

The Golden Years: Gamble or Guarantee?

**How our ailing pension and health care systems
could put Nova Scotians' retirement plans at risk**

A Special Report
from Gordon Stirrett & Associates, Spring 2009

Nova Scotia's health care and pension plans are facing tough times. Our Province's aging population is putting extreme pressure on these two areas, and causing policy-makers to re-think the way we provide for our senior citizens.

With this in mind, it is now critical for Nova Scotians to take a proactive and responsible view of their retirement plans, including their health care needs. This special report examines the state of health care and pension plans, and provides key recommendations for avoiding the potential damage these two areas could have on Nova Scotians' retirement plans.

Health care in Nova Scotia; the issues it raises for our retirement plans.

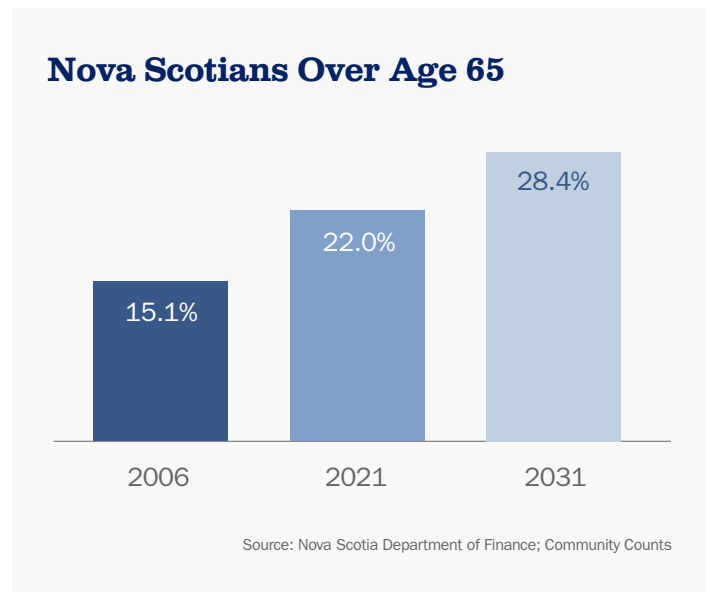
Nova Scotia's health care system is about to see a major change.

In January 2008, the Nova Scotia government announced its plans to adopt the 103 recommendations from a report they commissioned to examine the efficiency and sustainability of our health care system. The Corpus Sanchez report, which cost \$1 million, and is the most comprehensive review of Nova Scotia's health care system ever conducted, raised key concerns about the system's ability to provide quality health care, citing everything from the growing health demands of the aging population to the rising portion of our health care budget.

All of this has the potential to create serious problems in the financial plans of people who are in or nearing retirement. This report sheds light on the issues that have led to our current situation, and some of the strategies Nova Scotians should adopt to prepare for the coming change.

Demographic Shift

We all know that health care costs increase with age. But people have always grown older. Why is this an

