Teachers' Pension Plan Proposals: The Recommendations of the 2003 Review Committee of the Teachers' Pension Partners' Board

SUMMARY OF PROPOSALS

The 2003 Review Committee recommends replacing the 1993 Memorandum of Agreement, which has been the basis for administration of the Teachers' Pension Plan since 1993, with a new agreement which will make two fundamental changes to the pension plan.

(1) Changes to governance and administration:

- (a) The existing governance structure will be changed so that the plan will be jointly trusteed under a Board of Trustees having equal representation from the Province and the NSTU with a jointly-appointed neutral chair. This Board will assume the primary responsibilities of the Teachers' Pension Partners' Board plus those of the Minister of Finance who is presently the sole trustee.

- (b) In addition, following a transition period, pension administration and investment services for the Teachers' Pension Plan will be transferred from the Department of Finance to a corporation or similar body which will function at arm's length from the government.

(2) Changes to rules governing inflation indexing:

- (a) Payment of inflation indexing for pensions which begin after December 31, 2005 (or those previously in pay to pensioners who choose to be governed by the new inflation indexing rules) will be contingent on the funding level of the pension plan. The rules, in brief, will provide for indexing under the following terms:

  - (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 <u>will be paid</u> 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%. Indexing payments under these circumstances will be subject to a limitation that the payments do not reduce the plan's funding level below 100%. In such a case, indexing will be paid at a rate no less than 50% of CPI.

  - (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%.

(b) The Province will make a direct payment to the plan at the beginning of FY 2005/06 of approximately $ 142 million. This amount matches the value of the indexing given up by active plan members.