HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, May 7, 2014

LEGISLATIVE CHAMBER

Public Service Superannuation Plan

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Public Accounts Committee

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[Mr. Brendan Maguire was replaced by Mr. Ben Jessome]
[Mr. Chuck Porter was replaced by Mr. Tim Houston]

In Attendance:

Mrs. Darlene Henry
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

Mr. Alan Horgan
Acting Auditor General

Ms. Ann McDonald
Assistant Auditor General

WITNESSES

Department of Finance and Treasury Board

Mr. Byron Rafuse, Associate Deputy Minister
Mr. Geoff Gatien, Acting Controller

Public Service Commission

Ms. Laura Lee Langley, Commissioner
Mr. Steven Feindel, Executive Director

House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, MAY 7, 2014

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN
Mr. Allan MacMaster

VICE-CHAIRMAN
Mr. Iain Rankin

MR. CHAIRMAN (Mr. Iain Rankin): Good morning everyone. Welcome to the committee meeting today. I'm filling in as chairman for Allan MacMaster. I'd like to call this meeting to order.

Before I begin, I'd like all the people here to introduce themselves, starting with Mr. Jessome.

[The committee members and witnesses introduced themselves.]

MR. CHAIRMAN: Today we have the following item on the agenda: the Department of Finance and Treasury Board and the subject is the Public Service Superannuation Plan. It stems from the January 2014 Report of the Auditor General. I guess we'll start with opening statements and that would be Mr. Rafuse.

MR. BYRON RAFUSE: Mr. Chairman, I guess I should correct myself, I'm actually from the Department of Finance and Treasury Board, not just the Department of Finance. We're here to talk about the chapter in the recent Auditor General's Report on the Public Service Superannuation Plan.

I have with me a number of individuals because the chapter does cover quite a wide breadth of topics. I'll give you a sense of who will be answering what questions. If there are topic questions around the liability around the plan and recent plan changes, those will be answered by myself or Geoff Gatien. Geoff Gatien is now the acting controller.

At the time when these changes were being developed, I was in the group that actually did the work around the changes to the superannuation but I was also the controller at the time and gave advice on how to properly account for those changes.

I am also, just so you know, on the Trustee Board for the Superannuation Plan now that it has moved to joint trusteeship. I am also on the Trustee Board for the Teachers' Pension Plan since it has been a joint trusteeship since 2006 and I am also on the Board of Directors for the new Pension Services Corporation, which was created or spun out of government as a result of the legislative changes, so all those types of questions will be directed towards us.

Laura Lee Langley is the Commissioner of the Public Service Commission. There are items in the chapter around employee records and retention of those records. Those will be directed towards her and Steve Feindel because predominantly they are in the domain of the Public Service Commission. So that's how we're going to do the trafficking, depending on your questions.

I would also say that I'd like to make a bit of a plug if I could, Mr. Chairman, since there are a number of new members on the Public Accounts Committee; we have in the past offered a training session to this committee on how to read the Public Accounts, the actual financial statements of the province. They are quite complicated. We are a very large, complicated organization, over $9 billion - a lot of moving parts in there. It's quite complicated to understand all the nuances of those statements, even if you came from a background of a corporation or a not-for-profit organization.

We follow public sector accounting rules. The statements look a little bit different. There is different terminology so we do offer that to the committee at a future date, to go through that book in some detail. That actually will be led by Geoff Gatien this time. It's a responsibility of the controller to do those things and we've done it for each of the last two years, if the committee would be interested in that.

Having said that, I don't have any further remarks, I just wanted to let everybody know how we are going to redirect the questions and I hand it back to you now.

MR. CHAIRMAN: Thank you. We can start with the PC caucus for 20 minutes, Mr. Houston.

MR. TIM HOUSTON: Thank you, Mr. Chairman and thank you folks for coming in this morning and for those opening comments. I'm starting to see some familiar faces over there.

Just looking through the recommendations, looking at the Auditor General's Recommendation 3.4 and Recommendation 3.5, these have been sent to Capital Health to advise on them, so Recommendation 3.4 is: "Capital Health should review and improve controls to ensure information to be included in employee records is received and maintained." Recommendation 3.5 is: "Capital Health should revise its file retention policy for retiree files to ensure files are maintained until pensions are no longer paid." I'm just wondering if the department has heard back from Capital Health on those two recommendations.

MR. RAFUSE: No, we haven't had a chance to follow up with Capital Health on those matters. They did provide a response in the initial Auditor General's Report which was just released. Just for your information, those are related to employees at Capital Health that are still in the Superannuation Plan. You may know that when that organization left government proper, existing employees stayed in the superannuation, and as they are replaced they actually go into a different pension plan. So it's a smaller subset of employees every year.

If I understand correctly, they do have similar issues that we may have had on old records, but they have endeavoured to make some changes. But we haven't heard back from them yet on this.

MR. HOUSTON: Okay, but it sounds like maybe you have some degree of confidence that they're going to take that seriously.

MR. RAFUSE: Yes.

MR. HOUSTON: Recommendation 3.7 is, "The Nova Scotia Pension Services Corporation should conduct a risk assessment and map the results to existing policies and procedures. Any gaps should be addressed with new or revised policies and procedures. The Risk and Compliance Manual and its related monitoring program should be updated." Can you update the committee on that recommendation - has this analysis been done?

MR. RAFUSE: I'll take that question. Yes, the Pension Services Corporation has accepted that recommendation. They are working on their risk and compliance procedures. Just so you know, not only am I on the board of trustees for the superannuation and for this corporation, I also sit on their audit committees as well. The risk officer does report to those groups every quarter. The risk officer has the ability to report directly towards those boards and not go through the CEO if there's a matter that they think has to happen. So they are moving forward on that. I think they gave a delivery date of June 2014, and if I understand correctly, this actually has been completed in the month of March.

MR. HOUSTON: I appreciate that. Are you aware of any gaps or associated risks that were identified from the analysis?

MR. RAFUSE: I don't think there were any new risks that I would call material that was brought to light through that risk mitigation or that risk strategy session. But it's an ongoing endeavour and it's probably important for any organization to monitor through their enterprise risk management process any new risks that might be associated with an organization. So it's an ongoing process that every ERM does.

MR. HOUSTON: Okay, thank you. I was going to talk a bit about some of the demographic issues. We all know there are significant demographic issues facing Nova Scotia even in the near future. Looking through the report, there are 260 active and LTD members of the PSSP that are over the age of 65, so there's 260 of them over the age of 65. Is it expected that these members will be retiring in the next year?

MR. RAFUSE: I can't speak for the individuals but there are certain assumptions that are built in when any pension plan does its liability evaluation about the assumption around when an individual does retire and, quite frankly, how long they will be in pension. Given the demographics and also given the improved mortality that not only is associated here in Nova Scotia but across most of North America, both of those assumptions have been re-evaluated for both pension plans. One has made a slight adjustment on the expected retirement date from a plan perspective, not on an individual perspective, and that retirement date has been moved forward. Likewise both . . .

MR. HOUSTON: Moved forward?

MR. RAFUSE: Moved forward to an older date because they're working longer.

As well, on the mortality side of the house, a lot of work has been done in Canada over the last number of years, primarily by the Institute of Actuaries, who own the mortality tables that we use to drive out these liabilities. In fact, that organization has come out with a new standard for mortality expectations. They were put in place - they were released in the Fall to be implemented in this calendar year, so the recent statement released by the teachers who have released their statement for the year ended March 31, 2013, has incorporated the new mortality table. As well, the new super will increase, and that basically says on average most people are living longer and therefore accepting a pension longer.

MR. HOUSTON: Thank you for that. Just in looking at some of the demographics as well, there are 7,131 active and LTD members between the ages of 50 and 65. The total is just a little over 16,000, so that cohort from age 50 to 64, that represents about 43 per cent of the Public Service. I'm just wondering how you would feel about that coming retirement. That's a lot of people that come and retire in a short period of time. I'm wondering how you feel that would affect the liquidity of the plan.