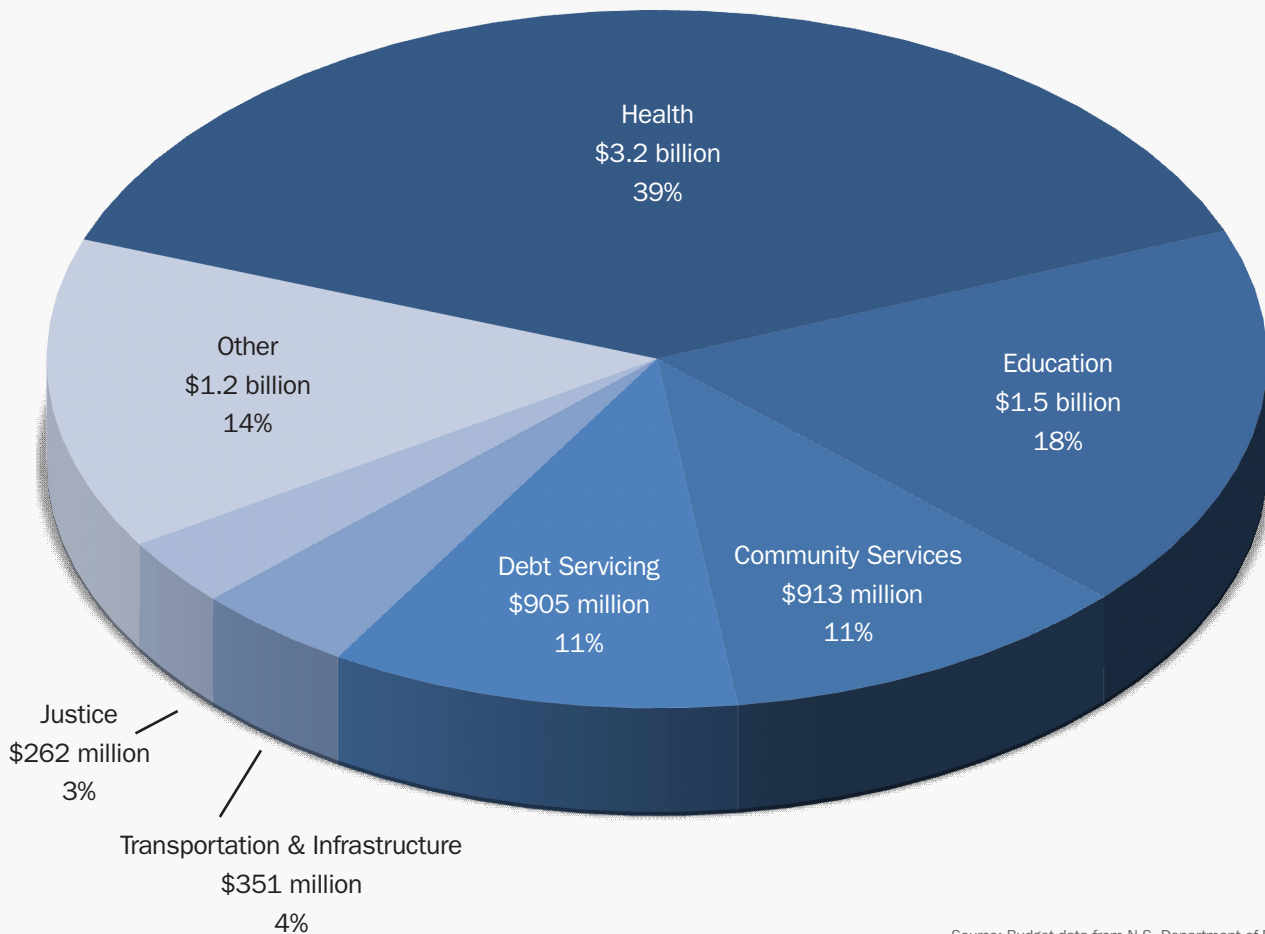


important factor in Nova Scotia's health care system now?

The answer lies in the proportion of older people to younger. For a variety of reasons, including lower birth rates and loss of working age citizens to other regions, Nova Scotia is getting older. In 2006, only 15% of the population was over 65 years old. But in the next 25 years, that figure will go up to 28%. That means that more than a quarter of the population will be in the age bracket that consumes the most health care. At the

Nova Scotia 2008-2009 Budget: \$8.3 Billion

50% for Health and Debt Servicing



same time, the proportion of the population working and paying taxes to contribute to that health care will be smaller. According to Deloitte, an independent consulting firm, the cost of the health care system per working aged citizen will increase from \$4,700 in 2006 to more than \$16,400 by 2020 - almost 400%.

The True Cost of Health

For many of us, health care costs are hidden. We don't

see bills or have any sense of what it actually costs to care for us when we're sick. But there is a cost.

