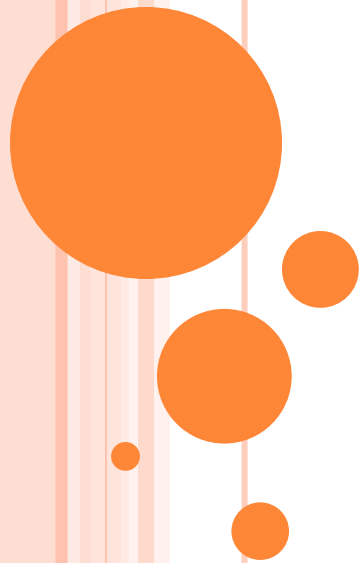


# CIVIL SERVICE SUPERANNUATION PENSION

Nov. 29, 2014



# Agenda

- Update on 2013 annual pension statements.
- Update on work to determine the amount of Special Funding due from Province.
- Overview of recent changes and new concepts.

# DECEMBER 31, 2013 PENSION STATEMENTS

- Last statement based on “best-3” avg. salary.
- 85% of statements ready, so we will issue those.
- Other members will receive a letter indicating:
  - their data is still being verified, and
  - can expect their statement before March 31, 2015.
- Issue statements (or letter) by mid-December

# DATA ISSUES TO BE RESOLVED

Data Issue	Approx. #
Retro Payments	483
Members with multiple issues	210
Standard Hours incorrectly reported	162
WCB service issues	19
Data not Posted	48
LTD service issues	25
Admin Errors	55
Misc	90
Total	1,092

# 2014 SPECIAL FUNDING FROM PROVINCE

# CALCULATING SPECIAL PAYMENT

- Legislation requires the Province to make the special payment before the end of 2014.
- To determine the size of the special payment, the assets and liabilities of the plan must be “valued” (based on the Jan. 1, 2014 funded status).
- Valuation Results and the special payment amount will be presented to the upcoming Pension Advisory Committee meeting (Dec. 19<sup>th</sup>).

## **Funded Status** equals **Assets** divided by **Liabilities**

- Asset Value is known
  - Jan. 1, 2014 plan assets equaled \$1,361,311,000
  - does not include the special payment amount
- Liability Value is being calculated
  - expect it to be available in few weeks

# ESTIMATING THE FUTURE

- What happens in the future will have a significant impact on the plan's liability today.
- So, it is was decided to review all assumptions in detail and to update our “best estimate” of these assumptions.



# SUMMARY OF ASSUMPTIONS REVIEWED

- Discount Rate (5.75% / 6.25%)
- Salary Increase (Inflation + 0.5% + Promos)
- Mortality
- Retirement Age
- Termination
- Proportion Married
- Spousal Age Difference

# High level Review of Benefit Changes

# CONTINGENT INDEXING

## - MOST SUBSTANTIAL CHANGE -

- Inflation protection moving from the previous guaranteed basis to inflation protection which is contingent on the Plan's financial strength.
  - Applies to employees and retirees (will show examples on later slides)

# BASE PENSION

- Province responsible to fund Base Pension to 100%
- Equals the pension earned to-date, but does not include future indexation
- When future indexation is awarded, it becomes part of protected base pension
- Means your base pension grows over time:
  - For actives - service / salary / indexation
  - For retirees - indexation

# VARIABLE FUNDING

- Base Contributions
  - 8.09% on income up to \$53,600
  - 9.75% on income over \$53,600
  - Employees and Employers both pay
- Contributions will fluctuate up or down
  - Employees - by 1% depending on funded status
  - Employers - by 2-4% depending on funded status
- Special Funding
  - Province required to make more special payments if Plan not 100% funded.

# Variable Indexing / Variable Contributions

**Investment Income  
(~70%) + Government  
Special Payments**

**Employee  
Contributions  
(~15%)**

**Employer  
Contributions  
(~15%)**

**Pension Fund**

### New Plan Design

Now, when funded status falls plan gets more \$\$ from Employees & Employer and spends less on indexing until plan recovers.