MR. RAFUSE: Those issues are addressed from perspective of liquidity and also from a liability perspective. The notion that we have a big cohort going through the system right now has been accounted for when we determine the liability associated with the pension plan and it is an obligation on the trustee, now the joint trustee, to ensure that, as those people do go into pension, that the liquidity in the plan allows for it.

The term we use is that we match our liabilities to our assets to our liabilities. But also the necessity for cash is taken into account and therefore we do keep probably a higher percentage of the plan into more liquid assets to accommodate that in the future. Right now it's - I think most plans keep about one per cent of the plan in cash and there is a certain percentage of the plan that can be liquidated within 30 days. It's not an overly burdensome concern if you produce your planning ahead of time, and I think we're well protected for that in the Superannuation Plan.

MR. HOUSTON: But the more you have in a highly liquid position, the lower return . . .

MR. RAFUSE: The lower the returns you have, yes.

MR. HOUSTON: With that in mind, would you foresee the rates for current members having to be increased?

MR. RAFUSE: The current members' contribution rates are subject to what I refer to as hardwiring or certain factors that are built into the legislation. Certainly the contribution rate is required to go up if, on the five-year cycle, the plan is looking to be below 100 per cent funded. That cycle timeframe is coming up over the next year or so. It is based on the valuation at the end of this fiscal year to be implemented to the 2015 year. That will be the time when it will be decided whether or not indexing can or will be provided in the next five-year cycle. If the plan is below a certain threshold or projected to be around, then contribution rates must increase.

MR. HOUSTON: Can anything happen to the benefits?

MR. RAFUSE: The benefits are required to be adjusted if the plan gets in a position of a more severely underfunded position, and that threshold is under 90.

MR. GEOFF GATIEN: I think when it drops below 100 per cent, they need the five-year plan.

MR. RAFUSE: Yes, so they do have to address that, but the first in the pecking order would be contribution rates, and if contributions rates can't address the underfunded position, then they must then look at the benefits of plans associated with the plan.

MR. HOUSTON: Now are you talking about the benefits to people who are currently working through the system or could the benefits of existing retirees be adjusted?

MR. RAFUSE: The pension and pay for existing retirees cannot be adjusted downwards. For existing pensioners, the notion of whether or not indexing will be provided is what would affect them. Once you get past that, then you get in the area of whether or not future benefits for existing employees who are not in pension, whether or not they need to be adjusted or not was where you would go next.

MR. HOUSTON: Okay, so I just want to make sure I understand that because, during the election campaign that we had, the now government made some promises around pensions. They promised to index the pensions of retired Public Service workers - are you familiar with that campaign promise?

MR. RAFUSE: If I understand it correctly, that promise was to look at the indexing of the current pensioners. The indexing provisions are subject to legislation and, quite frankly, it is subject to the terms of legislation and the trustee will decide whether or not indexing is provided or not in the next year cycle, given the rules that are in the legislation. Not to say that a government couldn't change the legislation, but the current legislation is pretty specific - plans under 100 per cent funded, no indexing is provided in the next five years.

MR. HOUSTON: I think you're being very kind with what their wording might have been, but I'm pretty sure that Nova Scotians heard them say, make a promise to index the pensions, and I'm just wondering (Interruption) You heard that too, yes.

I guess for purposes of today, I'm just trying to understand what that means - if somebody says they're going to index the pension, what does that mean to you, just putting everything else aside, and how much would it cost in terms of this pension plan to index it?

MR. RAFUSE: Well, it would depend on the level of the indexing but - I'm trying to think what the cost . . .

MR. HOUSTON: Would it generally be, like, to inflation?

MR. RAFUSE: Inflation minus a factor; usually the CPI minus is what indexing is generally based upon. The text of this plan now basically says this a cap on how much indexing is to be provided, but how little it will be will depend on the health of the plan. So it's not driven by formula like you have in other plans where it would be CPI minus one, or CPI or something of that nature. This one just says it can never go over 4 per cent, I think is what it is, but indexing can only provide it if it doesn't cause the plan to go under 100 per cent within the next five years - within the next cycle period.

MR. HOUSTON: Well I guess there are a few moving parts there, isn't there?

MR. RAFUSE: Yes, there is.

MR. HOUSTON: If you index it you make certain people happy, but you cause some stress on the plan, which then triggers a mechanism to increase the contributions if you become underfunded of the current worker, it's kind of a bit of a vicious circle there. Do you have any expectation of how much it would actually cost to index the plan to what would be kind of an expected standard?

MR. RAFUSE: No, I don't and that's because that scenario analysis that you are talking about has not been completed yet by the new trustee; actually we're just beginning the . . .

MR. HOUSTON: So it is something that is being contemplated, though, by the sounds of it, if there's an analysis underway.

MR. RAFUSE: It would be necessary to contemplate that to see whether or not indexing would be provided. As I say, it's based on the valuation of the plan that will be conducted as of December 31, 2014, so by this time next year we'll be in the decision point of whether or not indexing would be provided in the next five-year cycle.

But, to your point, indexing can't be provided even if the plan is, let's say, at 102 per cent - indexing can't be provided that would drive the plan below 100 per cent. It could only be what it could afford to bring it down to 100 per cent, so you wouldn't be getting into an area where that indexing provision now requires a contribution rate, because the legislation doesn't allow you to do that.

MR. HOUSTON: Existing legislation doesn't allow you to do that, which is always I guess subject to change.

But in that scenario, let's say that the plan was at 102 per cent and indexing kind of kicked in and brought it below 100 per cent, then that hole gets filled - how does that hole get filled?

MR. RAFUSE: That hole would be filled - well, it depends, if it was immediately, it may cause a contribution increase. There is provision that if - and these are all based on assumptions, so let's say that you put in indexing and you didn't think it was going to take the plan below 100 per cent, but because some market returns were less than expected and it did, then the trustee would have to make a decision saying is that severe enough to make action now?

The legislation allows them to make action within the five-year post, but it also could say that that is an anomaly which we know will work itself out. It really depends on the severity on which it would drive it down, but the idea being is that you couldn't put something in place that you knew would drive it down below the hundred per cent, given what you expect the plan returns to be.

MR. HOUSTON: Fair enough. Just to finish up on that one, did you say that over the next year, we'll look at the evaluation of the plan at the end of December 2014, and then in the coming months after that there will be a formula that will be run through and then the decision will be made based on the outcome of that formula, whether or not the plan should be indexed - that's kind of the way it works?

MR. RAFUSE: Correct, that's the way it would work, yes.

MR. HOUSTON: If the formula suggested that there should be no indexing, it is still possible, with the change of legislation, to fulfill a campaign promise? It could be indexed just the same.

MR. RAFUSE: As it stands right now, if the plan was under 100 per cent and indexing was to be provided, it would require a legislative change.

MR. HOUSTON: There's a lot of talk about pensions. I mean, they say that all politics are local. There's nothing more local than somebody's pension plan, is there? I think that's why it was a topic of discussion during the campaign. It's a sensitive issue to people and it's one that you can certainly get their attention when you say things they like to hear. One of the other things that was talked about during the campaign by the now government was that they were going to commit to ensuring all Nova Scotians have access to a portable, private pension plan. What does that phrase mean to you - a portable, private pension plan?

MR. RAFUSE: Generally speaking, a portable plan is one where you could take it from one employer to the next. It is a vehicle that has been discussed for employees who don't have access, currently, to a pension plan at their place of work. That concept has been talked about nationally, about participation in these plans, and if they did change employer, they would take that with them to their next employer.

MR. HOUSTON: For purposes of this discussion, I guess what that means is that future employees could be removing funds from the government plan in favour of putting them with a private bank or private investment broker.

MR. RAFUSE: Once you are a member of the government pension plan, you have very limited options of removing it. This aspect about a portable pension plan was for employers and employees who don't currently have a pension plan, and would not be an option that is being contemplated for members of the Superannuation Plan. They would not be portable.

