HALIFAX
REGIONAL MUNICIPALITY

PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 10.1.5
Halifax Regional Council
September 22, 2009

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

Dan English, Chief Administrative Officer

Geri Kaiser, Deputy Chief Administrative Officer - Corporate Services and Strategy

DATE: August 11, 2009

SUBJECT: **Halifax Regional Municipality Pension Plan -Amendments**

ORIGIN

Halifax Regional Municipality Pension Committee

RECOMMENDATION

It is recommended that

1. The provisions of the Halifax Regional Municipality Pension Plan be amended to change the date that a terminated employee can access an unreduced pension from Age 60 to their Normal Retirement Date of Age 65.

   A terminated employee is defined as an employee who terminates their employment voluntarily or through employer action prior to attaining their Rule of 75/80 or Age 60.

BACKGROUND

In 2008, the financial health of Canadian pension plans deteriorated as a result of declining asset values, and the increasing cost of pension obligations caused by declining long-term interest rates. 2008 has been described as the year that experienced the worst financial crisis since the Great Depression with global stock markets declining by approximately 50%. As at December 31, 2008, the Plan's funded status was 99.4% on a going-concern basis and 68% on a solvency basis, which is in line with the average pension plan in Canada. Current contributions are 10.3% of payroll for most plan members and contributions are matched by HRM and participating employers. Some public safety officers pay a slightly higher contribution rate to pay for supplemental benefits.

Pension legislation requires the Plan to file an actuarial valuation report at least once every three years. The valuation report, produced by an independent actuary, must value the Plan according to 2 types of valuations: a going-concern valuation and a solvency valuation. The going-concern valuation assumes a long term investment time horizon that will earn an average annual return of 6.75% and that the Plan will not wind-up. The solvency valuation assumes that the Plan will be wound up on the valuation date. Going-concern deficits need to be funded over 15 years and solvency deficits need to be funded over 5 years. The funded status of a Plan will determine required contribution levels. Contributions required to fund solvency deficits are relatively higher than those required to fund going-concern deficits because of the shorter time horizon over which solvency deficits are required to be eliminated.

The Committee has continuously lobbied the NS Provincial Government to exempt the Plan from funding solvency deficits. The rationale is two-fold. Firstly, as a government sponsored pension plan, HRM has a low probability of going bankrupt. As such, it is unreasonable to require plan members, HRM and participating employers to fund solvency deficits over a 5-year period when over the long-term, deficits are expected to disappear via long-term growth of investments. Secondly, the NS Provincial Government exempts its own pension plans from the pension legislation it requires other pension plans to adhere to. This exemption has allowed the NS Provincial Government to operate their plan with significantly lower contribution rates when compared to the HRM Plan. Our plan members view this as being unfair. It impacts HRM's ability to remain competitive with other employers, including the NS Provincial Government, with respect to hiring potential candidates, and retaining current employees.

In 2006, the NS Provincial Government granted all municipal pension plans with temporary solvency relief for a 10-year period. In addition to the going concern valuation, municipal pension plans need only fund solvency deficits up to 85%, rather than 100%. While this is a step in the right direction, it still puts our plan members, HRM, and participating employers at risk of a substantial and likely unnecessary contribution increase in the event of a significant downturn in markets, such as the one that happened in 2008.

In 2008, the NS Provincial Government created a Pension Review Panel ("Panel") to review pension legislation. The Panel, headed up by Bill Black and including Dick Crawford and Ron Pink, presented their recommendations to the NS Provincial Government in January 2009. While there are a number of good recommendations in the Panel's report, the Committee is extremely concerned with the Panel's recommendations to change the funding rules. The impact of the recommended changes to funding rules is discussed in the next section.

DISCUSSION

At the direction of the Committee, the Plan's actuary projected the financial position of the Plan as at December 31, 2010, the date by which the next actuarial valuation report is due to be filed to the Superintendent of Pensions. The Plan's financial position will determine the level of contributions required by employees, HRM, and participating employers in 2011-2013.

Based on this projection contribution rates are expected to increase from 10.3% of payroll to 15.6% of payroll for employees, HRM, and participating employers, assuming no changes to current pension legislation. Under this scenario, HRM would have to increase its contribution from $21.5 million to $32.3 million in each of 2011, 2012, and 2013. These figures do not include participating employers other than HRM, and does not include contributions made on overtime or other amounts paid in addition to regular salary.

If the Panel's funding recommendations are implemented before December 31, 2010, contributions would increase from 10.3% to 24.6%. This is clearly unrealistic.

The Committee has reviewed a number of benefit reductions in order to maintain contribution rates at current levels and approved one, which is explained in more detail in the following paragraph. As per the governing documents for the Plan, all changes to benefits require approval from each of 5 unions (MAPP, IAFF, ATU, CUPE and NSUPE) and Council.

All five unions have approved the Committee's recommendation to change the receipt of an unreduced pension for terminated members from Age 60 to a member's Normal Retirement Date of Age 65. This proposed amendment would be effective January 1, 2011 and would result in a reduction in contributions of 2.25% for plan members and 2.25% for participating employers, including HRM. The amendment will not impact those plan members who retire at Rule of 75/80 or Age 60 at any time in their career, even after January 1, 2011. It will impact plan members who voluntarily terminate or are terminated by their employer after December 31, 2010, if they have not reached the Rule of 75/80 or Age 60 at the time their employment is terminated. Plan members have the option of transferring their pension commuted value to their locked-in retirement account when they terminate.

If approved, this benefit reduction will result in HRM's projected contribution rates decreasing from 15.6% to 13.35%, assuming the Panel's recommendations do not get implemented. A further 2.5% reduction is expected to come from a change in pension legislation that will allow pension plans to amortize their solvency deficits over 10 years, rather than 5 years, when they submit their next actuarial valuation report. This measure, in response to extreme market conditions, was proposed in the Spring Budget. It is our understanding that the new NS Provincial Government plans to incorporate this measure in their Fall Budget. The combination of the two measures would result in contribution rates of 10.85%, a slight increase of 0.55% relative to current contribution rates of 10.3%. If equity markets continue to recover, it is hoped that we can maintain contribution rates at 10.3% of payroll.

Once Council approves the change, the proposed change needs to be filed with the Superintendent of Pensions. As required by pension legislation, plan members must receive at least 6 months notice of a benefit reduction.

BUDGET IMPLICATIONS

If this plan amendment is approved, it will help offset almost half (2.25%) of the 5.3% increase in employer contributions projected by the Plan Actuary. This translates into a $4.7 million reduction of the projected increase in HRM's annual contributions.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Pay increased contribution rates.

ATTACHMENTS

None

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.html then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Teresa Troy, CEO, HRM Pension Plan, 490-3297

Catherine Mullally

Report Reviewed by: Catherine Mullally, Director, Human Resources, 490-7239

Cathie O'Toole

Report Reviewed by: Cathie O'Toole, CGA, Director, Finance, 490-6308