PRESENTATION

To

The
Nova Scotia House of Assembly
Standing Committee on Law Amendments
Red Chamber, Province House

By

The
Nova Scotia Government
Retired Employees Association
(NSGREA)

Re

Bill No. 24
Financial Measures (2010) Act

29 April, 2010

It is interesting that the Nova Scotia Government Retired Employees Association (NSGREA) has been around for 25 years talking and making improvements with previous governments, but NSGREA was never part of or had access to the proposals relating to changing the indexing.

Looking at who represents those who are in receipt of a pension from the Nova Scotia Superannuation Pension Fund is also interesting. Initially, the Government and Union had an agreement on the terms of the pension. Who could belong, how it would be calculated, how it would be paid and indexing, using the Consumer Price Index (CPI) to determine the amount. Belonging to the Pension Plan was a condition of employment & retirement was just calculations of the indexing managed by government. Pensions were a non-negotiable issue.

These were the conditions in place on all of those in receipt of a pension from our plan. You will note, I refer to the plan as OUR plan. During and up to 35 years as an employee, we contributed to the plan in what was referred to as "deferred salary", but better understood as "the pension". We were required to be part of both the plan and the union; no ands, ifs, whys or buts. However, when you understand that the pension was non-negotiable, maybe the government was representing the employer and employee.

Over the years it was obvious the retirees were under-represented on issues relating to our pension & health plan. In 1985, 25 years ago, the Nova Scotia Government Retired Employees Association held its first Convention, approved a Constitution & By-Laws and began their role as the retirees' voice to government.

The first act of NSGREA occurred the following year when the government agreed to a cost-shared Extended Health Care Plan. During the Pension Holidays of 1996/97, following the Government & Union getting their share, NSGREA obtained an agreement on 1) Spousal Benefits increasing to 66 2/3%, 2) Maintaining pensions salary to a surviving spouse should the pensioner pass away within 5 years, and 3) Full indexing for those who had retired before indexing. In addition, at that time, NSGREA was given a seat on the Pension Advisory Board. Given these scenarios with our passed participation with government, I would suggest that NSGREA is the one who best represents the interest and well being of provincial retirees.

The proposed financial solution for having our pension fully funded is something that has been heard from actuaries for years, especially during a down turn in the economy. Their method to measure how a pension plan works involves assumptions and risk - the better the assumptions, the less the risk.

The borrowing of funds at a better interest rate to pay out a previous debt sounds like a fundamentally sound financial step. Assumptions sound good and the risk is improved. The amount of $543 million dollars is about equal to what previous governments put in another pension plan, similar to ours and which the government is still involved.

During those periods of investment, the members in that plan were reduced by 1% of the cost of living. If the cost of living was 3%, our retirees would receive the 3% while the other plan members received 2%. Later it was changed in their plan that anyone in that plan, after a certain date, would be under a new plan. The new plan would only have increases if the plan was over 100% funded and it would not hurt the funded liability of the plan.

Those who put the Public Service Superannuation Plan (PSSP) in place were not concerned about the under funded liability. The concept was to arrive at a pension formula & allow for a cost of living formula. The Consumer Price Index (CPI) was chosen as the measuring tool. The formula for pensions was taking the years of service and multiplying by 2, maximum being 35 X 2 = 70. This meant the retiree would receive 70% of the best 5 years of their employment. It was alarming to learn that the average pension to retirees currently is $17,373. It's no wonder the plan is failing with the amount of employees who are retiring and not being replaced. The next cut to the staff will be by attrition, so no one will loss their job and no one will fill their job. The pension fund just gained a 1000 members and the fund has lost 1000 employees paying into the fund. Given the above, the ability for the fund to ever be in a position to offer indexing is gone and pensions could also be at risk.

The developers of the plan knew there would never be a time when the government would have to pay out to all the active & retired employees, so the under funded liability was a given. The plan, through investment of the contributions, would deliver a pension; cover the admin / interest costs as well as indexing. They knew and understood why a cost of living feature would be needed.

