# PEI UPSE 52nd ANNUAL CONVENTION

## Pension "Reform" in PEI

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# AGENDA

1. Review 2012 – 2013 discussions and process
2. July 5, 2013 and forward:
   1. Process
   2. Government "Solution"
   3. Alternative Member Proposal

# 2012-2013 Review

2012 Convention, we reviewed:

1. Civil Service Superannuation Fund (CSSF) – Background and Vocabulary
2. Government initiative and mandate
3. Working group process
4. UPSE position

# 2012-2013 Review

- June 2012 - the Government identified a "problem" with the CSSF and TSF
  - Plan deficits
  - Accounting rules
  - Credit markets
- Government's view was that the "guarantee" of a benefit was too expensive
- Government stated objective was to change the plans to make them "sustainable"
  - "sustainable" = no longer guaranteed by Government

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# 2012-2013 Review

- UPSE questioned the existence of a “crisis” in the CSSF
  - Relatively well-funded compared to other public sector plans
  - Removal of the guarantee is a drastic measure
- UPSE goals - present credible alternatives and secure some control over the future of the plan

# 2012-2013 Review

- Spring 2013 - Government actuary (Morneau Sheppell):
  - presented information to Working Group setting out projected costs of the plan over 20 and 30 years
  - Used very technical actuarial models to attempt to predict future experience
- Unions sketch out and present possible plan changes which meet cost envelope without massive cuts

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# Process: July 5 forward

- In July, 2013, Government introduced its "solution" to the Working Group
- July-August, Working Group sought clarification from Government actuary on impact of "solution" on membership
- Working Group also sought plan data and economic data (costings) to start building a potential alternative solution
  - breaking out costs by plan (CSSF, TSF)
  - breaking out costs/savings of different changes to benefits and contributions

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# Process: July 5 forward

Government

- actuary very slow to respond to requests
- actuary's cost information changes during this period
- objectives become a moving target
  - For example…

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# Process: July 5 forward

Deficit (CSSF + TSF) as at April 1/14*

- **$113 million** initially projected (using old economic assumptions), then….
- **$450 million** in July (new, more conservative assumptions), then…
- **$530 million** in August (by making even more conservative assumptions)

*as projected by Government actuary

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# Process: July 5 forward

Deficit (CSSF only) as at April 1/14*

- **$68 million** initially (old assumptions)
- **$270 million** (new assumptions)
- **$350 million** (further conservatized assumptions)

- Union actuary: CSSF deficit $300 million <u>at most</u>
- the size of the problem - a “moving target”

*as projected by Government actuary

# Government "Solution"

- CSSF Benefits Cuts
  - All indexation in retirement no longer guaranteed
    - **Conditional** only, based on plan performance
    - Reduces costs by <u>12.5% of payroll</u>
  - Career average earnings formula for active workers
    - Final average earnings eliminated on future service
    - Indexation of salary to keep pace with inflation (during employment) **conditional** on plan performance
    - Reduces costs by <u>8.5% of payroll</u>
  - E/R moves to 32/62 from 30/60
    - Reduces costs by <u>1.2% of payroll</u>

- <u>Total cuts worth 22.2%. Why such drastic cuts?</u>

# Impact of Government "Solution"

- Government solution reduced plan liabilities by ~25%

- Permits the Government to reduce the liability for pensions it reports on its balance sheet by ~$384 million
  - This creates a ~$84 million "surplus" on the basis of cuts to benefits

# Impact of Government "Solution"

## on new member, over full career

| SALARY INCREASE | AMOUNT OF INDEXING GRANTED | | |
|---|---|---|---|
| | All indexing | No indexing | 50% indexing |
| AIW increases only | +2% | -39% | -19% |
| AIW+1% increases | -14% | -47% | -31% |

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# Summary Government “Solution”

- Makes potentially significant cuts to pensions
- Higher impact on younger and less service members
- Very complex actuarial model – hard to understand and untested, <u>appears to create “certainty” of benefit, but is not a guaranteed benefit</u>

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# Alternative Member Proposal

Starts from a different premise:

- There is no major crisis in funding of the CSSF
- The Government enjoyed the benefit of "liberal" funding assumptions and approach for many years
- Employees should not have to pay for that
- Employees should not have to create a "surplus" to finance the Government's other activities or the "demands" of credit markets
- Guaranteed and decent defined benefits are key to employees' retirement planning – employees and retirees cannot take on all the risks

# Alternative Member Proposal

Unions recognize legitimate Government objectives

- Get costs under control (will meet Government proposed annual budget for pension costs of ~$44 million)
- Make plan more sustainable by using more conservative economic assumptions (recognize a deficit of ~$300 million)
- Share risks with employer
- Have a strong voice in governance of the plan – if members take on risks, they need the power to manage those risks

# Alternative Member Proposal

- Three (less drastic) changes to plan
  - Move benefit accrual from FAE 3 to FAE 5
    - Reduces cost by 1.4% payroll
  - Move E/R factor to 32/62
    - Reduces cost by 1.2% of payroll
  - Guarantee 60% of indexation in retirement, and make additional 40% conditional on surplus in plan
    - Reduces cost by 5.5% of payroll

➡ **Total reduction in costs of 8.1% of payroll (compare to Government cut of ~22%)**

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# Alternative Member Proposal

- These cost reductions:
  - make significant contribution to paying down the projected deficit
  - reduce size of deficit by -$190 million
  - more than meet the Government's stated budget
  - total annual CSSF cost under Alternative Member Proposal ~**$32.8 million** per year, total Government budget is **$44 million**
  - **$11 million to dedicate to deficit reduction**
- Deficit can be eliminated in less than 15 years, potentially in as little as 5 years

# Alternative Member Proposal

- One major change: move to joint governance of the CSSF
  - Permits favourable accounting treatment for Government
  - Permits members to be at the table to monitor the plan and make decisions about the plan
  - Makes it more difficult for Governments to legislate changes to a plan

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# Summary of Alternative Member Proposal

- Modest reductions to benefits
- Maintains basic guaranteed final average pension and level of indexation
- Meets Government financial objectives and budgets
- Requires members get a fair voice in governance

# Government (lack of) Response

- Failed to provide any response or reply to Alternative Member Proposal
- Continues to downplay the potential impact of its "solution" on employees
- No longer acting simply to make the CSSF a "sustainable plan" – just fundamentally gutting pensions
- Baldly calling into question our actuary's numbers in the face of clear confirming evidence of their reliability

# Other Jurisdictions

- Governments across Canada are seeking to impose big changes on pension plans and employee compensation
- However, even where these changes were “approved”, resistance is forming quickly – NB retirees, Alberta public sector
- A lot of misinformation used in media – even by experts