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November 18, 2008

Mr. Bill Black
Pension Review Panel
c/o Nova Scotia Labour and Workforce Development
Policy Division
P. O. Box 697
Halifax, NS, B3J 2T8

Re: Response To Draft Recommendations From The Nova Scotia Pension Panel

The Halifax Regional Municipality Pension Plan Committee has made its own representation to the Panel concerning the technical nature of the Panel's proposed report to the Province of Nova Scotia. HRM is fully supportive of the position taken by the Committee in its presentation. We would however like to make a separate submission on behalf of the HRM as a public employer sponsoring a defined benefit pension plan in the Province of Nova Scotia which will be directly affected by the recommendations of the Review Panel, if these recommendations are actioned by the Province of Nova Scotia.

We are supportive of the Province's efforts to encourage DB pension plans not only through more flexible legislation and regulation but also by creating a stable pension environment that plan sponsors and members can have confidence in. It is our opinion, however, that the proposed funding model will have the completely opposite effect of discouraging DB plans, particularly in the current economic climate. For example, our actuarial advisors estimate that contribution rates for the HRM Plan would increase from 17.1% of payroll to approximately 25% of payroll if your proposed rules were in place for our last actuarial valuation filed on December 31, 2006. This $16,000,000 in extra funding per year would have had to be contributed to the plan - $8,000,000 by the taxpayers of HRM, and $8,000,000 by the employees of HRM as an insurance premium against the remote possibility that HRM plan would wind up and the municipality was insolvent. If implemented today, the situation is far worse due to the severe economic downturn. Combined HRM/plan member contributions would increase to more that 35% of payroll.

A recent Globe and Mail report stated:

> Wild market fluctuations are exposing the folly of a number of measurements that investors and pensioners rely on to gauge the health of their financial institutions, the head of Canada's financial regulator suggested yesterday.
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> "Developments of late have shown that narrow point-in-time approaches to capital, accounting and even pensions may not be desirable in the financial sector," Julie Dickson, the head of the Office of the Superintendent of Financial Institutions, told an insurance forum in Cambridge, Ont.
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> Investors have already discovered pitfalls of fair value accounting, which requires banks to regularly value their holdings of complicated securities and has led to massive write downs.

> OSFI recently relaxed the rules that dictate how much capital insurers must put aside now to support certain payments they must make to customers in future decades. Tumbling stock markets were forcing firms such as Manulife Financial to sock away billions now for far-off payments to variable annuity customers.
>
> "OSFI has similar concerns in the pension world, where funding requirements for pension plans are being partly driven by point-in-time interest rates versus long-term historical or prospective averages," Ms. Dickson said.
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> Actuarial bodies are currently reviewing those rules.
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> It is "incredibly difficult" as a regulator to manage in a system of extremely volatile pension funding requirements, she said.

HRM is concerned that the proposal put forward in the Panel's draft report will, in fact, further entrench such "point-in time interest rate" tests to the detriment of DB plans rather than approaching the issue through more reasonable "long-term historical or prospective averages" currently being developed.

We are concerned that the recommended funding rules have not been fully tested and explored by pension experts using a variety of different economic conditions. We strongly urge the Panel to take the necessary time to seek this expert input before finalizing the report so as to avoid unintended consequences.

If the pension industry believes the new funding rules should be implemented for all plan sponsors, we recommend that current solvency relief provisions remain in place until they expire, in order to provide a reasonable transition period. Municipalities have already included the solvency relief legislation into their long-term financial plans.

We are also concerned about the Province using a funding model that is substantially different from other pension jurisdictions. We feel there is value in provincial pension legislation being harmonized in major areas like deficit funding, and how that deficit funding is applied; for example full or partial exemption of municipalities from solvency is common across Canada in British Columbia, Alberta, Quebec, Newfoundland and New Brunswick.

We oppose the recommendation to end solvency relief for municipalities and immediately implement new funding rules. Getting solvency relief mitigated the hardship of a funding test that municipalities should not have been subject to in the first place. It is our view that municipal pension plans should have permanent relief from funding solvency deficits because we are government pension plans. As governments, we have an extremely low probability of going bankrupt because we have the power to tax. The Panel recognizes this by not recommending the Province be subject to the PBA. There is something fundamentally wrong with the rule maker not being required to follow the rules it expects all others to follow, unless it can justify why it should be exempt. The rationale appears to be a low probability of going bankrupt, which applies equally to municipalities. This inequitable treatment creates confusion for plan sponsors and plan members, and inequities in the administration of plans, for example inequitable contribution rates or the ability to provide equal benefits relative to the Provincial plan. If the Province had to adhere to the same stricter rules being imposed on municipalities, they would have to significantly increase contributions and/or reduce benefits. This is a major concern for our employees who do not understand the logic of continuing to exempt the Province while they make the environment more challenging for HRM employees.

We also note a significant move via what appears to be arbitrary reporting time lines to eliminate flexibility in this regard on the part of the plan administrator. In our view, it is prudent for the Municipality to manage expense volatility. The Panel appears to be suggesting that managing contribution volatility both for plan members and the municipality is not prudent.

HRM appreciates the time and effort that the Panel has put into its review. However, it is our opinion that there needs to be further discussion, thought and testing before a recommendation is made to the Province. We must guard against unintended consequences that could cause hardship to DB Plans that currently operate within the Province.

Respectfully,

Wayne Anstey
Deputy CAO, Operations
Halifax Regional Municipality