

# Till the end of time

## How long should we maintain our MLAs in the style to which they have grown accustomed?

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A day...a week...a month...is sometimes said to be a lifetime in politics. It may sometimes seem that way, but in reality political careers are typically a lot less than a lifetime. Of the 4200 Members of Parliament since 1867, the average term of service has been just over 8 years!

Members of provincial legislatures are similarly short-term in their attachment. In 2009 the *Members' Compensation Review Committee Of The Newfoundland And Labrador House Of Assembly* reported: "*Of the 115 members who have served in the House of Assembly since 1989, less than 1% have more than 15 years service; 70% have fewer than 10 years service and 39% have fewer than 5 years service for an overall average of 7.5 years of service as an MLA.*"<sup>1</sup>

Members of the Nova Scotia Legislature are not elected for life—of course not. They voluntarily seek the position knowing that it is of finite-term and are patently aware that they must satisfy a performance-review process at every election if they wish to retain their seat. The tenuous career

connection of most MLAs should not entitle them to a lifetime of support from the public purse that in many instances can persist for many multiples of their actual years of service. Five years of service should not result in thirty-five years of pay.

MLAs are contract employees, of that there can be no doubt. Like contract employees in any circumstance, however, those who stand for public office do have a right to know beforehand the terms of employment—salary, expenses and benefits. The public should be entitled to know—also beforehand—the cost of remunerating Members of the Nova Scotia Legislature. This means both employer and employee should know what the terms are before the hire is made.

Pensions, pay and perks, and any allowed annual adjustment in the same, should be fixed for the term of employment and renegotiated before the next contract is signed. This is the job before the current pension review committee, to set the terms for our next group of temporary hires and

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<sup>1</sup> <http://www.assembly.nl.ca/pdf/MCRCReport2009.pdf>

to clean up the mess we have made with all of those who came before.

## PLATINUM PENSIONS FOR MLAs

The current plan entitles Members to a pension equal to five percent times each year of service (up to fifteen years) times their earnings (based on the highest three years). Members of the Executive Council receive an additional pension based on five percent (up to 15 years) times their EC earnings times 3 year highest average EC salary.

As an example, that would mean a 15-year veteran of the Legislature, as a sitting Minister, could receive a life-time pension in the order of \$100,000 if he or she retired today. Pensions are partially indexed against inflation. Provisions include pensions for survivors and dependants. Pension recipients are entitled to collect their Canada Pension Plan benefits without reducing their Nova Scotia entitlement.<sup>2</sup>

To be eligible to collect a pension, Members must have been elected twice, have served at least five years and be 55 years or older.

To earn their pension entitlements, MLAs contribute ten percent of their earnings for a maximum of fifteen years.

At age 45 former MLAs are entitled to draw a reduced-rate pension. At age 71, an MLA is entitled to start drawing a pension even if still serving as an MLA.<sup>3</sup>

<sup>2</sup>

<http://www.novascotiapension.ca/mlaplan/mlaspensioncoverage>

<sup>3</sup> *ibid*

## PARLIAMENTARY PENCHANTS FOR PENSIONS

The members of the Speaker's review committee wrote their Terms of Reference to include the sentence: *Members of the Legislative Assembly should be entitled to retirement benefits at a fair and reasonable level to ensure that capable individuals continue to offer themselves for public service. That level should not be so small as to discourage qualified persons from running, or so generous as to be a major inducement for seeking office.*<sup>4</sup>

Sounds fair enough on the surface—provide compensation for capability but don't pay more than you need. But this is not about pay levels—it is about lifetime entitlements. Such considerations should play a minor role in whether a person runs for office or not.

Moreover, determining capability is beyond the capacity of any panel. There are no job descriptions. How do we measure competence? By academic achievement? By managerial capabilities? By political astuteness? That judgement is made periodically by the electorate—employing whatever mystical reasoning it may.

Perhaps the more pertinent question should be: is it necessary for total job compensation to include a pension provision at all? In a past era, where employment attachments were more likely to be life-long, pensions evolved as a means of rewarding long-term loyalties. Today, less than one-third of the Canadian labour force belongs to any form of registered pension plan. Moreover, as noted earlier, only a few MLAs will ever develop career attachments to the Assembly.

One common argument supporting MLA pension entitlement is that *others in the public sector*

<sup>4</sup>

[http://gov.ns.ca/govt/pensionreview/Appointment\\_and\\_Terms\\_of\\_Reference\\_28\\_Apr\\_2011.pdf](http://gov.ns.ca/govt/pensionreview/Appointment_and_Terms_of_Reference_28_Apr_2011.pdf)

*are generally eligible for government pensions.* That raises the obvious question of whether elected members are somehow extensions of the civil service to whom they look for expert support or whether they are the temporary voice of the broad public who elected them. The distinction here is critical. For the civil service, loyalty and long term service is something of value for which taxpayers have agreed to compensate those involved. For MLAs and other elected officials there is no such expectation and no basis for rewarding extended service. Indeed the reverse expectation holds, we expect the job to be temporary in nature, meaning compensation should reflect performance in the moment, not reward longevity.

