January 19, 2012

The Honourable Marilyn More
Minister of Labour and Advanced Education
P.O. Box 697
Halifax, Nova Scotia
B3J 2T8

Dear Minister More,

Re: Proposed Regulations re: Pension Plan Funding – Bill 96

I am writing to you today on behalf of the NUMEA at Halifax Regional Municipality. NUMEA is an association of non-union employees that have a voting representative sitting at the HRM Pension Plan's decision making table. We are extremely disappointed that the N.S. Government did not exempt the HRM Pension Plan from funding solvency deficits despite recognizing the Plan as a Jointly Sponsored Pension Plan (JSPP).

Municipal pension plans are exempt from funding solvency deficits in B.C., Alberta, Manitoba, Quebec, and New Brunswick. Municipal pension plans are exempt from funding solvency deficits in Ontario if they are a JSPP. Saskatchewan has announced that it intends to adopt B.C./Alberta's proposed joint pension legislation which would continue to exempt municipal pension plans. PEI does not have pension legislation, so all pension plans are exempt from funding solvency deficits. Newfoundland has historically provided temporary relief from funding solvency deficits when required. As you can see, Nova Scotia is not in step with other jurisdictions in this matter.

Our members are concerned about this matter for a number of reasons. Fundamentally our concern is the unnecessary financial risk that this decision places on our members and on taxpayers. The concern is amplified because the decision makes little sense in our context. There is no evidence that our municipality is in any jeopardy of insolvency. Clearly a municipal or provincial government should be viewed in a different light than a business in terms of insolvency risk. Your own provincial pension plans are exempt from solvency funding requirements in large part due to that reality.

The solvency calculation is a complex and arbitrary tool designed by actuaries to illustrate the worst case scenario of a plan wind up. The tool uses assumptions and data based on the conditions that exist at the time of the calculation. In recent times, the calculation has been problematic and worrisome because of the perfect storm of stagnant investment returns and historically low interest rates. To illustrate the sensitivity that fluctuations of long-term interest rates have on solvency valuations consider the following. A 1% decrease in the long-term interest rate would mean our solvency valuation would decrease by 12%. In the third quarter of 2011 alone, the funded status of the median pension plan in

Canada declined from 71% to 63% due to a decline in long term Canadian government bonds of .80%. Poor investment returns detracted a further 3% from the funded status. Increases in the interest rate would show similar swings in the valuation in the other direction. The solvency valuation is extremely volatile and not an appropriate funding measure for a pension plan that has a low probability of going bankrupt and that has a joint risk-sharing governance model in place. The thought of funnelling yet more of the taxpayer's dollars and employee contributions into the HRM Pension Plan for no reason other than to fund a 'moment in time' scenario seems unrealistic and unnecessary in the case of a JSPP. In the case of our Plan, we anticipate an increase in contributions to go from 20% to 48.6% of payroll (24.3% from employees and 24.3% from employers) based on a 60% funded status or an increase to 30.5% of payroll in the event of a 70% funded status as at December 31, 2012. Clearly neither of these scenarios are feasible and will require significant benefit reductions. Neither of these options will benefit plan members. Plan members will not be happy with the NS Government.

The HRM Pension Plan's joint governance model mandates all groups participating in the plan be at the decision making table to govern it. All groups are involved in making decisions on plan design, benefits, and contributions and have the access to information and service providers they require in order to do so responsibly. All deficits and surpluses are shared 50/50 amongst plan members and employers.

Our position is simply that the HRM Pension Plan, a jointly sponsored pension plan, should be exempt from funding solvency deficits due to its unique risk-sharing governance model and low risk of going bankrupt. The Pension Committee should make plan design and funding decisions based on the more appropriate assumption as a going concern entity. We urge you to reconsider your position and provide JSPPs in Nova Scotia with a 100% solvency exemption as is the trend with other provinces across Canada and to allow the HRM Pension Plan to fund/reduce benefits based on its going-concern valuations. The HRM Pension Plan has a healthy financial position. As at December 31, 2010, its funded status on a Going Concern basis was 93.1%.

Respectfully yours,

Verona Singer
Chair, Non-Union Municipal Employees Association