Fall 2016 Newsletter

For Active Members of the NSHEPP

NOVA SCOTIA HEALTH EMPLOYEES' PENSION PLAN

Canada Pension Plan Enhancement

Perspective from NSHEPP's CEO
Calvin Jordan

After years of debate, CPP improvements were finally announced earlier this year. While certainly good news for some, it is in my opinion too early to make significant changes to your financial plans. My opinion is based on the following:

1. The planned enhancements will only be earned on future employment. If you are already mid-way through your career, you will only benefit partially from the enhancements; and
2. The planned enhancements are being phased in over 7 years *starting* in 2019. This will further reduce the years that you earn the enhanced benefits.

This doesn't mean that I see no benefit to the CPP enhancements. In time, the enhancements should strengthen the retirement security for the millions of Canadians that don't have good workplace pension plans.

Old Age Security Enhancement

Just in case you missed it, changes to OAS were announced by the federal government earlier this year. Back in 2012 it was announced that the OAS retirement age would gradually increase from age 65 to 67. In March this year, this decision was reversed to restore the eligibility age for OAS benefits to 65.

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. NSHEPP 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. At the end of 2016 our Base Year will change from 2014 to 2015. This will result in earlier years' annualized earnings being adjusted to be equal to 2015 annualized 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 20 years, the Base Year has lagged the current year by 2 or 3 years.

With a 2-3 year Base Year lag, our Plan will provide benefits that are similar to a Final 5-Year Average Earnings plan.

NSHEPP's Web-site

This year the information provided on www.nshepp.ca was made easier to use. If you have a question about how the plan works, visit the web-site and click on the "I'M AN EMPLOYEE" button. A menu will then appear on the left hand side of the screen. This menu makes it easy to find information about your particular area of interest.

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Past Service Purchase Program

In some cases active members of NSHEPP can purchase periods of past service. *If you have been a member for more than one year*, the only periods of service you can purchase are:

- maternity and parental leaves;
- approved leaves of absence; and
- layoff periods.

To find out the cost of purchasing one of the above types of service, you can ask us for a "*quotation*". Along with the cost, we also provide you with the "*internal rate of return*". This is the investment return you would have to get if you invested your money elsewhere, to expect to "break-even" with purchasing past service.

While the "internal rates of return" are calculated based on your personal situation, currently they tend to be in the range of 2.5% to 3.5% per year. Many people may prefer this relatively safe approach to mutual fund returns.

Contact us if you would like to receive a past service purchase quotation.

Thinking About Reducing Your Hours?

We frequently hear from members who are thinking about reducing their hours. Their question is usually "How much will this impact my pension?" The answer, if you are within a few years of retirement, may be less than you think.

First, reducing your hours does not change when you will be eligible to retire *(so long as you don't end your continuous employment completely).* You will still satisfy your "Rule of 85" or "Age 60 with 10 employment years" requirement at the same date as if you continued to work full-time hours.

Second, reducing your hours does not reduce your earnings for Base Year purposes. Your Base Year earnings are what you would have earned if you had worked full-time hours, regardless of what your hours actually are in the Base Year.

By reducing your hours, the only impact on your pension is that you will be credited with less service during your part-time years.

For example, let's consider a member who has 27 years of full-time service credited in the pension plan. They intend to work three more years. If they work half-time for those last three years, their credited pension service at retirement will be 28.5 years rather than 30 years. The difference in the pension they will receive is fairly small. Their pension will be about 95% (28.5 divided by 30) of what it would have been if they had continued to work full-time hours during those last three years. The difference will usually be even less on an after-tax basis.

Not all members will be able to reduce their hours. If you are thinking about doing so, please check with your employer to see if this is an option for you.

Interesting Facts

At the end of 2016, there were about 10,500 NSHEPP members receiving pensions. Pensions and bridge benefits totalled over $14.4 million per month. The number of retirees has grown by about 50% over the past five years.

In addition, there are about 30,400 members who have not yet started to receive a pension.