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ABSTRACT

The Minister of Education of Alberta, Canada established a task force in 1983 to analyze the characteristics of teachers' pension plans and to develop a model retirement plan for teachers in Alberta. The task force reviewed the legislative, structural, administrative, and financial characteristics of Alberta's existing Teachers' Retirement Fund as well as pension plans for teachers in other provinces and for other public employees in Alberta. This document summarizes the task force's full report, which describes the task force's membership and responsibilities, discusses its findings concerning pension fund reform, and presents its proposed model plan. Changes recommended by the task force include enacting new legislation, adjusting the level of teacher contributions, changing retirement options, adopting a new pension formula, and establishing cost of living indexing. Other considerations addressed are temination benefits, deferred pensions, and death and disability benefits. Costs and funding methods for the plan are discussed. (PGD)

TEACHERS' PENSIONS

A MODEL RETIREMENT PLAN FOR THE FUTURE

SUMMARY REPORT

REPORT

OF THE MINISTER'S INFORMAL TASK FORCE

ON TEACHERS' PENSIONS

OCTOBER, 1984

SUMMARY REPORT

I. BACKGROUND

Since the early 1970's, Alberta Education has received numerous requests for improvements in teachers' pensions. In reviewing these submissions, it was concluded that an entirely different approach was required to replace what had become incremental, ad hoc arrangements. Rather than continuing with this procedure, the Honourable David King, Minister of Education, established an informal task force during the latter part of 1983 to investigate all aspects of teachers' pensions in Alberta.

The Minister's Informal Task Force on Teachers' Pensions was established as a joint undertaking of Alberta Education, The Alberta Teachers' Association, and the Teachers' Retirement Fund. The mandate of the task force was to develop and propose a model retirement plan for teachers in Alberta. The model plan was to be specific in terms of its application to teachers in Alberta, and universal in terms of its relationship and application to other pension plans. The review addressed the basic parameters or features of a model retirement plan after consultation with the ATA Pension Committee.

Membership of Informal Task Force:

W.R. Duke, Assistant Deputy Minister (Chairman)
Alberta Education

J.F. Berlando, Coordinator, Teacher Welfare
Alberta Teachers' Association

D.J. Corse, Executive Director
Board of Administrators, Teachers' Retirement Fund

J.E. Faries, Chairman
Alberta Government Pension Boards

M.D. Mills, Director
Paterson Cock Limited

K.A. Hussey, Executive Assistant (Executive Secretary)
Alberta Education

II. BACKGROUND ISSUES

The task force was established to effect a collective approach in the matter of improving teachers' pensions. This included an examination of the outstanding issues raised throughout the years at the TRF Board meetings, and by the ATA through the 13 briefs submitted by the Association to the Minister since 1970.

III. COMPARISON WITH OTHER TEACHER PENSION PLANS IN CANADA

> **The task force did not attempt to rationalize adequacy of pensions, but accepted a target of a gross pension in retirement including Old Age Security and the Canada Pension Plan, of 70% of gross pre-retirement income is likely to prove adequate.**

The various teachers' plans in Canada vary quite considerably in detail as can be seen from the highlights presented below.

Legislation and Administration

All teachers' pension plans in Canada are established by legislation with supporting regulations. The majority of the plans are administered by a board or commission established under the legislation. Of the plans solely for teachers, only those of New Brunswick and Newfoundland are administered directly by government departments. The public service plans which embrace civil servants in addition to teachers, namely Quebec and the Federal Public Service Superannuation Act (the PSSA), have administrative systems somewhat different than the teachers' plans.

Funding

All of the plans, except the PSSA which has two separate revenue accounts, have established trust funds which provide at least partial funding of the plans, except Saskatchewan which provides full funding.

None of the Acts, however, require full actuarial funding in accordance with the provisions of the Pension Benefits Act although the Ontario plan is almost fully funded. All plans are specifically guaranteed by their respective governments in the event of deficiencies in funding. However, such a guarantee is not required nor provided by Saskatchewan on its new plan.

Four provinces, B.C., Saskatchewan, Manitoba, and Ontario, have additional or supplementary funds specifically for indexing of benefits.

