nshepp

NOVA SCOTIA HEALTH EMPLOYEES' PENSION PLAN

Spring 2017 Newsletter

For Active Members of the NSHEPP

A Small Lesson for our Newer Members

From Calvin Jordan, CEO of NSHEPP

I enjoy making presentations to NSHEPP members as they approach retirement. In a typical year, I meet with about 1,000 of these "near-retirees". I hear many stories from them from which we can all learn.

While these near-retirees are generally at the same stage of life and belong to the same pension plan, their retirement readiness is definitely not the same. Some will have extremely comfortable retirements while others, unfortunately will not.

> *If you are a new NSHEPP member, what can you learn from today's near-retirees? What were the key decisions that they made throughout their careers that were most important to their ability to retire well?*

There are many decisions that we make throughout our lives that impact our finances. But if I had to pick just one factor that is most revealing about a near-retiree's financial situation, it is their years of NSHEPP service.

A long-service NSHEPP member (let's say with 30+ years) is typically able to retire with roughly 90% of their pre-retirement take home pay. This is after their OAS and CPP pensions start, and after factoring in reductions to their income taxes and other deductions. Some retired long-service members say they have more discretionary income than they had when they were working. And more often than not, these long-service NSHEPP members are retiring while still in their 50's!

Unfortunately, some of our retirees have fairly short service in NSHEPP. Sometimes this was unavoidable if NSHEPP only became available where they worked part-way through their career. But in other cases, their service could have been much longer if they had only made a few decisions differently.

So, what is the lesson if you are a new member of NSHEPP? In my opinion, it is to *<u>try to manage your career so you will retire with as much NSHEPP service as is practically possible</u>*. Before you change jobs to work for an employer that doesn't participate in NSHEPP, think carefully about whether you will really be financially further ahead in the long run.

And if you do terminate from NSHEPP covered employment, remember that under current rules you can reduce the long-term impact of your termination if you return to work with an NSHEPP participating employer within 5 years. This is subject to you repaying any funds that you withdraw when you terminate (with interest) within a year of rejoining NSHEPP *(this option is described on page 21 of the member booklet – point #3*).

Your Pension Options on Termination

We usually think of a retirement pension as being the main benefit provided by NSHEPP. However, there are actually more NSHEPP members who terminate employment each year than who retire. Last year the ratio was 1.6 to 1.

Most members who terminate before they are entitled to an immediate pension have two pension options. The options are to either leave your funds with NSHEPP or to transfer out.

Contact us: **NSHEPP, 2 Dartmouth Road, Bedford, NS B4A 2K7**
(902) 832-8500 (local call in the Metro Halifax area) ● **1-866-400-4400** (Toll Free) ● **(902) 832-8506** (Fax)
e-mail: **pensionplan@nshepp.ca**

If you leave your funds in NSHEPP, you will be a “deferred member”. This means that you will eventually receive a monthly retirement income based on your service up to the date of your termination.

If instead, you transfer your funds out of NSHEPP, you will in most cases, transfer your funds to a “Locked-In Retirement Account” (LIRA). This is a special kind of RRSP that must eventually be used to purchase an income at retirement. There are limits on how much can be transferred to a LIRA, with any excess being paid out on a taxable basis.

Deciding which pension option is best can be difficult. Many terminating members choose to transfer their funds to a LIRA but this doesn’t mean that this is always the best option.

If you leave your funds with NSHEPP, your deferred benefit may be increased for inflation each year. These inflation increases are not guaranteed to occur, but NSHEPP has a track-record of granting them in most years. If you transfer your funds out of NSHEPP, you do not get the value of these future inflation increases. Because of this, transferring out may not provide you with as much financial value, unless you take more investment risk.

As an example, let’s look at a 40-year-old member who is terminating employment. If they take a transfer value, they would have to invest it at about 4% per year for the rest of their life to provide the same expected value as their deferred pension option. *(See Note)* To expect to do this well today, they would have to accept a fair amount of risk on their investments.

Perhaps the most common argument we hear in favour of transferring to a LIRA is to provide a better death benefit. This argument is only partly valid. Your transfer value option is worth exactly the same as your deferred pension option based on various assumptions. One of these assumptions is that you will live an average lifespan. The LIRA may provide more financial value if you retire and then die younger than average. However, if you live longer than average, the deferred pension tends to provide better financial value.

Ultimately, your best pension choice will depend on your personal preferences and circumstances.

Note: This result is based on transfer value calculations that were applicable in April 2017 and assumes the deferred pension would be indexed for inflation each year. To simplify this example, we have ignored the limit that would apply to the LIRA transfer, as well as the taxes on the excess over this limit.

Have a Question About your Annual Statement?

If you have a question about your Annual Statement, please call or email us. Some of the questions we frequently hear are:

- Is all of my service included in my pension record?
- What is the “Base Year” and how does it impact my pension?
- What if I die?
- Can I make my children my beneficiary?
- What are my employer’s contributions?
- Why does my pension reduce at age 65?
- Will my pension reduce my CPP?

Our telephone number and email address is on the bottom of the first page of this newsletter. *We look forward to answering your questions.*

Annual General Meeting - Fiscal 2016

This year’s AGM is being held on June 19th from 2:00pm to 3:00pm at the HANS Building at 2 Dartmouth Road, Bedford – 1st floor Boardroom. The AGM is intended to make the governance of NSHEPP a little more transparent to its stakeholders. The AGM agenda includes:

- Presentation of audited financial statements;
- Reports from the Chair, CEO and Investment Consultant;
- Appointment of the Auditor for the next fiscal year; and
- Questions and Answers.

You are welcome to attend in person, or after June 19th much of the AGM content will be available on our website at www.nshepp.ca.

Thank-you from Calvin Jordan

I am retiring from NSHEPP on June 21st. My 12 years as your pension plan’s CEO has been - without question - the highlight of my professional life. Throughout my 38-year career I have worked with the boards and staffs of many pension plans, but never before have I experienced the level of dedication and professionalism that is the norm amongst our Board members, staff and service providers. For the rest of my days I will remember my NSHEPP years with great satisfaction.

Over the past year, NSHEPP’s Trustees have recruited Mr. Stefan Cowell as my very capable successor. Stefan is a seasoned investment professional who started his career in Alberta working for WCB and later for CP Rail’s pension plan. More recently, he has been gaining international experience working for several high profile funds in the middle east. I am confident that NSHEPP will enjoy continued success under Stefan’s leadership. Thank-you to all of you for what has been a real privilege. *Calvin*