In 2008/2009, Nova Scotia had a health care budget of \$3.2 billion dollars - that's 39% of our entire budget. That leaves only 61% for education, community services, transportation and infrastructure, justice, debt servicing and everything else we have come to expect in life in Nova Scotia. In fact, Nova Scotia's health care budget has been increasing by 7.5% per year

since 1998. There are serious fears that the Province's revenues will not be able to keep up to that pace. (Source:

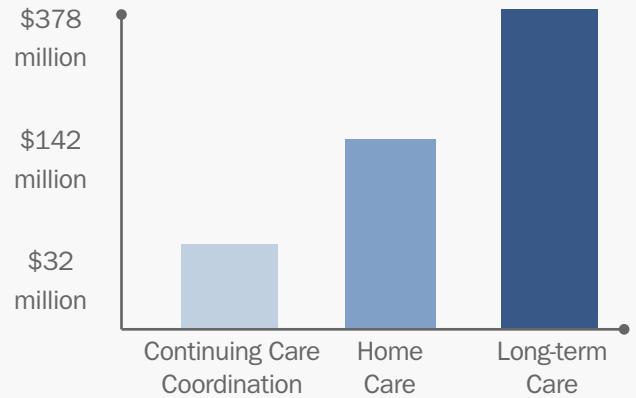
NS DoH Fact Sheet April 2004)

But the solution is not as easy as just spending more and racking up our debt. We're already carrying one of the country's largest debt loads; \$12 billion. We spend \$905 million dollars each year just paying interest on our debt – that's 11% of our budget. Combined, health care and debt servicing make up half of all of our spending.

The Price Tag

There is no question that health care spending is most acute in senior citizens.

Nova Scotia Department of Health Costs:



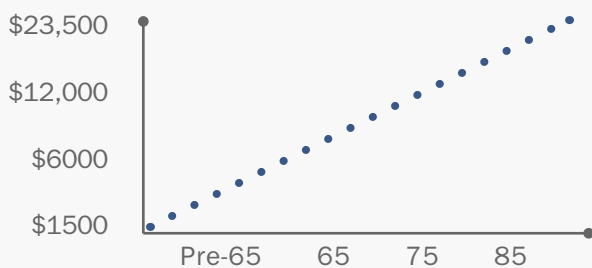
Source: Nova Scotia Departments of Finance and Health

Pharmacare is essentially a prescription insurance program for seniors. It cuts prescription costs by 70%, and charges a premium of up to \$424 for using the program. For lower income individuals, premiums are reduced or waived. For everyone, the maximum co-payable amount on prescriptions per year is \$382. Given the high cost of prescriptions, changes to the Pharmacare program could be devastating to many seniors' retirement plans, sapping thousands of dollars each year from their retirement savings.

For those under the age of 65, the average annual health care costs for the province are \$1500 per person. At 65, that figure jumps to \$6000. By age 75,

it reaches \$12,000 per year. And by 85, it increases to \$23,500. That makes it easy to see how Deloitte has projected the cost of health care will make up 66% of our provincial budget by 2013.

Annual Health Costs by Age



Source: Nova Scotia Departments of Finance and Health

What exactly is costing so much? Some of the major expenses for seniors' health care are Pharmacare (prescription payment program for seniors), long-term care, home care and continuing care coordination, which roughly total \$841 million - one quarter of our entire health care budget.

Fees Per Service

	Fee Per Day	Fee Per Year
Nursing homes	\$86.50	\$31,572.50
Residential care facilities	\$52.00	\$18,980.00
Community-based options	\$47.50	\$17,337.50

Source: Nova Scotia Departments of Finance and Health

Seniors pay varying amounts for the above items, depending on their financial situation. For nursing homes, residents pay based on their income. Assets (such as a family home) are excluded when determining the cost of their care. Given the high costs associated with nursing homes (nearly \$29,000 per year), we believe the government may soon have no choice but to reconsider, and bring assets into the mix of determining how a resident will cover their costs.

