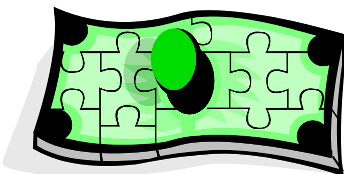
Spring 2011 Newsletter

For Active Members of the NSAHO Pension Plan

Putting the Pieces Together

Your Annual Pension Statement is included in the envelope with this Newsletter. This statement provides projections of what your pension may be when you retire. However, these projections only tell part of the story. Most of us can also expect to receive pensions from Canada Pension Plan (CPP) and Old Age Security (OAS).

Deductions from your income are usually less when you retire. Your cost for pension and benefit programs usually reduce or stop completely. Income taxes also usually go down.



How will these pieces fit together when you retire? Will you have enough or should you try to save a little extra? *The answers to these questions, of course, depend on your personal situation.* However, let's consider Mary Smith's situation as an example.

Mary is planning to retire this year:

> *Mary's data*
> *Age: 58*
> *Base year (2009) Earnings: $43,000*
> *NSAHO Pension Credited Service: 30 years*

What will Mary's "take-home" be after she retires? The answer will change over the next few years. Her CPP is assumed to start at age 60. Her OAS starts at 65 and, at the same time her "Bridging Benefit" from the NSAHO Pension Plan stops.

We estimate that Mary's take-home relative to her pre-retirement take-home will be about:

- 68% before age 60;
- 86% between 60 and 65; and
- 91% after age 65.

There are a few important things that we can learn from Mary's situation:

1. Mary's take-home during retirement is expected to be less than when she was working. She may find that this is at least partially offset by a reduction in her work-related expenses (such as commuting). To help prepare for this adjustment, many financial planners suggest an objective of being "debt free" by retirement.
2. Mary's take-home is lowest prior to age 60 before her CPP starts. If you plan to retire before age 60 and it's still a few years away, consider investing a few dollars to help provide for this period. Alternatively, many members are able to retire and work part-time during this period.

Your Annual Statement

It is easy to be confused by the *Contributions With Interest* amount on your Annual Statement. This isn't the amount that your pension is worth. For one thing, it doesn't include your employer's contributions. Neither does it fully reflect the Pension Fund's investment returns.

The main reason this is on your Annual Statement is because of a legal requirement. You may also find it useful in the ways described below.

If you terminate employment before you are old enough to qualify for an immediate pension *and* before you have two years in the Plan, you are not "vested". This means that you are only entitled to a refund of your Contributions With Interest.

Your Contributions With Interest are also used to make sure that you don't pay for more than 50% of the value of your pension. When you retire or terminate, any excess over 50% is refunded to you.

Base Year vs. Final Average Earnings

Most Canadian public sector pension plans are based on members' average earnings over the five years prior to retirement. Our Plan uses a different approach. In our Plan benefits are based primarily on earnings in the most recent Base Year.

From time to time our Base Year is improved. Early this year when our Base Year was changed from 2008 to 2009, earnings for all years prior to 2009 were adjusted to be equal to 2009 earnings *(unless an earlier Base Year provides a higher benefit, or the average earnings over 3 years provides a lower benefit)*. Improvements in the Base Year are not guaranteed until they are granted.

Most of the time over the past decade, the Base Year has lagged the current year by two years.

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With a 2-3 year Base Year lag, our Plan will provide benefits that are similar to a Final 5-Year Average Earnings plan. There are good financial reasons to use our Base Year approach. One such reason is that the contributions that are required for our Base Year approach are lower than would be required if benefits were based on Final Average Earnings.

2010 Investment Returns

At 18.3% (net of expenses) 2010 was another good investment year for the NSAHO Pension Plan.

Because our pension plan is a defined benefit pension plan, our investment returns do not have a direct impact on our benefits. However, good investment returns make it easier to keep our contributions at a reasonable level, while still keeping our benefits secure.

Very few Canadian pension plans have had performance records as good as ours over the past decade. In the last few years, much of our outperformance came from "hedges" that we maintain. While details of these hedges are complicated, the basic idea is straightforward. These hedges are tools we use to *manage Plan risk*.

The specific kind of risk that our hedges help us manage is the risk of changes in either long term interest rates or expected future inflation rates. If we didn't have our hedges in place, interest rate and inflation rate changes would be a bigger risk to our financial condition.

Our Plan invests very differently than most other pension plans. In some years this will result in us outperforming, and *in other years we will underperform*. We follow these different investment strategies because we believe that in the long term *our approach will provide a better balance between returns and risk*.

For a detailed description of our investment policies, click on the "Publications" tab at www.nsahopensionplan.ca.

Working After Retirement

Many NSAHO Pension Plan members return to work part-time after starting to receive their pension. This can be an attractive way to phase into retirement.

If you return to work *and re-start contributing* to the NSAHO Pension Plan, your pension will be temporarily suspended. This is a result of federal legislation. Your pension resumes when you retire again.

Most members prefer to not have their pension suspended when they return to work. To avoid having your pension suspended, you need to avoid contributing to the NSAHO Pension Plan when you return to work.

How do you avoid contributing? You don't have to contribute during the first three months of your return to work. After three months, you don't need to contribute *as long as you are not regularly scheduled for work for 50% or more of full-time hours*.

There is an obvious benefit of returning to work to supplement your pension income. This can be especially helpful before age 60, before you can start your CPP retirement pension.

We don't believe that retiring early and returning to work is the best idea for all members. *For members with **shorter service** it can be a better financial result if you delay retirement*, and continue to contribute to make your pension bigger.

Let's look at an example. Consider a 60-year-old member with 10 years of service credited under the pension. In the *short-term* they may find it attractive to retire and return to work part-time. They will have more free time and may be just as well off financially, especially if they start their CPP. However, it is important to note that when their NSAHO Pension Plan contributions stop, they will not be credited with any additional pension service. In the *longer-term* when this member stops working completely, they may find that their pension is smaller than they need. A better strategy for this member may be to delay retirement, increasing the number of years that they contribute to the pension.

Your ability to return to work after you retire is subject to the agreement of your employer. Retirement may impact your seniority and your non-pension benefits. You should consider all of these factors before deciding on the date of your retirement.

Interesting Facts

At the end of 2010, there were about 6,300 members receiving pensions. Pensions and bridge benefits totalled over $7.4 million per month. The number of retirees has grown by about 40% over the past five years.

In addition, there are about 25,700 members who have not yet started to receive a pension.