

# Questions and Answers

## Conversion to the Shared Risk Pension Model

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### ***Section 1 – Understanding why change is needed***

#### **1. Why do we continue to hear that pension plans are not sustainable?**

There are two main reasons why defined benefit pension plans (the *PSSA* is a defined benefit pension plan) around the world are struggling with the issue of long-term sustainability:

- People are living longer which means that they are collecting a pension longer than previously expected (an increased number of pension payments means less money in the pension fund); and
- Interest rates are at all-time lows which reduces expected investment returns (investment returns along with contributions pay for pensions).

#### **2. Isn't this just an issue for private sector plans (e.g., AV Nackawic) and not public sector pension plans like the *PSSA*?**

- Public sector pension plans around the world are struggling with the same issues. A number of public sector pension plans within Canada have seen contribution increases and benefit changes.
- Saskatchewan adopted a defined contribution model for its public service many years ago; the Government of Canada is increasing employee contributions to match the employers' contribution and increasing the retirement age.
- Nova Scotia recently removed full indexing for retirees and replaced it with conditional indexing without funding the indexing.
- Prince Edward Island and Alberta are currently in the process of implementing reforms for their public sector pension plans.
- Another example is the Ontario Teachers' Pension Plan (considered one of the best performing pension plans in the world) which has had to increase contributions and reduce benefits to deal with the rising costs of paying pensions.

#### **3. What are the challenges facing the *PSSA*?**

- The *PSSA* is struggling with the same issues as other pension plans: members living longer and a low interest rate environment.
- Even though investment returns are meeting their long-term objectives, the *PSSA* currently has a \$1 billion deficit.

#### **4. Why can't the Province simply increase its contributions to the *PSSA*?**

- The Province currently contributes approximately \$2.50 for every \$1.00 that an employee contributes to the *PSSA*.
- The Province is currently struggling with a \$478 million deficit as outlined in the recent budget.

#### **5. Is part of the problem that the Province took a contribution "holiday" and did not properly fund the *PSSA*?**

- The Province has not taken a "holiday" from making contributions to the *PSSA* since 1975. The plan was fully funded in 2000-2001 meaning that the plan had no deficit at that time. In addition to member contributions, the Province funds the plan with regular contributions and special payments when there is a deficit.
- Since 1989, the Province has contributed \$1.80 for every \$1.00 of member contributions.

# Questions and Answers

## Conversion to the Shared Risk Pension Model

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### ***Section 2 – The Pension Reform Process***

**6. Why didn't the government simply look at contribution increases or a small change in benefits to address the challenges with the PSSA?**

- The Province **was not** looking for an “easy to implement band-aid solution” that would simply “kick the can down the road”.
- The Province wanted an option that had a strong chance of working in the long term and that was secure, sustainable and affordable.
- The problems with the current plan are such that making it sustainable in the long-term would require a very large increase in contributions from the active and future workers and the government – more than it is realistic to expect employees or taxpayers to pay for.
- In addition, trying to resolve the issue solely with increased contributions would require present workers to make increased contributions to sustain the benefits of present pensioners rather than build their own pension fund for when they retire. That would not be fair to current employees.

**7. How was the Shared Risk Pension Model developed?**

- The Province appointed an independent Task Force that had expertise with pension plans.
- The Task Force worked with unions and management for over a year in developing a solution that would best address the challenges.

**8. Was the Task Force provided guidelines in coming up with a solution?**

The Task Force was provided with the following guiding principles:

- Ensure a high degree of security for members (low risk) with stable contributions for employees and employers;
- Ensure that all aspects of the new pension plan are transparent and that members fully understand what the risks and rewards are; and
- Ensure that all member groups (active members, retirees) share in the risks and rewards.

**9. Were options other than the Shared Risk Pension Model considered for the PSSA?**

- The Task Force researched pension models from around the globe.
- The review also looked at remaining with the status quo, modifying the status quo, and moving to a defined contribution pension plan.
- All possible solutions were measured against the guiding principles that the Task Force was following.

### ***Section 3 – The Shared Risk Pension Model***

**10. What is the Shared Risk Pension Model?**

- The Shared Risk Pension Model has characteristics of both a defined benefit pension plan and a defined contribution pension plan.
- Employee and employer contributions under the Shared Risk Pension Model are for the most part fixed.
- Base benefits under the shared risk model are not guaranteed, however:
  - Base benefits earned by members up to the conversion date have been guaranteed by the Province to never be reduced.
  - Base benefits earned after the conversion date have a very high probability of never being reduced (higher than a 97.5% probability).

# Questions and Answers

## Conversion to the Shared Risk Pension Model

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- The likelihood of receiving other benefits such as annual cost of living adjustments (ancillary benefits) is also very high (a minimum of a 75% probability) but is subject to the pension plan's financial ability to provide these benefits.