**Base Pension**

**Future  
Indexation**

## When Indexation Will be Awarded

Funded Status	Rules
> 100%	- Plan shall provide indexing to earnings of active contributors
> 110%	- Plan shall provide indexing to retirees' pensions
> 115%	- Plan shall award extra indexing to cover past missed indexing for actives
> 118%	- Plan shall award extra indexing to retirees to cover any missed indexing for retirees



# Rules if Funded Status Deteriorates

Funded Status	Rules
< 110%	<ul style="list-style-type: none"><li>- retiree indexing suspended</li><li>- employees pay extra 1% contr. until 115% funded</li><li>- employers pays extra 2% contr. until 115% funded</li></ul>
< 100%	<ul style="list-style-type: none"><li>- employee indexing suspended</li><li>- employer pays further 2% contr. until 105% funded</li><li>- Province's guarantee kicks in<ul style="list-style-type: none"><li>* special payment to get to 100% with-in 5 years</li></ul></li></ul>

## Rules if Funded Status Improves

<b>Funded Status</b>	<b>Rules</b>
> 135%	- regular employee contr. drops by 1% until Fund at 130% - regular employer contr. drops by 2% until Fund at 130%
> 145%	- regular employer contr. drops by a further 2% until Fund at 140%

# RETIREEES

- Pension does not get reduced but there will years it does not get an indexation increase
- 2014 / 15 / 16 indexing automatic at 1.5%
- contingent indexing starts in 2017
- expect to award indexing 4 out of 5 years
- catch-up missed indexing if  $> 118\%$

# ACTIVES

# UNREDUCED PENSION

- For service rendered after 2018 - Rule 32/62
  - No reduction to this portion of your pension if
    - a) you are 62 years of age or older, or
    - b) have 32 years of service (must be at least 55)
- 30/60 rules re pension earned to the end of 2018 have not affected

# AVERAGE SALARY CALC IS CHANGING

(LETS LOOK AT AN EXAMPLE)

In this example - member joined pension plan in 2000.

Year	Salary \$ Earned			
2014	60,000			
2013	58,200			
2012	56,500			
2011	54,800			
2010	53,100			
...	....			
2001	40,000			
2000	38,000			

As this member has service that pre-dates the 2014 pension reform, need to calculate the member's average salary.

Year	Salary \$ Earned			
2014	60,000			
2013	58,200			
2012	56,500	→	56,500	
2011	54,800			
2010	53,100			
...	....			
2001	40,000			
2000	38,000			



## Best-3 Average Earning amount is assigned to all prior years.

Year	Salary \$ Earned			
2014	60,000			
2013	58,200	}	56,500	
2012	56,500		56,500	
2011	54,800		56,500	
2010	53,100		56,500	
...	....		...	
2001	40,000	56,500		
2000	38,000	56,500		

## Assume Member works until 2020

Year	Salary \$ Earned		
2020	71,600		
2019	69,500		
2018	67,500		
2017	65,500		
2016	63,600		
2015	61,800		
2014	60,000		
2013	56,500		
2012	56,500		
2011	56,500		
2010	56,500		
...	...		
2001	56,500		
2000	56,500		

Before taking an average of all years, must apply the indexation increase so that the earnings used in 2020 are all in 2020 levels.

Year	Salary \$ Earned	Inflation Adjustment	Salary Earned In 2020 \$\$
2020	71,600	~	71,600
2019	69,500	~	70,900
2018	67,500	~	70,200
2017	65,500	~	69,500
2016	63,600	~	68,800
2015	61,800	~	68,200
2014	60,000	~	67,600
2013	56,500	~	64,900
2012	56,500	~	64,900
2011	56,500	~	64,900
2010	56,500	~	64,900
...	...		...
2001	56,500	~	64,900
2000	56,500	~	64,900

## Summary re Average of “indexed earnings”

- “Best 3” calc applies for service to end of 2013
- Indexing “pre-set” at 1.5% for 14 /15 / 16
- Indexing of earnings will become contingent on the plans’ funded level (awarded if > 100% funded)
- Expect to award indexing on avg. 9 of every 10 yrs.
- Can catch-up re missed indexing if > 118%

FINALLY  
- A LOOK FORWARD -

# HOW WILL INDEXATION DECISIONS HAPPEN?

- Contingent Indexation starts in 2017.
- 2017 indexation decision will be based on funded status per April 1, 2016 valuation.
- Indexation for Actives on Jan. 1, 2017 and for Retirees on April 1, 2017.
- Members should be very interested in process that determines indexation.

