



Canadian Union of Public Employees
Syndical canadien de la fonction publique

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Sent by email
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Mr. Ronald E. Smith, FCPA, ICD.D
Chair, Public Service Superannuation Plan Trustee Inc.
Purdy's Landing Suite 400
1949 Upper Water Street
Halifax, NS B3J 3N3

Dear Mr. Smith:

RE: Public Service Superannuation Plan - CPP

Thank you for your letter dated October 13, 2020 and the included discussion paper.

After careful review, please see our attached input for your consideration.

We look forward to your attention to this matter and subsequent response.

Thank You.

Steve Joy
President
Nova Scotia Highway Workers Union
CUPE Local 1867

Attachment

c. M. MacIsaac



Overview

CUPE Local 1867 is disappointed to learn that the PSSP is considering reductions to modest pension benefits our plan provides. We are strongly opposed to the such changes, which are not in our members' best interests.

CUPE Local 1867 represents about 800 members who are PSSP members. Our Local also plays a key role in the governance of the PSSP. CUPE Local 1867 is named in the Public Sector Superannuation Plan Act as having appointment power to a seat on the PSSPTI. We are the largest CUPE Local in the PSSP.

We are also aware that a number of other CUPE Locals in municipalities have already moved, or are in the process of moving, into the PSSP as well.

If CUPE members of the PSSP were asked: "*would you like to contribute towards, and benefit from, the current modest expansion of CPP?*", our members would respond with a strong yes. We know that other employee groups would respond in a similar way. Our members strongly support the small net increase in contributions to fund an important, secure expansion of their CPP benefits.

Likewise, our members would strongly reject a proposal to scale back their future entitlements under the PSSP in light of this small increase in our public pension system.

CUPE members feel our PSSP pensions are too modest as is, and we fear that these small pensions may not maintain their purchasing power in the future. We therefore want, and need, to benefit from the expansion of CPP.

The Directors of the Public Service Superannuation Plan Trustee Inc. have fiduciary obligations to make decisions in the best interests of plan members. Unions representing the vast majority of active PSSP members are strongly opposed to changes to the PSSP. Cuts to the PSSP are not in the best interests of plan members.

History of CPP Integration

The Canadian Union of Public Employees is Canada's largest union, with 700,000 members across the country. CUPE was a major leader in the national campaign to improve CPP benefits. Canada's labour movement firmly believed CPP benefits should have been higher when the CPP was established in the 1960s. We campaigned over the decades for a universal expansion of CPP benefits that would apply to all workers: private sector, public sector, non-union, union and the self-employed. We wanted, and won, better pensions for all Canadian workers - *our members included*.

The PSSP was integrated with the original version of the CPP in 1966 when the public plan was introduced. Hansard records of the time are clear that the government unilaterally imposed integration on the PSSP, and that plan members at the time were **not** asked if they consented with this change.¹ In Ontario, the government forcing integration on various public sector plans nearly led to a province-wide strike due to union opposition. The fact that government forced integration on the PSSP fifty years ago has no bearing

¹ NS Hansard, Feb 17, 1966.

on whether the PSSP should be modified further as CPP benefit rates increase modestly over the coming years. This question should be examined on its own merits.

CUPE welcomed the support of the Nova Scotia government to the 2016 deal to expand the CPP. We note, however, that the government gave no indication at the time that its intention was that CPP changes would apply in a real way to some, but not all workers in the province (as further integration of PSSP with CPP would effectively nullify CPP expansion for PSSP members). Instead, the government talked about the “modest, affordable” increase in CPP contributions that would be “phased in over seven years.”² CUPE agrees that these increased contributions are affordable not only for our members, but also for the province and other public sector employers as well.

PSSP Benefits are Already Too Modest

Our members are opposed to reductions to their PSSP benefits primarily because they do not believe that their current PSSP and CPP entitlements will provide them with the income levels or security to allow them the retirement they deserve. Our members have an interest in having a decent, secure retirement.

The average PSSP pension is just \$21,000 per year.

Given that CUPE members’ salaries are generally lower than PSSP averages, our members’ pensions would, on average, be even lower than this overall average.

PSSP Base Accrual Rate is Already Low Compared to Other Public Sector Plans

The modest level of PSSP pensions is primarily due to the comparatively-low level of the plan’s base (below Yearly Maximum Pensionable Earnings) accrual rate of 1.3%. This is the rate that the vast majority of CUPE members earn the vast majority (or all) of their pension. This rate is the lowest among other major public sector DB plans across the country. Further integration with the newly expanded CPP would likely result in an even-lower PSSP accrual rate, leaving our plan with *the* lowest base accrual rate among other major public sector plans across the country.