Plan Design

The most obvious exception to all of the plans is the new plan in Saskatchewan which provides benefits on a money-accumulation-basis. Teachers and government contribute to the fund and when the teacher is eligible for benefits, the amount standing to the teacher's credit is used to provide benefits. All of the other plans, except for the PSSA which uses six year average, provide a pension based on 2% of the highest five-year average salary per year of service. Benefits are integrated with the benefits to be received from the Canada Pension Plan (the CPP). Integration with the CPP means that the pension from the teachers' plan together with the CPP pension will equal roughly the 2% level per year of service.

All teachers' pension plans require teachers to contribute and, with the exception of Newfoundland, the contributions are integrated with contributions made to the CPP. The Alberta contribution rate of 3.5% on earnings up to the Year's Maximum Pensionable Earnings (the YMPE) and 5% on earnings above the YMPE is the second lowest; only Newfoundland has a lower rate.

Five plans including Alberta set the normal retirement age at 65: the remaining plans use age 60 as the normal retirement age. Special retirement, which is defined as retirement before normal retirement age with an unreduced pension, is allowed by all but two of the plans.

While the pension formulae, with the exception of Saskatchewan, are remarkably standard, the real value of the pensions varies quite significantly because of two factors:

1. The Form of Pension - the majority of the plans, Alberta is one of the four exceptions, provide an automatic pension to the surviving spouse.

2. Indexing of Pensions - all of the plans provide for indexing but no two plans are exactly the same in their approach. Only Alberta and Newfoundland are discretionary. All of the other plans specifically include some degree of indexing as a right in the Act. Only the PSSA goes to the extent of providing full indexing to the Consumer Price Index (the CPI). It should be noted that the average rate of indexing in Alberta has been 75% of the rate of increase in the CPI.

Termination benefits under the various plans are aimed primarily at providing deferred pensions, with most plans including Alberta requiring 10 years of service before vesting. All plans allow a refund of teacher's contributions, usually with minimal interest, before ten years of service. There are seven plans which at some combination of age and service eventually lock-in the teacher's own contribution and insist that a pension be taken. In Alberta, lock-in occurs at age 55 with 10 years of service.

Death-in-service benefits are provided by all plans, except Manitoba, as pensions paid either to a surviving spouse or orphans and dependents. However, the level of pension and the eligibility provisions vary somewhat. All plans provide a refund of the teacher's own contributions plus interest if a surviving spouse is not eligible for a pension. Alberta also provides an additional benefit of up to $1500.

In general terms, there is full reciprocity between the various plans which allow teachers to transfer their contributions and credited service between plans. This does not automatically provide full credited service because the different levels of contribution affect the transfer values. In particular, teachers transfering from a plan with low contribution rates such as Alberta, to a plan with high contribution rates such as Ontario, will receive only partial credited service on transfer. The only exception to this reciprocity is B.C. which provides a limited transfer agreement with Alberta and some other provinces at retirement.

IV. COMPARISON WITH OTHER ALBERTA PUBLIC SECTOR PLANS

A comparison of the Teachers' Retirement Fund to the other six Pension Acts under which the Alberta Government guarantees payment of benefits is presented below.

Legislation and Administration

The legal and administrative approaches are essentially the same for all of the Alberta plans which are established by legislation and are administered by a board created by the legislation. However, only the Teachers' Retirement Fund Board continues to handle the day-to-dav administration of the plan, whereas the Boards of the other six plans have delegated responsibility to Alberta Treasury.

Funding

The funding under the various pension Acts is quite different. The six Acts, other than The Teachers' Retirement Fund Act, require employee contributions and employer contributions (including the government where it is the employer) to be deposited in the Pension Fund. The Pension

Fund is a common pool of assets established specifically to invest the contributions under the various Acts, including the initial deposit of $1.1 billion by government.

The teachers' plan has a trust fund which invests the contributions of the teachers and through which government pays one-half of the pension payments.

Plan Design

The teachers' plan is very similar to the two largest public sector plans, namely, the Public Service plan and the Local Authorities plan. However, the value of benefits is significantly less under the teachers' plan than the other four plans, although any comparison with the MLA's plan is probably invalid because of the unique nature of the latter group. Members of both the Management plan and the Universities Academic plan enjoy a higher level of benefit and the normal form of pension is more valuable. It also is easier for these two groups to qualify for benefits. Also, most of the plans administered by government have a five year vesting period as compared to the ten year vesting period in the teachers' plan.