### **11. What is meant by “robust risk management” as it relates to the Shared Risk Pension Model?**

- The pension fund is invested in more secure assets (more fixed income and less equity) which make investment returns less volatile.
- Employee and employer contributions exceed what is required to pay for basic pension benefits. This means that there are extra contributions available to pay for annual cost of living increases.
- Stringent risk management testing is performed on an annual basis to ensure that benefits remain secure under a variety of economic scenarios.

### ***Section 4 – Converting the PSSA to the Shared Risk Pension Model***

### **12. When will the PSSA be converting to the Shared Risk Pension Model?**

- The PSSA will be converting to the Shared Risk Pension Model on January 1, 2014, however, administrative changes relating to such things as contribution rates and eligibility for plan participation will be phased in. Section 5 provides additional details.

### **13. Should I retire before the PSSA converts to the Shared Risk Pension Model?**

- There is no benefit to retiring before the PSSA converts to the Shared Risk Pension Model and there is no disadvantage to retiring after the conversion.
- The rules for calculating your pension will not change for service up to the conversion date.
- For service after the conversion date, there will be a change to how your pension will be calculated, but this will only apply to service earned after the conversion date.
- Any service earned after the conversion date will continue to increase the amount of your monthly pension at retirement.

### **14. What is meant by “conversion date”?**

- The conversion date for the PSSA is January 1, 2014 and it is the date that the PSSA becomes a shared risk pension plan.
- The pension that you have earned up to the conversion date will be calculated based on the current PSSA rules (with the exception of automatic indexing).
- The pension earned after the conversion date will be calculated based on the new rules under the shared risk pension model.

# Questions and Answers

## Conversion to the Shared Risk Pension Model

### **Section 5 – Anticipated Changes – PSSA Under the Shared Risk Pension Model**

Item	Current	New
<b>Employee Contributions</b>	<p>5.8% of salary up to YMPE* 7.5% of salary in excess of YMPE</p> <p>*Year's Maximum Pensionable Earnings (\$52,500 in 2014)</p>	<p>7.5% of salary up to YMPE* 10.7% of salary in excess of YMPE</p> <p>*Year's Maximum Pensionable Earnings (\$52,500 in 2014)</p> <p>Contribution rate changes will become effective on April 1, 2014</p>
<b>Eligibility/Participation</b>	<ul style="list-style-type: none"> <li>• Full-time regular employees;</li> <li>• Term employees; and</li> <li>• Part-time or seasonal employees if they were a full-time employee and participating in the <i>Public Service Superannuation Act</i> pension plan (the "PSSA") immediately prior to becoming a part-time or seasonal employee and elected to continue to contribute to the PSSA.</li> </ul>	<p><u>Effective January 1, 2014</u>, it will be mandatory for the following employees to participate:</p> <ul style="list-style-type: none"> <li>• Full-Time Regular Employees;</li> <li>• Term Employees;</li> <li>• Part-time or seasonal employees, if they were a full-time employee and participating in the <i>Public Service Superannuation Act</i> pension plan (the "PSSA") immediately prior to becoming a part-time or seasonal employee and elected to continue to contribute to the PSSA;</li> <li>• All active employees (part-time and seasonal) who were participating in the Pension Plan for Part-Time and Seasonal Employees of the Province of NB (the "Part-Time and Seasonal Plan") <u>on December 31, 2013</u>; and</li> <li>• Employees that are not regular full-time or term employees (e.g., part-time, casual, or seasonal employees) who meet the following eligibility requirements:               <ul style="list-style-type: none"> <li>• have a minimum of 24 months of continuous employment; <u>and</u></li> <li>• have earned at least 35% of the YMPE in each of the prior two consecutive calendar years.</li> </ul> </li> </ul> <p><u>Effective February 1, 2014</u>, it will be mandatory for the following employees to participate:</p>

# Questions and Answers

## Conversion to the Shared Risk Pension Model

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		<ul style="list-style-type: none"> <li>All new Personal Service Contracts signed on or after February 1, 2014.</li> </ul>
<p><b>Pension Benefit (from retirement to age 65)</b></p> <p>(The <i>PSSA</i> is integrated with the Canada Pension Plan at age 65)</p>	<p>2.0% of salary (Use best 5-year average salary up to date of retirement)</p>	<p><b>Pre-conversion service:</b> 2.0% of salary (Use best 5-year average salary <u>up to the conversion date</u>)</p> <p>Benefit is then conditionally indexed from conversion date to the date of retirement</p> <p><b>Post-conversion service:</b> 2.0% of salary</p> <p>(Benefit is calculated each year based on the salary for that year)</p> <p>Benefit is then conditionally indexed from conversion date to the date of retirement</p>
<p><b>Pension Benefit (after age 65)</b></p> <p>(The <i>PSSA</i> is integrated with the Canada Pension Plan at age 65)</p>	<p>1.3% of salary up to YMPE* 2.0% of salary in excess of YMPE</p> <p>(Use best 5-year average salary and 3-year average YMPE up to date of retirement)</p> <p>*Year's Maximum Pensionable Earnings</p>	<p><b>Pre-conversion service:</b> 1.3% of salary up to YMPE 2% of salary in excess of YMPE</p> <p>(Use best 5-year average salary and 3-year average YMPE <u>up to conversion date</u>)</p> <p>Benefit is then conditionally indexed from conversion date to the date of retirement</p> <p><b>Post-conversion service:</b> 1.4% of salary up to the YMPE 2% of salary in excess of YMPE</p> <p>(Benefit is calculated each year based on the salary for that year)</p> <p>Benefit is then conditionally indexed from conversion date to the date of retirement</p>
<p><b>Requirements for a pension (vesting)</b></p>	<p>5 years of pensionable service</p>	<p>Earlier of 5 years of continuous employment or 2 years of plan membership</p>

