Spring 2012 Newsletter

For Active Members of the NSAHO Pension Plan

Changes in NS Pension Law

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 NSAHO Pension Plan members:

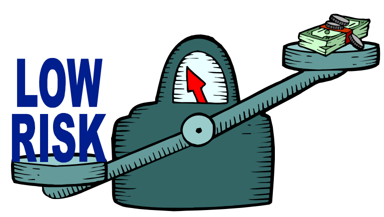
- Common-law type relationships
  If you are in a marriage-like relationship with someone to whom you aren't legally married, the changes may affect who will receive any benefits after you die. Details have not yet been provided by the pension regulators but when they are available, we will distribute a Member Bulletin and post it on www.nsahopensionplan.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@nsaho.ns.ca with "Common-law" in the subject line.

- Terminating employment soon?
  Look at your Annual Statement under the section titled "YOUR PENSION BENEFITS". You will find information there 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@nsaho.ns.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.

Is your pension safe?

One of the financial lessons learned in recent years is that nothing is completely safe. We learned from the United States that home values can plummet. We learned from Greece that government bonds can default. And many RRSP investors learned that their "low-risk" mutual funds actually had a rather high level of risk. As the world lurches from one financial crisis to another, it is reasonable for you to ask: *"How safe is my pension?"*



You have reason to feel good about the security of your NSAHO Pension Plan. When our audited financial statements are released in June, they will show that we finished 2011 in good shape, with a funded ratio of 98%. This is based on our actuary's "best estimate" assumptions, as detailed in the financial statements *(you can find a copy of these statements at www.nsahopensionplan.ca starting in June under the "Publications" tab).*

Your pension is also significantly protected under the Nova Scotia Pension Benefits Act (PBA). This is different than the situation for many public sector pension plans that aren't covered by the PBA. In most cases, the PBA prevents pension plans like ours from reducing pension benefits that have already been earned. While laws can be changed, in the pension world our benefits are about as secure as you can hope for. Ours is a defined benefit pension with a much stronger financial position than most. Most of our participating employers get their funding from government. And because contribution increases are shared between members and employers, the risk for both groups is reduced.

As the saying goes, "nothing is guaranteed except death and taxes". And it is always a good idea to have something extra put away for a "rainy day". However, compared to most things that we financially depend on these days, your *NSAHO Pension Plan is currently very safe*.

If my pension is safe, why did my contributions increase?

Many defined benefit pension plans today have to increase contributions to pay off large unfunded liabilities. These pension plans don't have enough assets to fully provide the *benefits that have been earned in the past*. Our December 2011 audited financial statements show that we were 98% funded indicating that this is a comparatively small problem for us. *(You can find a description of the assumptions and methods that were used to calculate this 98% in the audited statements at www.nsahopensionplan.ca starting in June under the "Publications" tab.)*

So if we don't have a large unfunded liability, why did contributions increase on April 1st? The reason is that the *cost of benefits that we will earn in the future has increased*. Your pension benefits are paid for from a combination of contributions and investment returns. Interest rates and expected returns from most investments have decreased significantly over the last decade. Therefore, the proportion of your benefits that needs to be paid for from contributions has increased.

While nobody likes pension contribution increases, our situation is much better than that of most Canadians. People who rely only on RRSPs to prepare for retirement are, in many cases, still reeling from the stock market crash of 2008. Their plans for retirement may have been postponed for years. The situation is even worse for those who are already retired and dependent on invested assets for their income.

2011 Investment Returns

At about 8.5% (net of expenses) 2011 was another good investment year for the NSAHO Pension Plan.

Because our pension plan is a defined benefit pension plan, our investment returns do not have a direct impact on our benefits. However, good investment returns make it easier to keep our contributions at a reasonable level, while still keeping our benefits secure.

Very few Canadian pension plans have had investment records as good as ours over the past decade. In the last few years, much of our outperformance came from "hedges" that we maintain. While details of these hedges are complicated, the basic idea is straightforward. These hedges are tools we use to *manage Plan risk*.

The specific kind of risk that our hedges help us manage is the risk of changes in either long term interest rates or expected future inflation rates. If we didn't have our hedges in place, interest rate and inflation rate changes would be a bigger risk to our financial condition.

Our Plan invests very differently than most other pension plans. In some years this will result in us outperforming others, and *in other years we will underperform*. We follow these different investment strategies because we believe that in the long term *our approach will provide a better balance between returns and risk*.

For a detailed description of our investment policies, click on the "Publications" tab at www.nsahopensionplan.ca.

Your Annual Statement

It is easy to be confused by the *Contributions With Interest* amount on your Annual Statement. This isn't the amount that your pension is worth. For one thing, it doesn't include your employer's contributions. Neither does it fully reflect the Pension Fund's investment returns.

The main reason this is on your Annual Statement is because of a legal requirement. You may also find it useful in the ways described below.

If you terminate employment before you are old enough to qualify for an immediate pension *and* before you have two years in the Plan, you are not "vested". This means that you are only entitled to a refund of your Contributions With Interest.

Your Contributions With Interest are also used to make sure that you don't pay for more than 50% of the value of your pension. When you retire or terminate, any excess over 50% is refunded to you.

Interesting Facts

At the end of 2011, there were about 7,000 of our members receiving pensions. Pensions and bridge benefits totalled over $8 million per month. The number of retirees has grown by about 38% over the past five years.

In addition, there are about 27,754 members who have not yet started to receive a pension.

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