

June 29, 2020

TO: Public Service Superannuation Plan retirees

RE: Results of the 5-year funded-health review

As Trustee for the Public Service Superannuation Plan (PSSP), we are required to conduct a comprehensive funded-health review of the Plan every 5 years, as prescribed by the *Public Service Superannuation Act (PSSA)*.

The 2020 review was based on the Plan's funded status as at December 31, 2019, which was 98.5%. As a result, for the 5-year cycle starting January 1, 2021 and ending December 31, 2025:

- As the Plan's funded status was below 100% at December 31, 2019, indexing (also known as cost-of-living adjustments, or COLA) is mandated to be zero for the next 5-year cycle. Under the Plan's funding policy as prescribed by the *PSSA*, when the funded ratio is below 100% on a stipulated valuation date there can be no indexing paid during the following 5-year cycle.
- As the Plan's funded status was above 96% but below 100%, the *PSSA* requires that we consider whether to adjust contribution rates. Upon our analysis and with advice provided by the Plan's actuary, we have determined that no change in contribution rates is warranted at this time.

The Trustee will continue its work to improve the Plan's funded health between now and the next review valuation date, December 31, 2024, by carrying on with membership expansion, pursuing appropriate investment strategies, and assessing ways to reduce some Plan liabilities.

A Q&A section is on the reverse side of this letter. If you would like more information on the *PSSA*'s funding policy and the funded-health review, please visit our website at:

www.nspssp.ca/publicservice/about/psspti-reviews/funded-health-review

Please email any questions or concerns you may have regarding the funded-health review results to: PSSPTI@nspension.ca. If you have questions relating to your individual pension, please email them to Nova Scotia Pension Services Corporation at: pensionsinfo@nspension.ca.

Sincerely,



Ronald Smith, FCPA, FCA. ICD.D
Trustee Board Chair

Q&As - The 5-year funded-health review and COLA (Jan. 1, 2021 – Dec. 31, 2025)

What is the 5-year funded-health review?

The Trustee is required to conduct a funded-health review of the Plan every 5 years, in accordance with provisions in the *Public Service Superannuation Act (PSSA)*. The purposes of each review are to determine indexing (also known as cost-of-living adjustments, or COLA) for the next 5 years and to assess the appropriateness of the Plan's benefits and contribution rates in light of the funded ratio of the Plan at the time of the review.

Why is a funded-health review of the Plan required every 5 years?

In 2009, the Plan was significantly underfunded. At Dec. 31, 2009, the Plan was 69% funded with a \$1.6 billion funding deficit. The PSSP was modernized in 2010-2012 and a new funding policy was embedded in its legislation, the *PSSA*. This initiative reduced the Plan's liabilities by \$1 billion. This funding policy provides for conditional indexing for PSSP retirees. Conditional indexing means that indexing may only be paid if the PSSP can afford it. The Plan's funding policy was constructed to ensure the long-term financial sustainability of the Plan and is designed to treat all PSSP members, retirees and actives, as fairly and equitably as possible.

Why doesn't the PSSP provide guaranteed indexing for all its members?

The PSSP's funding policy does not allow for guaranteed indexing. Guaranteed indexing is very expensive and, if tied directly to full CPI, would drive the PSSP into a substantial deficit position. The PSSP has a limited amount of funds and must be managed carefully, keeping in mind the interests of its active and retired plan members, as well as the interests of its future generations. The Plan is no longer 'backstopped' by the Province and must 'sink or swim' on its own. This makes it even more important for the Trustee to strictly adhere to the PSSP's funding policy

How do other public sector pension plans in Canada deal with indexing for their retirees?

Canadian jointly-sponsored public sector pension plans, like the PSSP, have increasingly been adopting conditional indexing; and some plans provide no indexing at all. The ability of a pension plan to pay indexing ultimately depends on the plan's funded health.

When is the next 5-year funded-health review?

The Trustee's next review of the Plan's funded health will be in 2025, for the 5-year cycle starting January 1, 2026 to December 31, 2030. At that time, indexing will be dependent upon the Plan's funded status as of December 31, 2024. Indexing may only be provided in accordance with the funding policy.

You can learn more about the PSSP's 2019-2020 investment performance and its financial status in the Annual Report. You can view the 2019-2020 PSSP Annual Report on our website at: www.nspssp.ca/publicservice/about/plan-performance