MR. HOUSTON: I guess the concern then, from your perspective in your position, would be that if you had - I think this is happening to a certain extent, too. Young employees, new employees, can opt out of the pension plan, right?

MR. RAFUSE: Not with us, no. Our pension plan is mandatory.

MR. HOUSTON: I wonder if it would still be mandatory if Nova Scotians had the option to have a portable pension plan.

MR. RAFUSE: That would probably remain a requirement for them to be mandatory to maintain our plan because that would be to the detriment of this plan.

MR. HOUSTON: It would be a huge risk to this plan, wouldn't it - to have no new employees coming in and have a big, large cohort running through and retiring? So these are all things that are of a concern to me. I'm sure they are of a concern to you as well, but it just kind of shows when you say you're going to do something you should really think it through before you say it. I guess I'll forego my last 30 seconds and save my next question for the next time.

MR. CHAIRMAN: We'll move to the NDP caucus now - Mr. Wilson.

HON. DAVID WILSON: Thank you for coming, commissioner. I don't think I've called you commissioner before. I've called you deputy, but not commissioner. Thank you for coming in. I'm glad Mr. Rafuse is here because I think - and I don't know everybody's background - but I think your background on pensions is quite insightful and we appreciate the work you do.

Spending most of my time in health care over the last 11 years, pensions can be complicated and, as my colleague mentioned, trying to have an educated discussion with the constituents you represent can be a challenge at times. I think everyone would agree that having a pension available to them is important and there's a lot of concern around how healthy pension plans are in the province and, for that matter, across the country.

I know that in 2012, the government of the day modernized the governance of the public sector pension plan. It was a new approach and I believe Nova Scotia was one of the first provinces to look at that change in governance. I believe - I think P.E.I., Alberta, and even the federal government now have been looking at how we modernize the pension plan and the governance that oversees the Public Service pension plans.

Since 2012, has the transition - is it complete? Is the new - and I've written them all down because there are so many different names - the Public Service Superannuation Plan Trustee Inc., is that fully operational, running like it was thought to have when it was implemented in 2012?

MR. RAFUSE: Certainly when the legislation was introduced in 2012, it anticipated implementation to come into effect on April 1, 2013. For the first year, the future members of the trustee were given the opportunity to be a - I'm going to call it - "shadow trustee". The minister remained to be the sole trustee for that time period. These people went through extensive training and also looked at a lot of the policies associated with the Superannuation Plan, with the aim of it all becoming effective on April 1st.

The actual transfer did occur as planned; that trustee is up and running. It is completely responsible for the operations for that superannuation. The minister is no longer sole trustee, and so has stepped back and has no responsibility to the plan other than to appoint the government representatives who are associated with that trustee. That's really the minister's responsibility at this point.

The new trustee has made some changes. They've done some policy changes; they've done a lot of educational sessions; and they're fully operational now and completely in control of the plan.

MR. DAVID WILSON: That's good to hear. Making pension plans secure for the long term is, I think, the ultimate goal of government. Do you believe that the changes that happened through governance will allow for - well I know markets play a lot of roles in it, but for more of a secure long-term stability of the plan, that the changes were a positive thing?

MR. RAFUSE: The changes were positive from a pension liability perspective and also from a plan administration perspective. An example, now that the plan is under joint trustee between management - sorry, employers and employees, that gives the employees the say that they wanted to have in their pension plan. Now that there are really, I would say, hardwired rules around when indexing can be provided, what are the rules about when contributions need to be changed either up or down, when benefits need to be changed up or down, provides a certainty and also an element of security around the health of the plan. It is designed to be self-correcting; it is designed to stay around 100 per cent funded.

If you don't have those types of rules, the plan's unfunded ratio can slip away from you. It doesn't mean that won't happen in this because there is an assumed market rate of return, but if you don't make your assumed market rate of return there are mechanisms that allow you to get back to health. From that perspective, it was to the benefit of the plan.

I also would say other provinces have looked at what we've done. We didn't really tout ourselves as being very progressive on that, but we were. The federal government is just getting around to what they would refer to as "targeted plans," when New Brunswick would call it "shared risk plans." They've done a lot of talk about it, but they haven't done a lot of implementation yet, where we have. So other provinces have called and are looking at what we've done and maybe are using it as a model for themselves.

MR. DAVID WILSON: I think a lot of the work was done by yourself and those within government, and it's important to recognize it. I know one of our biggest fans, the former government's biggest fan, Mr. Bill Black, even said: "Most importantly, the NDP government in Nova Scotia showed the way with its reforms to the Public Sector Superannuation Plan (PSSP) for civil servants. As a result, taxpayers have a much better prospect for cost stability, while members of the plan still have a pension benefits among the very best in the province."

Even though, and kind of jokingly with that initial comment, I think it was recognized that the changes in governance were important, and now as you said we see the federal government and other jurisdictions looking at trying to update the governance of pension plans.

In recent months, probably over the last year or so, there has been a lot of discussion around pension plans with the changes from the federal government with CPP, the requirement to be they're going to change it so recipients can access that at 67. I know a lot of constituents of mine were concerned, and it depends on what year you were born if you were affected or not. For the record I will be affected when I turn 67 - I'm not too sure about you, you might be affected, I don't know.

So there have been a lot of discussions across the country around what to do, and jurisdictions, I know, have been trying to advocate for the federal government to overhaul the CPP and make it more effective when Canadians do retire. We know that there are challenges.

So we've seen jurisdictions now talk about a provincial plan, mandatory provincial pension plans. We more recently just had - there was a budget brought in by the Ontario Liberal Government that has in it a new mandatory provincial pension. So I'm wondering if you've had any discussions with the minister or the Premier's Office or the current government on what a mandatory provincial pension plan would look like here in Nova Scotia - has there been any discussion from you, because I think you're the pension guy that they would go to and ask for advice?

MR. RAFUSE: On the CPP, actually others do provide advice to that matter as well, but there have been discussions about what that would look like when discussions were at the national level about that, and the minister has said that she wishes to talk to her colleagues and to Nova Scotians about whether or not that's an option. So until that kind of decision is made I think it's kind of premature to say what it may or may not look like.

MR. DAVID WILSON: So there have been some discussions with the minister, and I appreciate you can't divulge that. It's too bad we didn't have Question Period today - it would have been my first question, or our Finance Critic's first question to the minister.

I think it's something that Nova Scotia has to look at to try to figure out what's going on, because we know there are a number of Nova Scotians who don't have a pension plan through the workplace. Do you know the percentage of Nova Scotians who aren't covered under a workplace pension plan?

MR. RAFUSE: I know I've seen that, but I'd have to get back to you - there are more people who don't have pension plans than do have pension plans.

MR. DAVID WILSON: I think, for example, in Ontario it's two-thirds don't. So, as was stated, the demographic shift here in Nova Scotia is alarming and we hear about that in different sectors of government, more recently in nursing, for example, where a lot of nurses over the next five years are ready to retire - so there are many challenges.

I'll leave it at that. I don't think I'm going to be able to pull anything else out of you around what the plan is for the current government on a mandatory pension plan for a Nova Scotian worker.

I'd like to get right into the report. So going through it - and I don't know if you answer it or the commissioner would like to answer it - trying to understand exactly the audit that was done, my understanding is the major concern is that it's not that there are Nova Scotians out there receiving a pension that shouldn't receive a pension, the concern is that if you go and look at trying to calculate or look back at making sure they're getting the right amount for their pension, those records are not available or were not available - is that my understanding, that those records didn't accompany that individual?

Say they were working at Capital Health and of course now they fall under the Public Service Superannuation Plan Trustee Inc - am I correct on that, that their record of employment didn't go with them so that if you needed to look at making sure that that individual is receiving the right amount of pension, that work couldn't be done? To the commissioner, maybe.

MR. CHAIRMAN: Ms. Langley.

MS. LAURA LEE LANGLEY: It is true that in the audit there were concerns raised about the ready availability of records and where they were kept. The first thing I would like to do is reassure folks that we are confident that the information that the pension agency has regarding pensions and pension payouts is accurate.