V. A MODEL RETIREMENT PLAN FOR TEACHERS IN ALBERTA

The task force proposes a number of recommendations for the legislation, administration and the design features of a model retirement plan for teachers. The task force also proposes that the model plan become effective September 1, 1985.

Legislation and Administration

The task force proposes that the model plan be incorporated into new legislation which would be a complete amendment of the existing Teachers' Retirement Fund Act. Many of the precise administrative and design features of a new plan remain to be explained in detail. However, the task force recognizes that new legislation may not be possible at this time and that interim changes to legislation may be more appropriate to effect implementation of the model plan by September 1, 1985. The task force is willing therefore to assist in the development and drafting of interim and new legislation to accomplish its recommendations.

The task force believes that the existing administrative structure and the powers held by the Board of Administrators, Teachers' Retirement Fund, continue to be the most appropriate and, therefore, no changes are proposed.

Plan Design

The proposed plan attempts to address many of the concerns raised by the ATA and the TRF. The model plan is based on a detailed study of other teachers' plans but does not attempt to replicate the features of other plans. It is anticipated that, as the "great pension debate" draws to a close, many other jurisdictions will recognize the need for a thorough review of their plans and may well implement similar changes. The model plan meets or exceeds most, if not all, of the recommendations contained in Alberta Labour's paper, "Improving the Effectiveness of the Private Pension System in Alberta".

The proposed plan is contrasted to the existing plan in the following table. No attempt has been made to describe all the details of the plan, but the more significant aspects are presented.

Plan Feature	Model Plan	Current Plan
1. Membership	Same as current plan except Superintendents of Schools are excluded	Provincial teacher holding a valid teaching certificate employed by: a)a school board in any position including Superintendent of Schools b)the ATA c)the Board d)a private school e)a corporation engaged in public sector education by television
2. Contributions	6% of salary up to YMPE; 7-1/2% of salary above YMPE	3-1/2% of salary up to YMPE; 5% of salary above YMPE
3. Retirement Ages		
a)Regular:	Age 65 with one year of service	Age 65 with 10 years' service
b)Special:	Same as current plan	Age 55 and age + service at least 85
c)Early:	Age 55 with five years' service	Age 55 with 10 years' service
4. Pension Formula		
a)Formula:	Same as current plan	2% x final average earnings x pensionable service to 31.12.65 plus 1.4% of final average YMPE x pensionable service after 1.1.66 plus 2% of final average earnings above final average YMPE x pensionable service after 1.1.66

4.	Pension Formula (cont'd)		
	Final average earnings:	The average salary in the three consecutive years of the last 10 years of service which give the highest average	The average salary in the five consecutive years which give the highest average
	Final average YMPE:	The average of the YMPE in the year of retirement and the two preceding years	The average of the YMPE in the last five years' of service
5.	Indexing of Pensions	60% of the rate of increase in the Consumer Price Index	Ad hoc by Order in Council
6.	Benefits on Termination		
	a)Vesting	After five years of contributory service	After 10 years' of contributory service
	b)Locking-in	After five years of service	Age 55 and 10 years' service
	c)Benefit:		
	(i)before vesting:	Same as current plan	Refund of teacher's contribution plus interest
	(ii)after vesting:	At the option of teacher a deferred pension calculated as in 4 above but service, final average earnings and final average YMPE all determined at date of termination of service, or a lump sum transfer of twice the teacher's own contributions plus interest to a locked-in pension or retirement plan	A deferred pension calculated as in 4 above but service, final average earnings and final average YMPE determined at date of termination of service
	d)Indexing of deferred pension	Indexed to the same extent as pensions, see 5 above	Ad hoc increases at the same rate as pensions

