



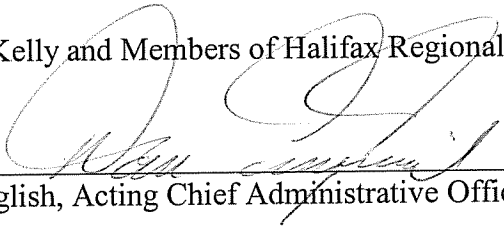
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**Halifax Regional Council**  
**April 22, 2003**

**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**

  
\_\_\_\_\_  
Dan English, Acting Chief Administrative Officer

**DATE:** April 7, 2003

**SUBJECT:** **Amendment to HRM Pension Plan Benefits & Update on Request for  
Changes to the Nova Scotia Pension Benefits Act**

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**ORIGIN**

At the December 17, 2002 meeting, Halifax Regional Municipality Council approved, in principle, the amendment being proposed by the HRM Pension Committee to change the termination benefit under the Halifax Regional Municipality Pension Plan. The proposed amendment is attached.

**RECOMMENDATION**

**It Is Recommended That:**

Amendment 2002-03 to the Halifax Regional Municipality Pension Plan to change the termination benefit under the Halifax Regional Municipality Pension Plan be formally approved.

## **BACKGROUND**

At the December 17, 2002 Regional Council meeting approval was granted to 1) increase the employer portion of current service pension contributions by .45% from 6.3% to 6.75%, 2) request changes to the Nova Scotia Pension Benefits Act respecting “grow in” rules and 3) approve in principle an amendment to change the termination benefit under the Halifax Regional Municipality Pension Plan.

## **DISCUSSION**

- 1) The increase in the employer portion of the Current Service Costs has been included in the 2003/04 operating budget.
- 2) Letters have been sent to the Minister of Service Nova Scotia and Municipal Relations and the Union of Nova Scotia Municipalities requesting support for the removal of the “grow in” provision contained within the Nova Scotia Pension Benefits Act. To date there has not been a formal reply from either party.

Due to the importance of this request, the following is an extract from the December 17, 2002 staff report explaining the rationale for the request:

“The *Pension Benefits Act* requires that the plan funding be done on a Going Concern Basis and a Solvency Basis. As previously stated, each method has different rules of determination as well as remedial action which must be taken.

The financial markets have not been kind to investors generally, and our Plan has not been immune to the negative returns being experienced in markets throughout the world. Accordingly, the actuarial valuation on a going concern basis as at December 31, 2001 disclosed deterioration in the financial position of the Plan from the year prior. When applying the solvency test, the deterioration is greater.

The solvency test is applied to determine whether the plan would be solvent if it were required to pay all benefits to members as of the date the test is performed. Any deficiencies identified must be amortized over 5 years whereas on going concern basis, the amortization can be over 15 years. The Province of Nova Scotia exempts itself from this test. It is staff’s view that this exemption is based upon the fact that, as a government, the Province of Nova Scotia will continue to exist no matter what happens in the financial markets. It is staff’s view that the same rationale should apply to municipalities.

Although solvency calculations are prudent, there are some rules required under the mandated solvency test that could be regarded as extreme and which, in staff’s view, put undue pressure on plans such as HRM’s. One such item is the requirement to assume that all members who have at least “55 points” (combination of age plus service) will stay until retirement at their earliest date. This provision is known as the “grow-in” rule.

The elimination of “grow-in” in the calculation of liabilities on a solvency basis will decrease the total

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solvency liabilities to bring it closer to the going concern liabilities. However, should financial markets continue as they are, in the long term, both the going concern and the solvency requirements will mean significant increases in contributions, a change in benefits, or a combination of the two.

Under provincial pension legislation, the Plan is required to file an actuarial valuation every three years. The last one filed was as at December 31, 2000. Therefore, the next mandatory filing will be as at December 31, 2003 and which will be filed during 2004. Any increased contribution required to adequately fund the Plan would be incurred in 2004 and subsequent years.

Notwithstanding that filings are not mandatory until 2004, with the current financial markets and the general outlook for the future, staff are of the opinion that the HRM be proactive, both by anticipating future contribution increases or benefit changes which might control plan costs. The following table clearly demonstrates the effect the financial markets have had on the Plan's financial health.

