Teacher’s Pension Plan Proposals: The Recommendations of the 2003 Review Committee of the Teachers’ Pension Partners’ Board

QUESTIONS & ANSWERS

Q1: Why are there proposals to change the pension plan now?

A: An agreement signed in 1993 required a review of the pension plan in 2003 to measure the achievement of specific objectives set in 1993 as well as to consider the long-term health of the plan. A committee of the Teachers’ Pension Partners’ Board was set up to complete that review and the proposals are the recommendations of that committee.

Q2: What were the objectives set in 1993 and what have the results been?

A: The three targets set in 1993 were to reach a funding level of 65% of liabilities by 2003, 70% by 2033, and have a positive trend line. The first goal has been achieved and exceeded. The funding level at the end of 2003 was 81%. But despite this, the long-term trend is heading downward. Based on the present rules and plan actuarial assumptions, the funding ratio would decline to less than 60% by 2033 and continue to decline even more rapidly after that.

Q3: Why do the proposals include changing the pension plan rules?

A: Studies done by the Review Committee of the Teachers’ Pension Partners’ Board showed clearly that the plan’s liabilities are now growing faster than the plan’s assets and that under the present rules this will continue into the future. Something has to be done about this situation and should be done now rather than later.

Q4: Was the NSTU involved in designing the proposals for changes to the plan rules?

A: Yes. The Review Committee of the Teachers’ Pension Partners’ Board had two representatives from the NSTU and one from the government. The proposals were unanimously agreed to by that committee as well as by the full Board.

Q5: Do the leaders of the NSTU agree with the proposals for changing the plan rules?

A: Yes. The Provincial Executive of the Union has approved the proposals from the committee of the Pension Plan Partners' Board and will be recommending acceptance by the membership.

Q6: Why are NSTU members being asked to vote on this?

A: A vote on any issue like this is standard practice for the union.

Q7: What happens if the members of the NSTU turn down the proposals?

A: If they vote against the set of proposals, the proposals will not go into effect and some other solution to the problem will have to be found. One possible alternative would be significant increases in contribution rates.

Q8: If the proposals are accepted by NSTU members, when do the changes come into effect?

A: (i) April 1, 2005 is the target date for the transfer of responsibility for the plan to a new Board of Trustees. (ii) January 1, 2006 will be the date for the implementation of the new plan rules regarding inflation indexing.

Q9: What about teachers who retire between now and December 31, 2005?

A: Pensions put into pay between now and the end of 2005 will be paid under existing rules. But those teachers - like teachers presently drawing pensions - will have the choice of accepting the current rules about inflation indexing or the rules which will come into effect at the beginning of 2006. **(See Q14)**

Q10: What does puting the pension plan under "joint trusteeship" mean? And why is that a part of the set of proposals?

A: This means that the government and the union will now share equal responsibility for the plan in all respects. This will replace the existing system where the Partners' Board provided for the sharing of many responsibilities but the Minister of Finance was the sole trustee.

Q11: Is "joint trusteeship" something new in Nova Scotia or in Canada?

A: The proposed system of joint trusteeship for the teachers' plan will be the first instance of use of this model by public service plans in Nova Scotia. The model is used successfully in public sector plans across Canada including some of the largest plans in Ontario and British Columbia.

Q12 What happens to the existing Teachers' Pension Partners' Board?

A: It will be replaced by a new Board of Trustees where the NSTU and the Province have equal representation. This Board will be responsible for administration of the plan.

Q13: The Review Committee's report indicated that the funding level of the plan is expected to increase in conjunction with the changes to the rules. Why will this happen and how much of a change will take place?

A: The changes to the rules make payment of inflation indexing on pensions that go into pay after 2005 contingent on the funding ratio - the ratio of plan assets to plan liabilities. When the actuaries calculate liabilities under the contingent indexing rules, the liabilities will be reduced and the funding ratio will improve. The funding ratio which was 81% at the end of 2003 is expected to move to slightly above 90% at the end of 2005.

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Q14: How are the rules about inflation indexing being changed?

A: The present rule calls for inflation indexing at a rate based on the inflation rate (measured by the rate of change in the Consumer Price Index (CPI)) minus 1%. For example, with a CPI rate of 2%, the indexing rate would be 2% - 1% = 1%. This would be payable regardless of the funding level.

The new rules tie inflation indexing to the plan's funding level. **(See Q13)**

(i) If the funding level is between 90% and 100%, as is expected to be the case when the new rules come into effect, annual indexing could be paid at the discretion of the Trustees at the rate of 50% of the CPI rate. For example, with a CPI rate of 2%, the indexing rate would be 50% of 2% = 1%. Payment would be at the discretion of the Trustees. For 2006 and 2007, however, if the funding level is below 100%, inflation indexing will be paid at 50% of CPI for pensions subject to the new rules. Board discretion regarding payment when funding level is in the 90-100% range will not become effective until 2008.

(ii) If the funding level is 100% or above, annual indexing will be paid at the full CPI rate. For example, with a CPI rate of 2%, the indexing rate would be 2%.

(iii) If the funding level is not greater than 90% at the end of a year, no inflation indexing would be paid for that year.

(iv) Inflation indexing under (i) and (ii) will continue to be subject to a maximum annual adjustment of 6%.

Q15: Will the government put more money into the pension fund?

A: Yes, the agreement requires the government to add approximately $ 142 million to the plan to match the value of the indexing given up by plan members.

Q16: Section 10(1) of the Teachers' Pension Act provides that the Minister of Finance is required to pay pensions should there not be sufficient money in the Fund to make all payments required. What happens to this if the new rules are adopted?

A: This section will no longer apply. However, the agreement requires the Minister to match the loss to teachers if indexing can not be paid because the Fund is less than 90% funded. This self-correcting mechanism acts as a replacement guarantee for teachers.

Q17: What will these proposed changes in plan rules mean for teachers presently on pension?

A: By improving the financial health of the plan, the proposals will make pensions now being paid more secure. The proposals do not make any changes to the rules which apply to pensioners.

Q18: If the proposals are adopted, will there be any impact on the amount being received by teachers now on pension?

A: No..

Q19: Even if there is no impact on the amount presently being received by teachers on pension, could there be any other effect on retired teachers?

A: Pensioners will have the choice, <u>if they wish</u>, to be covered by the new rules about inflation indexing. **(See Q 14)** Two important things should be noted about this option. (i) If the new rules are chosen by pensioners, they must formalize that choice before the end of calendar 2005. (ii) If the new rules are chosen, that choice is permanent. It can not be reversed in the future.

Q20: If these proposals are adopted, who will issue pension cheques, deal with questions or requirements of teachers on pension, and handle investments?

A: For the next two years, administration will continue as it is now in the Pensions and Investments Branch of the Department of Finance though it will be under the direction of the Board of Trustees. Thereafter, a corporation or similar body will be set up to assume responsibility for the Teachers' Pension Plan presently handled by the Department of Finance. This model, like that of joint trusteeship, has come into use in public service plans in other provinces.

Q21: Will these proposed changes to pension rules or plan governance apply to other government pension plans?

A: No.