

Changes in NS Pension Law

This article was previously in our Spring 2012 Newsletter. We are still waiting for the pension law changes to occur. As their effective date now appears to be getting close, we are reprinting this article (with a few minor changes).

New Nova Scotia pension laws are expected to take effect sometime over the next year. While there are many changes, here are the items that we expect will have the biggest immediate impact on NSHEPP members:



- ❖ Common-law type relationships
If you are in a marriage-like relationship with someone to whom you aren't legally married, the changes may affect who will receive any benefits after you die. Details have not yet been provided by the pension regulators but, when they are available, we will distribute a Member Bulletin and post it on www.nshepp.ca. If you are in such a relationship, please watch for this bulletin when it is released. If you would like to have a copy emailed directly to you when it is released, please email pensionplan@nshepp.ca with "Common-law" in the subject line.
- ❖ Terminating employment soon?
On your Annual Statement you will find information about when you will be "vested" – this is the point when you will be entitled to the full value of your pension if you terminate, including the part funded by

employer contributions. The current vesting rule is two years of plan membership; if you terminate before that time, you will generally only receive a refund of your own pension contributions, with interest. After the changes to the pension law take effect, your pension benefits will vest immediately. If you are thinking about terminating employment, you may wish to wait until you are vested or the new law comes into effect. If you are in this situation and would like us to let you know when the new vesting rule becomes effective, please email pensionplan@nshepp.ca with "Vesting" in the subject line.

- ❖ New Annual Statement information
For most members, the only change they will notice from the new laws will be in the Annual Statement. After the new law takes effect, the Annual Statement will be expanded to provide additional information.

How Does Your Pension Measure Up?

Each September your Trustees monitor the competitiveness of your pension plan. They compare NSHEPP to the pension plans for health care workers in Ontario, Manitoba and Saskatchewan, as well as the NS Public Service Superannuation Plan.

So how did we compare this year? Your contributions are about average, and your benefits are a little better than average. This includes pending changes in the comparison plans and assumes that our Base Year continues to be improved regularly in the future.

The pension plans that your Trustees compare your pension to are all very good pension plans compared to what most Canadians participate in. They are all public sector, defined benefit pension plans. Statistics Canada indicates that only 17.2% (2006 data) of private sector employees participate in a defined benefit pension plan.

**A Criticism From a Member
By Calvin Jordan, NSHEPP CEO**

This summer we received a criticism from one of NSHEPP's members. The member was 56 years old and planning to retire within a year. She was unhappy about the risk that our "Base Year" may not be improved before she retires. I don't hear many criticisms about NSHEPP so when I hear one, it gets my attention.

Most Canadian provincially-sponsored pension plans are based on members' average earnings over the last five years prior to their retirement. NSHEPP uses a different approach. In our Plan benefits are usually based on earnings in the most recent Base Year. Over the last 15 years the Base Year has lagged the current year by either 2 or 3 years 99.2% of the time. With a 2-3 year Base Year lag, NSHEPP will provide benefits that are similar to a Final 5-Year Average Earnings Plan.

But the member criticism was still partially valid. At the time of her complaint there was certainly no guarantee that there would be another Base Year improvement before she retired. And this was a risk that she would not have faced if instead of NSHEPP, she was in a typical Canadian provincially-sponsored pension plan.

But if she was in a different pension plan, she would probably face a different kind of risk. Most other pension plans do not provide the level of guaranteed inflation protection after retirement that NSHEPP provides.

To fairly judge a pension plan, all of the benefits have to be considered. There is no doubt that before you retire there is a risk related to the timing of future Base Year improvements. This risk can become a real concern for those members who are close to retirement. However, for those members the financial impact of this risk is small compared to the security provided by NSHEPP's post-retirement inflation indexing provision.

NOTE:

**Effective December 31, 2013,
the Base Year will be
improved to 2011.**

Thinking About Reducing Your Hours?

We frequently hear from members who are thinking about reducing their hours. Their question is usually "How much will this impact my pension?" The answer, if you are within a few years of retirement, may be less than you think.

First, reducing your hours does not change when you will be eligible to retire (*so long as you don't end your continuous employment completely*). You will still satisfy your "Rule of 85" or "Age 60 with 10 employment years" requirement at the same date as if you continued to work full-time hours.



Second, reducing your hours does not reduce your earnings for Base Year purposes. Your Base Year earnings are what you would have earned if you had worked full-time hours, regardless of what your hours actually are in the Base Year.

By reducing your hours, the only impact on your pension is that you will be credited with less service during your part-time years.

For example, let's consider a member who has 27 years of full-time service credited in the pension plan. They intend to work three more years. If they work half-time for those last three years, their credited pension service at retirement will be 28.5 years rather than 30 years. The difference in the pension they will receive is fairly small. Their pension will be about 95% (28.5 divided by 30) of what it would have been if they had continued to work full-time hours during those last three years. The difference will usually be even less on an after-tax basis.

Not all members will be able to reduce their hours. If you are thinking about doing so, please check with your employer to see if this is an option for you.