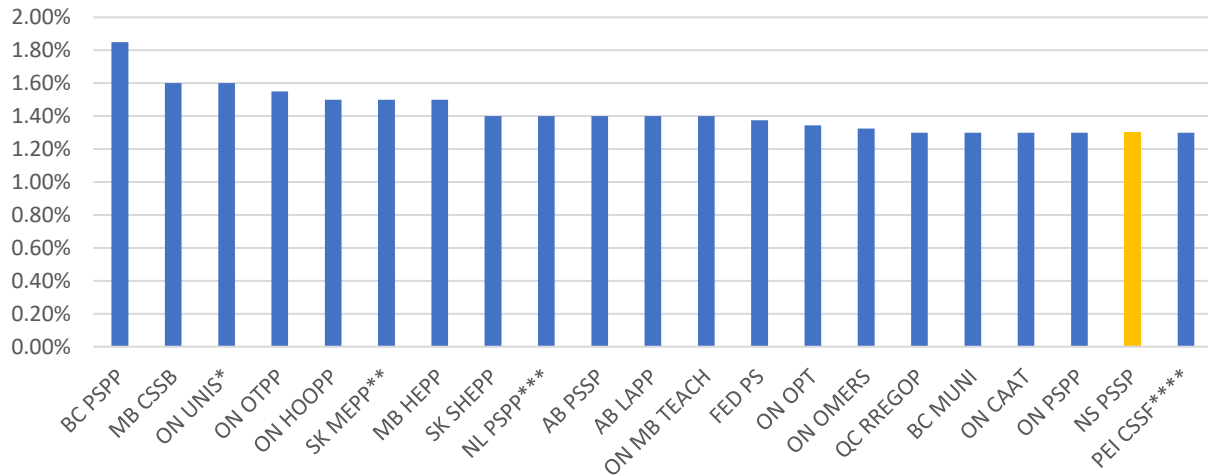
On top of this comparatively low accrual rate, many of the other major plans provide for better or more secure indexation provisions than the PSSP does.

Given the modest nature of the PSSP already, CUPE does not believe it is in the best interests of PSSP plan members to have the *lowest* pension benefits among comparator public sector plans.

² NS Finance and Treasury Board News Release, “Canada Plan Pension Agreement Reached,” June 20, 2016.

Base Accrual Rates in Other Major Canadian Public Sector Plans

(Earnings Base Best 5 Unless Noted Below)



*(*Best 4, ** Best 3, *** Best 6, ****Indexed Career Average)*

We are also aware of a number of smaller public sector plans in Nova Scotia with superior benefit provisions. The Halifax Regional Municipality pension plan, for example, has a flat 2% accrual rate and a “Best 3” earnings base. The Nova Scotia Health Employees Pension Plan has a base accrual rate of 1.4% with a “base year” earnings approach which been upgraded to 2018. The Nova Scotia Education Common Services Bureau pension plan has a base accrual rate of 1.5% and a “Best 5” earnings base. Our pension plan should not fall even further behind these other public sector plans than we already are.

PSSP Pensions Lack Purchasing Power Security

PSSP pensions are not automatically indexed to keep pace with the increasing cost of goods and services throughout retirement. Such increases may be awarded, but these increases are not guaranteed. At times they are awarded only at the discretion of the board, or are prohibited by the plan’s funding rules.

CUPE recently became aware that PSSP pensions will not be indexed to inflation until at least 2025. This five-year period with no indexation will likely mean about a 10% cut in the real value of PSSP pensions over this period (per the PSSP actuary’s inflation assumptions). This five-year period could be extended, or could recur at any point in the future – there are no guarantees of indexation in our plan. The possibility of future reductions in the purchasing power of a PSSP pension is a major reason our members need to benefit from the expansion of CPP, which features much greater security on indexation.

Our Members Need to Save More

The Discussion Paper references the 70% savings threshold that has been a general savings goal discussed by financial planners. This threshold also forms the base of our income tax rules around pension savings. CUPE, however, often disputes the universal merit of this savings goal. In our view this rule of thumb is very general and may apply very differently to lower-income workers – who may not feel that their standard of living even while working is sufficient. It is understandable that these workers do not feel that they would be able to live in dignity and security with a 30% drop in income while retired, particularly when that pension may or may not keep pace with increases in the cost-of-living over retirement.

We also seriously doubt that many PSSP members would actually be achieving this questionable 70% threshold through the plan, particularly since the threshold assumes a 35-year career as a full-time member of the pension plan. We know that this goal is not even close to achieved by most plan members. Less than 5% of current active plan members have more than 30 years of service. The PSSP actuary assumes that most plan members will have retired by Age 65, and given the demographics of the plan, this suggests that the plan actuary does not believe that many plan members will achieve 35 years of service. Education, demographic and labour market trends tell us that our members are entering the workforce later and are unfortunately often having to navigate years of precarious or part-time work before they are able to achieve full-time status. CUPE is also well-aware that, given the physical nature of the work that many of our members perform, a 35-year career is understandably not achievable for most.

