

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



Dan English, Chief Administrative Officer



Wayne Anstey, Deputy Chief Administrative Officer - Operations

DATE: November 6, 2008

SUBJECT: Pension Plan Amendments

ORIGIN

HRM Council approved HRM Pension Plan Committee amendments 2006-01 and 2006-02 on November 20, 2007. An extract of the Minutes from that Council meeting are attached to this report. The Superintendent of Pensions of the Province of Nova Scotia has declined to approve those amendments.

RECOMMENDATION

It is recommended that HRM Council:

1. Rescind the motion of November 20, 2007 approving Pension Plan amendments 2006-01 and 2006-02;

Recommendations continued on page 2

2. Approve the HRM Pension Plan Committee amendments (2007-01, 2007-02) as attached to this report to:
 - a. Remove the current cap on the maximum amount of pension a member can accrue per year of service from the amount \$1,722.22 and replace it with the amount of \$1,825.00 in the Halifax Regional Municipality Pension Plan, the Prior Halifax County Municipality Full-Time Retirement Pension Plan, the Prior Metropolitan Authority Employees' Pension Plan and the City of Dartmouth Employees' Retirement Pension Plan.
 - b. Approve a 0.5% increase to pension income for pensioners in the Halifax Regional Municipality Pension Plan and the Prior Superannuation Plans.
3. Approve funding from HRM to cost share 50% of the retroactive contributions required to be paid to the HRM pension plans for employees whose pensionable earnings exceeded \$86,111 in the years 2004, 2005, 2006, and 2007 and who opt to benefit from this increased cap.

BACKGROUND

The previously approved amendments to the HRM Pension Plans, 2006-01 and 2006-02, would have increased the maximum pensionable earnings under the HRM Pension Plans from \$86,111 to the pensionable earnings maximum provided for under the Income Tax Act (currently \$122,222 and subject to change each year).

The Superintendent of Pensions declined to approve the amendments on the basis that, as HRM Pension Plans are under solvency relief regulations, all amendments are required to be fully funded at the time of the amendments, in accordance with the requirements of the regulations providing for that relief.

DISCUSSION

Solvency and Going Concern Valuation are two methods used to evaluate the financial health of pension plans. HRM Pension Plans, in their most recently filed actuarial valuation reports showed a surplus using the Going Concern method, but showed a deficit using the Solvency valuation method. Solvency valuation is concerned with the impact on plans if they are terminated.

Normally, pension plan solvency deficits are required to be funded over a 5 year period. Recently, the Province of Nova Scotia granted the HRM Pension Plans relief from that requirement, and required the plans to fund deficits to the 85% level, instead of 100%.

With that relief, comes an additional requirement that any plan amendment be fully funded at the time of the amendment.

On that basis, the Superintendent ruled that the previous amendments were not appropriate since they assumed that full funding of the cost of the amendments was based on the solvency cost (\$13,200,000), instead of the going concern cost (\$28,200,000). Unfortunately, the HRM Pension Plans could not afford to pay the higher amount at the time of the amendment.

These revised amendments would partially increase the maximum pensionable earnings in an amount which current funding will permit. Therefore these amendments will be fully funded by the HRM Pension Plan Fund, and are to be submitted to the Superintendent of Pensions in accordance with the requirements of those regulations and should be approved as they now meet the strict requirements of the Province.

The Pension Plan Committee may submit further amendments, as funds become available, to increase the maximum pensionable earnings provided in the plans in stages, until the maximum pensionable earnings reach the maximum allowable pensionable earnings provided in the Income Tax Act. Eventually, as these staged amendments are approved, these amendments will result in the Plans being in the same position they would have been in had the original amendments been approved.

BUDGET IMPLICATIONS

As there are no proposed changes in current pension plan contributions by either employees or employers, the cost of active contributions will not be impacted by this amendment.

Based on 50/50 cost sharing, HRM would be responsible for as much as \$116,000 of the cost of purchasing past service from January 1, 2004 to March 31, 2008. The estimated cost for the 2008/09 fiscal year could be as high as \$89,000. The exact amounts will not be available until all affected members indicate whether they wish to purchase past service or not.

Finance will therefore make provision at fiscal year-end to accrue the payroll liability, with business units being charged for the 2008/09 fiscal year costs and the remainder of past service cost that is related to prior years being charged to the over/under account. Should business units not be able to absorb the current year cost, the Variable Operating Stabilization Reserve (VOSR) is available to assist.

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

1. Council may decide not to approve this amendment. This is not recommended as the pension maximum is currently a staff retention and attraction issue, this may result in an inability to retain or recruit senior staff at a time when anticipated retirements are at their peak.

