

Troubled Plans and Troubled Plan Sponsors



Paul T. Lai Fatt, FSA, FCIA, Partner

June 29th, 2016



Health • Benefits • Employee Assistance • Retirement

Business. Needs. People.

Disclaimer

- Note that presentation is not complete without associated commentary
- The views expressed herein are those of the presenter and do not necessarily represent the views Morneau Shepell Ltd., IPEBLA, or the IAA

Discussion today around the following

- Traditional DB challenges
- Perspective-based barriers to sustainability
- Provincial approaches in Atlantic Canada

Traditional DB challenges

- Rising costs due to low interest rates and increasing life expectancy
- Intergenerational inequity
- Misunderstanding of benefit security
- Contribution and accounting volatility

Sustainability is a common goal

"There is a need for pension reform to ensure the plan is sustainable..." – NAPE, NL

"...If you're going to make the plan more sustainable...we had to make some changes." – NL Premier Tom Marshall

"This is why our government commissioned a Task Force to examine New Brunswick's pension system with a goal of ensuring a system which is secure, sustainable, and affordable." – Premier David Alward, NB

"These amendments, along with amendments being made to the City of Regina Pension Plan, will...result in a pension plan that is more affordable and sustainable." – Government of SK

"The University of Ottawa has a responsibility towards its employees to ensure its pension fund remains healthy...we must act now to ensure our pension plan remains sustainable" – University of Ottawa

"We are confident that this model will make our pension plan sustainable long into the future." – Marilyn Quinn, President of NB Nurses Union

"The Board feels...that changes may be required to ensure that the plan is financially viable and sustainable well into the future" – Management Employees Pension Plan, AB

"Board members emphasized in meetings with the Special Advisor an understanding of the importance of ensuring that the pension plans are both affordable and sustainable..." – Report on the Sustainability of Electricity Sector Pension Plans, ON

Pension sustainability definitions harder to find

“In simple terms, sustainability planning means preparing for the future by ensuring the Local Authorities Pension Plan stays financially healthy so it can continue to provide, with reasonable certainty, a pre-determined pension benefit to all of its 214,000 plan members.” – LAPP, AB

“A sustainable pension plan is one that can consistently, over the long term, deliver an appropriate range of benefits within an acceptable range of costs” – Management Employees Pension Plan, AB

Subjective definitions of sustainability create barriers to implementation

Employers

- *Affordable and stable contributions*
- *Minimal impact on financial results / accounting statements*
- *A tool to attract and retain talent*

Taxpayers

- *Affordable and stable contributions*
- *No risk to Governments' ability to provide quality, cost effective services*

Retirees

- *No pension reduction*
- *Financial solvency of the plan / sponsor*
- *In some cases, protection from inflation*

Active employees

- *Confidence benefits will be there when I retire*
- *Affordable and stable contributions*
- *A plan that doesn't put my job or other benefits at risk due to risks / costs*

Three “levers” to pull to balance a plan

Contributions

- *Employer*
- *Employee*
- *Both*

Future Benefits

- *Which ones?*
- *By how much?*
- *For whom?*

Past Benefits

- *Which ones?*
- *By how much?*
- *Is it fair?*

Atlantic Provinces attempt balance

- Challenges similar in NS, NB, PEI, NL
- Provinces selected different subsets of levers to pull for their largest public service pension plans
 - Nova Scotia's Public Service Superannuation Plan ("NSPSSP")
 - New Brunswick's Public Service Shared Risk Plan ("NBPSSRP")
 - Prince Edward Island's Civil Service Superannuation Fund ("PECSSF")
 - Newfoundland and Labrador's Public Service Pension Plan ("NLPSP")

Different solutions to similar problems along a spectrum from Target Benefit to DB

Target Benefit

Defined Benefit

NBPSSRP

- *Conditional pre and post-retirement indexing for all members including accrued benefits*
- *Cap on Government contributions*
- *Accrued benefit reductions possible in extreme scenarios*

NSPSSP

- *Conditional post-retirement indexing for all members including accrued benefits*
- *Cap on Government contributions*
- *Prospective benefit reductions should cap be insufficient*

PECSSF

- *Conditional pre and post-retirement indexing for all members including accrued benefits*
- *Government guarantees accrued benefits but not prospective indexing*

NLPSP

- *No explicit conditional benefits*
- *Prospective costs shared 50/50 with members*
- *Majority of past deficit being funded by Government over 30 years*

Different approaches, similar barriers

- Opposition from various stakeholders based on their definitions of sustainability
- Fiscal challenges in the public sector
- Legal challenges around what can and should be done
- Communication strategies and political backlash

In all cases lessons learned along the way

- Is there a “right answer” to sustainability?
 - In short, I don’t think so
- I do believe there is a “right process”
 - Start with your definition of sustainability and work backwards
 - Have empathy for the positions of others
 - Measure your current plan against your definition
 - Engage stakeholder groups in the process and communicate along the way



Business. Needs. People.

Thank you

Paul T. Lai Fatt, FSA, FCIA

Partner

plaifatt@morneaushepell.com

902.474.3236

Visit us: morneaushepell.com

Follow us: [@Morneau_Shepell](https://www.instagram.com/Morneau_Shepell)