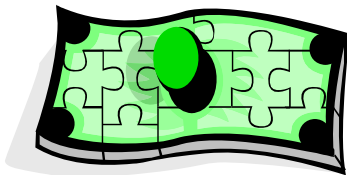


Putting the Pieces Together

Your Annual Pension Statement is included in the envelope with this Newsletter. This statement provides projections of what your pension may be when you retire. However, these projections only tell part of the story. Most of us can also expect to receive pensions from Canada Pension Plan (CPP) and Old Age Security (OAS).

Deductions from your income are usually less when you retire. Your cost for pension and benefit programs usually reduce or stop completely. Income taxes also usually go down.



How will these pieces fit together when you retire? Will you have enough or should you try to save a little extra? The answers to these questions, of course, depend on your personal situation. However let's consider Mary Smith's situation as an example.

Mary is planning to retire this year:

<p><u>Mary's data</u> Age: 58 Base year (2005) Earnings: \$43,000 Earnings increases after 2005: 2.5%/year NSAHO Pension Credited Service: 30 years CPP: maximum benefits starting at age 60 Deductions excluding income tax (these are fairly typical)</p> <ul style="list-style-type: none"> • while working: 15% • while retired: 1.5%
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What will Mary's "take-home" be after she retires? The answer will change over the next few years. Her CPP is assumed to start at age 60. Her OAS starts at 65 and, at the same time her "Bridging Benefit" from the NSAHO Pension Plan stops.

We estimate that Mary's take-home relative to her pre-retirement take-home will be:

- 70% before age 60;
- 87% between 60 and 65; and
- 84% after age 65.

There are a few important things that we can learn from Mary's situation:

1. Mary's take-home during retirement is expected to be less than when she was working. She may find that this is at least partially offset by a reduction in her work-related expenses (such as commuting). To help prepare for this adjustment, many financial planners suggest an objective of being "debt free" by retirement.
2. Mary's take-home is lowest prior to age 60 before her CPP starts. If you plan to retire before age 60 and it's still a few years away, consider investing a few dollars to help provide for this period. Alternatively, many members are able to retire and work part-time during this period.

Retired Member Survey Result

Early this year we asked a 40% sample of our retired members whether they agreed with the following statement:

"My pension plan compares well with other pension plans."

We thought you'd be interested in their response. After all, our retirees have first-hand experience with the Plan's benefits.

81.6% either agreed or strongly agreed (excluding responses from those that indicated that they "didn't know").

Optional Survivor Benefits

If you have a spouse (as defined under the Plan Terms) when you retire, they are entitled to a survivor pension when you die. The survivor pension is normally $66\frac{2}{3}\%$ of the lifetime pension you received before your death.

When you retire you may elect an optional survivor benefit. For members who have a spouse this is a 75% survivor benefit instead of the $66\frac{2}{3}\%$ described above. The cost of electing this option depends on your age and your spouse's age. However the typical cost is a reduction in your pension of only about 1-2%.



For members who are reasonably healthy, the choice between the two survivor benefits will typically depend on the following question:

How financially dependant will your survivors be on your pension?

(continued on other side)

The answer to this question depends on what other financial support your survivors will have after you die. The 75% optional survivor benefit may be a very good choice for you if:

- your spouse doesn't have a pension where they work;
- you will not have much life insurance on *your* life after you retire; and
- your family's retirement savings (other than your pension) won't be large when you retire.

Timing retirement to your advantage

This column is aimed at members who won't satisfy the "Rule of 85" at age 55, but expect to before age 60. To see if this applies to you, check your Optional Retirement Date. You can find this date in "YOUR PERSONAL DATA" section of your Annual Pension Statement. *Your Optional Retirement Date is the date when you can retire without a reduction to your pension.*



You can retire before your Optional Retirement Date. You can retire as early as your Early Retirement Date but your benefits are reduced. The reduction is $\frac{1}{2}\%$ for every month that you retire early (or 6% per year). However there can be an additional cost of retiring early.

Let's look at an example:

Judi is 57 years old with 26 years of continuous service. If Judi works for one more year, she will be 58 with 27 years of continuous service, satisfying the Rule of 85.

If instead, Judi retires immediately at age 57, you might expect that there would be a 6% reduction in her pension. *In fact she would be faced with a 12% reduction.*

Here is why:

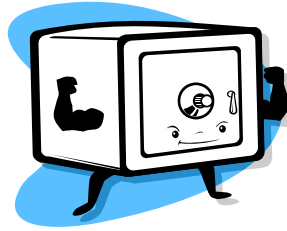
Judi's continuous service will not grow beyond 26 years if she retires today. Therefore, she won't satisfy the Rule of 85 until she is age 59 in 2 more years (age 59 + 26 years = 85). Therefore, her pension will be reduced by 12% (6% times 2 years).

Judi's 12% reduction for retiring one year early is not a situation faced by all members. This only occurs for members that reach the Rule of 85 after age 55 but before age 60. For other members the Optional Retirement Date is usually not impacted by retiring a year early, and the reduction would be 6%.

What should Judi do? If she wishes to avoid the 12% reduction, she could work from age 57 to 58 when she will satisfy the Rule of 85. This one year of work could even be on a part-time basis if this is acceptable to her employer.

The Plan is Financially Secure

In the fall of 2006 a formal financial review of our Plan was completed based on data to the end of 2005. In this review assets were more than Plan liabilities. *This is an important indicator that our benefits are secure.*



This is a better situation than what most Canadian pension plans are currently in. Many other plans have large funding shortfalls.

Our Actuarial Valuation Report provides the technical details of the financial review. It is in the "Publications" section of www.nsaopenpensionplan.ca

Unions and employers for many members reached an agreement in 2006 related to increased Plan funding. This includes increased employer contributions of:

- \$10.6 million initially; and
- 1.29% of pensionable earnings starting April 1, 2007.

The Trustees were not involved in the above-noted negotiations. However they are pleased that the Plan will be receiving this increased level of financial support.

To maintain equity, the 1.29% increase described above was applied to all employers that participate in the Plan.

Planning to retire this year?

Are you planning on retiring near the end of 2007? If so, you may want to delay your retirement until January 2008. *There is no guarantee*, but the Plan's base year is often improved at the beginning of the year. Information about any improvement will be posted on our website by mid-November. If your annualized earnings increased in 2006, a base year improvement should increase your pension.

Interesting Facts

At the end of 2006, there were about 4,800 members receiving pensions. Pensions and bridge benefits totalled over \$4.5 million per month. The number of retirees has grown by about 27% over the past five years.

In addition, there are about 21,000 members who have not yet started to receive a pension. Total Plan assets are about \$2.3 billion.

This Newsletter is produced twice a year. The Spring Newsletter is distributed with your Annual Pension Statement. The Fall Newsletter is distributed through your employer. Newsletters can also be accessed in the "Publications" section of www.nsaopenpensionplan.ca.