ATTACHMENTS

1. Pension Plan Amendments 2007-01 and 2007-02
2. Extract of November 20, 2007 Minutes of HRM Council

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 & Approved by:



Paul Fleming, Manager, Budget and Financial Analysis,
Financial Services, 490-7203

Report Approved by:

Catherine Sanderson, Sr. Manager, Financial Services, 490-1562

Amendment 2007-01
to the
Halifax Regional Municipality
Pension Plan

WHEREAS the Halifax Regional Municipality Pension Committee (“Committee”) administers the Halifax Regional Municipality Pension Plan (“Plan”); and

WHEREAS the Committee has reserved the right to amend the Plan and now wishes to do so;

NOW THEREFORE IT IS HEREBY RESOLVED that, effective December 31, 2007, the Plan is amended as set out below:

1. Section A3 – Appendix A Retirement Benefits, is amended by deleting Section A3.05, and replacing it as follows:

“A3.05 **Maximum Pension Provisions**

Notwithstanding any other provision of this Plan to the contrary, the annual lifetime pension payable to a Member under this Plan in the form of pension to be paid to the Member, including a pension payable under any other registered pension plan of the Municipality/Participating Employer and any portion of any pension payable to a Member’s Spouse or Common Law Partner or former Spouse or Common Law Partner pursuant to Section 10.02 of the Master Text, determined at the time of pension commencement, shall not exceed the years of pensionable service of the Member multiplied by the lesser of (a) and (b) where :

- (a) equals
 - (i) for Members who terminate Continuous Service on or before December 31, 2006 (or after December 31, 2006 and in respect of whom the requirements of Section A3.05.1 are

not met), \$1,722.22 or, for the portion of Credited Service that is purchased after June 7, 1990 with respect to a period prior to 1990 that was not pensionable service under a defined benefit provision of a registered pension plan, \$1,150; and

- (ii) for Members who terminate Continuous Service after December 31, 2006 and in respect of whom the requirements of Section A3.05.1 are met, \$1,825.00, or, for the portion of Credited Service that is purchased after June 7, 1990 with respect to a period prior to 1990 that was not pensionable service under a defined benefit provision of a registered pension plan, $\frac{2}{3}$ rd of the defined benefit limit as prescribed for such purpose under the Income Tax Act from time to time; and

- (b) equals 2% of the average of the Member's best 3 consecutive years' highest average compensation from the Municipality/Participating Employer,

reduced, if the pension commencement date precedes the earliest of the days described in the Prescribed Reduction (as defined in the Master Text), by the Prescribed Reduction.

This Section A3.05 shall not apply to additional benefits payable as a result of any Actuarial Equivalent increase due to deferral of pension commencement after age 65 nor shall it apply to that portion, if any, of the pension derived from a Member's excess contributions, or the Member's Account.

For the purpose of this Section A3.05, pensionable service, highest average compensation and defined benefit limit shall have the meanings assigned in the Income Tax Act.”

2. Section A3 – Appendix A Retirement Benefits, is amended by adding Section A3.05.1 after Section A3.05, as follows:

“A3.05.1 The limit described in Section A3.05(a)(ii) will only apply if additional contributions equal to the additional amounts that would have been required from the Member and the Municipality/Participating Employer under Section 4.01(1) if the limit of \$1,825.00 found in Section A3.05(a)(ii) had applied for the Plan Years 2004, 2005, 2006 and 2007 respectively, are deposited to the Fund. Such additional amounts may be paid either solely by the Member, solely by the Municipality/Participating Employer, or shared between them as they agree; otherwise, the limit described in Section A3.05(a)(i) will apply even if termination of Continuous Service occurs after December 31, 2006.”

3. Section B3 - Appendix B Retirement Benefits, is amended by deleting Section B3.05 and replacing it as follows:

“B3.05 **Maximum Pension**

Notwithstanding any other provision of this Plan to the contrary, the annual lifetime pension payable to a Member under this Plan in the form of pension to be paid to the Member, including a pension payable under any other registered pension plan of the Municipality/Participating Employer and any portion of any pension payable to a Member’s Spouse or Common Law Partner or former Spouse or Common Law Partner pursuant to Section 10.02 of the Master Text, determined at the time of pension commencement, shall not exceed the years of the Member’s pensionable service multiplied by the lesser of:

(a) \$1,722.22 or, for Members who terminate Continuous Service after December 31, 2006, \$1,825.00; and

(b) 2% of the average of the Member's best three consecutive years of remuneration from the Municipality/Participating Employer;

reduced, if the pension commencement date precedes the earliest of the days described in the Prescribed Reduction (as defined in the Master Text), by the Prescribed Reduction.

This Section B3.05 shall not apply to additional benefits payable as a result of any Actuarial Equivalent increase due to deferral of pension commencement after age 65 nor shall it apply to that portion, if any, of the pension derived from a Member's excess contributions."

4. Section C3 - Appendix C Retirement Benefits, is amended by deleting Section C3.05 and replacing it as follows:

"C3.05 **Maximum Pension**

Notwithstanding any other provision of this Plan to the contrary, the annual lifetime pension payable to a Member under this Plan in the normal form of pension to be paid to the Member, including a pension payable under any other registered pension plan of the Municipality/Participating Employer and any portion of any pension payable to a Member's Spouse or Common Law Partner or former Spouse or Common Law Partner pursuant to Section 10.02 of the Master Text, determined at the time of pension commencement, shall not exceed the years of the Member's pensionable service multiplied by the lesser of:

- (a) \$1,722.22 or, for Members who terminate Continuous Service after December 31, 2006, \$1,825.00; and
- (b) 2% of the average of the Member's best three consecutive years of remuneration from the Municipality/Participating Employer,

reduced, if the pension commencement date precedes the earliest of the days described in the Prescribed Reduction (as defined in the Master Text), by the Prescribed Reduction.

