

POLICY NOTE

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Mr. Mullins holds a B.A. in Economics from the Western University of Ontario, an M.B.A. from the Richard Ivey School of Business, and a Chartered Financial Analyst designation. He has been a resident of Dundas, Ontario, for 30 years.

Mark is the Chair and a Founding Director of Fair Pensions for All

Heading for Broke:

The State of Newfoundland and Labrador's Pension System

By Bill Tufts and Mark Mullins

This is a summary of an in-depth study, "Heading for Broke: The State of Newfoundland and Labrador's Pension System" reporting on the existing shortfalls and potential solutions in the province's public pension system, available from www.fairpensionsforall.net

Key Findings

- When the pensions' unfunded liabilities and retiree benefits were accounted for on the same basis as pensions in the private sector, the total shortfall would be \$8.4 Billion. Shortfalls account for 67 percent of the Province's net debt
- The plans are alarmingly short and the funded ratio - or actuarial value of assets divided by the actuarial accrued liabilities is only at 54%.
- Since 2005, the unfunded liability has increased despite in excess of \$3.6 billion in special payments over that period. These are in addition to the regular annual required contributions.
- Annual increases continue at an alarming rate. At March 2013, there was a \$400 million increase in the deficit from the previous year
- Unfunded liabilities do not include amounts required to pay for benefits related to future service, only past service. Every day adds more liability.
- The province's population is growing very slowly with the only growing segment of the population being those over the age of 65. One government report shows that the population grew by 139 in 2013.
- The number of retirees is set to explode over the next two decades with a coming demographic tsunami

Today the pension system in Newfoundland and Labrador is broken.

The pension system in Newfoundland and Labrador is one of the worst funded and most expensive retirement systems in Canada. Each year that the Province delays action to address its fundamental pension issues, the more risk the system faces and the harder it will be to fix.

Bill Tufts is the Founder and Executive director of Fair Pensions For All an organization advocating pension reform in Canada.

Mr. Tufts has appeared before the House of Commons and Senate National Finance Committee as an expert on pension and labour affairs, he was invited by the Ontario Finance Minister to participate in 2010 in a roundtable on Retirement Security as an industry expert and stakeholder. Bill attended as a special guest, the Bootcamp for Elected Officials in Irvine, California in 2011 by the California Foundation for Fiscal Responsibility.

As a policy advisor on pension matters Bill has advised Members of Parliament, provincial MPP's and MLA's as well as City Councillors. He has worked with the Canadian Federation of Independent Business (CFIB), the Canadian Taxpayers Federation, ADVOCIS, as well as written pension policy for the Canadian Chamber of Commerce.

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Newfoundland and Labrador has been aware of the problem since 2008, when it implemented pension funding relief. The awareness of the crisis gained steam in the fall of 2012 when the Province announced that they were making changes to the pensions for Provincial employees. Since then backroom meetings with the unions have produced little change.

The province needs to implement changes urgently as the province is on the cusp of a demographic tsunami that will swamp public finances as the government faces much larger costs associated with the costs of an aging population.

Financial instability of the province's pensions threatens to squeeze out other entire core services, from those needed for infrastructure, healthcare and education to roads and social services. In fact those most vulnerable, families, youth and seniors, will be the ones most affected by the impact of rising pension costs on the budget.

Conclusion

- The pensions plans of Newfoundland and Labrador's government employees are facing unprecedented pressures. Tom Marshall, the Premier stated that the pension plans of those in the civil service, "are not sustainable as they are, they are not going to last".
- The volatility and magnitude of the unfunded liability has increased the tension between providing services to current taxpayers while legally fulfilling past pension commitments.
- The province needs to enact comprehensive pension reform that takes a new approach. The goal of reform should be to provide sound retirement income for retirees, but at a lower cost to both taxpayers.
- As a solid way of protecting the system and to enhance fiscal responsibility, the government needs to phase out their traditional defined-benefit plans and established well-designed, employee-owned defined contribution retirement plans.
- Allowing workers access to personal defined-contribution accounts would help solve the pension system's financial problems, while providing a fair and sustainable retirement system for public employees.

To read the full policy brief go to www.fairpensionsforall.net