Our members already do not feel like they are saving enough, which is why they need to benefit from the modest expansion of CPP.

Cuts to the Accrual Rate Below the YMPE Would Disproportionately Affect Lower-Income Workers

While the PSSP has not made a concrete proposal on how further integration would be achieved, we assume that it would likely involve further reductions to the pension accrual rates below the YMPE. This would mean workers earning below the YMPE would suffer a bigger PSSP cut than workers with earnings above this level.

We know that lower-wage workers are more likely to be women or from other equity-seeking groups. These groups already typically face greater incidence of part-time work or precarious employment, that can deprive PSSP members of important years of pensionable service.

Further Integration Would be Difficult to Achieve

A further integration with an expanded CPP would be extremely complex and difficult to achieve, let alone communicate to members clearly.

The expansion of CPP is taking place over a very long time horizon. While it is true that the phase-in period for new contributions and benefit-earning rates ends in 2025, these new CPP benefits are only earned on future service. CPP benefits are calculated on an earnings period of 47 years, with some provisions for a certain number of these years to be “dropped out.” Therefore, CPP members will not experience the full benefit of CPP enhancements until 2065. Benefits are calculated in a much different way in the CPP than

they are in the PSSP. Aligning with the very slow rate at which CPP benefits accrue will be very difficult to achieve, if it can be achieved at all.

We also know that communicating about the current two accrual rate tiers (1.3% and 2%) and corresponding contribution rates can be a challenge. CPP expansion is also introducing a new earnings ceiling (“Yearly Additional Maximum Pensionable Earnings”). If further integration is pursued, members could end up having to navigate four or more such tiers when past and future service are considered, making their pension even more difficult to understand and value.

Improvements to the PSSP bridge benefit would also be a necessary part of this conversation.

In our view, these technical challenges alone are reason enough to not pursue further integration.

Other Plans are Not Reducing Their Benefits in Light of CPP Expansion

CUPE is aware of a number of other major public sector plans in several different provinces that have already considered, but ultimately not adopted, further integration in light of the expanded CPP benefits. We are not aware of any pension plan in Canada that has reduced its accrual rates in an effort to integrate further with CPP benefits. We know that the arguments outlined in this submission have been considered by other plans. We urge the PSSP to follow this precedent and not made unneeded and damaging cuts to our plan.

Flawed Process

CUPE also has serious concerns about the process that the PSSP has undertaken to gather plan members’ viewpoints on this issue.

We note that the PSSP has not made a concrete plan design proposal for member consideration. We have been told that the Trustee is examining an option that would “modify the PSSP,” but we are not told what those modifications would be. Presumably the Trustee is considering some form of benefit and contribution rate reductions, but no details have been provided. Plan members cannot fully comment on a proposal we have not seen.

We also note that not all plan unions were informed about this process. CUPE 1867 was notified, but as we discussed at the beginning of our submission, many other CUPE locals who participate in the plan were not given such notice. We suspect that there are other unions with PSSP members (perhaps all member unions who are not named in the *Public Service Superannuation Act*) who were similarly not given an opportunity to participate. This is not a proper representative process and plan members voices should be heard.

We also question the speed at which your Board appears to be moving on this issue. CUPE was not provided much time to consider this issue. We do not understand why your board “needs to soon come to a decision” on this issue when the phase-in of CPP benefits continues until 2025. In our view, there is no real urgency to the timeline on this issue. Making decisions on this issue during the middle of a pandemic, when it is clearly more difficult for plan members to gather to consider these issues, is not necessary.

Conclusion

CUPE members need to benefit from the expansion of CPP. PSSPTI Directors should not take CPP expansion away from us.

Our benefits under the PSSP are too modest already. We are well behind most other public sector plans within Nova Scotia and across the country. Our benefits face a real risk that they will be frozen for extended periods and not keep pace with inflation. PSSP pensioners are about to experience a significant real drop in the value of their already too-modest pensions.

Our members face a variety of growing challenges in achieving full-career, full-time work, which impairs their ability to achieve a reasonable pension through the plan.

This is why our members strongly supported contributing more to CPP: to receive slightly more fully-indexed CPP benefits in the future. We campaigned for, and won, these benefits for all Canadian workers, ourselves included.

As directors of our pension trustee board, you have a fiduciary duty to make decisions in the best interests of plan members. Cuts to the PSSP are not in plan members' best interests.