## Annual Cycle

Work starts on analysis of members' payroll data	Feb - June 2016
Assets (as of April 1 <sup>st</sup> ) measured	April 2016
Liabilities (as of April 1 <sup>st</sup> ) measured	July - Aug 2016
Presentation to CSSF Pension Commission: <ul style="list-style-type: none"><li>• funded status</li><li>• dollars of surplus available to be "spent" on indexation</li><li>• indexation levels to be awarded</li></ul>	Sept 2016
Newsletter to members and retirees reporting: <ul style="list-style-type: none"><li>• financial status of plan</li><li>• indexation increase for upcoming year</li><li>• contribution changes (if any) for upcoming year</li></ul>	Oct 2016
Apply indexation increases and/or contribution changes	Jan. 2017

## - MEMBER COMMUNICATION -

- CSSF Committee has begun work to develop a comprehensive strategy.
- Considering:
  - type of new “pension estimator” tool needed
  - best way to inform members of the Plan’s financial status and level of indexation
  - Should the annual pension statement be reconfigured to convey more information
  - etc



Thank You!

# APPENDIX

- Further example re “Indexed Career Average” approach

## Average Salary calc under “Best Three” Approach

2007	2008	2009	2010	2011	2012	2013
						68,900
					66,800	
				64,900		
			63,000			
		61,800				
	61,800					
60,000						

**“Best Three” is current mechanism used to provide inflation protection.  
Plan cannot control when inflation protection awarded ( employer / unions negotiate).  
Also produces winners (i.e. late career salary jumps)**

## Average Salary calc “Indexed Earnings” Approach

2014	2015	2016	2017	2018	2019	2020
60,000						

**Still going to provide inflation protection – just using another mechanism.**

## How Average Salary is calculated under “Indexed Earnings” Approach

2014	2015	2016	2017	2018	2019	2020
	60,600					
60,000	60,900					

**Indexing increase for 2015 pre-set at 1.5%**

## How Average Salary is calculated under “Indexed Earnings” Approach

2014	2015	2016	2017	2018	2019	2020
		61,800				
	60,600	61,500				
60,000	60,900	61,800				

