NSGEU

Notes for a Submission
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To the
Law Amendments Committee
On
Bill 24
Financial Measures (2010) Act

April 29, 2010

Introduction

Thank you and Good Afternoon. I appreciate this opportunity to speak to the Law Amendments Committee about Bill 24 – Financial Measures (2010) Act, the budget implementation legislation.

The Nova Scotia Government and General Employees Union is the largest union in the province. We have the privilege of representing 28,000 public and private sector employees. We are here today to mainly comment on Part IV (4) of the Bill which deals with major changes to the *Public Service Superannuation Act*.

Overall, 98 percent of our members have some form of pension coverage. In total, our members are covered by almost twenty pension plans. Twelve of these twenty plans are defined benefit plans. For these twelve plans, more than two-thirds of our members belong to two defined benefit pension plans – the PSSP and the NSAHO Plan. Almost half (that is, approximately 13,000) of our 28,000 members are members of the PSSP. In fact, our members represent approximately 80 percent of the active members in the Plan.

We also have a long history of involvement mostly in an advisory capacity to the Plan. This has included the former Investment Advisory Committee, the Public Service Pension Forum, the Working Group on Plan Governance, and most recently, the Public Service Pension Plan Advisory Committee (on which we had three representatives).

PSSP Changes

So clearly what happens to the PSSP is of major concern to us. And there can be little doubt that the changes outlined in Part IV are major ones for this Plan. They affect everyone associated with this plan whether they be our members, retirees or the government as employer. Everyone is being adversely affected to some extent by the changes.

What is our general position on these changes?

We are not happy to see some of our benefits being decreased. But we recognize that these changes, although unpleasant, are necessary for the long-term stability of the plan. And the number one thing that needed to be done was to make sure that this Plan is here for the long run and that it is stabilized.

Under the terms of a strict confidentiality agreement, we were given full access to the data used by the Minister of Finance and his actuaries to assess the state of the Plan. This kind of access had never been granted to us at any other time. Our own independent actuary and our legal counsel were able to confirm that the condition of the Plan was serious and that changes had to be made as soon as possible to make the Plan viable. This is why, when the Minister presented us with the proposed changes a month ago, we decided not to oppose them. The changes to the PSSP in this Bill are regrettable but necessary.

Why is this so?

Mostly because the PSSP is a mature pension plan. But also in our view, other adverse developments have been the lost contributions of members who took early retirement in the 1990s, the lost contributions when there were contribution holidays in the late1990s, and the loss of potential new members when the QEII was established in 1996 diverting any new employees to the NSAHO Plan.

Approximately 51% of Plan members are in retirement and drawing on the Plan already and another 31% eligible to retire in the next five years. With so many members drawing on the Plan and expected to draw on it in the near future, it is most important for the long-term health of the plan that it be fully funded. The Plan was only 69% funded before April 6. With these proposed changes, the Minister states the plan will be fully funded by the end of this year. Our expert advisors have confirmed that this can be achieved, and that there really is no viable alternative.

What do the changes mean?

There are no changes to the pension benefit either for current or future retirees. However, there are significant changes to indexing which is not surprising considering how much of a significant cost it has been. At the same time, indexing in the PSSP has never been guaranteed but under the Cost of Living regulations for the *Public Service Superannuation Act*, indexing has been tied to increases in the cost of living based on the All-Items Consumer Price Index for Canada. Under this formula, pension benefits would increase if this index was above 1 percent up to a maximum of 6 percent. Interestingly enough, there was no increase applied as of January 1, 2010 because this index was less than 1 percent.

Under this Bill, indexing will be guaranteed to be at 1.25 percent of each of the next five years. Indexing has never been guaranteed previously. After that period, indexing will only be provided depending on the financial health of the plan. This will mean indexing will only be provided if the plan is projected to be at least 100% for each subsequent five-year period. If the funded level is between 100 and 110% for the next five years, indexing at some level has to be provided and possibly, some reserve funding. If the funded level is above a 110%, the two priorities for the surplus would be indexing at some level and reserve funding as well as possibly, benefit improvements and/or contribution rate decreases. If the funded level is below 100%, there will be no indexing and a contribution rate increase must be implemented and possibly, other changes to bring the plan back to at least 100% within 10 years.

There will be no further contribution rate increases as we have had in 2004, 2007 and 2009. But there will be two benefit changes for new employees who start on or after April 6, 2010. They will only be able to receive their full pension benefit if they are 55 and their age plus years of service must be at least 85 (Rule of 85 instead of Rule of 80), and survivor benefits for them will be reduced to 60 percent of the pension benefit (instead of 66 2/3 percent) after a five-year guarantee period. Our preference would be no differences in benefits between current and new employees.

The changes in this Bill also permit a transfer from the Minister of Finance being the sole trustee to joint trusteeship in the future. With joint trusteeship, representatives from members of the Plan and the employer will jointly decide the future of the plan. Changes to the Plan will not be made unilaterally by the employer again. Our sister components across Canada including the Ontario Public Service Employees Union (OPSEU), the BC Government and Service Employees Union (BCGEU) and the Health Sciences Association of BC (HSA-BC) have had joint trusteeship for their pension plans for several years and it works very well. As one of our colleagues elsewhere expressed it, "If you are not at the table, you will be on the menu". We are anticipating discussions with the government about possible terms of reference for joint trusteeship will begin shortly.

10 Percent Cut to the Civil Service

On another matter of concern to us in the budget besides the PSSP changes, we wanted to raise with you our disagreement with the 10 percent cut to the civil service. As outlined in the budget address, "We will reduce the civil service by ten percent by 2013, relying on attrition through retirements and voluntary departures. We do not expect this will require layoffs."

This 10 percent cut even if achieved through attrition and voluntary departures seems arbitrary and likely to place significant additional burdens on our almost 8,000 civil service members. They have already been coping with the effects of earlier job cuts and failures to fill job vacancies. We do not see how this cut will enhance the quality of service to all Nova Scotians provided by our members or reduce costs in the long run.

We are further troubled by the projected expenditure management cut of $718 million over the next three years and wonder how such a sizeable cut will be achieved without cuts in our members' services and jobs.

Conclusion

All in all, we reluctantly support the PSSP changes in Bill 24 because they will help to protect our members' pension benefit for the longer-term. At the same time, we also want to ensure that especially through joint trusteeship, indexing continues on an ongoing basis beyond the initial five-year guarantee period. It is clear to us that making no changes to the Plan now would jeopardize pension benefits and prevent future indexing and other possible benefit improvements.

We are very disappointed with the government's plan to cut 10 percent of the civil service and with the possibility of even greater cuts in the future.

I thank you for this opportunity and I look forward to your questions and comments.