Public Service Superannuation Plan Trustee Inc.

your PENSION CONNECTION

A newsletter for Public Service Superannuation Plan Retirees

2018-2019 PSSP Annual Report Highlights

The 2018-2019 Public Service Superannuation Plan (Plan or PSSP) Annual Report was published on July 24, 2019. The Annual Report provides you with information on the PSSP's investment results and interesting statistics. You can view the full Report online at: ***www.nspssp.ca/publicservice/about/plan-performance***

Plan Performance (as at March 31, 2019)

Funded Ratio

101.9%

The Plan was 101.9 per cent funded on a market value basis.

Investment Return

5.33%

The Plan achieved a one year return of 5.33 per cent, gross of investment management fees (5.13 per cent net of investment management fees). The Fund's policy benchmark return for the fiscal year was 5.35 per cent.

Net Assets Available for Benefits

$6.542 billion

Net assets available for benefits were $6.542 billion. This is an increase of $189 million from the previous year.

Membership highlights (as at December 31, 2018)

36,602 Total Plan members

17,458	16,791	2,353
Active Plan members	Retirees *(includes Survivors and Dependants)*	Inactive Plan members*

** Inactive members are Plan members who have terminated employment, but have not yet retired or removed their funds from the Plan.*

Average age

47.6
Working member

70.3
Retired member

Retirees* over 100 years of age

16

* Includes survivors

Average pensionable earnings

$66,496
Active members

Average lifetime pension

$21,051
Retirees

The Plan has **1.04** active members for every 1 retiree. A higher ratio of active members to retirees is a good indicator of a healthier pension plan.

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Follow us to stay informed on the Plan's latest news and updates.

2020 Pension Payments

Your 2020 pension payments will be deposited directly to your bank account on the third last banking day of each month.

Any requests for changes to pension payments **must be submitted to us prior to the last day of the month** for them to be implemented the following month.

Q&As

Cost-of-living Allowance

YOU ASKED WE ANSWERED

We often receive questions from members regarding the funded health of the Plan, and its ability to grant or not grant indexing (also referred to as cost-of-living allowance, or COLA). In this edition of your Pension Connection, we address your commonly asked questions in relation to indexing. Our goal is to keep you informed and to give you a better understanding of your PSSP.

? Why don't I receive full CPI indexing?

'Indexing' in respect of your PSSP pension is an additional amount that may periodically be added on top of the base pension that you receive at the commencement of retirement. It is intended to provide some offset to cost-of-living increases that may occur over time.

The PSSP was modernized in 2010-2012 and a new funding policy was embedded in its legislation, the *Public Service Superannuation Act* (*PSSA*). 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 trustee of the PSSP, Public Service Superannuation Plan Trustee Inc. (the Trustee), determines if any indexing can be granted based on the rules of the funding policy. This occurs at 5-year intervals. The Trustee would only be able to grant indexing that fully matched the CPI (Consumer Price Index) if the PSSP was extremely well funded and anticipated to remain so for quite some time. At its current funded level, the Trustee is only able to grant a portion of CPI indexing in accordance with the funding policy*.

For further detail as to how the Trustee determines the granting of indexing, please follow this link to the PSSP web site: ***www.nspssp.ca/publicservice/members/your-retirement/cost-living-adjustment***

**It is worth noting, however, that the portion of your retirement income that you receive directly from the Canada Pension Plan and Old Age Security is fully indexed to CPI.*

2020 Cost-of-living Allowance

The approved COLA was set at 0.85 per cent per year from January 1, 2016 to December 31, 2020. COLA letters will be mailed to retirees in January 2020.

0.85% COLA

? Why does the PSSP need a funding policy?

Prior to the *PSSA* changes initiated in 2010, the PSSP was running a deficit of approximately $1.5 billion. Those changes restored the PSSP's financial health, incorporated a new funding policy based on objective metrics, and introduced joint responsibility shared between members and employers. The PSSP is now constructed to be sustainable for generations and is designed to treat all PSSP members, actives and retirees, as fairly and equitably as possible. The funding policy has been key in helping the PSSP's funded status remain at or above 100% since 2010.

? What is the difference between conditional indexing and guaranteed indexing?

Conditional indexing means it may or may not be granted depending on what the pension plan can afford.

Guaranteed indexing means that indexing is promised at a fixed level on a go-forward basis, no matter the funded position of the plan.