The Health of Nova Scotians

The big question then becomes, ‘With all this health care spending, how healthy are Nova Scotians?’

The stats here are even more troubling. Nova Scotia consistently has some of the worst health rankings in the country, including the second highest lung cancer mortality rate and the 3rd lowest life expectancy.

Cancer in Nova Scotia is particularly troubling. Nearly 28,000 Nova Scotians (1 in 34) live with an invasive cancer that has been diagnosed within the last 15 years. Cancer Care Nova Scotia estimates that by 2020, the number of people diagnosed with cancer will rise to just over 6700; an increase of 1569 over the estimates for 2004. As stated earlier, health care costs increase with the age of the individual. In Nova Scotia, two thirds of new cases of cancer are in those over 60 years of age.

“Aging baby boomers will contribute to a disproportionately high number of cancer diagnoses resulting in a growing population of survivors living

Nova Scotia Health Indicators, Compared to Rest of Canada

Life expectancy	3rd lowest
Number of cancer cases	Highest
Number of deaths due to cancer	Highest
Lung cancer mortality	2nd highest
Breast cancer mortality	3rd highest
Self-reporting of health as fair or poor	2nd highest

Source: Nova Scotia Department of Health Business Plan 2005-2006

with a diagnosis of cancer. These individuals will create significant demands on the health care system, as they will require treatment, follow-up for cancer recurrence, screening for independent secondary cancers and may be permanently impaired or disabled as a result of their cancer.” (Source: Understanding Cancer in Nova Scotia, a 2006 report of Cancer Care Nova Scotia, Nova Scotia Department of Health.)

For many, the costs of cancer are overwhelming, including taking extensive time away from work while paying for expensive cancer drugs that may not be covered by provincial drug plans. As well, travel costs can become a heavy burden as people, desperate to find a cure for their own or their loved one’s cancer, travel to international destinations on their own dime. The Fraser Institute reported in 2006 that more than 39,000 Canadians had sought treatment outside of Canada. The April media coverage of a couple facing bankruptcy due to their travel expenses for care in the US is a timely and startling example of the type of financial challenges Nova Scotians can face as they attempt to overcome cancer. Source: *Bankrupted by cancer* by Amy Smith. The Chronicle Herald. April 18th, 2009.

Finally, there is the wait for nursing home beds. Currently, Nova Scotia has 5986 nursing home beds, and roughly 138,220 people over 65, with an average wait time for a bed of 154 days. There is a plan to increase the number of beds to 7306 by the year 2015. Unfortunately, by 2016, there will be an increase to 177,857 people over the age of 65, making the potential to decrease wait times non-existent.

What Does It All Mean?

With all of these strains on our health care system, the reality is that the Province will need to make tough decisions regarding changes to service. There is also growing pressure from health policy experts such as the Fraser Institute and the public to do something

about the current system. A Maclean’s article in 2006 showed the Canadian public to be nearly split in their support of adding private services, while the Fraser Institute said that increasing costs with no feasible way of reducing wait times make most Canadian provinces’ systems unsustainable. (Source: Maclean’s, *The Rise of Private Care in Canada*. Alexandra Shimo, April 25, 2006). With all of this potential for change, Nova Scotians will need to have a contingency plan to ensure they can afford the quality health care they need in their retirement.

Pension Problems

How will today's pension crisis affect Nova Scotians' retirement plans?

In the last few months, many people have been raising the issue of pension plans, their crippling effects on large corporations, and government's responsibility and ability to protect its citizens.

With the aging population, a large percentage of workers are now entering their retirement years, drawing millions of dollars from corporate and government pensions. Add to that the declining stock markets and low interest rates, and it results in a major blow to pension fund assets. For example, as of September 30, 2008, the Nova Scotia Teachers' Pension Plan had an unfunded liability (deficit) of \$1.1 billion, and as of December 31, 2008, Nova Scotia's Public Service Pension Plan (NSPSPP) had an unfunded liability of \$1.65 billion. In April, Finance Minister, Jamie Muir, made a move to correct the NSPSPP by proposing an increase in the member contribution rate by about 1%, and matching it with taxpayer dollars.