I think where the concerns and the frustrations are really go back some distance in time, where there are a number of ways that records have been kept over time in government. If you will indulge me, I'll just go back a bit and give you a high-level overview of policies over time, manners in which records have been kept over time, and then what we are doing to acknowledge and reconcile the concerns not only raised by the

Auditor General, but which we had actually been working on in the department of the Public Service Commission even prior to the audit.

My understanding is prior to 1989, our retention records around personnel files really only required that we keep files for a period of seven years. Those files could be mobile but, if somebody left, records were kept across departments and departments actually at that time, and still today, keep a number of their own records. After that period of time, in the 1990s, our personnel record policies changed and so we have a much longer retention period for records. If an employee is hired, there's a really comprehensive and sophisticated list, a requirement of the information we would gather, and those things are held at the department for a period of time, for the duration of the employee's tenure with us. When they retire or leave, those records come to the Public Service Commission.

When somebody retires now, we, under our own policy, are required to keep their records for a period of 60 years. The contemplation is that if you retire at age 50 or 55 and we keep your records for 60 years, most likely that will cover the time frame that is required for us to have your records in place.

The concern and the frustration, as I understand it in conversations around this report from the Auditor General, is that when the Auditor General came in and asked for and did a test of where employee records were held, or if we had all of that information, there was quite a bit of concern that the information wasn't readily available. The committee understands it is a great concern to us as well.

But I want to assure you that the records are there. It's a matter of going back over a period of time to the department where the employee might have been employed in the first place. Were the records transferred in a timely manner to the Public Service Commission? That is something that we have to ensure happens. Do we have a paper copy of the record? Was the record held electronically? Is the record on a microfiche? Is the record on a tape? Is it scanned and held somewhere? All of these things are the things we have to now chase back to make sure that we have accommodated every personnel record in a manner that chases down all of that information and makes sure that we have it.

We're confident that the records are there. It's just a matter of how readily available are the records. That's a concern that the Auditor General raised, it's a concern that we recognize and, in fact, it is something that we have been working on before I came to the commission. I would say that for some amount of time, there has been a team working on the thousands of records that we have to ensure that we have all of the information we need in the file for folks as they not only are employed with us, but when they leave, so that we have that information that is required.

MR. DAVID WILSON: I think that may go towards your response to Recommendation 3.3 that the Public Service Commission should revise its file retention policy for retired files, to ensure files are maintained until pensions are no longer paid. In the response, the department indicated they neither agreed nor disagreed.

I think you talked about yes, there may have been some deficiencies there, but the information is there somewhere. I think from the response I read here that there will be a bigger effort to make sure that they are available in one area - is that correct?

MS. LANGLEY: Yes. If I might, I should say that we have put together a team of people led by one of our executive directors. It is a team of folks to not only respond in a timely way to this recommendation but to make sure that we absolutely review all our policies, review our retention policy and make sure that we have the information we need in a place where any one of us, any employee, could go and access their record in a timely way, that it would be complete and that everybody would know where the information is.

We have put together a team of people to work on this and to expedite the process, not only in light of the Auditor General's Report but just to make sure that we understand where the records are as well.

MR. DAVID WILSON: I would think that then the Auditor General could find those records also.

MS. LANGLEY: We would hope.

MR. DAVID WILSON: Under Recommendation 3.7 the Auditor General asked or recommended that a risk assessment and kind of a map of the results should take place. I believe, in the response from the department, that it will be completed by June 30, 2014.

I know, especially in politics, if you say a date then you need to live up to that. I'm just wondering how that work is going and will you meet that June 30th date indicated? I don't know if you were the commissioner at the time when the response to the Auditor General was made, but will you meet that timeline?

MS. LANGLEY: In fact I was just arriving at the commission when this report was being released. Recommendation 3.7 really requires the Nova Scotia Pension Services Corporation to conduct that risk assessment. I would say that I don't feel like I could respond on how that is going with the pension services organization - maybe you could, Byron?

But I would say that as far as we are concerned, we have put an end-of-fiscal-year timeline on reviewing our policies and making sure that we have a procedure in place to gather and do our own internal audit of our records, and we feel that we are going to be able to meet that timeline.

MR. RAFUSE: I would add that since I sit on the board of directors for the Pension Services Corporation, we do receive what we refer to as the "heat map of risk" at our quarterly meeting in which every risk that has been identified gets a rating from the risk officers and whether or not it needs to be brought to our attention - that has been completed.

I think there is some work to be completed on the manual that is referenced here, but I'm quite confident - in fact, the board of directors has required the corporation to have it completed by the date on which they said they would have it, which would be June of this year. So that manual has to be updated, but I think that's all that has to be done with this process.

MR. DAVID WILSON: Okay. I think I only have a few seconds, so I'll hand it off.

MR. CHAIRMAN: Thanks. We'll move to the Liberal caucus and we'll start with Mr. Stroink.

MR. JOACHIM STROINK: The report mentions that when an individual retires, paper files relating to the individuals are to be stored for 60 years. The report indicates that only 19 of 36 files sampled were following this process.

I have kind of a two-part question here; where are all the files that are being stored going and, if they aren't being stored in paper form, are they being stored electronically? This is on Page 36.

MS. LANGLEY: Up until a number of years ago employee records, by and large, were filed in the departments where the employees worked. After they retired, there needs to be a timely transfer of those files to the Public Service Commission and that policy is something that came into effect in the 1990s. What we are looking at is, are those files being transferred, when employees retire, in a timely manner? We know that the information is being kept. There's really quite a rigorous process when an employee retires. There are all kinds of checks and balances around retirement dates, service dates, if there have been breaks in service dates, what your five best years are - all of those things that go into calculating a pension, they're all available to us.

What we are doing right now is making sure that we are getting the files from the departments, and if you consider that up until a few years ago the human resources units actually reported to the departments they served, they didn't actually report to the Public Service Commission. That has changed in the last number of years. That is going to make it - or what we're trying to do now - is making sure that we centralize all of those things at the outset so that we have a clear line from the employee's start date to their end date and all that happens in between, and a clear area where all of the files concerning each employee are retained.

To answer your question I guess, the files that the Auditor General was not able to locate, the information is there; the files they may not have been able to actually physically find, but we have the information. Some of it is electronic; some of it was held in other areas. I would say that there have been a few that we have not been able to locate and, in those instances, what has happened is the employees in question would have moved out of the provincial civil service to outside organizations and their files would have gone with them - we would not have retained those files. So they may have moved off to a Crown Corporation or a health authority or an outside agency; in those instances we know that their files went with them.

MR. STROINK: I just have one more question here. I have these letters stating that the minister has met with the Retired Employees Association - can you confirm that these meetings took place, and how would you describe the tone of those meetings?

MR. RAFUSE: Unfortunately, when that meeting took place I was not able to join that meeting but, if I understand how those occurred, the retired members indicated what their concerns were. I understand that there was a commitment to look at some things and that there would be a time period before that could happen.

MR. CHAIRMAN: Mr. Horne.

MR. BILL HORNE: I'm pleased to be here and I'm pleased to see you here today. It's a very daunting area of responsibility - the pensions of the workers of Nova Scotia. A few questions about the Public Service Superannuation Plan trustees - are the names of the trustees all available, and are they out in the public?

MR. RAFUSE: Certainly when they were appointed their names would have been released; in fact, the names of all the trustees are currently available at the superannuation's website. We have that for the members and for the public at large so you can see who the group is that governed them - are you going to test my memory and ask for the names?

MR. HORNE: No, I just wanted to make sure that they are available to the public, to the employees in particular.

MR. RAFUSE: They certainly are. I can make those available to the committee chairman to distribute it for you.

MR. HORNE: Also, I noticed the province has been removed as a guarantee for the plan. Can you tell me the implications, the risks that the new group will be tailored with?