## **EVEN IN THE RAREFIED WORLD OF POLITICAL PENSIONS – NS MLAs DO WELL!**

Each jurisdiction pays its legislators a base salary; all provide additional salaries for various positions—i.e. Premier, Minister etc.; some still provide tax-free allowances. In Nova Scotia, as in New Brunswick, tax-free allowances were abolished several years ago and base salaries were revised upward to reflect the change. Since pension entitlement was applied to the newly adjusted base rate, a substantial “pension bonus” resulted.

In 2009 a Newfoundland and Labrador Members Compensation Review Committee placed base salaries for Nova Scotia MLAs in about the middle of the pack at \$86,619<sup>5</sup> Earlier this year the Canadian Taxpayers Federation reported today’s actual MLA salaries at an average of \$103,644<sup>6</sup>

<sup>5</sup> <http://assembly.nl.ca/pdf/MCRCReport2009.pdf>

<sup>6</sup> [http://www.taxpayer.com/sites/default/files/Nova\\_Scotia\\_Pol\\_Compensation\\_09-2010WEB.pdf](http://www.taxpayer.com/sites/default/files/Nova_Scotia_Pol_Compensation_09-2010WEB.pdf)

That salary base is only a part of the equation. The proportion of their salaries MLAs are allowed to contribute to their pension, and what amount is matched by their employer, determines the rest of the pension calculation. As already noted, in Nova Scotia, the contribution rate is 5 percent—matched by a similar government payment. According to the New Brunswick Panel, that is the most generous in the country. Newfoundland and Labrador and British Columbia, have a benefit rate of 3.5%. Quebec has 4%. The Federal Government reduced their benefit rate to 3% for members of the House of Commons as of 2001.<sup>7</sup> By any standard, the combination of generous salary and gold-plated pension do not meet the standard of: *reasonable compensation to attract competent persons to seek office, but not a major inducement for seeking office* The New Brunswick Panel was satisfied that Alberta has eliminated all pension coverage. In fact however, in that province MLAs are entitled to reimbursement of up to \$10,000 annually contributed to a personal RRSP. Since that is in all regards equivalent to contributing to a defined contribution pension plan, the distinction is moot. Alberta isn’t out of the MLA pension business, they just deliver a DC pension via a private RRSP mechanism. Thus ensuring that temporary employees continue to have a chance to invest in their future without breaking the taxpayer’s bank.

(As a matter of clarification, defined-benefit plans provide for a pre-determined pension payout—which may be augmented by indexation—while defined-contribution plans limit employer liability to a fixed contribution. The beneficiary may usually choose the degree of investment risk he/she prefers, but whatever has accumulated at the time of retirement is

<sup>7</sup> REPORT OF THE MLA PENSIONS REVIEW PANEL

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converted into a lifelong annuity. A simple fixed contribution to a personal RRSP, as in the case of Alberta, provides a little more flexibility before being dismantled prior to reaching age 71 but has essentially the same financial impact on the employer as a defined contribution plan.)

In addition to salary and pension benefits, MLAs are entitled to a range of *per diems* for either attending the House or visiting their constituency. Hopefully now no longer subject to the rampant abuse revealed in the “expense scandal”, MLAs are also entitled to reimbursement for reasonable expenses that some would still judge as perks.

The plethora of salary and expense provisions across the provinces along with variations in contribution rates, plan details and payout rules make comparisons between total remuneration packages between the provinces difficult to construct. That is a fundamental problem. Taxpayers do not know how much their legislators are paid nor are they in a position to judge how generous it is in comparison to other jurisdictions. Moreover, because the MLA Pension Plan is an unfunded open public liability, they certainly do not know how much MLA pensions will end up costing.

As the Nova Scotia review commission completes its mandate, it would serve the public well if it would undertake a comparison of current salary and pension practices across the country—so that Nova Scotians will truly be in a position to judge the degree of fairness by which its legislators are treated. There is simply no way to judge the fairness of pension compensation without considering both the full compensation package of politicians (including pay and perks) AND adjusting for the ability to pay of the various provincial taxpayers. The majority of Nova Scotians are not paid Alberta rates for their work, they should not be expected to pay Alberta rates when compensating their MLAs.

## IN THE REAL WORLD – NS MLAs DO EVEN BETTER!

As already noted, by far the majority of Nova Scotians have no pension plan membership—their retirement incomes are dependant upon personal savings (which may include RRSPs), Canada Pension Plan and Old Age/GIS payments. The Canada Pension Plan pays a maximum of \$11,520 per year. The maximum Old Age Security payment is \$6,404 per annum (subject to claw-back) and the GIS is available only to the lowest-income recipients at a rate of \$8,683 per year.

In contrast after 15 years of service a retired MLA is eligible to a full pension at age 55 at 75 percent of his/her highest earning years in the Legislature in addition to CPP benefits.

