

**IMPORTANT NOTICE TO HRM PENSION PLAN ACTIVE MEMBERS, UNIONS AND EMPLOYERS
POSSIBLE BENEFIT CHANGES OR CONTRIBUTION RATE INCREASE**

Further to the June 2015 notice advising employers and plan members (“Members”) in the HRM Pension Plan (the “Plan”) about a potential contribution increase effective January 1, 2016, the HRM Pension Committee (the “Committee”) is recommending three benefit reductions effective January 1, 2016 instead of a contribution increase to improve the long term sustainability of the Plan. The attached June 2015 notice was posted to the Plan’s website, www.hrmpensionplan.ca, and sent to employers for distribution to Members.

The purpose of this notice is to provide detailed information on the recommended changes and sample pension calculations to explain how Members will be impacted by the benefit reductions. In accordance with the governing plan document, the benefit reductions recommended by the Committee must be approved by HRM’s five unions (ATU Local 508, CUPE Local 108, HRP, IAFF Local 268 and NSUPE Local 13) and HRM Council. Any changes to the Plan must also be reviewed and approved by the Nova Scotia Superintendent of Pensions.

If the benefit reductions are not approved by all parties, Member and employer contribution rates will increase January 1, 2016 by 0.5% of pensionable earnings (0.25% each Member/employer). The January 1, 2016 contribution increase is subject to approval from the Superintendent of Pensions for a 12-month delay in funding the deficit identified in the December 31, 2014 actuarial valuation. If the Superintendent of Pensions does not approve the 12-month delay, the contribution increase will be effective January 1, 2015 and retroactive contributions will be collected from Members and employers for 2015.

The following recommended changes will apply to service earned after December 31, 2015:

1. Calculate Best Average Earnings over Five Years

The pension formula used to calculate a Member’s annual pension entitlement is:

$$2\% \times \text{Best Average Earnings} \times \text{Credited Service}$$

Currently, the Best Average Earnings is calculated as the average of a Member’s annualized earnings over the highest three consecutive years of annual earnings. The Committee is recommending that, for service earned after December 31, 2015, the averaging period be changed to five consecutive years. The pension earned by Members for service up to December 31, 2015 will not be impacted by this change.

While this will result in a lower pension for future years of service, most Members will not see a significant decrease in their expected retirement income. Here is an example of how a Member’s pension will be calculated if this change is adopted:

Sample Member Pension Calculation

Retirement Date:	January 1, 2021
Credited Service to December 31, 2015:	20 years
Credited Service after December 31, 2015:	5 years

Year	Annual Earnings
2020	\$54,121
2019	\$53,060
2018	\$52,020
2017	\$51,000
2016	\$50,000

3-Year Best Average Earnings = \$53,067

5-Year Best Average Earnings = \$52,040

Annual Pension for Service to December 31, 2015:	2% X \$53,067 X 20 =	\$21,227
Annual Pension for Service after December 31, 2015:	2% X \$52,040 X 5 =	\$5,204
Total Annual Pension		\$26,431

Sample Member's Annual Pension before Recommended Change: \$26,534 (2% X \$53,067 X 25)
Sample Member's Annual Pension after Recommended Change: \$26,431 (see above)

2. Change eligibility for an unreduced pension to age 60 with a minimum of 10 years of continuous employment service

The Plan currently allows Members to retire with an unreduced pension (i.e. no early retirement penalty) on the first day of the month after:

- the Member reaches age 60, **or**
- the Member's age and years of continuous employment service total 80 (known as the 'Rule of 80'*), whichever is earlier.

The Committee is recommending that Members be eligible for an unreduced pension on the first day of the month after:

- the Member reaches age 60 and has at least 10 years of continuous employment service, **or**
- the Member's age and years of continuous employment service total 80 (known as the 'Rule of 80'*), **or**
- the Member reaches their Normal Retirement Date**, whichever is earlier.

*Some Members in public safety occupations (police officers or firefighters) can retire with an unreduced pension under the 'Rule of 75'.

**The Normal Retirement Date is the first day of the month after the member reaches age 65 (or age 60 for Members in public safety occupations).

This change will only apply to service earned after December 31, 2015 and does not impact Members who are employed in a public safety occupation or who will have 10 or more years of continuous employment service at age 60.