Because it is promised for all years, now and into the future, guaranteed indexing imposes a significant financial cost to a pension plan. This is because the pension plan's actuary is professionally obligated to account, fully and immediately, for the cost of all future years of indexing for every member of the plan. Since the indexing is guaranteed, it must form part of the pension plan's liabilities from the very moment it has been promised.

Conditional indexing, on the other hand, does not provide an indefinite guarantee of indexing. It therefore costs a pension plan much less because the plan only has to account for indexing payments for a specific number of years to a sub-group of the plan's total membership.

Q&As

Cost-of-living Allowance

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 an immediate 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.

If not for all members, why not at least guarantee indexing for current retirees?

A selective payment approach is not permitted under the PSSP's funding policy. Furthermore, it would be fundamentally unfair to those excluded. The PSSP is designed to provide retirement security to all its members equitably.

If the PSSP has a surplus in any given year, why isn't some of that surplus paid to retirees to supplement their pensions?

This is not permitted under the PSSP's funding policy. The Trustee has no discretion to grant ad-hoc or special indexation. Such a short-term focus or approach is not a prudent way in which to manage a pension plan, which must have a very long-term focus.

The premise of the funding policy is to look at the PSSP's surplus/deficit situation every 5 years to set indexing (if any) for the following 5 years. If some indexing can be granted, this gives retirees some certainty about the level of inflation protection for an extended period of time, rather than having to wonder from year to year whether there will be indexing or not.

What would happen to the PSSP if it provided guaranteed indexing at 2% per year, now and into the future?

The PSSP's liabilities are made up of hundreds of thousands of retirement years of pension payments for its members, retired now and retiring in the future; and for which the PSSP is obligated to account*.

*There currently exist liabilities in the PSSP comprised of about 750,000 retirement years of pension payments, the two biggest categories being: 500,000 retirement years for active members (about 17,500 actives who will collect pensions from ages 59 to 87, on average); and 250,000 retirement years for current pensioners and spouses (16,800 pensioners and spouses collecting pensions for another 16 years or so, on average).

Moving from conditional indexing to guaranteed indexing would have a serious and detrimental effect on the PSSP. Providing guaranteed indexing at 2% would immediately cost the PSSP $1.265 billion by increasing its liabilities by this amount. This is due to the effect of compounding. A guaranteed 2% per year increase in the PSSP's current liabilities, compounded over the many decades that those liabilities are due to be paid, immediately balloons those liabilities by this very large amount. Looking at its last year-end valuation, as at December 31, 2018, paying guaranteed indexing at 2% would cause the Plan's funded status to drop to 82%*.

**Based on the December 31, 2018 Actuarial Valuation Report, page 2, the Plan's 'Hypothetical Position if Fully Indexed'. The Actuarial Valuation Report is prepared annually by the PSSP's independent actuary, currently Mercer (Canada) Ltd., in accordance with applicable law and accepted actuarial practice in Canada.*

Why doesn't the Province of Nova Scotia pay extra money into the PSSP so that I can receive guaranteed full CPI indexing?

The Province has no responsibility to make extra payments to the PSSP since the changes that were initiated in 2010. The Province is simply one of the forty or so employers that currently participate in the PSSP. Its only obligation is the same as that of any other employer, to pay its share of contributions to the PSSP in respect of its employees. (As discussed above, the cost attached to guaranteed full CPI indexing is, in any event, extremely large and therefore, practically speaking, untenable.)

Q&As

Cost-of-living Allowance

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

Canadian jointly-sponsored public sector pension plans 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.

How does a pension plan's membership demographic influence its funded status? What does the PSSP's membership look like?

A pension plan's 'membership demographic' often refers to its ratio of actively contributing members to its retirees in receipt of pensions. The PSSP is a very mature plan, having only 1.04 active members for every 1 retiree, or a ratio of 1.04:1. (By comparison, 15 years ago the PSSP had 1.5 active members for every retiree.) This means that, every year, pensions paid to PSSP retirees exceed the contributions paid in by active employees and matched by their employers by a significant amount (about $180 million in fiscal 2018-19). This imbalance has been worsening year-over-year as the 'baby boom' cohort moves into retirement, and it continues to negatively impact the funding of the PSSP*.