7. Benefits on Death In Service		
a) before vesting (see 6a)	Refund of teacher's own contributions plus interest	Refund of own contributions plus interest plus, a lump sum of $100 for each year or contributory service (maximum benefit: $1500 minimum benefit: $200)
b) after vesting	A pension to the spouse of 100% of the accrued pension base on the optional joint life and last survivor form of pension If survived by dependent children and no spouse, same as current plan	Either a surviving spouse pension calculated as in the model plan, or at the discretion of the board the lump sum as in 7(a) above If survived by dependent children and no spouse a lump sum equal to twice the teacher's own contributions plus interest
8. Interest on Lump Sums	As determined by the Board but not less than the rate a major chartered bank pays on non-chequing savings accounts less 1%	3-1/2%
9. Normal Form of Pension	Same as current plan	Monthly pension for life guaranteed for at least 60 months. Full range of optional forms of pension subject to actuarial adjustment is offered
10. Disability Benefits	Continued accrual of contributory service at the discretion of the Board without payment of contributions	Continued accrual provided contributions are paid

Cost of Model Plan

The cost of the model plan compared to the current plan costs are highlighted in the table, below.

COMPARISON OF COSTS USING DATA AS OF AUGUST 31, 1983
($ Millions)

	Model Plan (1) $	Current Plan $	Increases (Decreases) $
ACTIVE MEMBERS			
Actuarial Liabilities	1,097	961	136
PENSIONERS			
Actuarial Liabilities	673[1]	732[2]	(59)
TOTAL LIABILITIES	1,770	1,693	77
Market value of assets	311	311	-
Unfunded Liability	1,459	1,382	77
ACTIVE MEMBERS			
Total Cost of Benefits in Current Year (i) Dollars	117	95	22
(ii) percent of payroll	15.59	12.67	2.92
Teacher Contributions (i) Dollars	50	31	19
(ii) percent of payroll	6.65	4.15	2.5
Government Cost (i) Dollars	67	64[3]	3
(ii) percent of payroll	8.94	8.52	0.42

1. The model plan assumes indexing at 60% of CPI as a right.

2. Current plan assumes ad hoc indexing of 75% of CPI.

3. This is the cost if full funding were being made. The actual cost to the government is approximately $35 million.

All costs use the governments proposed actuarial economic assumptions as of March 31, 1984 and the demographic assumptions as of August 31, 1983 as used in the Teachers' Retirement Fund actuarial valuation.

As can be seen from the table, the model plan involves a significant increase in costs. The actuarial liabilities would increase by $77 million, and the current service costs would increase from a total of 12.67% to 15.59% as a percentage of payroll. This represents a 2.92% increase in costs, of which the teachers would meet 2.5%. An important part of the model plan is the provision of partial indexing as a right in the plan. If indexing is included but on the same ad hoc basis as the current plan, then the teachers' contributions will be reduced by 1% of salary.

The current service costs shown in the table reflect the full actuarial costs of both plans. The actual costs incurred by the government under the current plan are much less because the government does not contribute the full cost. Under the present arrangement, the actual government contribution in the year will be approximately $35 million.

Funding

The task force is concerned that a continuation of the established funding procedure, whereby the government contributes one half of the pension payments plus c of the administration expenses, results in ever increasing unfunded actuarial liabilities.

It therefore recommends that with the implementation of the model plan government should accept a policy of fully funding the current service costs. This would not eliminate the existing unfunded liability but it would help to slow down the rate of increase. As shown in the table in the preceding section this would require a government contribution of 8.94% of payroll.

The matter of the accrued unfunded liability remains to be considered and the task force proposes the following options for consideration by the government:

1. That government pay the interest charges on the unfunded liability as of the implementation of the new plan in order to freeze the current level of unfunded liability.

2. That government continue to pay 50% of all pensions accrued before the implementation date and the cost of current service benefits in excess of the required contributions from the members, to partially meet the unfunded liabilities.

3. That government pay either a lump sum, or annual instalments in accordance with The Pension Benefits Act, in order that the new plan is fully funded after 15 years.

The task force recognizes that any action to eliminate the unfunded liablity will require a significant increase in government contribution. The above options are offered by the informal task force for consideration by government in dealing with the unfunded liability. The task force therefore makes no specific recommendation beyond the recommendation of full funding of current service costs on the introduction of the model plan.

Conclusion

The informal task force has developed a model retirement plan for teachers, which addresses the outstanding issues raised by the ATA since 1970, and which addresses the issues relating to employee contribtions, employee benefits, and the plan's unfunded liability. The findings and recommendations reflect th best judgements of the committee after careful review, consultation with the ATA Pension Committee, and consideration of principles constituting a sound retirement plan, and its relationship with other public pension plans.