NSGREA does not support the cutting of benefits but the method for retiree input was in place to discuss these pensioners' issues with government and has been for 25 years. The Minister of Finance has communicated twice with me. First on April 6, just before putting it before the House, I received a "heads up" call. At the time I was a passenger in our Secretary's vehicle on the way to a regional meeting in Truro. I can tell you I was shocked & surprised by such an announcement and I informed the Minister that he would be receiving flack.

The second was from the Minister's office setting up a meeting for last Monday, 26 April at 12:00 noon. The NSGREA Executive arrived for the meeting as did the Minister, Deputy Minister, CEO of the Pension Agency, an actuary and a communication person. The Minister outlined the proposals for the Pension Fund and than invited our response. It would appear that NSGREA's interpretation of the Minister's plan was unsettling. Our apparent misunderstanding as to the need for corrective action to the under funded liability was how the Minister phrased it. Only in recent years has the under funded portion of the plan obtained any notoriety and now must be cured in nine months, whereas others in financial pension situations have 10 years for their corrective action.

The designers of the pension plan were not only intelligent but wise. The method to obtain a pension was figured out, a method to sustain a living pension was adopted and the means to make it operational were agreed upon. The employer and the employee would make equal contributions and these contributions would be invested to cover the cost of pensions/indexing, administration and interest. The under funded liability was part of doing business.

So what is an under funded liability?

First of all, let's go where the Minister and the pension haven't gone since the "pension holidays" of 1996/97, a pension that is 100% funded. With a 100% funded plan, the contributions remain the same, frozen, so government and union would like that. The straw in the ointment is following the wisdom to ensure the survivability of the retiree by having a cost of living. Although this is a cost, the method to have the indexing reduced and the remaining CPI placed in the pension fund would certainly indicate that what retirees were entitled to yesterday, tomorrow is now paying our pension. So if the retiree receives 1.25% and the CPI is 3.25%, the remaining 2% will remain in the fund, the retirees' contribution to their own pension. Although I received this message from retirees and told the Minister as to how it is seen, he refutes it.

When the plan is under funded , say 20 %, which means it is 80% funded, there is insufficient finances to pay what the plan owes to all those who would be entitled, both active & retired employees. With these numbers, those entitled to a pension would only receive 80 % of their pension. Having said that, at what time in the future would the Minister have to write those cheques? If that happened, not only Nova Scotia but Canada would be in much serious trouble. The rationale for the developers of the PSSP was not a major concern with the under funded liability, as they understood that investment rises and falls and to chase a moving target is best minimized by selecting good investments.

The question as to the method of correcting the under funded liability by using retirees' entitlement by changing the rules is dishonest & deceitful. The bullying of a group of seniors who have served the people of Nova Scotia for 35 years and had this as a contract of employment feel a breach of trust has been committed. Retirees have made inquiries of the Pension Agency on a variety of questions, mostly relating to these projected costs and how they will play out and have not received a response. The NSPA Fact Sheet was less informative on what a retiree would like to know as to what is being shown. Take the indexing for 2009 at 0.4%. This was to be added to the CPI of 2010 and if the sum was over 1%, we should receive it. The answer to that is that it won't be happening. In January 2011, the 1.25% will be paid and that's it - another slight of hand by the Government.

The article by Mr. Bill Black in the April 21st edition of the *Chronicle Herald* gives some sense of the misinformation that is being used to generate public apathy towards those receiving a pension from the PSSP. In it, he argues for deeper cuts to benefits, and contends, in error, that the Province is contributing $536 million in a bailout while pensioners are contributing nothing. Unfortunately, this ill-informed comment reinforces a perception, held by some, that public service workers are unworthy of fair and just treatment and that a breach of trust is somehow justified.

It seems clear that the government is acting on an erroneous perception that retired employees are enjoying the big pension at the expense of the public. In two specific ways this perception is incorrect. First, we made our contribution to the plan as a deduction from each and every cheque that we received throughout our career. Secondly, the size of the average pension currently paid from the plan is a modest $17,373.00 annually.

The Positive Aging Strategy for Nova Scotia, conducted by the then Senior Secretariat, now the Department of Seniors, reported and published in 2005, contained nine goals and 166 societal recommendations, and was adopted by government.