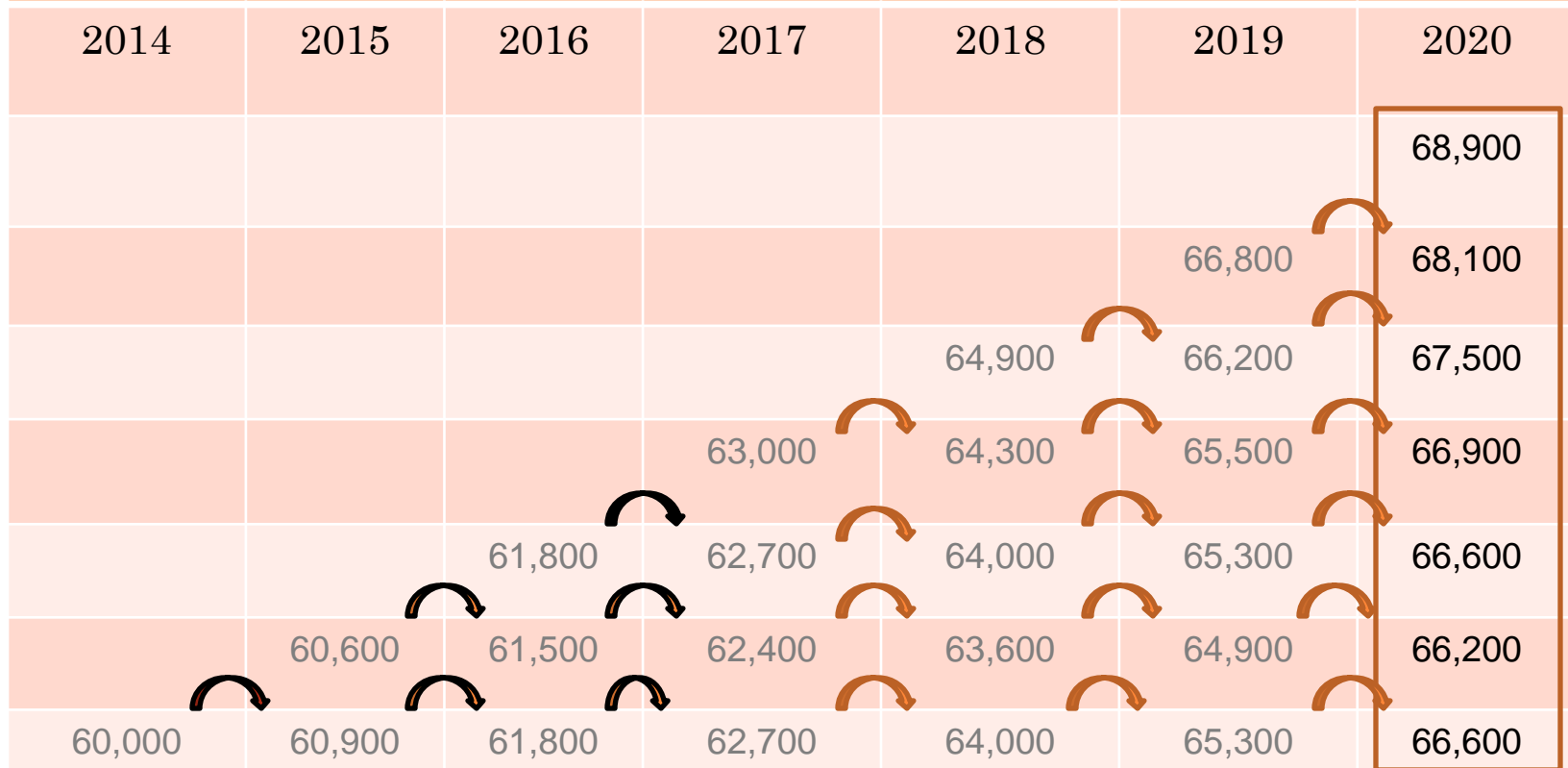
- Indexing increase for 2015 pre-set at 1.5%
- Indexing increase for 2016 pre-set at 1.5%

# How Average Salary is calculated under “Indexed Earnings” Approach

2014	2015	2016	2017	2018	2019	2020
			63,000			
			62,700			
		61,800	62,400			
	60,600	61,500	62,400			
60,000	60,900	61,800	62,700			

- Indexing increase for 2015 pre-set at 1.5%
- Indexing increase for 2016 pre-set at 1.5%
- Indexing increase for 2017 pre-set at 1.5%

# How Average Salary is calculated under “Indexed Earnings” Approach



**Indexing after 2017 becomes contingent on funded status (i.e. above 100% funded)**  
**Target indexing for actives is CPI + ½ % ( Cdn. Avg. Industrial Wage)**  
**Average Salary now based on all earnings (after being adjusted for inflation)**



- There may be years when indexing cannot be awarded
  - i.e. if plan's funded status slips below 100%

# How Average Salary is calculated under “Indexed Earnings” Approach

2014	2015	2016	2017	2018	2019	2020
					69,500	
				67,500	68,900	
			65,500	65,500	66,800	
		63,600	64,900	64,900	66,200	
	61,800	63,000	64,300	64,300	65,600	
60,000	61,200	62,400	63,700	63,700	64,900	

- Indexation commenced again in 2019
- Member can work a little longer if he/she wishes to offset the missed indexation
- missed indexing can be awarded in later year if plan has sufficient \$\$