Members who are impacted by this change will have two "Earliest Unreduced Retirement Dates", one for pension earned for credited service up to December 31, 2015 and one for credited service earned after December 31, 2015.

Member Earliest Unreduced Retirement Date Example

Date of Birth:	June 30, 1957
Date of Hire:	June 30, 2009 (age 52)
First Earliest Unreduced Retirement Date for Service to December 31, 2015:	July 1, 2017 (age 60)
Second Earliest Unreduced Retirement Date for Service after December 31, 2015:	July 1, 2019 (age 60 with 10 years of continuous service)

A Member's Earliest Unreduced Retirement date for service after December 31, 2015 will never be later than their Normal Retirement Date (age 65 for most Members; age 60 for police officers and firefighters).

If a Member elects to retire before their Second Earliest Unreduced Retirement Date, the pension earned for service after December 31, 2015 will be reduced in accordance with the terms of the Plan. This early retirement penalty is 6% for each year the Member retires before their Second Earliest Unreduced Retirement Date. Here is an example for the above Member:

Period	Best Average Earnings	Credited Service	Accrued Pension	Early Retirement Penalty	Annual Pension Effective July 1, 2017
To December 31, 2015:	\$51,000	6.5 years	\$6,630	N/A	\$6,630
After December 31, 2015:	\$50,000	1.5 years	\$1,500	\$180 (12%)	\$1,320
Total Pension					\$7,950

3. Freeze maximum pension at the 2015 limit under the Income Tax Act

Under the Plan, Members are entitled to receive a pension based on the Plan's pension formula (2% X Best Average Earnings X Credited Service). However, a Member's pension cannot exceed the maximum prescribed under the Income Tax Act. The maximum pension for a Member retiring in 2015 is \$2,818.89 per year of service. Members and employers do not contribute on pensionable earnings above the amount that will produce the maximum pension in each year. For example, contributions will not be withheld on pensionable earnings above \$140,944.50 in 2015 (2% X \$140,944.50 X 1 = \$2,818.89).

The Committee is recommending that the maximum pension that can be paid from the Plan be frozen at \$2,818.89 for each year of service earned after December 31, 2015. The maximum pension for years of service up to December 31, 2015 will continue to be limited to the maximum pension limit under the Income Tax Act in effect at the year of retirement. This change will only affect Members who have a Best Average Earnings higher than \$140,944.50 at retirement.

Sample Member Pension Calculation

Retirement Date:	January 1, 2021
Credited Service to December 31, 2015:	20 years
Credited Service after December 31, 2015:	5 years

Year	Annual Earnings
2020	\$156,953
2019	\$153,875
2018	\$150,858
2017	\$147,900
2016	\$145,000

3-Year Best Average Earnings = \$153,895

5-Year Best Average Earnings = \$150,917

	Annual Pension using Plan Formula	Maximum Pension	Member's Pension (capped at Maximum)
For Service to December 31, 2015:	2% X \$153,895 X 20 = \$61,558	\$3,174.55* X 20 = \$63,491	\$61,558
For Service after December 31, 2015:	2% X \$150,917 X 5 = \$15,092	\$2,818.89 X 5 = \$14,094	\$14,094
Total Annual Pension			\$75,652

*This is the estimated Income Tax Act limit in 2021 assuming that Canada Revenue Agency increases the limit by 2% each year.

Sample Member's Pension before Recommended Change: \$76,650 (estimated ITA limit applied to all service)

Sample Member's Pension after Recommended Change: \$75,652

Over the next few months, the Committee will meet with the five HRM unions and HRM Council to request approval of the recommended benefit reductions. If all five HRM unions and Council approve the changes, the Committee will file the plan amendments with the Nova Scotia Superintendent of Pensions for her review and approval. The Committee will provide Members with at least 45 days' notice in advance of filing the Plan amendments. If the benefit reductions are not approved, contribution rates will increase effective January 1, 2016 unless the Superintendent of Pensions does not approve a 12-month delay, in which case contribution rates will increase retroactive to January 1, 2015. If contribution rates increase, Members and employers will receive a detailed communication with the new contribution rates.

If you have any questions regarding the recommended changes, please contact the HRM Pension Office by phone at 902-490-6213 or toll-free at 1-888-490-6213 or by email at HRMpension@halifax.ca.

Sincerely,

Bill Moore Dan White
Co-Chairs, HRM Pension Committee