Goal 1 Celebrate Seniors - Eliminate Ageism - Increase opportunities for seniors to be a part of the government decision making process.

Goal 2 Financial Security - Secure and sufficient income that provides an adequate standard of living for older Nova Scotians.

It would certainly appear that the remarks in the House are ones the employee and retiree understand and would hope that this Committee also sees the wisdom of those who developed the design for the PSSP and who understood why. NSGREA would request of the Committee to make amendments to the proposal either by saying no to these recommendations, recommend a change that would allow for some time and attempt to have NSGREA involved in such discussions.

Bernie LaRusic, President of NSGREA

Reference:

From Hansard 2nd reading on Financial Measures Act, Tuesday, April 27, 2010

Note that D. Whalen (page 1430) was only member to address the pension issue and did so in a way that illustrates at least some sympathy for PSSP recipients ... Her comments could & should be useful to support pensioners' concerns before Law Amendments .....if only to shame those who crafted the bill via ref to the first sentence of par 2 plus par 3 as quoted below ...

"Again, I just think that it's important that somebody stand in the House and make the point that the current members, especially the current pensioners, really feel that they have been, in a sense, hoodwinked and let down. They've been cheated out of what they felt was a guarantee when they retired. Some of them made decisions, Mr. Speaker, to retire early. That's not uncommon. I know quite a few people who are right now planning their own retirements and looking for how they can ensure that they have some adequate income in retirement and there are a lot of people who sit down with their financial advisers, look at the benefits that they're entitled to, or the money they've accumulated, and make a decision based on that about whether or not they'll retire this year or perhaps in five years time, or just what would work best in terms of their ongoing income. We know that people are living longer and, therefore, we have to have security in place.
So I just feel that there has been a breach of contract there, but I will say that in the wording of the Financial Measures (2010) Bill there was great care taken to craft the wording so there probably is no way to challenge it in the courts. I think the minister knows that when he was quoted in the press today as saying any challenge would be a waste of time and money. I think he knows that because they anticipated there would be a challenge and knowing that, arranged the wording so that could be really stopped dead in its tracks.
[3:30 p.m.]
With that kind of wording to say that they're not responsible for any previous commitments of any previous governments, I think it says something about no past promises of any government will have any bearing on this bill. Essentially with the stroke of a pen, we can rewrite the rules. We can just rewrite the rules for people who worked 30 and 40 years for the provincial government. ....."

She also noted ((pp 1431-32) that TPP restructuring included more consultation, a vote, AND provision for retirees to opt to continue the old rules if they chose to do so !!!!

"We're washing our hands and walking away and saying now you guys are on your own with your own trustees and you have to manage it yourself. As we mentioned earlier, that was done with the Teachers Union as well, but it was done in consultation with their members and it was not done without their knowledge. It was done with a vote, they actually ultimately voted on whether or not they supported that. They did set up a joint trusteeship
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where they had more control. They wanted to have that control, at least a majority of their members did, and they were willing to do that in order to have a bigger say in their pension.
They were also offered the opportunity to retire now if you wanted to and take the benefits that were currently in place. So individuals could make that decision for themselves. The minister said that there was some concern, I think, about the number of public servants who are eligible to retire - 2,000 people eligible right now, and 4,000 more will be eligible in the next five years.
So we know that a lot of senior people, or people with a lot of experience, in our civil service are eligible right now or will soon be able to retire and it may well be that the minister was frightened of a exodus of those trained and experienced people - and I'm not surprised because, in fact, in the school boards they lost a lot of people in their final years. I know a number who were principals and vice-principals who decided now was the time to go, while their guarantee of an index was still in place.
Now, I know in the House we have a number of people who have been teachers and so they will understand exactly what I'm talking about - they were probably involved as members of that plan. But certainly it was done in a much more consultative way. It did raise tempers in the Teachers Union, there was no question - their president was under the gun while this discussion was ongoing, but they took a stand and they sold that position to their members and they explained what the benefits were and they explained what was at stake and they agreed to it. But where is that consultation in this bill?"