<b>A</b>	<b>B</b>	<b>C</b>
Valuation /Extrapolation* Date	Solvency Surplus (Deficiency)	Going Concern Surplus (Deficiency)
December 31, 1999	\$44,223,000	\$ 59,227,000
December 31 , 2000	\$43,995,000	\$ 63, 862,000
December 31, 2001	(\$39,271,000)	\$ 66, 202,000
August 31, 2002 *	(\$129,844,000)	\$ 60,268,000

\* estimate only -

The determination of the Plan's position on a solvency basis (Column B above) was made based on the market value of fund assets. To mitigate the need for even greater additional contributions at this time, the actuarial value of assets will be used. On this basis the solvency deficiency estimated as at August 31, 2002 drops to \$47,485,000.

Furthermore, the removal of "grow-in" in the solvency calculation will reduce the estimated solvency deficiency at August 31, 2002 by another \$74,000,000, creating a solvency surplus of \$26,515,000 and therefore will soften the immediate impact of the increase in costs should financial markets not return to pre 2000 levels and will give the Pension Committee and the HRM time to prepare through either further increases in contributions, a reduction in benefits, or a combination of the two.

Accordingly, the recommended Pension Benefits Act amendment would seek an exemption from this requirement."

An actuarial evaluation as of December 31, 2002 is currently in process, however, results are not expected until June, 2003. Preliminary estimates suggest that the financial position as at December 31 , 2002 has further deteriorated from the figures reported above.

- 3) At the December 17, 2002 meeting Regional Council approved in principle the Pension Committee's proposal to reduce the Plan's cost by changing the termination benefit as of December 31, 2002. This change would affect active members in the *Current* (new plan provisions which were introduced on April 1, 1998) division of the Pension Plan whose employment terminates before becoming eligible for a pension.

This change affects benefits payable to members who terminate employment *on and after* December 31, 2002 and *before* becoming eligible for an immediate pension. As well, the change affects the benefit payable should a member die before becoming eligible for an immediate pension. The changes do not affect benefits payable to any members who retire from their employment and who are eligible to receive an immediate pension. This change is expected to reduce the actuarial liability by \$10,500,000 on a going concern basis.

All Labor Unions and Associations have approved the amendments. In addition the Superintendent of Pensions has approved and registered the amendment effective December 31, 2002. Written approval from the Superintendent of Pensions was received February 24, 2003.

The attached amendment provides more detail of the plan amendment which staff is recommending for Council's approval.

### **BUDGET IMPLICATIONS**

The removal of the termination benefit will assist in reducing future increases in pension costs for both the employer and employee.

Should changes to the Nova Scotia Pension Benefits Act not be received favorably by the Province of Nova Scotia, there will be significant costs to the HRM which will impact upon the Operating Budget of 2004/05 and approximately four fiscal years thereafter.

### **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 and the utilization of Capital and Operating reserves, as well as any relevant legislation.

**ALTERNATIVES**

There are none recommended at this time.

**ATTACHMENTS**

Amendment 2002-03 to the Halifax Regional Municipality Pension Plan.

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Reg H. Ridgley, CGA, Manager, Strategic Capital Project Support 490-6475

Report Approved by:

  
S. Dale MacLennan, CA, Director, Financial Services

490-6308

*Amendment 2002-03*  
*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;

**NOW THEREFORE IT IS HEREBY RESOLVED** that, effective December 31, 2002, the Plan is amended as follows:

1. Section A5.01(2) is deleted and replaced as follows:

"A5.01 (2) **Termination After 24 Months of Membership**

A Member whose Continuous Service terminates for any reason other than death or retirement after he has completed 24 months of Continuous Service while a Member is not permitted to withdraw any of his Required Contributions, and in lieu thereof, is entitled to receive the deferred unreduced pension accrued to the member under Section A3.01 based on his Credited Service to his termination date, commencing to be paid at the Member's Optional Retirement Date pursuant to Section A2.03(2)."

2. The heading and text of Section A5.01(3) are deleted and replaced with the heading and text of Section A5.01(4).
3. Section A5.01(4) is deleted.
4. All internal references to Section A5.01(3) are replaced with references to Section A5.01(2), and all internal references to A5.01(4) are replaced with references to Section A5.01(3).

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

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

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Title