MR. RAFUSE: To answer that question, I go back to the previous legislation where the Minister of Finance was the sole trustee of the plan. Under those types of trustee relationships, it's not uncommon to have what's referred to as a provincial guarantee or the backstop of the plan. Really what that says is that if the plan got into a deficiency position, the province was on the hook to make sure the obligations of the plan could be met.

When we entered into discussions about moving the governance to a joint relationship, you would not find that type of provision in a joint governance structure and so one of the conditions of moving to joint trustee was the removal of the backstop. What that really means is that if the plan was to get in a deficiency the province is not obligated to fund that deficiency. The trustee then must act within the rules established in the legislation to be able to address that, and the mechanisms are you do it through contribution increases and you do it through benefit changes. Those are the types of things that it would have, but at no time would there be an expectation that the province would come in and put the money into the plan to make it whole again.

MR. HORNE: How has that been accepted by the people in the plan now, if you have received any response from the retirees or the present members of the plan?

MR. RAFUSE: I think the notion of the backstop or the guarantee was one which was not widely understood by a lot of people to begin with, to be honest with you. So when it was removed, a lot of people didn't know the implications to that. There have certainly been some concerns raised about that, and it would have been inappropriate, I think, if the plan wasn't at or around 100 per cent when it was moved over to joint trusteeship. It actually probably wouldn't have been possible to move then - to say if the plan was in a great big deficiency and then you hand it over to somebody, you're handing your responsibility over to somebody else, and it wouldn't probably have worked.

I think that there has been an acceptance around the plan members that this is kind of the new reality of public pension plans; therefore, although people have asked about it, I haven't seen a big cry about it, to be honest.

MR. HORNE: It has been communicated to the retirees and the pension members?

MR. RAFUSE: The communications of the change in the plan has been criticized. All that type of information was available to plan members via mostly the website of the superannuation plan, so if you went there you could see that. The new trustee is actually looked at - and perhaps we should do some communications around the benefits of plans, the aspects of the hard-wiring, as I referred to earlier, as well as some broader education about retirement planning and what an individual's responsibilities are as they approach retirement. So there will be some more communications on that to plan members.

MR. HORNE: Thank you.

MR. CHAIRMAN: We'll go to Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: I'm going to change a little bit, more of a curious question and one that has been asked by constituents, why are teachers and health care professionals not considered part of the Public Service? I know money is given to their employers, schools boards, and Capital Health and health districts, but they're curious as to why they're not recognized as public employees.

MR. RAFUSE: They're recognized as public servants, but they're just not part of the Public Service Superannuation Plan - they're not civil servants. The reason why they're in separate plans - it goes back to what you said, that they actually are employed by separate employers and those employer groups have decided to offer pension benefits to their members through another vehicle. In the health care sector, it's through the plan that's offered through - sorry what's the new NSAHO, the health organizations - sorry, it's got a new name now. So those employers along with - I'm going to call it - other peripheral health organizations have decided that's the vehicle that they're going to use to provide their pension plans.

Likewise with teachers, those employers, the school boards, are separate employers in the province and they, through their negotiations with their unions, have decided that they wanted their own separate plan with their own separate benefit structures and their own separate governance.

Really it was twofold. They are separate employers, and the employers and the employee's representatives of those employers have decided to go down different paths. It's not a requirement, per se, although participation in the superannuation, the employer - it's a limited set of employers that can participate in the superannuation. It's kind of a historical aspect, but mostly by conscious decisions of those employers and employees.

MS. LOHNES-CROFT: This came about during the awards for long service and they're not recognized for their years of service - that is because they're deemed different, right?

MR. RAFUSE: Yes, that is correct, they would have their own recognition program for long service with their employer. They are not employees of the province and that's why they would not be at the Long Service Awards for the civil service.

MS. LOHNES-CROFT: Though our taxes pay for their salaries?

MR. RAFUSE: Yes, they do.

MR. CHAIRMAN: We'll go on to Mr. Jessome. We have about nine minutes left - do you want to use it all?

MR. BEN JESSOME: I probably won't take the full nine minutes. Through the chairman, I'm just curious if there is a role for members of this House to play, I guess, in overseeing this process and adding value to the process - what is it and how can we maximize our role on this side of the table, so to speak?

MR. RAFUSE: Sorry, I missed the first part.

MR. JESSOME: I'm just wondering if there's a role that we should be playing, as members of the Legislature, in overseeing this process in adding value to - I mean conceptually, I look at it as we have constituents who come to us with concerns and we pass them along to you, but I'm looking for you to qualify that - or are there specific actions that we can take, as members of the Legislature, to help out this process?

MR. RAFUSE: I'll take a stab at that. I think one way you could do is - and my colleagues at the Auditor General's Office will love that I'm saying this - but you do have a role to ensure that when we do there are recommendations that we follow up with them and are accountable back to you, that we do follow up on those recommendations. We do have our own internal processes and we do need to account not only to our deputies and to our ministers that we are following up to them, but it's a possible other role for the committee in that regard.

As well, I think another thing is if your constituents do have questions, in this particular case about public pension plans and how they work, we certainly try to explain how they do work and what the impacts are to the broader taxpayer.

I will go back to my initial plug in my opening remarks that, generally speaking, if the committee would like to understand the financial statements of the province and understand so that you can answer some of the questions of your constituents, we do have - I'm going to call it a "learning session" that we can take you through on how to read those statements; they are complicated. We are a large organization, we do consolidate around about 100 different entities outside of government that are part of our reporting entity, and how that all interrelates is something that may be of benefit to you.

MR. JESSOME: Okay, thank you. Through the chairman, is there any sort of a timeline as to when we can expect to do that or is that just kind of . . .

MR. RAFUSE: That's up to the committee's agenda because we would be able to provide that whenever you ask us to do that. I would note that previously we have done it as an in camera session - there's no magic in that other than it allows you to freely ask questions. We can do it in camera or we can do it in the public sector session and at your will.

MR. JESSOME: Through the chairman, I'm not a typical member of this committee and I would like to participate - is that possible?

MR. CHAIRMAN: What we're going to do is we can bring that up at the subcommittee, that's when we set the agenda for this. Certainly we can decide whether or not members who are outside of the committee can participate. That will be up to the guidelines of the exercise . . .

MR. JESSOME: Thank you, Mr. Chairman.

MR. CHAIRMAN: . . . so we'll go through that. Do you have any further questions? There's about five minutes . . .

MR. JESSOME: No, thank you.

MR. CHAIRMAN: Anything else from the Liberal caucus?

Mr. Horne.

MR. HORNE: Yes, thank you. I note that because there are new trust funds and so on, the Auditor General will not be able to audit, I guess, that area. I'm just wondering what are your thoughts on that - should we be able to have the Auditor General do those audits? I know it says here in 3.61 in the Summary Report, on Page 41, that the Auditor General won't be doing the audits of this. Can you tell me the implications of that or the risks of us missing out on something? I mean we missed out on information on paper trails and so on - do you feel you'll be able to control that?

MR. RAFUSE: Certainly the commission can rest assured that even though the Auditor General does not audit the funds anymore, the funds are still subject to audit; audited statements are produced for them. The Auditor General can have a role with regard to the information that flows, as an employer, to the funds, so issues like records that are associated with that are still subject to the Auditor Generals. If they wanted to do a performance review on the record retention policies of the Public Service Commission, I'm sure they could do that.

It's just they are no longer the auditor of the corporation or of the fund. Just to be clear, the Auditor General Act doesn't allow the Auditor General to be the auditor of jointly funded trust funds, if I understand correctly, yes. And it's also specified in the superannuation fund, so it's not a matter so much of choice as that's what the legislation says.

Someone kindly handed me the names of all the trustees of the superannuation, so I'd like to give this to the committee to distribute to the members.

MR. CHAIRMAN: Sure. Is there anything else from the Liberal caucus?

Ms. Lohnes-Croft.

MS. LOHNES-CROFT: I noticed Recommendation 3.9 asking that the statements of investment be available to current and retired employees. The Ontario teachers' union use a website - is this being done now, or in the process?