** This gap between contributions and benefits paid has been offset by investment returns. The PSSP's investment returns are consistently solid, measured over various time periods. The most recent 10-year annualized net return figure is 7.97%. (Taken from the fiscal year 2019-20 Q1 Investment Report.) The changes to the PSSP initiated in 2010, together with steady investment returns, have kept the Plan's funded status at or above 100%, on a going concern basis, despite the mounting demographic challenges.*

Most other Canadian public sector pension plans have stronger ratios of active members to retirees than the PSSP's.

A pension plan's membership demographic is a very difficult thing to change. The Trustee recognized the Plan's low ratio of actives to retirees and undertook a new membership growth initiative in 2015. While this is not going to fully solve the demographic issue, growing the active membership does expand the Plan's overall base and is helpful to the Plan.

Why don't active members and employers pay more so I can receive full CPI indexing?

The PSSP's active members and its employers already pay substantial contributions. The December 31, 2018 Actuarial Valuation Report details (on page 9) that the combined contributions from members and employers totaled about $194 million for that year. The actual required contribution cost for that period was only about $141 million, resulting in what actuaries refer to as a ' current service cost excess' of about $53 million.

This means that active members and their employers are already making significant payments to help keep the PSSP on a sustainable track.

When will indexing adjustments next be decided for PSSP retirees?

Indexing will next be determined based on the funded status of the PSSP as at December 31, 2019; and will then be in effect for the following 5-year cycle, spanning January 1, 2021 to January 1, 2025. The PSSP's actuary will complete the 2019 Valuation Report in the first part of 2020, and the Trustee will then review it and assess any ability to grant indexing, in keeping with the directives of the funding policy. If the funded status of the PSSP is below 100%, the funding policy dictates that indexing must be zero for the following 5-year cycle. The Trustee has limited discretion to grant some indexing when the funded status of the PSSP is between 100% and 110% (although if the funded status is only slightly above 100%, indexing may still have to be zero).

Is there any risk that my base pension itself might be reduced?

No. The PSSP's legislation specifically protects your base pension. It also protects any previous indexing that has already been applied to your base pension amount. Conditional indexing applies only on a go-forward basis.

The PSSP Funded Health Review - *Coming in 2020!*

Every 5 years, the Public Service Superannuation Plan Trustee Inc. (Trustee) is required to do a comprehensive evaluation on the funded health of the Plan.

The purpose of the 5-year review is to:

- determine the Plan's long-term financial health and its ability to afford annual cost-of-living allowances (COLA) for the next 5 years,
- determine the adequacy of contribution rates, and
- review the Plan's benefits structure with respect to future benefits to be accrued by active Plan members.

The Trustee's next review of the PSSP's funded health will be in 2020, for the 5-year cycle starting January 1, 2021 and ending December 31, 2025. Any COLA for this cycle will be dependent upon the PSSP's funded ratio as of December 31, 2019. COLA may only be provided if the Plan is fully funded, and must be in accordance with the PSSP's funding policy. For more information about COLA, please visit our website: **www.nspssp.ca/publicservice/members/your-retirement/cost-living-adjustment**

! Important reminders!

- Once you become a retired PSSP member, you will no longer have access to your personalized pension information on the My Retirement Plan website. Please contact us by phone or email for information relating to your pension.
- Tax Season - It is important to know that the address we have on file for you as of December 31, 2019, will be the address where your T4A will be mailed in February. If possible, contact us prior to December 31, 2019 to update your address.

Helpful Contact Information:

Nova Scotia Seniors' Pharmacare Program:
1-800-544-6191

Public Service Commission, Benefits Division:
novascotia.ca/psc/employeecentre/benefits/retiree-benefits.asp

Canada Pension Plan (CPP) & Old Age Security (OAS):
1-800-277-9914 (English), 1-800-277-9915 (French)

We appreciate your feedback. If you have a comment or a suggested topic, please contact us:

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All information presented in this document is premised on the Plan rules and criteria which currently exist under the Public Service Superannuation Act (the "PSSA") and the plan text made thereunder. This document explains in plain language aspects of the rules and criteria of the Plan. Plan members, beneficiaries, and others who wish to determine their legal rights and obligations under the Plan should refer to the PSSA, the plan text, or other legal documents as appropriate. In the event of a discrepancy between the information provided in this document and the legislation and/or legal documents, the latter takes precedence.