# Questions and Answers

## Conversion to the Shared Risk Pension Model

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<b>Early Retirement Reduction Factors</b>	3% per year early prior to age 60	<p><b>Pre-conversion service:</b> 3% per year early prior to age 60</p> <p><b>Post-conversion service:</b> 5% per year early prior to age 65</p>
<b>Cost of Living Adjustments</b>	Automatic after retirement to a maximum of 5% (In January 2013, the current plan paid 2.4% indexing)	Conditional both before and after retirement up to full CPI (no maximum) if the funding level of the pension plan allows for it
<b>Survivor Benefits</b>	50% of the pension payable at age 65	<p>A member can choose one of the following optional forms of pension:</p> <ul style="list-style-type: none"> <li>• Joint and Survivor Pension – 50%</li> <li>• Joint and Survivor Pension – 60%</li> <li>• Joint and Survivor Pension – 100%</li> <li>• Life Pension with 5-Year Guarantee</li> <li>• Life Pension with 10-Year Guarantee</li> <li>• Life Pension with 15-Year Guarantee</li> </ul>

### 15. What do you mean by “Conditional Cost of Living Adjustment”?

- After the conversion date, for active contributors to the PSSA shared risk plan, both pre-reform benefits and post-reform benefits will be increased by a cost of living adjustment up to the increase in the Consumer Price Index (CPI) if the funding level of the PSSA shared risk plan allows for it. The increase can be to the full increase in CPI (no longer capped at 5%).
- For retirees (including current retirees), the pension benefit will be adjusted each year by a cost of living adjustment up to the increase in the CPI if the funding level of the PSSA shared risk plan allows for it. The increase can be to the full increase in CPI (no longer capped at the 5% or 6%).
- If the funding level of the PSSA shared risk plan does not allow for full or partial cost of living adjustment increases to be granted in a given year, the increases are carried forward to future years and will be paid when the funding level of the PSSA shared risk plan allows.

### 16. What does it mean when you say “cost of living adjustments will be provided if the funding level allows for it”?

- The new model is structured so that cost of living adjustment increases can be provided the majority of the time. It is expected that at least 75% of CPI will be provided under the Shared Risk Pension Model.
- These annual increases would be up to the full extent of inflation and not capped at 5% as under the current PSSA.

### 17. Will the Province still have overall responsibility for the PSSA under the Shared Risk Pension Model?

- Currently the Minister of Finance is governor and Cabinet has authority over plan operations.

# Questions and Answers

## Conversion to the Shared Risk Pension Model

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- Under the Shared Risk Pension Model, an independent Board of Trustees (with representation from members and the Province) will be responsible for the PSSA shared risk plan.

### **18. What about changes to rules on purchases of service, transferring service, etc?**

- Any changes regarding rules pertaining to purchase of service, reciprocal transfer agreements, etc. will be determined by the independent Board of Trustees following the PSSA's adoption of the Shared Risk Pension Model.
- It is expected that purchase of service will still be allowed following the conversion to the Shared Risk Pension Model, however, the cost to purchase certain periods of service may change.

### **19. At the end of the day, what does all this mean for me as an active employee?**

- Your pension benefits will be more secure into the future than they are in the current PSSA.
- Your contributions will increase but they will be stable.
- You will likely have to retire later to earn the same pension income.
- If you are close to retirement the impact will be small.
- The further that you are away from retirement, the longer you will have to work to earn the same pension income.
- Cost of living adjustments before and after retirement will be conditional (currently automatic after retirement)
- Employees and retirees treated in a consistent manner.

### **20. How do I get more information on how these changes will impact me?**

- As additional details are known, further communication will be sent to all employees outlining the changes.
- In addition, information sessions are being planned and all employees will be given an opportunity to participate in these sessions.
- The online pension estimate calculator has been updated which will allow employees the opportunity to prepare their own pension estimates and determine the impact of the changes.

### **21. Who can I contact if I have questions?**

- If you have additional questions, please contact a Benefits Counselor with the Pensions and Employee Benefits Division toll free at 1-800-561-4012 or 453-2296 (Fredericton).