(Source: Nova Scotia Department of Finance) Had this been passed in the budget, it would have helped, but would not have solved the problem facing this Plan.

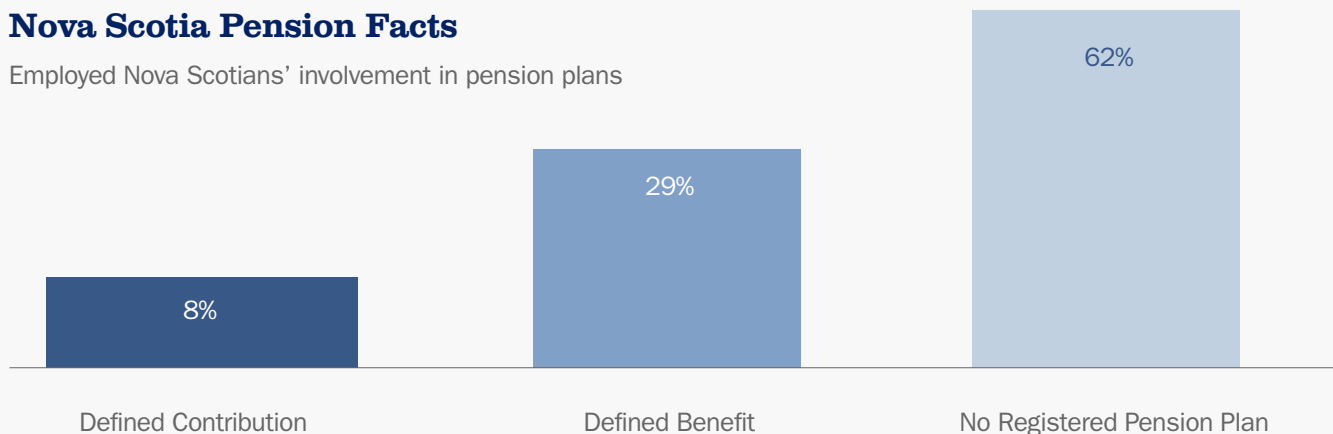
Change is Brewing

To understand the impact to individual retirees, it's important to understand the basis of pension plans.

There are two types of pension plan: 1) defined benefit, which provides a fixed retirement income, based on the worker's salary and years of work, and 2) defined contribution, which promises a set contribution to the Plan, but provides a retirement income based on the performance of the market. Although 29% of Nova Scotians are in a defined benefit plan, more and more, organizations are moving to defined contribution as it eliminates the liability of the plan administrator due to market instability. In essence, these plans provide contributions from both the employee and the employer, but the end result is dependent on the types of investments the contributions went into, and how those investments are doing at the time of withdrawal, similar to an RRSP.

Nova Scotia Pension Facts

Employed Nova Scotians' involvement in pension plans



Source: Statistics Canada 2007

With the growing trend toward defined contribution plans, many Nova Scotians are reliant on steady, positive market performance to maintain a regular retirement income. Given our current market situation, it's easy to see why these pension plans are not sufficient for providing guaranteed retirement income. For many government-sponsored plans (public sector employees), it seems inevitable that changes will be made. Governments cannot sustain the burden of providing guaranteed pensions with no guarantee in the markets. Vicki Harnish, deputy minister of Finance, testified before the House of Assembly's public accounts committee in December, 2008, and described the impact of the pension deficits as "... cut[ting] into government's ability to fund programs and services."

There are currently 28,654 workers enrolled in the Public Service Superannuation Plan, with 39.6% receiving benefits. That number increases by 600 every year, as members reach the age of eligibility. Right now, contributions to the plan are \$128.4 million per year, with payments of \$194.5 million. This situation is clearly unsustainable.

