**Discussion of Retirement Plan Models**

**City of Burlington Retirement Committee**

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**Model: New Brunswick Shared Risk Pension Plan (SRPP)**

**Discussion**

The retirement plan in place for employees of the Canadian province of New Brunswick (NB) contains two notable elements: first is the plan design; second is a rule that governs the circumstances under which and how the plan design should be altered. This discussion focuses chiefly on the plan’s design.

In 2010, in response to a consensus that the pension plan for the province’s public workers had become unsustainable or prohibitively expensive, the NB premier (governor) appointed a task force to study pension reform. The task force “undertook an extensive engagement process, in partnership with unions, private sector leaders and government, to select the most crucial principles which all sectors agreed should form the basis of a new pension model. Building upon these principles, the Task Force put forward a new model for the Province’s consideration.”[[1]](#endnote-1)

The model the task force proposed is called the “Shared Risk Pension Model” and was established in May 2012 as the Shared Risk Pension Plan. The benefits component of the new model contains two basic parts: core benefits that are (mostly) guaranteed; and cost-of-living adjustments that are dependent on the plan’s investment and actuarial experience.

**Summary overview of the New Brunswick SRPP:**

* Conversion of all active workers and new hires from the legacy defined benefit plan to the new plan
* Calculation of new pension accruals based on career salary, rather than the final average salary used by the legacy defined benefit plan
* Incremental introduction of increased retirement eligibility requirements
  + Current workers retain all benefits accrued in the legacy DB plan as of the onset date of the new plan; those become core, (mostly) guaranteed benefits under the new plan
  + Retirement eligibility under the new plan is maintained or increased slightly for those nearest to retirement eligibility, and increases gradually the further one is from retirement eligibility
* Integration with Canada’s version of Social Security, i.e., a certain benefit is paid until reaching age 65, and then reduced to reflect the onset of Social Security benefits
* Higher employee contributions, by around two to three percent of pay (depending on salary level)
  + Should the plan’s funding level fall below 100 percent for two consecutive years, the following changes will be implemented, in order: a) employee contribution rates rise; COLAs are postponed; and base benefits may be adjusted
  + Cumulative increases or decreases in the employee contribution rate are limited to two percent of pay or 25 percent of the original rate
* A COLA based on plan funding condition, projected to be paid 75 percent of the time
  + The new COLA provision also affects those who already are retired
  + The cap on the annual COLA is removed
  + COLA “shortfalls” can be restored in future years if investment performance is sufficient
* Annual stress-testing of the plan, akin to that performed for banks and life insurance companies. The tests must show a high level of confidence that benefits will be paid. If the plan fails, it must modify its investment, funding, or benefit rules until the plan passes the test.

The NB SRPP model is a variation of a Dutch retirement plan model known as a “collective defined contribution plan.” A key feature of collective DC plans is that the employer contribution rate is fixed (subject to possible narrow adjustments); other features of the plan, including benefit levels, actuarial methods and assumptions, and employee contribution rates, may be adjusted depending on the actuarial and investment performance of the plan. Another key feature of the collective DC plan concept is that measures taken in case the plan falls short of actuarial targets are determined in advance.

**Key plan design features of New Brunswick Shared Risk Pension Plan[[2]](#endnote-2)**

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| **Member contribution rate** | 7.5% on first $52,000 in annual salary; 10.7% on amounts above |
| **Employer contribution rate** | 12.5%, scheduled to decline gradually to eventually meet the employee contribution rate |
| **Retirement eligibility** | Age 65 with 5 years of service for an unreduced benefit; 55/5 for an early retirement benefit |
| **Retirement factor for retirement prior to age 65** | 2.0%, adjusted for part-time or overtime status, less 5% for each year of age under 65; adjusted at age 65 to the factor for retirement at age 65 and higher (below) |
| **Retirement factor for retirement at age 65 and higher** | 1.4%, adjusted for part-time or overtime status for salary up to maximum pension earnings level ($52.5k), plus 2.0% for salary above maximum pension earnings level |

1. Canada’s Public Policy Forum, Pension Reform Issues Brief, February 2013 [↑](#endnote-ref-1)
2. Public Service Shared Risk Plan: A guide for members: <http://www2.gnb.ca/content/dam/gnb/Departments/ohr-brh/pdf/pensions/pension_plans/pssa/PSSRP_Booklet.pdf> [↑](#endnote-ref-2)