time to self correct. The unfunded liability is only a paper figure. Even though the actuary is required to do a calculation for interest on the unfunded liability there is no interest paid to anyone. It is simply just that--- a paper figure. So why race out and borrow more than $500Million now and start paying out real interest, real money, taxpayer dollars, to the holder of the bond , when time itself will take care of it.

The Pension Promise

There are approx. 12,000 pension recipients. When we retired we left with the promise that our pension would be indexed to the CPI to a max. of 6%. That was to maintain the purchasing power of the pension. It is for that reason that the CPP and Old Age Security and Supplement are indexed to the CPI.

Every employee who attended the civil service pre-retirement course was told they would get the indexing. Now it's a broken promise!

At the time when I retired there was more than a dollar for every dollar of benefit promised to me . The same is true for many others. So now what are you telling us?

There never was any talk at any time ever of making any changes retroactive *to those already retired. So it came as quite a shock. And the total lack of* any discussion with retirees shows the highest levels of disrespect considering that we collectively represent several hundred thousand YEARS of service to the people of Nova Scotia and we don't deserve this callous treatment.

It is hard to imagine how a junior Minister just 6 months on the job, could determine that getting rid of indexing is the only solution to the current situation.

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The information letter that went to all employees was very cleverly and craftily written. It was intended to make everyone that the pension had been saved. But it was very short on detail. It didn't say what assumptions the actuary used in arriving at their forcast. It didn't give the date of the valuation for the 69% funded ratio. The future options after 5 years make any indexing unlikely and for sure never guaranteed. The shame of it is that none of this is necessary.

The pension fund is not in any danger of running out of money soon or otherwise. The comfort letter is very misleading. There is well over $3Billion in the fund at the present time.

Conclusion

You can restore our confidence in government by recommending that all references to the indexing of pensions for the PSSP be deleted.

By including these changes in the Financial Measures Act you have imposed a special tax on the recipients of a superannuation pension and only on them. The exact amount of this special tax won't be known until the first five years go by and then employees will know how much this change has cost them.

By recommending this change you will restore our confidence in a democratic form of government. We want openness and transparency. This has not happened.

There is something wrong with this picture when we assume we will only earn a "real" rate of return on investments of 4% for the next 30 years and then change benefits to match that rate. Does anyone really believe that is all we can earn.

I believe the Minister is being lead in the wrong direction by his advisors in Finance. They have been trying to change the indexing for a number of years. They have even invested some of the pension money in a P3 fund. Can you even imagine. Public sector employees pension monies being invested in a way that if left unchecked will mean the demise of certain public services and the public sector jobs that go with them The private sector has been concentrating on owning public infrastructure since some time now.

It is just a year and a half ago that the former Minister of Finance and Trustee of the Plan gave written assurances that there wouldn't be any changes to the pension benefits until 2014. Now that is changed. Who are we to believe?

It is not broke so don't fix it. Leave it as it was and give it some time. Minister Marilyn More's approach for the private sector pension plans makes sense . Good common sense. Try some on the Dept of Finance.

Thank you for your attention and I welcome any questions.