Although the changes are still unconfirmed, Harnish has stated the government will consider contribution increases, changing the rule of 80 (enabling someone who is 50, with 30 years of service to retire) to 85, lowering benefits for surviving spouses and reducing inflation indexing. All of these could greatly affect those relying on these pensions to retire when and how they want.

Things don't look much better for the 29,267 members of the Nova Scotia Teachers' Pension Plan. There, 36.9% of the members are receiving benefits, while 46.3% are contributing, with payments of \$305.4 million and contributions of \$120.7 million.

How much do public pension plans contribute?

The Nova Scotia Public Service Superannuation Plan Contribution Formula matches the employee's contribution of 8.4% of salary up to the Year's Maximum Pensionable Earnings (YMPE) per the Canada Pension Plan, and 10.9% of salary above the YMPE.

For example: As of April 12, 2009, the YMPE was \$46,300. If an employee makes \$50,000 per year, the employer needs to contribute:

$$8.4\% \times \$46,300 = \$3889.20$$

Plus

$$10.9\% \times (\$50,000 - \$46,300) = \$403.30$$

Total Plan Contribution for 2009: \$4292.50

Source: Public Service Superannuation New Member Pension Information

Private Pension Plans

For those with private pension plans, change is also in the works.

The 2008 Post-Retirement Trends survey from Mercer, a human resources consulting firm, indicates that one third of Canadian companies have made reductions to the benefits they provide for retired employees in the last three years. They also say that 21% of companies expect to make reductions in the next three years.

The CD Howe Institute also provides dire warnings for pension plans.

"The underfunded state of many defined benefit plans in Canada means that the retirement incomes of their members are less secure than they once seemed."

They also say that employer-sponsored plans face an uncertain future, and that the value of the assets in many defined benefit plans falls far short of their obligations.

The issue has become so serious that the federal government, concerned by potential drains on its own resources, is conducting a cross-country review of pension plans, with hopes to provide recommendations for revisions by early fall, 2009. (Source: Pension system consultation tour

'critical': Menzies, Paul Vieira, Financial Post, Feb. 24, 2009)

“The underfunded state of many defined benefit plans in Canada means that the retirement incomes of their members are less secure than they once seemed.”

Source: CD Howe Institute

Here in Nova Scotia, a Nova Scotia Pension Review Panel was established to review the province's provincially regulated pensions (not PSSP or TPP). Their panel report of Jan. 27, 2009, states, “The existing (pension) framework is not appropriate to today's circumstances. Left unchanged it will create considerable difficulty for pension plans, their sponsors, and their members.”

The recommendations in this report strongly urge government to put a process in place that will result in legislative change in 2009.

Retirement Without A Pension

In Nova Scotia, 62% of employees have no pension plan. This means they are reliant on their own savings in products such as RRSPs for their retirement. Also

Only 30% of employed Nova Scotians contribute to RRSPs

Source: Statistics Canada 2007

alarming is that, according to Statistics Canada, only 30% of Nova Scotia employees have RRSPs. From these numbers, it is clear that many Nova Scotian employees are in dire need of a strategy for their retirement.

For people without a pension plan, the need for some type of guaranteed retirement income is clear. The Canada Pension Plan monthly payment, which provides 25% of the earnings that were contributed over a lifetime, was, on average, \$481.46 for a 65-year-old in October, 2007. Given the costs of utilities, heating and groceries alone, it's easy to see how far short the CPP goes in covering all of one's needs in retirement. And if you factor in the risk of increased health care costs, some other form of retirement income is required.

What Does It All Mean?

In essence, individual Nova Scotians need to be proactive, and take responsibility for their own retirement. We are now living longer than we ever have. A healthy couple at age 65 has a 63% chance

“The existing (pension) framework is not appropriate to today's circumstances. Left unchanged it will create considerable difficulty for pension plans, their sponsors, and their members.”

