



PRESS RELEASE

May 12, 2015.

For immediate release.

St. John's, NL - May 12, 2015 - ThinkNL releases second recommendations to the Premier and Minister of Finance. Please see attached correspondence.

More information on ThinkNL can be found at ThinkNL.ca or twitter through [@ThinkNLnow](https://twitter.com/ThinkNLnow).

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About ThinkNL:

ThinkNL challenges socio-political issues with bold, factual and unbiased options to inspire positive change in Newfoundland and Labrador. It was launched on January 29, 2015 by St. John's businessman, Charlie Oliver.

Challenging socio-political issues
with bold, factual and unbiased
options to inspire positive change in
Newfoundland and Labrador



Memorandum to: Premier Paul Davis
Date: May 12, 2015.
Copies to: Mr. Dwight Ball, Mr. Earle McCurdy, Minister Ross Wiseman
From: ThinkNL (Charlie Oliver)

ThinkNL continues its dialogue and analysis within its defined non-political framework.

Over the past weeks, we have focused on the subject of pensions. As with our previous recommendations, these are made to foster more review, analysis and dialogue, thereby encouraging positive fiscal change.

The magnitude of the pension liability to our Province has been well articulated by many, including the Province's Auditor General (\$7,200,000,000 ... AG Report October 2014, Pg. 40), clearly defining it as a significant fiscal challenge compounding exponentially and, thus, negatively impacting future generations. Changes to its structure are not simply desirable but essential.

Of recent, the Province has made positive steps with NAPE and NTA to effect changes which appear to be significantly in the right direction. We understand that there is and has been sensitivity in balancing the "politics" of union demands with the fiscal reality of unprecedented mega billion dollar commitments which are growing exponentially. The unions consistently and understandably seek to keep all benefits previously negotiated while the Province has to push back based upon its ability to pay. These polarities are normal and form a part of our real world.

As a result, there has been elasticity in negotiations that have obviously resulted in a "positive" outcome but not the "best" outcome. The demographic reality of an aging and declining population sets the stage for logical proactive action. ThinkNL would like to highlight several areas where options could or should be effected which would bring us closer to sustainability, yet not significantly affect current employees or pensioners. While the immediate response is "we have already locked ourselves into long term agreements", we would suggest that the reality of preserving the Province's fiscal health should open the door to more logical and less emotional approaches by both the unions and the Province. A better solution is indeed possible.

Tough decisions are needed to modify the negative cycle of pension debt. While the past two years have witnessed a market recovery and, thus, improvement in the overall 'apparent' fiscal health of pensions, their very structure is not sustainable in the long term. Simply glance at the magnitude of pension debt throughout North America. We are not alone.

Our recommendations are as follows:

- FIN-15-4. All future hires should be placed on a defined contribution (DC) pension structure rather than the current defined benefits (DB) structure. This would, in and of itself, contribute to a massive easing on liability over the next few decades. As per our initial recommendations ... all MHAs should immediately move to this structure to illustrate their commitment to effectively addressing this monstrous challenge.
- FIN-15-5. Continue with the recent movement to increase the years of contribution and age of eligibility for pensions towards 65.
- FIN-15-6. Continue with the removal of indexing from all pension plans with appropriate grandfathering being maintained.
- FIN-15-7. Evaluate the movement to a hybrid plan which would blend the current DB with DC based upon years of service to date. This would accelerate the road to fiscal sustainability, while honoring pension contributions to date under its current DB structure and moving to DC for future years of work. The structure of this, inclusive of appropriate grandfathering, would serve to protect those with longer work history.
- FIN-15-8. Explore and implement, where possible, de-risking strategies. These are becoming more popular in Europe and for some larger entities in North America (e.g. BCE/Sun Life). The effectiveness of including the life insurance industry through a specifically focused product has significant positive options for movement of risk from the Province.
- FIN-15-9. Monitor and minimize 'double-dipping'. As an example, in 2010 the AG reported there were 443 teachers double-dipping. The policy should ensure that only in cases of absolute need would those on Government pensions be permitted employment within the Government sector. Where essential, in the vein of transparency, such hires should be disclosed.

As noted above, we acknowledge the recent changes negotiated as being positive. Our suggestion is that there is room for more. We encourage you to revisit and re-examine these and other options that we trust your pension team and advisors have presented.

Have a great day!