nshepp

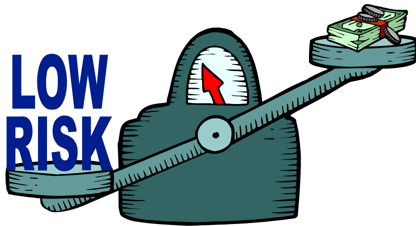
NOVA SCOTIA HEALTH EMPLOYEES' PENSION PLAN

Fall 2015 Newsletter

For Active Members of the NSHEPP

Is your pension safe?

One of the financial lessons learned in recent years is that nothing is completely safe. Many of us have friends whose Alberta work prospects or home values have been hurt by plummeting oil prices. Cross-border shoppers are finding that the loonie doesn't go as far as it used to. And retirees without defined benefit pension plans must make choices between risky equity-based mutual funds and extremely low interest rates. 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 NSHEPP benefits.
When our audited financial statements were released in June, they showed that we finished 2014 in good shape, with a funded ratio of 126%. 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.nshepp.ca 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 old saying goes, "nothing is guaranteed except death and taxes." Therefore, it is always a good idea to have something extra put away for a "rainy day." But compared to most things that we financially depend on, your *NSHEPP benefits are currently very safe*.

Why care about pensions if you expect to change employers before you retire?

Younger members might question the value of a pension. It can be hard for them to imagine life as a retiree. However, you don't have to wait for retirement for your pension to be a benefit.

One way of looking at your pension's value before retirement is the *Transfer Value*. This is the amount that can be transferred from the pension if you terminate employment before you are eligible to retire. This would usually be transferred to a locked-in RRSP.

Let's take a 30 year old as an example. Let's assume:

- She makes $40,000 per year, increasing by 1.5% per year;
- The current plan design with regular base year improvements; and
- The transfer value is calculated as it would have been in October.

Have a look at how quickly the value grows!

Age	Member Contributions		Transfer Value
	Annual	Total With 3% Interest	
35	$3,370	$17,352	$34,360
40	$3,630	$38,809	$98,895
45	$3,911	$65,129	$186,435

Notice that the Transfer Values are much more than the member's contributions. This is partly explained by the employer's contributions.

After this member turns age 50, she could retire (with a reduced pension). Because of this, she would usually no longer be eligible to transfer her funds out of the Plan. However, the value of her pension continues to grow. How much would it be worth by the time she has her "85 points?" *An insurance company would charge about $700,000 for a similar pension.*

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How does your pension measure up?

Each September your Trustees monitor the competitiveness of your pension plan. They compare NSHEPP to the pension plans for health care workers in Ontario, Manitoba and Saskatchewan, as well as the NS Public Service Superannuation Plan.

So how did we compare this year? Your contributions are a little less than average, and your benefits are a little better than average. This assumes that our Base Year continues to be improved regularly in the future.

The pension plans that your Trustees compare your pension to are all very good compared to what most Canadians participate in. They are all public sector, defined benefit pension plans.

Going on maternity leave?

In this article we answer a common question: *"Should I contribute to the Pension while I am on maternity leave?"*

Response:
In most cases we think you should. The extra pension value is usually much more than the contributions you will pay. Consider the following example:

Member's age: 35
Annual earnings (before leave): $40,000
Leave period taken: 12 months

If the member contributes during their leave, it will cost them $3,128. Their pension will increase as a result by:

- lifetime pension: $560 per year
- bridge: $240 per year

These increases do not include the value of any future base year improvements, or any reductions that may result from retiring early.

The financial value of the above pension increase is much more than the member's $3,128 contribution.

The easiest way to see this is by looking at the extra value the member would get if they terminate employment at the end of their leave. By contributing $3,128, the amount that could be transferred out of the Plan increases by $6,691 - a *one year return of 114%!*

Note: The increase in transfer value in this example is based on assumptions applicable in October 2015 and at least 10 years of continuous employment.

Life expectancy

Our Plan currently has about 8,608 retired members. Average retirement age is currently about 59.5 years.

NSHEPP's actuary recently updated the life expectancy assumptions that are used to assess our funded position. A female retiring at age 59.5 is now assumed to live to an average age of 89.3. For males, it is age 86.8.

Many members outlive these averages by wide margins. We currently have about 644 members over age 85.

Retired members of our pension plan continue receiving their pension, no matter how long they live. *You cannot outlive your pension.* This is a tremendous advantage of NSHEPP compared to the Defined Contribution retirement plans that exist in many workplaces.