— Nova Scotia Pension Review Panel Report, Jan. 27, 2009

that one of them will live to be 90, and a 36% chance that one of them will live to be 95. (Source: Annuity 2000 Mortality Table, Society of Actuaries) That's a long time to depend on your retirement savings.

The key risks are:

- Unexpected health problems
- Unexpected long-term care requirements
- Non-existent or insufficient pension plans

All of these things can lead to one big problem; Nova Scotians outliving their retirement savings.

LTCI

Long-term care insurance is a popular choice for people who are concerned about becoming a burden to their families. It can cover the costs of any type of long-term care, be it in-home or institutional care. No matter what changes occur in Nova Scotia's health care system, or how long the care is needed, long-term care insurance protects retirees' retirement savings and inheritance from being eaten up by long-term care costs. For many people, a few dollars a day in premiums is well worth the guarantee of knowing that

Life expectancy probabilities for a healthy 65-year-old

Age	Female	Male	Couple*
70	96%	93%	99%
80	81%	71%	94%
90	44%	33%	63%
95	23%	16%	36%

*One spouse of the couple
Source: Annuity 2000 Mortality Table, Society of Actuaries

Potential Solutions

Because of the growing demographic that is facing these retirement issues, many financial institutions have been developing products to meet these specific needs.

Thorough retirement strategies now include one or all of the following:

- Long-term care insurance
- Guaranteed benefit products
- Annuities
- Life insurance
- Critical Illness insurance

they will be well taken care of, for as long as they need, without any risk to their beneficiaries.

GBP

Guaranteed benefit products are essentially a personal pension plan. They were developed to help the millions of people who do not enjoy a guaranteed pension plan, or for those who are concerned about the viability of their sponsored pension plan. With the challenges facing today's pension plans, these products should be a serious consideration for any Nova Scotian. They provide guaranteed income, month after month, for the life of the individual. Unlike traditional market investing, they guarantee a minimum benefit,

regardless of market activity. Yet they also provide growth potential of the market, making them a valuable addition to any retirement strategy.

Annuities

Annuities can provide a one-step solution that can guarantee a secure income for a specific period of time or for life. Annuities are simple and don't leave savings exposed to the volatile nature of the financial markets. There are a wide variety of annuity options that provide both tax efficient income and estate guarantees. Often, the rate of return on the guaranteed income that an annuity provides far exceeds most alternatives.

Life Insurance

In appropriate situations, innovative life insurance products, properly integrated into a comprehensive financial plan, will provide flexibility and security. They can help you protect or increase the value of your estate in the most tax efficient manner possible.

Critical Illness Insurance

Critical illness insurance has become much more important now that we are living longer, and surviving many types of illnesses that used to be non-treatable such as breast cancer, prostate cancer and heart attacks.

Critical illness insurance provides a lump sum payment that you can apply to any costs you may encounter during an illness, including covering your monthly bills while you are unable to draw an income. The lump sum is determined by the plan you purchase, and is not dependent on how long you are ill or unable to work. Given that cancers, and heart attacks can be so devastating for a family, critical illness insurance can alleviate some of the financial worries, so that you can focus on getting better.

Critical illness insurance also allows people to seek

medical services that are not available or covered by Nova Scotia's health care system, such as specialized care in the US, as well as the travel and other expenses incurred in the process. This alleviates any pressure to dip into savings or remortgage a property in order to cover all of your health care expenses.

Protecting Your Retirement

These types of options should be considered to round out a financial plan. A thorough financial plan can help determine what combination of solutions is best for a particular financial situation. With these in place, Nova Scotians will be better equipped to enjoy the retirement lifestyle they are looking forward to, regardless of the situation of our Province's health care and pension programs.

If you would like to learn more about the strategies to protect your retirement, please contact Gordon Stirrett and Associates.

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