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THE Accent

Prince Edward Island Union of Public Sector Employees

Newfoundland and Labrador Provides Lesson for PEI on Public Sector Pension Reform

The Newfoundland and Labrador (NL) government and its public sector unions recently concluded reforms to the Public Service Pension Plan (PSPP). The objective of the reform was to ensure that the PSSP remained sustainable. The funded status of the PSSP is much lower than in similar plans in the Atlantic Provinces. Furthermore, unfunded liabilities, including unfunded pension liabilities and other post-employment benefits, are projected to account for 74 per cent of the province's net debt as of March 31, 2015.

These details above will sound familiar to our Members as it was the same type of rationale the PEI government used to justify significant changes to the Civil Service Superannuation Fund last year. What was different in the Newfoundland experience was the process in which the government and the unions were engaged. On September 2nd Carol Furlong, President of the Newfoundland and Labrador Association of Public and Private Employees (NAPE), commented on the Union's website that the Memorandum of Agreement which resulted from the reform process will provide protection for the PSPP, now and for the future.

From the onset of the pension reform process NAPE wanted input into the changes. "Our goal was to ensure that government took into account the needs of the members now and into retirement. This was quite a daunting task for everyone as our options were limited. We had significant positive influence on the outcome of these discussions. The original proposal put to us would have meant a staggering decrease in pension benefits which were not acceptable to us. In the Memorandum of Agreement that we reached with government we fared better than what we would have if we had not taken an active role." Two examples of this, which President Furlong pointed out, were the government's original proposal to move to a career average formula and to end a guaranteed and defined benefit upon retirement. Both of these regressive moves were abandoned due to NAPE's pressure on government.

Details of the Reform

Government Special Payments

• $2.685 billion special payment over 30 years with a 6% interest rate • Annual payment of $195 million per year for 30 years = $5.85 billion. • Additional $42 million annual increase in Employer contributions.

Early Retirement Change

• In 2020 - Change from age 55 to 58 to qualify for an unreduced pension.
- Exception, if an employee accrues 30 years before 2020, then he/she is grandfathered/mothered and may retire at age 55 or later with an unreduced pension.
- Average retirement age is 59.2 (1998 to 2014).

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Unreduced Pension at 60

• As of 2020, to receive an unreduced pension at age 60 – employees must have 10 years of service rather than 5 years presently. Does not apply to current employees who have 5 years and are age 60 by 2020.

• After January 1, 2015 new employees must have 10 years of service to obtain a pension at age 60.

Indexation

• Indexation partially suspended until joint trustees determine that it is affordable.
  - Current indexing available at 65 with a 1.2% annual maximum.
• Current indexing will apply to all past service.
• Current indexing will not apply to any future pensionable service.

Contribution Rates

• On January 1, 2015 – Employer and employee matching contributions increase by 2.15% of all regular salary under $52,500 (1.1% contribution rate above $52,500).

Calculation of Pension

• As of January 1, 2015 – move from a best 5 years formula to a best 6 years formula.

Joint Sponsorship

• The governance of the PSPP will no longer be subject to legislation and government will not be able to change benefits arbitrarily.

• A joint governance structure will be implemented and unions will have an equal voice and vote on all matters of the plan.

Future Funding Status

• In 15 years the funding ratio of the PSPP is projected to be 98.5%, assuming a 6% rate of return on Plan investments.

Improvement/Reduction or Maintenance of Pension Benefit (PLUS/MINUS, YES/NO) NL (PSPP) and PEI Government Employees (CSSF)

	N and L (PSPP)	PEI (CSSF)
Government Special Payments	PLUS	PLUS
Early Retirement Change	MINUS	MINUS
Unreduced Pension at Age 60	MINUS	MINUS
Indexation	MINUS	MINUS
Contributions by Employees	MINUS	MINUS
Contribution by Employers	PLUS	PLUS
Preservation of Final Average (Best Years)	YES	NO
Maintenance of Defined Benefit Plan	YES	NO (Now a Target Benefit Plan)
Protection of Accrued Benefits	YES	YES
Unity of Union Groups	PLUS	MINUS
Spirit of Talks	PLUS	MINUS
Joint Trusteeship	PLUS	MINUS

Reflections on the CSSF Reform Process

As NAPE did, PEI UPSE understood that some changes needed to be made to the CSSF and therefore participated in the 2012-13 pension reform discussions with that realization in mind. But, unlike the pension reform process in Newfoundland, the PEI government did not work with the unions in a spirit of compromise or consensus. Nor were the final pension reforms supported by all public sector unions. In NL, the government and the government unions agreed to the final package of reforms and made the announcement jointly amidst a positive spirit. The lesson learned from the NL pension reform is that the PEI government did not understand that, to achieve consensus, collaboration had to occur and the unanimous support of all union parties had to be achieved.