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Summary of 2012 Public Service Superannuation Act

Executive Summary

The 2012 Public Service Superannuation Act ('PSSA') implements the detailed joint governance framework for the Public Service Superannuation Plan ('PSSP' or 'Plan') that was enabled in the 2010 Financial Measures Act.

A prescriptive funding policy is embedded along with the new governance structure. The funding policy is designed to provide the joint trustee with well-defined levers that ensure the long-term sustainability of the PSSP.

The enhancements to the governance structure and funding policy are innovative and corporate best practices from leading public pension plans across Canada.

Along with these innovative changes, the legislation has been thoroughly updated. Plan members and employers will find that the modernized PSSA is drafted in a manner that makes it easier to understand Plan benefits and how the Plan is operated.

The 2012 PSSA does not reduce or change any benefits that have been accrued. Benefits may only be reduced prospectively in the future.

Background

The existing Public Service Superannuation Act was originally enacted in 1923 and proclaimed in force effective July 1, 1934. Many of the definitions and provisions of the current Act are dated. A number of historical, but no longer relevant, references are embedded in the current Act. It is not structured in a manner that is intuitive nor does it allow for ease of reference.

Modernization of the PSSA

Public Service Superannuation Plan Trustee Inc.

The Trustee is responsible for all matters relating to the administration of the Plan and investment of the Public Service Superannuation Fund ('PSSF' or 'Fund'). The Trustee remains as the Minister of Finance until the implementation of a new joint trustee, at which point the Minister will have no further legal liability for the Plan. After an approximate one-year period of planning and preparation, the newly created Public Service Superannuation Plan Trustee Inc. ('PSSPTI') will assume fiduciary responsibility for the PSSP from the Minister of Finance.

The legislation creates PSSPTI, describes its responsibilities and how it will function. PSSPTI is to be structured as a joint trustee.

The board of directors of PSSPTI (the 'Board') will be composed of directors representing employees and employers. The directors of PSSPTI will consist of:

- 3 directors as designated by the NSGEU;
- 1 director designated by the CUPE Local 1867;
- 1 director representing non-unionized employees;
- 1 director representing retirees; and
- As few as 4, and as many as 6, directors designated by Government. Government has a block of 6 votes, regardless of number of directors appointed.

An independent Chair will be appointed by the Board, and an Appeals Committee will be established to manage appeals raised by plan members.

PSSPTI will rely on the successor corporation of the NSPA, a newly created statutory non- profit corporation, for pension administration and investment administration services.

The Governor in Council will have authority to make initial Plan regulations, following which the authority will move to the Trustee, without any further involvement of the Minister or Governor in Council.

Funding Policy

The legislation embeds a detailed funding policy. On a five year review cycle, beginning in 2015, the Trustee will evaluate the funded health of the Plan. The funding policy prescribes the actions available to the Trustee depending upon the funded health of the Plan.

If the PSSP is funded above 100%, indexing may be provided during the next five years, increasing retirement benefits in pay. At additional thresholds of funded ratios of 110% and 120%, contribution rates may be decreased and benefits may be improved. However, when the Fund is in surplus, a portion of the surplus is to be retained in the Fund (strategic reserve) to help weather potential adversity during the coming five years.

Similarly, thresholds are identified for which the PSSP may be funded below 100% at the five- year review cycle. If funding is only slightly below 100%, then contribution rates may be increased. However, if the Plan is funded significantly below 100%, then contribution rates must be increased and benefits must be reduced. However, the extent by which benefits can be reduced is clearly defined. Only future benefits, not yet accrued, may be reduced.   Benefits earned to date are protected.

Please note that upon the appointment of PSSPTI, the obligation of the Province to fund future plan deficits (the "back-stop") is terminated.

Funding Policy of the Public Service Superannuation Plan ("PSSP")

The legislation embeds a detailed funding policy, in keeping with those funding principles already enabled in the 2010 Financial Measures Act ("FMA").

Funding Policy Summary - Five Year Review Beginning in 2015

	Funded Ratio	Indexing for next 5 years	Actions required to meet or exceed funding target
UNDER FUNDED	Below 100% but at or above 96%	None	May increase contribution rates
UNDER FUNDED	Below 96% but at or above 90%	None	1) Must increase contribution rates 2) Reduce benefits if necessary
UNDER FUNDED	Below 90%	None	1) Must increase contribution rates 2) Reduce benefits if necessary

FULLY FUNDED	At least 100% but below 110%	Permitted, not to exceed 50% of CPI	Add to funding reserve
FULLY FUNDED	At least 110% but below 120%	Permitted, not to exceed CPI	1) At least 50% of surplus is set aside as funding reserve 2) Contribution rates may be reduced and/or benefits enhanced after providing for: A. reserve; and B. indexing
FULLY FUNDED	At least 120%	Mandated, not to exceed CPI	1) 50% of surplus above 120% is used for indexing 2) 50% of surplus above 120% is used to reduce contribution rates 3) At least 50% of surplus between 100% and 120% for reserve 4) At least 50% of balance of surplus between 100% and 120% for indexing 5) Balance of surplus between 100% and 120% used to reduce contribution rates

Funding Policy Definitions

CPI	The five-year average of the Consumer Price Index for Canada on an all items basis, not seasonally adjusted.
Funded Ratio	The ratio of plan assets divided by plan liabilities. Plan assets may be calculated at Market Value or using a 5-year smoothing methodology.
Funded Target	A funded ratio of at least 100% by the end of a ten-year period beginning on the first day of the five-year cycle