Fall 2010 Newsletter

For Active Members of the NSAHO Pension Plan

Happy 50th Birthday NSAHO Pension Plan!
January 1, 2011 is the NSAHO Pension Plan's 50th birthday.

In 1961 we were known as the Hospitals of Nova Scotia Pension Plan. There were 2,188 initial members. Male members contributed 6%, female members contributed 5% and employers contributed 6%. The pension formula was 2% for each year of service. Normal retirement age was 65, and there was no option to retire early without a reduction.

By the end of 1963 the Plan's assets had grown to $1.71 million. The actuary's report at that time commented on the proposed *Canada Pension Plan that had not yet been put in place!*

After 50 years a lot has changed. Today we are the largest Nova Scotia regulated pension plan. Our assets are now in the range of $3 billion. There are about 32,000 members, about 6,300 of whom are retired. There are now 75 participating employers, including most of the province's Continuing Care facilities and a growing number of Home Care Support employers. *Today MONTHLY payments to retirees total $5.7 million, more than the entire 1961 ANNUAL payroll.*

Perhaps surprisingly, contribution rates since 1961 have increased only modestly. Despite this, benefits have improved significantly. Today most members retire well before age 65 without a reduction. Pensions are now indexed for inflation up to a maximum of 3% per year. And when retirees die, the benefit for their surviving spouse has improved greatly.

How Does Your Pension Measure Up?
Each September your Trustees monitor the competitiveness of our pension plan compared to four "benchmark" pension plans. For the past several years we have reported these results in the fall newsletter.

Over the past year the Saskatchewan Health-Care pension plan has increased their contributions. And the NS provincial government pension plan has decreased the value of their benefits. These changes are understandable given the severity of 2008's market declines. Thankfully, similar changes were not necessary for the NSAHO Pension Plan over the past year. This is in large part because of our outstanding 2009 investment results (26.8%).

Measuring our competitiveness requires a comparison of several important areas. There can be differences in the lifetime pension amount, the bridge benefit, how early you can retire and inflation protection. Any fair comparison must reflect all of these differences and contributions too.

Our results are set out in the following table *(to simplify this table we have only included contributions below the Canada Pension Plan earnings threshold)*:

Pension Plan	Value compared to NSAHO pension	"Earnings" used to calculate pension *(with a few exceptions to simplify table)*	Annual increases to retirees' pensions	Contributions (% of earnings) Member	Contributions (% of earnings) Employer
NSAHO Pension Plan	**100%**	**From Base Year (currently 2008)**	**Price Inflation up to 3%**	**7.0666**	**8.4961**
Nova Scotia Provincial	93.2%	Average over best 5 years	Indexing on current benefits is not guaranteed	8.4	8.4
Ontario Health Care	93.1%			6.9	8.694
Manitoba Health Care	92.6%			6.8	6.8
Sask'wan Health Care	93.9%			7.2	8.064
Median of comparison plans	**93.1%**			**7.05**	**8.232**

Note: The values in this table are based on "best estimate" actuarial assumptions as of August 2010. This includes the assumption that ad-hoc improvements (e.g. base year upgrades) that have regularly been made in the past will continue to be made in the future. The value for the NS Provincial Plan is an average of the value for a member employed before (100.2%) and after (86.2%) April 6, 2010. The inflation indexing for the NS Provincial Plan was recently changed to "ad-hoc", and as this new design doesn't yet have any history, we have assumed that their future indexing will be 50% of inflation. All values are based on a current year of service for a 40-year-old member with 10 years of service and annual earnings of $45,000.

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You will see that _our benefits are better than all of the four benchmark pension plans_ (100% vs. a median of 93.1%).

You will note that the table on the prior page only compares provincially sponsored pension plans. All of these are very good pension plans compared to what most Canadians participate in. Only about 17% of the private sector participates in a defined benefit pension plan.

Why Care About Pensions if You Expect to Change Employers Before You Retire?

Younger members might question the value of a pension. It can be hard for them to imagine life as a retiree. However, you don't have to wait for retirement for your pension to be a benefit.

One way of looking at your pension's value before retirement is the _Transfer Value_. This is the amount that can be transferred from the pension if you terminate employment before you are eligible to retire. This would usually be transferred to a locked-in RRSP.

Let's take a 30 year old as an example. Let's assume:

- She makes $40,000 per year, increasing by 2% per year;
- The current plan design with regular base year improvements; and
- The transfer value is calculated as it would have been at the first of this year.

Have a look at how quickly the value grows!

Age	Member Contributions		Transfer Value
	Annual	Total With 4% Interest	
35	$3,060	$16,225	$22,108
40	$3,378	$37,654	$63,630
45	$3,730	$65,590	$122,777

Notice that the Transfer Values are much more than the member's contributions. This is partly explained by the employer's contributions.

After this member turns age 50, she could retire (with a reduced pension). Because of this she would usually no longer be eligible to transfer her funds out of the Plan. However, the value of her pension continues to grow. How much would it be worth by the time she has her "85 points?" _An insurance company would charge about $604,000 for a similar pension_.

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.