MR. RAFUSE: The SIPG is available on the website, of the superannuation, I would say not the complete one; it's more of a summarized version of it. But it's part of good governance to have your complete investment policy available to members, so it will be made available to members.

MS. LOHNES-CROFT: Thank you.

MR. CHAIRMAN: Anybody else from the Liberal caucus? No. Okay, we'll move back to the PC caucus for 14 minutes, and Mr. Houston.

MR. HOUSTON: When we left off we were talking about portable, private pension plans and I just want to wrap up on that one, and I think I heard you saying that for this pension plan it is mandatory and in view of the demographics it probably should stay that way. If you have an opportunity to opt out and go to your own private pension plan, it changes the makeup of the plan. I guess that would be the same for all existing pension plans, wouldn't it? Any corporate pension plan depends on people coming in and paying for retirees, right?

The whole concept of portable, private pension plans is one you would say to tread carefully on - I don't want to put words in your mouth, but . . .

MR. RAFUSE: That would be correct. There are limitations on when an employee leaves the employ of the province, or actually removes their funds. To just give a little more assurance around the risk around that is these portable plans that are being talked about would be defined contribution plans and therefore to leave a defined benefit plan and take your funds into a defined contribution plan is probably one which a lot of employees would not do.

MR. HOUSTON: Fair comment. So I want to switch gears a little and talk about some net present value calculations. The current budget calls for an increase from the actual number of FTEs in the government - so the actual number of FTEs to the budgeted number of FTEs for the coming year shows an increase. The amount of that increase has been the subject of some discussion in this House, but the amount is that there will be 550 new FTEs in the government. The cost of a new employee is not simply their salary - the full cost of an employee is much larger than just their salary.

For purposes of this discussion, the cost to the province of a new FTE coming into the pension plan, when you look at the future pension costs, that is probably a quantifiable amount in terms of net present value. Is that a number that is known? What is the net present value of the costs associated with hiring someone into the public service with an average salary, average age, et cetera?

MR. RAFUSE: With the changes that we have implemented on the way in which we account for our liability around the superannuation plan that were put in place for the fiscal year just ended, we have actually greater certainty around that because the province's liability in that matter is now limited just to employer contributions and therefore the benefit associated with that and any potential shortfall the pension may have, that liability is no longer the province's.

We would use present value calculations in the past to be able to determine that liability, but now our liability is limited to just the employer contribution rates associated with it, so if there are extra FTEs employed, the government's liability really doesn't - the net present value doesn't come into place. It's just the employer contribution, and that's the limit of our involvement. That rate would be approximately 9.5 per cent of the salary on an annual basis, on average, yes.

MR. HOUSTON: Would it not be fair then to say if you're hiring somebody today, and you know that 9.5 per cent of their salary, roughly, is going to be the employer contribution, would you not say, well, this person is probably going to be employed by us for X-number of years so therefore the cost to the province is the net present value of that stream of 9.5 per cent? Would that not be a fair analogy?

MR. RAFUSE: Not when we're looking at the liability for the province. We would just look at the actual salary costs of that current year and the employer contributions associated with that. Certainly the pension fund would look at the liability associated with that and would have to make the necessary projections about the potential liability associated with that pension plan and whether or not the stream of employee and employer contributions and the expected rate of return is sufficient to meet that obligation, but that obligation is no longer the province's.

Historically, yes we could, and maybe should, have looked at that present value of that stream; in fact, that would have been incorporated under our pension liability. The way that we account for this now, given the changes in the legislation and the fact that our liability is limited just to employer contributions, it's an annual amount, it's not a projected amount.

MR. HOUSTON: So for purposes of the pension fund, I guess the suggestion is since the province need not worry about it because the backstop was removed - is that . . .

MR. RAFUSE: That's correct. So with the pension plan, we look at that, as they set it up would make certain assumptions about that new hire, about whether or not actuarially they would stay until they retire and receive what kind of pension they would receive. I can tell you that if you look at those pension statements, current contributions by an individual are matching the current costs of the pension that they are earning during that year. So the pension plan - a new hire right now is keeping the pension plan whole. It's not to the detriment of the pension plan.

MR. HOUSTON: And from the province's perspective you're saying that the full cost of an employee is something we worry about year by year.

MR. RAFUSE: Year by year.

MR. HOUSTON: Just in terms of the other pension plans like the Teachers' Pension Plan and some of those ones - would you consider all of them, since the backstop was removed from this one, are they all in the same boat right now then?

MR. RAFUSE: No. Certainly the health one is a separate entity and the province's only obligation has been to fund employer contributions to funding to the health care sector. That's what the province's obligation has been to date. The superannuation, we talked about the change in the backstop. The teachers' plan is a bit different because the structure of that is different. The province still has an obligation to that plan. I wouldn't call it a backstop so much as that the unfunded position of that plan, the province still has a responsibility to that plan, unlike the superannuation.

MR. HOUSTON: I guess probably morally they are all on the same page, but the words on the page might be a bit different.

MR. RAFUSE: More, I would say, legally because there is an agreement that bounds the obligation and the participation in the Teachers' Pension Plan that has different text and different wording than it is on the superannuation legislation.

MR. HOUSTON: So in terms of the superannuation plan, the province legally need not worry about that plan anymore, but the teachers do?

MR. RAFUSE: Yes, they do.

MR. HOUSTON: And the teachers' plan is underfunded, I believe.

MR. RAFUSE: Yes it is.

MR. HOUSTON: By roughly?

MR. RAFUSE: It's approximately, last statement it was roughly around 70 per cent funded.

MR. HOUSTON: Do you have a dollar amount on what would bring it to 100 per cent?

MR. RAFUSE: That would be approximately $1.4 - $1.5 billion.

MR. HOUSTON: Okay. Now, I'll leave that one as it is for now then.

The Canadian Auditor General just came out with a CPP report and I guess there were some pretty disturbing statements as part of that process. He says that pension plans, Canada's public pension plans could pose a significant threat to the government's financial footing because little attention is being paid to looming risks such as the longer life spans of beneficiaries - and that is something that we touched on a bit earlier here - but the Auditor General of Canada's report did warn that the financial burden of those plans could deliver a significant blow to the public purse.

So I'm hearing all the stuff we're saying, but I'm still left to wonder what the risk is to our public purse in the Province of Nova Scotia as a result of the Superannuation Plan, and you're saying it's mitigated, right?

MR. RAFUSE: It's mitigated to employer contributions to the plan and any changes that may be associated to employer contributions if necessary to address the underfunded. So it is limited to employer contributions.

MR. HOUSTON: In terms of the Teachers' Pension Plan at 70 per cent, is there any kind of legislation or anything that says if it goes to X per cent then some action is required? I know with the Public Service Superannuation Plan you were saying it's self-policing, but the Teachers' Pension Plan is not - what if it was at 50 per cent?

MR. RAFUSE: The Teachers' Pension Plan has a couple of aspects to it. First of all, it has an indexing provision around 90 per cent for retirees after the 2006 agreement, but it also has target dates in it to reach certain funding levels. When it was agreed upon in 2006, it had a target funding level associated with 2015 and 2025. If the trustee felt that those target funding levels were not going to be achieved, or were not in the realm of possibility, then the trustee is obligated to present to the sponsors' group its recommendations for changes and how to address that underfunded aspect.

Since we are very close to 2015, I wouldn't be surprised if the trustee has submitted those recommendations to the sponsors, and the sponsors in this case are the province and the Teachers Union. The province and the Teachers Union would have to agree on those changes before they would be implemented; it's not up to the trustee in that case. It's a slightly different governance structure.

MR. HOUSTON: And those recommendations have already been presented to the province?

MR. RAFUSE: Yes they have.

MR. HOUSTON: Is that something that you've been a part of?

MR. RAFUSE: I am a member of Teachers' Pension Plan Trustee Inc., so I would have been part of developing those recommendations to the province, yes.

MR. HOUSTON: Can you share with us what some of those recommendations may have been?

