Response to Recommendation – NL Teacher and Public Sector Pension Plans – Report of the Premier's Economic Recovery Team

The purpose of this submission is to correct some factual errors and misinformation presented in the report of the Premier's Economic Recovery Team (PERT), authored by Dame Moya Greene, regarding the Teachers' Pension Plan (TPP) and the Public Sector Pension Plan (PSPP) and to encourage the Government to dismiss the PERT recommendation found on page 75 – "Pensions to be converted to a collective defined contribution plan in three years" – as an economically ill-advised and impractical idea which would not provide any financial benefit or relief to the Province.

Everyone should recognize that the world of pensions, pension funding, and pension fund investment is the bailiwick of actuaries, institutional investment experts, pension lawyers, and accountants. It is complicated business. So, it is understandable that Dame Moya Greene and her team of volunteers, without the expertise of pension experts or advice from those in the defined benefit pension plan business on the panel, could confuse the facts and make erroneous conclusions based on misinformation and misunderstanding. Undoubtedly Dame Greene is intelligent and has some great recommendations regarding diversification of the economy, but unfortunately no one person can be an expert in everything, and with respect to the Teachers' Pension Plan and the Public Service Pension Plan, the PERT misses the mark.

So, let's correct and clarify a few things in the PERT report. (Please note I am commenting about the Teachers' Pension Plan specifically, but can confidently say that similar errors/misunderstandings exist in the report regarding the Public Service Pension Plan.)

A Table on page 43 of the report says that the Teachers' Pension Plan (TPP) *Ratio of fund assets to accrued obligation* is 0.509 as of March 31, 2020. In fact, according to the December 31, 2020 Audited Financial Statements of the TPP found in the Annual Report posted on the Teachers' Pension Plan Corporation website, the net assets available for benefit are \$5.98B and the accrued benefit obligation is \$5.20B for a funded ratio of 1.148. **In other words, there is a surplus of assets in the Teachers' Pension Plan.**

Pages 51-52 of the PERT's report state: "The Teachers' Pension Plan, which has a ratio of plan assets to plan liabilities of just 0.51, has an unfunded liability as of March 31, 2020 of \$1.6 billion." In fact, as previously noted, the audited financial statements of the TPP, as of December 31, 2020 show a 1.149 funded ratio, with a surplus of \$774.6M.

On pages 73–74 the report refers to the pension reform of the TPP and the PSPP, a process which concluded in 2015-16 and culminated in the creation of the Teachers' Pension Plan Corporation and Provident 10 (PSPP), corporations independently run by pension experts, and now responsible for administration and investment of the pension fund assets of their two respective plans. Again, the PERT Report contains errors and incorrect information demonstrating the author's lack of understanding of what occurred during pension reform. Dame Greene states: "Despite these efforts, the unfunded pension liability, as of March 31, 2020, sits at \$4.89 billion (including the promissory notes). This is nearly \$1 billion more than it was just six years earlier when pension reform was completed." This is misleading.

In the case of the TPP, when the pension reform process began in 2012, the funded ratio was 52.5% and the unfunded liability of the TPP was \$2.1B (source: 2012 TPP Actuarial Valuation). Government was responsible for 100% of this liability. As a result of the reforms finalized in 2015-2016 by a Joint Sponsorship Agreement, the NLTA became a joint sponsor of the TPP with Government and the NLTA agreed to share 50% of any future unfunded liability; teachers agreed to reduce their benefits by \$368M and agreed to pay higher pension contributions (now 11.35% of salary). These actions (and others) reduced Government's debt and pension obligation, and made the plan financially sustainable. The Teachers' Pension Plan Corporation was established in 2016 to administer the TPP and invest the funds. To fulfill its part of the Agreement, Government issued a promissory note to the Corporation for \$1.862B primarily to pay for the pre-reform pension obligations Government had accrued to already retired teachers. The TPP is now fully funded with no unfunded liability (in fact, has a surplus) and the Fund assets are in excess of \$6B. Pension administration and investment is no longer the responsibility of Government, but occurs through the independent Corporation, enabling a reduction in the number of Government employees to occur. **The result has been an incredible NL success story. Pension reform reduced Government's pension obligations, and eliminated the unfunded liability of the TPP, as opposed to increasing the pension plans' unfunded liability by \$1B as stated in the PERT Report.**

On page 74 of the report it states that "Further action is required to make the cost of these pension plans sustainable and reduce the unfunded liability." This is absolutely false. **The TPP (and the PSPP) are now well managed by pension experts, both plans are sustainable, currently fully funded, and have funding policies in place that have a mechanism for correcting any future unfunded liability that might occur due to unforeseen negative events.**