What if the MLA were a public servant—participating in the *Public Service Superannuation Plan*? Under those circumstances, with 15 years of service they would be entitled to a pension of less than half of what is available under the MLA plan—and then they would only be entitled to that if they had reached age 60. Moreover, when they became eligible for Canada Pension Plan benefits their public pension would be reduced.

The public-at-large looks with envy at the provisions of public sector plans. The big inflation-indexed public sector plans are too expensive for private employers to contemplate. Indeed, private sector plans are being steadily wound-down and where they are still maintained there is a rising trend towards replacing defined-benefit plans with defined-contribution plans.

Last year, for the first time in history membership in public sector plans accounted for more than half (50.2%) of the total membership in registered pension plans. A decade ago, public sector plans represented 46% of total

membership.<sup>8</sup> That development is completely out of proportion with the level of public sector employment in the country. What enables public sector plans to flourish is the capacity of their administrators to operate without reference to economic and financial realities. The plans are unfunded, or at best, notionally funded. Benefit payments are made from current contributions and where and when shortfalls arise the deficiencies are made up from government general operating funds. An aging population—especially of retiring civil servants in Atlantic Canada—means that these plans can only be sustained by deflecting tax revenues from the very same majority of residents who themselves have limited access to pension—or have none whatsoever.

The MLA pension plan is explicitly designed in such a manner. Revenue shortfalls are paid from the government's consolidated fund.

In a world of gold-plated public pension plans, Nova Scotia's Member's Plan is diamond studded.

## WHAT SHOULD A FAIR MLA PENSION PLAN LOOK LIKE?

### Recommendations:

- Just as it is fair for those contemplating elected service to know how they will be compensated for their contribution, it is equally reasonable for the public to know what it costs to employ a Member of the Legislative Assembly—not just the immediate costs, the total costs.
- While it is indeed fair that those serving in the Assembly should not be penalized for their service, neither should they

receive windfall benefits. The primary motivation in placing their names forward should be a desire to advance the economic and social welfare of the community-at-large. In addition to their earnings during their term, successful politicians garner a highly-respected addition to their *curriculum vitae* that serves them very well in later employment. Do less-well achievers deserve a life-time of public support?

- Elected service should be recognized for what it is—a short-term contract engagement, and not a life-long career. As noted earlier, the service term of parliamentarians across the country represents only a modest engagement during their working life. That should not entitle them to a perpetual income—especially not one of excessive generosity, available at an early age and undiminished by other employment income. The Newfoundland and Labrador Committee referred to earlier found: *According to statistics from the Department of Finance, Pensions Division, access to pension benefits by age of the referred to 115 recipients revealed that 18 received benefits between the ages of 43 and 49; 43 received benefits between the ages of 50 and 54 and the remaining 54 received benefits after age 55.*<sup>9</sup>

Consistent with these bulleted observations, the Nova Scotia Speaker's Panel should recommend the elimination of an unfunded public pension plan for Members. Members should be provided with remuneration consistent with the Panel's self-composed terms-of-reference cited above i.e.: "*Members of the Legislative Assembly should be entitled to retirement benefits at a fair and reasonable level to ensure that capable individuals continue to offer themselves for public service. That level should not be so small as to discourage qualified persons from running, or*

<sup>8</sup> <http://www.statcan.gc.ca/daily-quotidien/110509/dq110509a-eng.htm>

<sup>9</sup> <http://www.assembly.nl.ca/pdf/MCRCReport2009.pdf>



*so generous as to be a major inducement for seeking office.” ...with the crucial substitution of the words total compensation package in place of retirement benefits.*

In order to facilitate both the public’s and the Members’ assessment of what is “fair and reasonable”, the Panel should commission a comprehensive review of total remuneration/benefit practices in all parliaments and legislatures across the country and should express a view on an appropriate figure for Nova Scotian MLA’s consistent with economic conditions in the Province and the ability-to-pay of its citizens.

It has been argued that such a comparison lies outside of the immediate mandate of this committee. But, as we have already stated, a proper analysis of the appropriate pension structure can not be done in isolation. Indeed, a public discussion on the appropriate pay level for members of Nova Scotia’s Legislative Assembly should take place and the pension review committee is an ideal starting point.

Such a conversation needs to include recognition that the proper comparison for the compensation of Nova Scotia’s MLAs is not what members of other legislatures are receiving. The amount should be determined by the complexity and level of responsibility of the position (bearing in mind that several Canadian cities have a larger population than Nova Scotia)—as well as the capacity of Nova Scotian’s to pay relative to other wealthier provinces.

If the Panel chooses to limit its recommendations solely to the matter of pensions and finds that, notwithstanding the arguments presented here against the need for any pension provisions whatsoever, that there is indeed a case for superannuation—then they should recommend a defined-contribution plan or RRSP allowance. Such an arrangement would

ensure that the precise cost is transparent and predetermined.



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