SASKATCHEWAN
UNION OF NURSES

November 2022

SHEPP Pension Bulletin

A Joint Union Proposal for Inflation Protection in Your Pension Plan

This bulletin is about your pension plan – SHEPP – and the urgent need for a key improvement in its benefits to protect current and future retirees from the impact of inflation.

In what follows, we outline some of the basics of pension indexation, or protection against inflation, for pension plans. We then provide a summary of SHEPP's past indexation and an update on the current funding status of the plan. Finally, the bulletin concludes with an important proposal for benefit improvements that has been agreed upon by all five of the Unions representing SHEPP members.

Basics of Pension Indexation

Legally guaranteed "defined benefit" (DB) pension plans form a key part of the retirement security of millions of workers in Canada. However, guaranteed pension benefits can still be subject to significant losses of purchasing power as consumer prices increase in retirement. Even the relatively "moderate" rates of inflation of recent years (averaging approximately 2% per year) have eroded purchasing power by about one-third (33%) over the 20 years since 2002.

This is the reason that many pension plans added "indexation" to their design. This means that after a pension begins to be paid to a retiree, it can be regular increased to keep up with the rate of inflation. Some indexation provisions are designed to provide full, 100% inflation protection. This means that the pensions being paid would be increased annually by 100% of the rate of inflation – as measured by the "Consumer Price Index" or CPI -- in order to ensure that its value is protected. Some indexation provisions provide partial indexation, such as 75% or 50% of the rate of inflation.

Today, these provisions to protect retirees from inflation have become even more important. From late 2021 to September 2022, inflation rates jumped to roughly 7% as of the end of September 2022. There is now a debate about how long these levels of inflation will continue – but there is no debate about its impact on the fixed or "unindexed" pensions of retirees. Retirees are losing ground quickly. This has led to a renewed focus on the level of protection against inflation provided by all pension plans – including SHEPP.

Indexation in the SHEPP plan

The SHEPP plan does not provide guaranteed indexation and it does not provide any dedicated funding to the plan aimed at helping to ensure it can be provided. This is somewhat unusual for a province-wide hospital or health sector plan. As shown in the following table, **many similar health-care sector pension plans in other provinces provide at least some level of either guaranteed or conditional-but-funded indexation**.

Plan	Province	Indexation Provision
NSHEPP	Nova Scotia	100% of CPI, automatic, with a “cap” of 3% / year
HOOPP	Ontario	75% of CPI (on pre-2006 service); ‘ad hoc’ for post-2005 service but full 100% CPI has been delivered
LAPP	Alberta	60% of CPI, automatic
BC MPP	British Columbia	Conditional indexation, funded through 1% contributions from both employers and members
SHEPP	Saskatchewan	No guaranteed indexation, no ad hoc indexation since 2003

This comparative chart shows that SHEPP’s indexation history is comparatively very weak. However, it is important to recall that for many years prior to 2003 the SHEPP plan did provide important indexation for retirees of about 75% of CPI. This indexing was provided by using plan surplus. Since the emergence of a funding shortfall in 2003, that practice ended. **SHEPP retirees have seen no increases in pensions in the 20 years since**. Nonetheless, the history of the provision of indexation does establish an important baseline target of at least 75% of CPI, and this is a past practice that we can build upon and aim to restore.

Improving Funding Status of SHEPP

While SHEPP continues to report its funding levels in a deficiency position for both the “going concern” (i.e., plan continues indefinitely) and the “solvency” (i.e., plan winds up immediately) basis, it is also true that the funding picture for the plan has been improving substantially in the past several years. The latest actuarial valuation report – the document that measures the financial strength of the plan – has just been filed with the regulators showing that the plan’s assets now represent 98% of its liabilities. That level of funding includes significant margins of conservatism built in in order to keep the funding level below 100%. There is a very real probability that the plan will reach surplus (assets above 100% of liabilities) within the next few years.

This is very good news. However, it is important to recognize that if the plan's "Partners" (ie employers and Unions) do not reach an agreement on benefit improvements, a portion of the current contribution flows – special payments of approximately 2.94% of payroll -- will no longer be required. This special payment has been in place to cover an unfunded liability. This unfunded liability will be paid off in the next three years. Rather than remove the 2.94% special payment, we want the 2.94% to remain and use those additional dollars for funding plan improvements. This situation provides us with a tremendous opportunity to finally strengthen the plan's benefits by ensuring that this 2.94% of payroll funding, which is already flowing into the plan from both employers and members, is maintained. Protecting that funding would allow for the addition of vitally needed and long overdue indexation for retirees.

A Two-Part Proposal for SHEPP Indexation

Over the past several months, the five unions representing SHEPP members have recently reviewed a number of options for adding indexation to our plan. The result of these deliberations is a proposal for indexing commitments that has two parts, as follows.

1. A New Guarantee of 50% of CPI Indexation for Future Service

Given SHEPP's starting point, and the simple fact that full, 100% of CPI indexation for pensions is very costly, we propose that **the plan's future service benefits be indexed at a rate of 50% of CPI**. We believe that it would be possible to add this benefit without having to increase either employer or member contribution rates so long as the addition is implemented after full funding is reached and the current schedule of special payments (worth 2.94% of payroll) is ended. In effect, linking the timing of the new benefit with the termination of the special payments would provide contribution rate stability and a key benefit improvement at the same time.

2. A New 'Conditional' Commitment to 75% of CPI Indexation for Retirees

The Unions believe that the benefits paid to current retirees, and the benefits already earned by current active members without any indexation attached, should also be indexed. We believe that SHEPP's historic delivery of 75% of CPI indexation to retirees should be revived in a manner that is more certain than a simple 'ad hoc' annual decision. Therefore, we propose that the plan's design be amended to provide that 75% of CPI indexation is **automatically** provided to retirees, or such lesser amount as can be afforded, so long as the plan's funding level can be maintained above a reasonable threshold of 105%. To be clear, this commitment would not make delivery of this benefit a guarantee, but it would secure its delivery so long as the plan can afford it. We also note that adding this provision will involve no increase in contribution rates for either employers or members.

How Can We Achieve This Proposed Indexation for SHEPP?

As you know, the SHEPP plan is described as “jointly governed” by the plan’s partner employers and unions representing plan members. This means, among other things, that any changes to the plan’s benefit design such as the indexation commitments described here would require an agreement to be reached between the unions and the employers. There have been no improvements to plan benefits in many years and no “ad hoc” indexation has been delivered since 2003.

While we believe that a very strong case can be made for these indexing improvements, we expect that our employer counterparts will not be immediately supportive of the proposal. They will likely prefer to see the additional contributions now flowing into SHEPP to be permitted to fall away so that they see savings of nearly 1.5% of payroll. However, we are confident that with effective communication and a strong base of support for the change from plan members, we can take up this opportunity and reach agreement on these proposals.

This bulletin is a first of what we hope will be several communications to SHEPP members on this proposal. We encourage you to share it widely with co-workers, family members, and any SHEPP retirees you may know. We also welcome any requests to provide knowledgeable speakers on this proposal to any Local or to any of your respective union representatives, that requests a presentation to its membership – either virtually (via zoom) or in person.

Please stay tuned! We plan further communications on this proposal in the months to come.