MR. RAFUSE: Those are recommendations for the province to consider, and the province has not formally responded to those recommendations.

MR. HOUSTON: And is there a time frame for when the province will have to respond to those recommendations?

MR. RAFUSE: There is a requirement for a response back to the trustee, and the province and the TU have asked for an extension of that. That extension was asked for in December, I believe, because there was like a one year time frame and they've asked for an extension before they responded back to it.

MR. HOUSTON: So I guess that extension would take us basically a year out from where we sit today?

MR. RAFUSE: I think the extension was not specific.

MR. HOUSTON: Pardon.

MR. RAFUSE: I wasn't a specific date. I don't think it was an extension for six months or anything - I think it just asked for an extension.

MR. HOUSTON: Okay, so just so I'm clear - the recommendations came forward to the province and the Teachers Union, they've received those recommendations which we can't . . .

MR. RAFUSE: Those recommendations would have been received last Spring.

MR. HOUSTON: Last Spring, okay. So they received them and said we've received your recommendations but we need some more time to respond to you, and necessarily weren't specific on how much more time they needed - they just said they needed more time and then the sponsors of the plan agreed, kind of said get to us when you can?

MR. RAFUSE: The sponsors are discussing the options that were presented and maybe options of their own. They're not bound by the options presented by the trustee.

MR. HOUSTON: Okay then, but is the trustee not putting pressure for a response?

MR. RAFUSE: Yes.

MR. HOUSTON: I think that's my time anyway, isn't it?

MR. CHAIRMAN: You have one minute.

MR. HOUSTON: You are very generous with your time.

MR. CHAIRMAN: Yes, I round up.

MR. HOUSTON: Okay, good. Actually I think we'll leave it at that today. So I appreciate those responses. Thank you very much.

MR. CHAIRMAN: We'll go to the NDP caucus for 14 minutes.

MR. DAVID WILSON: Thank you. I appreciate the comments from my colleague so I think I'll continue on with them because I think we were kind of having a discussion behind the scenes a little bit. We all know that the teachers' pension is a concern. The 2013 annual report indicated that it was at 75 per cent funded - so you are stating today that it's at 70 per cent?

MR. RAFUSE: Sorry, I misquoted myself. I'm looking at it too, I see it's 75 per cent of last year's.

MR. DAVID WILSON: I thought I had a line of questioning there - where's the missing 5 per cent? It's not a laughing matter, I know I made a little bit light of it.

So at 75 per cent, and I believe around 2008 we were at about 70 per cent, which at the height of the recession was very concerning because as we all know, pension plans, a lot of money is invested in the market. So we're still pretty close to the recession percentage of the funded pension for the teachers, and I think if my math is correct, it would be about $420 million in the hole, would that be correct if it's a $1.4 billion - well no, my math would be wrong because I did it on 30 per cent. But it's about $400 million, would you agree with that, underfunded?

MR. RAFUSE: No, the underfunded position of the teachers' plan is $1.5 billion.

MR. DAVID WILSON: So it's even bigger than what my math is doing. How critical is it - I mean as you indicated earlier, you said you are an advisor to a number of pension plans - how critical is it for government to make a decision on this, I would say, in the next six to eight months?

MR. RAFUSE: Certainly current pensions and the like are not at risk. This is a situation which, if not addressed over time, will create a problem - that problem is not imminent. It is necessary to deal with the situation one way or the other because we have, on that pension plan, a group of employees who have indexing that is tied to CPI and a group of pensioners whose pension is tied to the fund of the plan. So you have a separate class of pensioners that is creating a bit of an issue for them. It is something that requires - it's a long-term problem that requires a long-term solution, I guess is what I'm saying.

MR. DAVID WILSON: But I know how important it is for government to make those decisions. As I indicated earlier, I think in 2012 with the Public Service Superannuation Plan - and I'm sure you'll correct me if I'm mistaken - there were significant deficiencies in that one, which I believe was around the same amount. But currently, because of changes and modernizing the governance and that, I think it is healthy now. I believe there is a bit of a surplus in the Superannuation Plan today - is that correct?

MR. RAFUSE: At the time of the changes, the order of magnitude for the unfunded position was roughly the same, about $1.5 billion. The changes that did occur actually didn't occur in 2012; they actually happened in 2010. That involved changes in indexing provisions, changes in benefits structure, and also a cash infusion from the province. That dealt with the plan. It hovers around 100 per cent, which it is designed to do.

MR. DAVID WILSON: So I think looking at that example, we have a healthy pension plan today because of making a decision, and it's not an easy decision. I know the government has some challenges in front of them. I believe the infusion was maybe $0.5 billion - $500 million - at the time, but it was an important investment because we see now we have a healthy pension plan.

We all know that not every employee of the government is going to retire tomorrow, the likelihood of coming up with the full amount is not realistic but it is important to make sure they stay close to that 100 per cent, so would it not be imperative for the government to make a decision sooner rather than later? I know it doesn't affect current members, but wouldn't it be imperative, in your opinion, that they should make a decision sooner than later to correct the $1.4 billion deficiency?

MR. RAFUSE: You're right, it is a big decision for a government to make. There are implications not only from an expense perspective but from a public policy perspective. I think it requires a lot of deliberation on their part about the direction they want to go, and they're choosing to have those deliberations.

MR. DAVID WILSON: Okay, thank you. I know I indicated I wasn't going back to the mandatory provincial pension plan or the new one Ontario brought in, but as you sit here and reflect on maybe some of the answers, I just want to be a bit clearer on that. As we've seen, Ontario in their current budget - which depends on the election I guess, it will determine if this goes forward or not - there was a mechanism to create a mandatory retirement pension plan for workers in Ontario who aren't covered under another plan.

So you had indicated that there were some discussions - you had some discussions with the minister or the government over the last year or several months?

MR. RAFUSE: The issue of pooled or pension plans or expansion of CPP has actually been on the federal agenda for a number of years, so it has always been a discussion when you get your minister ready for federal meetings, to talk about what that would look like. So, yes, it has been a number of years; the discussion is ongoing. There are others involved in it. In reality the primary department related to this file would be Labour and Advanced Education because the superintendent of pensions sits there and any plan that is subject to the Pension Benefit Act actually would be there.

They would provide advice, as well as we would, to the minister about what these things could look like.

MR. DAVID WILSON: Has the Minister of Labour and Advanced Education asked for additional information? I know you brief them when there's a federal-provincial-territorial meeting of ministers coming up, and I understand briefing the new ministers on the changes and some of the implications around the federal government - have you been asked to compile more information or was it just simply a brief on what has happened over the last number of years with the federal government? So what I'm trying to get at is have they requested additional information in the last month or less in light of the news of Ontario potentially going in that direction?

MR. RAFUSE: I don't think there's any new information, it's been a concept about what it would look like, what's the historical position other jurisdictions have had on this matter and the like - that would be the nature of the briefings that I would have discussed.

MR. DAVID WILSON: Was there any recommendations in there - the government should go in this direction or this direction?

MR. RAFUSE: I'm unsure about that.

MR. DAVID WILSON: You're sure there is.

MR. RAFUSE: No, I said "unsure."

MR. DAVID WILSON: Unsure, oh, I thought you said you were sure. I guess I'll leave it at that. I don't think I get a third round, so I won't be coming back to it.

I'll go to the commissioner again. I know you mentioned in previous questions, that asked on some of the recommendations and some of the reasons why the information wasn't there, you indicated the department has already been working on a lot of the concerns that the Auditor General's Office had prior to the audit. Reading through the audit from the Auditor General I didn't see that reference that the department was working on these things and they usually do tend to make those comments in other audits that I've seen.

Could you maybe clarify - I know you are the new commissioner coming in as the audit was released, so could you maybe explain why the department was working on these? The Auditor General's Report doesn't reflect that work that was going on.

MS. LANGLEY: Certainly. It's actually quite a good question. The Public Service Commission, I think, recognized the need to review and better organize our records quite some time ago; in fact, it's part of a process improvement initiative that had been going on at the Public Service Commission for a good year or 18 months before I arrived at the commission.

