



Technical Briefing MHAPP

Outline



- Current MHA Pension Plan
- MCRC Recommendations
- Comparison of MCRC Defined Benefit with Defined Contribution Plan
- Contribution Rates
- Financial Implications for Members

Current MHAPP

Current MHA Pension Plan

- Defined Benefit (DB) Plan first established in 1976
- Current benefit structure in place since 2009, for members elected after December 31, 2009
- Benefits determined based on formula:
 $3.5\% \times \text{service} \times \text{average best 3 years salary}$
- Maximum service 20 years; maximum benefit 75%
- Minister's pension determined separately using same formula; based on Ministerial salary
- Member vested after serving 5 years and 2 General Assemblies
- Pension eligible: age 55
- Benefits integrated with CPP from age 65
- A deferred member who is re-elected would qualify under the terms of the plan when first elected

Example of current benefit provisions



The table below illustrates the pension entitlement of a member with 8 and 12 years service; Average Earnings of \$95,357; and eligibility for a pension from age 55.

	8 years	12 years
Pension (age 55)	\$26,700	\$40,050
CPP reduction	<u>2,635</u>	<u>3,953</u>
Pension (age 65)	<u>\$24,065</u>	<u>\$36,097</u>


A Minister would earn a similarly calculated pension based on Ministerial salary/service. The CPP reduction amount would not change.

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Recommendations of the 2016 Member's Compensation Review Committee


MCRC Recommendations



The 2016 MCRC Report recommended :

1. For members elected on or after November 30, 2015
 - a. Annual benefit accrual rate of 2.5%
 - b. Pension payable from age 60
2. No option to transfer service from other public sector pension plans.
3. No indexation of retirement benefits
4. No change to vesting rules or survivor benefits

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**Comparison of
Defined Contribution Plan
With the MCRC Recommended
Defined Benefit Plan**

Defined Contribution Plan

Defined Contribution (DC) Plan

- MHAs contribute a fixed percentage of salary – GNL matches.
- Contributions invested in capital markets as directed by MHA.
- Value of pension at retirement depends on growth of investments; cannot be pre-determined
- Funds accumulated must be used to provide retirement income; alternative uses not permitted
- Pension may be payable from as early as age 55
- DC plan subject to requirements under the *Income Tax Act* (Canada) and *Pension Benefits Act* (PBA)
- PBA standard - Member vested after 2 years plan participation

Advantages and Disadvantages of Defined Contribution Plan

Advantages

- No unfunded liabilities
- Cost of plan is the amount of annual contributions

Disadvantages

- Value of retirement benefit is unknown
- Member responsible for investment decisions and assumes all investment risk; may be partially mitigated by appropriate education of plan members
- Onus is on plan sponsor to communicate risks associated with DC plan.

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Newfoundland
Labrador

Defined Benefit Pension Plan

Defined Benefit Pension Plan



- Pension based on prescribed formula
Annual accrual rate x average salary x service
- Value of retirement benefit is easily determined
- Consistent with pension arrangements for full time public sector pension plan members

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Proposed MHA DB Plan Provisions (MCRC)



Accrual rate:

2.5% per year; integrated with CPP from 65

Vesting:

5 years and 2 General Assemblies

Pensionable earnings:

Average best 3 years

Pension Eligibility:

Age 60 with 5 years service

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Proposed MHA DB Plan Provisions *(cont'd)*



Survivor benefits:

Member with spouse:

- Post retirement death: 60% of member's pension to spouse
- Pre retirement death: Spouse has option of
 - 60% survivor benefit, or
 - 100% commuted value* of member's entitlement

Member with no spouse:

- 100% commuted value* paid to estate

**commuted value refers to the lump sum present value of the accrued benefit*

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Proposed MHA DB Plan Provisions *(cont'd)*



Termination benefits:

If not vested:

- refund of own contributions plus interest.

If vested and ineligible for immediate unreduced pension:

- Deferred pension paid from earliest eligible date;
- Reduced pension when eligible; or
- Payment of commuted value to locked in RRSP

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Advantages and Disadvantages of DB Plan



Advantages

- Benefit is predictable
- Plan sponsor responsible for investment of contributions; assumes risk


Disadvantages

- Costs susceptible to changes in plan demographics and actuarial/economic assumptions.
- Contribution rates also susceptible to change
- Unfunded liabilities possible

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Contribution Rates

Current Contribution Rates under Government Plans		
<u>Plan</u>	<u>Rate</u>	<u>CSC*</u>
PSPP	9.70%	15.1%
TPP	11.35%	16.0%
USPP	8.75%	17.2%
PCJPP	9.00%	50.9%
MHAPP	9.00%	42.5%
GMPP	5.00%	10.0%

* Current service cost

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DC Contribution Rates	
<ul style="list-style-type: none"> • Maximum under Income Tax Act is 18% • 9% each for member and government • Maximum total dollar limit for 2017 is \$26,230 for DC (<i>indexed annually</i>) 	

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Comparison of current v. Proposed options



	Current	MCRC	DC
Plan Type	Defined Benefit	Defined Benefit	Defined Contrib.
Accrual Rates	3.5%	2.5%	N/A
CPP Integration	Age 65	Age 65	N/A
Max Benefit	20 years: 75%	20 years: 50%	N/A
Salary Base	BAE3	BAE3	N/A
Vesting	5 years/2 GA's	5 years/2Ga's	2 years
Retirement Age	Age 55	Age 60	Age 55
Contribution	9%	9%	9%
GNL Contribution	Current Service Cost less 9%	Current Service Cost less 9%	9%
Portability	Yes	No	N/A
Re-elected Members	Plan when 1 st elected	Plan when 1 st elected	Plan @ re-election

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Financial Implications for Members

Accumulations under DC Plan v. Lifetime DB Benefit



Assumptions: Contribution of 18% of salary, subject to ITA Limits
0% salary growth for 4 years; 3% thereafter
First elected age 40; 8 years service

Service	Member's Rate of Return			Member + Minister's Rate of Return		
	4.0%	5.5%	7.0%	4.5%	5.5%	7.0%
<i>Accumulated Funds (\$)¹</i>	267,239	336,789	423,507	416,647	524,954	659,960
<i>Lifetime Annuity (\$)¹</i>	13,456	16,958	21,234	20,979	26,432	33,230
<i>Lifetime benefit under MCRC (\$)²</i>	17,900	17,900	17,900	29,729	29,729	29,729

1. Appendix "H" MCRC Review of MHA Salaries, Allowances, Pensions and Severance, November, 2016
2. Department of Finance