Perhaps the most disturbing comments are found in the paragraph on page 74. These comments have the potential to cause unwarranted stress and poor decisions on the part of pension plan members. It is inflammatory rhetoric which is not relevant to the plans in Newfoundland and Labrador. Dame Greene states: "This large unfunded liability poses a risk to existing pensioners and to future program participants. Unchecked, even existing pensioners could see their benefits decline. This has been seen in many areas of the world. Greece, for example, had to make drastic cuts to pension plans which placed many pensioners below the poverty line. In some cases, pension benefits were cut by up to 50 per cent. The declining population in this province and the large number of participants reaching retirement age means fewer public servants will be contributing to the plans. Fewer participants will translate into a greater unfunded liability. This will make the current plans unsustainable and place all participants at risk." **This is totally false and unsupported by the facts.** The reference to Greece **can best be characterized as fearmongering** and is totally irrelevant in the context of the well-funded joint sponsored pension plans in Newfoundland and Labrador. With reference to the potential for fewer participants paying into the plans, Dame Greene does not recognize nor seem to understand that if there are less people paying in, then there is less future pension obligation accruing – the two factors largely offset each other. These scenarios are considered by a pension plan's actuaries when they conduct the plan's actuarial valuations and asset/liability modelling.

The PERT recommendation that "Pensions to be converted to a collective defined contribution plan in three years" is a superficial, extreme, and unrealistic suggestion which does not logically flow from the discussion that precedes it, and more importantly, does not provide any financial relief or reduce government's current pension obligation in any way. The fact is that government's only outstanding pension obligation to the Teachers' Pension Plan is the Government of NL promissory note (currently valued at $1.7B) held by the Teachers' Pension Plan Corporation, which was issued mainly to pay for government's pre-reform obligation to teachers who were already retired at the time of pension reform. This promissory note is similar to any Government of NL bond held by banks or other entities to which the Province owes money. It is an enforceable instrument which must be paid regardless of whether there is a move to a future defined contribution plan or not. Government simply does not have the ability, through legislation or otherwise, to arbitrarily change the TPP for already retired teachers. The only rationale for the PERT recommendation then would seem to be a philosophical bias against defined benefit pension plans.

Pension reform of the Teachers' Pension Plan and the Public Service Pension Plan was a collaborative effort of Government and the participating unions during four years of hard work from 2012-2016. The pension reform was based on the recommendations of some of Canada's leading pension actuaries, pension lawyers, and pension investment specialists, and facilitated by sacrifices on the part of plan members. The results were binding and comprehensive joint sponsorship agreements containing well designed corporate and governance structures and risk management considerations, along with detailed funding policies which ensure the sustainability and success of the two pension plans to 2046 and beyond. As well, pension reform established two world class independent pension corporations, the Teachers' Pension Plan Corporation and Provident10, which now professionally administer the plans and invest their assets. These joint sponsorship agreements were supported unanimously by all Parties in the House of Assembly. **It would be difficult for any informed person to justify giving serious consideration to the PERT recommendation regarding the TPP and the PSPP based on what was clearly a cursory and superficial examination of pension plans by a panel without pension expertise, and which contradicts the roadmap established and supported by pension experts following four years of extensive review and work.**

A pension recommendation that should be given serious consideration is **that Government should consider beginning a process to reform the remaining defined benefit pension plans it sponsors which have not undergone pension reform, including the MHA Pension Plan.** All of these remaining plans under government administration and sole trusteeship are under-funded and have unfunded liability. Reform similar to that which occurred with the TPP and the PSPP would undoubtedly result in reducing government's financial pension lability and create sustainable defined benefit pension plans, as has already occurred in reform of the Teachers' Pension Plan and the Public Service Pension Plan.

Finally, it is important to note that there are approximately 30,000 Newfoundlanders and Labradoreans currently receiving pensions from the TPP and the PSPP, with about 60,000 total plan members. These individuals make up a significant segment of the adult population, and they pay tax on their pension income. These citizens and other individuals in receipt of fully funded defined benefit pensions are unlikely to have to avail of government income support programs in retirement, such as GIS or government drug cards, which are essential for many citizens without access to defined benefit pension plans. Pensioners will constitute a significant part of the reliable tax basis for the Provinces for decades to come. Collapsing the defined benefit plans and moving to defined contribution plans as suggested by Dame Greene would be extremely short sighted, unlikely to provide any short term financial relief to the Province, and would, in fact, have disastrous long term economic consequences for Newfoundlanders and Labradoreans and the Province.

Respectfully submitted,

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