This Section C3.05 shall not apply to additional benefits payable as a result of any Actuarial Equivalent increase due to deferral of pension commencement after age 65 nor shall it apply to that portion, if any, of the pension derived from a Member's excess contributions."

- 5. Section E1 - Appendix E Definitions, is amended by deleting Section E1.08 and replacing it as follows:

"E1.08 **Maximum Pension**, means, in respect of the annual amount of the lifetime retirement benefits payable to the Member under this Plan in the normal form of pension to be paid to the Member, including a pension payable under any other registered pension plan of the Municipality/Participating Employer and any portion of any pension payable to a Member's Spouse or Common Law Partner or former Spouse or Common Law Partner pursuant to Section 10.02 of the Master Text, determined at the time of pension commencement, shall not exceed the years of the Member's Pensionable Service (subject to a maximum of 35 years) multiplied by the lesser of:

- (a) \$1,722.22 or, for Members who terminate Continuous Service after December 31, 2006, \$1,825.00; and

- (b) 2% of the average of the Member's best three consecutive years of remuneration from the Municipality/Participating Employer."

6. Section E3 - Appendix E Retirement Benefits, is amended by deleting Section E3.03(e) and replacing it as follows:

"E3.03 (e) Notwithstanding the above, the amount of pension payable to a Member who retires prior to the earliest of:

- (i) attainment of age 60,
- (ii) completion of thirty years of Service or Pensionable Service, if greater, or
- (iii) the date upon which the Member's age plus years of Service or Credited Service, if greater, total 80,

shall not be greater than the lesser of:

- (A) the amount of pension accrued to the Member's actual Retirement Date reduced by 1/4 of 1% for each month prior to the date upon which the Member would have met one of (i), (ii), or (iii) above had the Member remained in employment with the Municipality/Participating Employer, or
- (B) the Maximum Pension of the Member reduced by 1/4 of 1% for each month prior to the date upon which the Member would have met one of (i), (ii), or (iii) above had

the Member remained in employment with the
Municipality/Participating Employer.”

We, the undersigned, do hereby certify that the foregoing amendment is adopted on this
_____ day of _____, 20_____.

Name

Name

Title

Title

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Amendment 2007-02
to the
Halifax Regional Municipality
Pension Plan

WHEREAS the Halifax Regional Municipality Pension Committee (“Committee”) administers the Halifax Regional Municipality Pension Plan (“Plan”); and

WHEREAS the Committee has reserved the right to amend the Plan and now wishes to do so;

NOW THEREFORE IT IS HEREBY RESOLVED that, effective December 31, 2007, the Plan is amended as set out below:

1. Section A3 – Appendix A Retirement Benefits, is amended by adding the following paragraph at the end of Section A3.08, as follows:

“Notwithstanding the above, pensions in the course of payment as at January 1, 2007 shall be increased by 0.5%, provided that this increase is in accordance with the general limitation on pension increases set out in Section 11.01 of the Master Text.”

2. Section D3.12 – Appendix D Service Benefits and Supplementary Grants, is amended by adding the following paragraph at the end of Section D3.12, as follows:

“Notwithstanding the above, pensions in the course of payment as at January 1, 2007 shall be increased by 0.5%, provided that this increase is in accordance with the general limitation on pension increases set out in Section 11.01 of the Master Text.”

We, the undersigned, do hereby certify that the foregoing amendment is adopted on this _____ day of _____, 20____.

Name

Name

Title

Title

**HALIFAX REGIONAL MUNICIPALITY
REGIONAL COUNCIL MINUTES November 20, 2007**

11.1.3 Pension Plan Amendments

• A report dated November 13, 2007 on the above noted was before Council. Mr. Wayne Anstey, Deputy CAO, Operations, reviewed the November 13, 2007 staff report with Council. Mr. Anstey noted a correction to #1 (b) of the recommendation, which should read "A 2% increase to pension income for pensioners in the Halifax Regional Municipality Pension Plan *and the Prior Superannuation Plans*."

MOVED by Councillor Walker, seconded by Councillor Fougere, that Halifax Regional Council:

1. Approve the plan amendments respecting:

a. The removal of the current cap on the amount of pension a member can accrue per year of service which is stated in the Pension Plan text (\$1,722.22.), replacing it with the maximum provided for under the Income Tax Act within the Halifax Regional Municipality Pension Plan, the Prior Halifax County Municipality Full-Time Retirement Pension Plan, the Prior Metropolitan Authority Employees' Pension Plan and the City of Dartmouth Employees' Retirement Pension Plan.

b. A 2% increase to pension income for pensioners in the Halifax Regional Municipality Pension Plan and the Prior Superannuation Plans.

2. Approve funding from HRM to cost share at 50% retroactive contributions to HRM pension plans for employees whose pensionable earnings exceeded \$86,111 in the years 2004, 2005, 2006, and 2007.

Mr. Anstey responded to questions of clarification at this time.

MOTION PUT AND PASSED.