The work that had been going on at the commission through this, though, mainly concerned current files - so the files of current employees - and making sure that we have all of those records retained, we are certain of service dates, et cetera. I think the Auditor General's concern primarily was around records of retirees and, while they would be part and parcel of the review, they weren't the specific focus of the review at that time. They just would have come in time.

The work that had been underway was really concerning current files, making sure that files of current employees are - there is a good stream from the department to the commission and so on. That's why we didn't feel it would be fair, or we just didn't want to misrepresent to the Auditor General, or anybody for that matter, that that work, while it was ongoing, wasn't really specific to these concerns.

Having said that, we recognize and are as concerned - the concerns that were raised through this audit concern all of us and we want to make sure that our policies are reviewed, that our processes are in place and we have some accountability to those processes, and when people retire, as I mentioned a little while ago, there is really quite a process to go around verifying service dates, best five years of service, and so on. We want to make sure that is consistent across the board and that the records that go back to those who already have retired are whole as well.

MR. DAVID WILSON: Thank you. I'm going to get back to another recommendation that may be for Mr. Rafuse. It's Recommendation 3.9 - it indicated that the trustee should make its statements of investment policy and goals available to current and retired members of the Public Service Commission. They also indicated an asset mix, but I know in the response it was indicated that that was released in 2011-2012, so this recommendation or the response had indicated March 31, 2012, that information will be sent to current employees and retired - do you know if that had taken place?

MR. RAFUSE: It is available on the website for the Superannuation Plan. It wasn't actively disseminated, but it is available.

MR. DAVID WILSON: So it is available to the members? Okay, all right, that's it. I'm good for my questions.

MR. CHAIRMAN: Okay, we'll go back to the Liberal caucus for 14 minutes.

Ms. Lohnes-Croft.

MS. LOHNES-CROFT: Thank you. The investment managers - how many are there for the pension plan?

MR. RAFUSE: I don't have that available with me but there are, we have investment managers, several in each asset class. So there would be some for our Canadian equities, our U.S. equities, our international equities, we would have investment managers in passive investments like bonds. I can get you a list of all our investment managers, but I just don't have that available.

MS. LOHNES-CROFT: So there would be more than five or ten?

MR. RAFUSE: Yes, there would be.

MS. LOHNES-CROFT: Are they contract employees or are they part of the civil service?

MR. RAFUSE: Our investment managers are hired through an RFP process, they're selected, and they are outside firms. When we refer to an investment manager, we're talking about an investment house that does this for a living, and we've entered into a relationship with them and given them some of the pension fund money to invest on our behalf. It is not an in-house operation.

MS. LOHNES-CROFT: Okay, good. It recommends in the report that they're reviewed annually - is that their compensation package or their performance?

MR. RAFUSE: It is a combination of both their performance and how well they are doing outright, how well they're doing against the benchmark for their peers in that investment strategy.

As well, we also evaluate them whether or not they're investing in the style that they said they would. There are different investment styles and you like to diversify so that you protect or minimize your risk. Some people are actively involved, using quantitative methods; some are actively involved by picking stocks through a value process, basically trying to buy cheaper stocks and hoping the value goes up.

It is an ongoing process and includes their fee. The fee, though, they receive would be stipulated in the agreement in which they were hired, and it would be based on percentage points based on the return, and how well they did against the benchmark.

Those are known quantities going in, so we would never deviate from the agreed-to formula.

MS. LOHNES-CROFT: So if you find the review unsatisfactory, you have the option of terminating your contact with them?

MR. RAFUSE: Yes. The process is that the trustee, the Pension Services Corp., would provide an evaluation about how the performance of that investment manager was doing. We would actually initially probably - the term used in the business is we would say we would put them "on watch" and we would tell them that they're on watch and this is why you're on watch.

You can get on watch for things other than performance, too. If an investment manager goes through a change in ownership or a big change of personnel, that sends a red flag up to all the pension funds and we'll tell them that they're on watch because basically they're changing from who we thought we hired.

If, after that, the trustee believes that the relationship is no longer warranted, then you would terminate that relationship. There is an onerous process to do that and there's a cost involved in that, so you don't do it lightly, but there is always a mechanism to basically get rid of an investment manager.

MS. LOHNES-CROFT: I'm assuming that has happened, then?

MR. RAFUSE: Yes, it has.

MS. LOHNES-CROFT: Oh good, so the reviews are taking place every year now, as recommended by the Auditor General?

MR. RAFUSE: Actually on their quarterly trustee meeting we do review of the investment manager's performance; we do a review of those who are on watch and the reasons why they're on watch. So it's really a quarterly process.

MS. LOHNES-CROFT: Okay, thank you.

MR. CHAIRMAN: Anybody else from the Liberal caucus?

Mr. Horne.

MR. HORNE: A quick question first - the people who are on this, the directors here, are they paid an extra salary for being on that?

MR. RAFUSE: None of the government employee reps are paid. I can't speak for the union reps.

MR. HORNE: Okay, that's fair. I was interested in reading on Page 43, at 3.67, considering a Risk and Compliance Manual, the information that there may not have been any documented risk assessments done. I'm just wondering, could you enlighten us on that issue?

MR. RAFUSE: Certainly within each pension agency or any kind of operation that has what we refer to as a front office, and those are the people who are doing the trades or managing the managers and those doing the accounting, which we refer to as the back office, there's somebody in the middle of all that, watching you. We sometimes refer to that as the middle office or your risk compliance officer.

That used to be a function of the Department of Finance. They used to do that function for the Pension Services Corp. That has become a more robust operation over time, as we understood that process a bit more, but the compliance officer was doing, I would say, basically compliance tests around was this procedure followed? Did they follow that policy? - those types of things, and wasn't taking what I would say was a more holistic view about risk and stepping back and looking at the big picture, and that's what has been asked of to be completed here.

Both the board of directors and also the trustee of both pension plans have asked for that approach and the risk officer associated with the pension agency has developed that. I call it a "risk heat map," where a risk has been identified and agreed to by the governance boards. You'll actually get a report. I called it a heat map because it's either green, orange, or red. If you have something red on there, you know there's something that has to be dealt with - it's kind of a heat map approach.

MR. HORNE: So that's relatively new with the new board?

MR. RAFUSE: Yes, it is, it's something that is being used now.

MR. HORNE: Okay. How often does your board meet? I should have asked that in the last question too.

MR. RAFUSE: The board of trustees for the Superannuation Plan initially was meeting once a month. We're going probably on a more quarterly basis now that the group is more comfortable in the role and they're up and functioning a bit more. There was a lot of work initially, developing new processes. So I would say quarterly, with special meetings to deal with circumstances. We have a special meeting coming up on Friday; it's not our normal quarterly meeting, we just have a strategic planning session where we're looking at what-if scenarios, those types of things. So at least quarterly - I think it's required under legislation to meet at least five times a year.

MR. HORNE: Five times?

MR. RAFUSE: Yes, I think it is.

MR. HORNE: Thank you. That's all for me.

MR. CHAIRMAN: Are there any further questions from the Liberal caucus?

Okay, at this time I'd like to give an opportunity for concluding remarks from the witnesses.

MR. RAFUSE: On behalf of everybody, I would like to thank the committee for having us here. Hopefully we've provided some insight. If you have any follow-up questions, we'd be happy to do so and I will make that plug again for the Public Accounts education session, if you so wish.

I had one takeaway, but I think we provided it, so I think we provided everything that was asked for. Darlene could let us know if we missed anything.

MR. CHAIRMAN: There are a couple of items, and the clerk will notify you what you have to provide for the committee.

There is no further committee business for today, so the next meeting will be May 14th, the Department of Natural Resources, and the topic, Forest Product Innovations.

With that, I'd like a motion for adjournment.

MR. HORNE: So moved.

MR. CHAIRMAN: We stand adjourned.

[The committee adjourned at 10:37 a.m.]