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Nova Scotia Grows Old

By Lindy DeCoste

Nova Scotia is one of Canada's oldest provinces, with the earliest known settlements dating back to at least 1605 and a depth of history that could rival any North American location. Its name conjures images of ocean views, seafood and kitchen parties.

Although Nova Scotia carries plenty of appeal, in recent times the province has been facing many challenges—a main point of contention being the ability for youth to establish gainful employment in the province. As more lucrative, more diverse, and more numerous job opportunities are being created west of the Maritime Provinces, we see the general exodus of our university and college grad-

uates. These young people who graduate, originally from both outside and inside the province, often leave Nova Scotia for their careers, only returning for their careers, only returning should the opportunity and desire present itself years or even decades later.

There are many problems that can stem from this—from the diminishing downtown core of the capital city, Halifax, giving way to the increasing suburban sprawl, to the disproportionately high health care costs that the province faces in tandem with its aging population.

Of the central issues in having a diminished youth workforce in Nova Scotia, two main problems emerge.

As the median age of the province grew from 38.8 to 43.7 from 2001 to 2011, the ratio of people leaving the workforce compared to those entering it steadily rose. This complicates Nova Scotian income tax revenue as many move away from the province during their prime earning years. An additional central issue spawned by an aging population is the financial security of people in and entering retirement. The quantity and quality of today's pensions aren't the strength they used to be. The mitigation of these two problems will be key to the overall success of Nova Scotia in the years to come.

PENSION STATUS LEFT UNDEFINED

As many industry-dependent small towns in Nova Scotia face threats of losing their main source of livelihood, the once-solid pension reliability of those in all stages of employment is called into question. From new recruits to those long retired, the same stable and meaningful pension benefits don't exist in the same way that they used to.

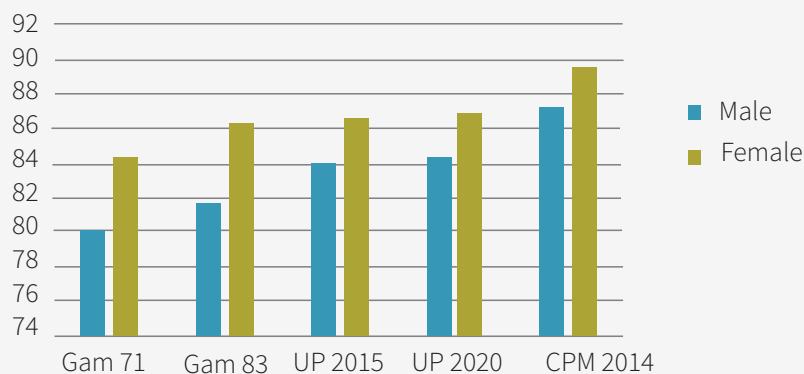
The number of working adults in Nova Scotia with a meaningful pension has dropped sharply over the decades. There are two points to mention about this:

- Defined-benefit (DB) pension plans are disappearing to make room for defined-contribution (DC) plans and other, less secure forms of retirement saving vehicles. The remaining DB plans are largely held by public service employees, which make up about 5 percent of Nova Scotia's population. These plans are a financial burden on the taxpayers.
- Stark increases in life expectancy predictions over the last few years, as seen in the chart at the bottom of the page, make DB plans even more costly and unpredictable for employers. Along with rising health care costs and inflation, standard of living for the elderly is poised to decline.

In February 2014, the Canadian Institute of Actuaries released its final report on Canadian Pensioners' Mortality. Previously, mortality information in Canada was based on American experience. This study demonstrated that Canadians live much longer than previously expected. Over the past 20 years, the average life expectancy has increased by 5.40 years for men and 3.10 years for women. This has significant impact on the slumping, and exceedingly costly, DB plans.

All of Canada is seeing a trend moving away from DB pension plans, to the more manageable and less-costly DC plan; however, this trend is not progress-

Life Expectancies at Age 65



Changes in life expectancy among various mortality tables, from less recent (left) to most recent (right) (Society of Actuaries, 2014)

ing at the same rate in public and private sector plans. In the Canadian public sector, the ratio of members covered by DB plans compared to DC plans is 20 to 1 (Statistics Canada, 2014).

This puts a tremendous financial burden on taxpayers, including Nova Scotians whose public service employees largely possess DB plans that will create a tax revenue drain on the province. Furthermore, a large, continuous portion of the labor force will retire in the near future, and the strain on provincial resources will be great.

All of this considered, it is not surprising to learn of the controversy that is created from the very worthwhile and taxpayer-intensive pensions that public workers receive. If you compare the Nova Scotian labor force, which was 499,000 people in 2014, to the 48,000 publicly employed people in 2013, you'll notice almost 10 percent eligibly employed Nova Scotians will have their

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DB pension publicly funded (Community Foundation of Nova Scotia, 2014) (Statistics Canada, 2014).

The overall effect of an aging province has many complications. One relevant fact is there are far more people in and nearing retirement than there are in and entering the workforce. For a long time you would have a relatively steady and balanced number of people in different stages of maturity and employment, but for the first time since the available records began in 1921, there are more people over 40 in Nova

Scotia than under 40 (Statistics Canada, 2014). Although Nova Scotia is not the only province that shares this statistic, it illustrates how combined with young graduates and workers moving away, it will be a difficult balance to adequately fund our public pension and health care costs in the future.

The pension issue remains divided in Nova Scotia. On the one hand we need to keep an attractive compensation package for public service employees; these are positions that very much influence tomorrow's better Nova Scotia. On

the other hand, reasonableness needs to prevail when setting pension and livelihood expectations for Nova Scotia's aging demographic during the less-certain economic climate.

As Nova Scotians enjoy the benefits of living further into their golden years, it is reasonable to expect that the publicly funded pension and health care systems will be stressed as costs rise. Nova Scotia will walk the line of properly caring for its elderly and marginalizing a large portion with more taxes.

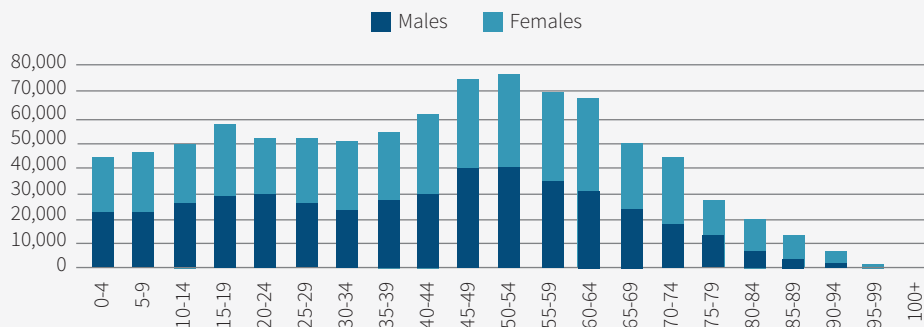
MISSED YOUTH, MISSED TAXES

The economics of Nova Scotia, or any province, depend heavily on the income taxes paid by the general working population. The situation grows precarious as a statistically noticeable gap forms in the age 25 to 35 demographic.

Many of the individuals in this age group are reliably moving west for a bulk of their productive working lives, leaving Nova Scotia with a smaller tax income and growing future concern.

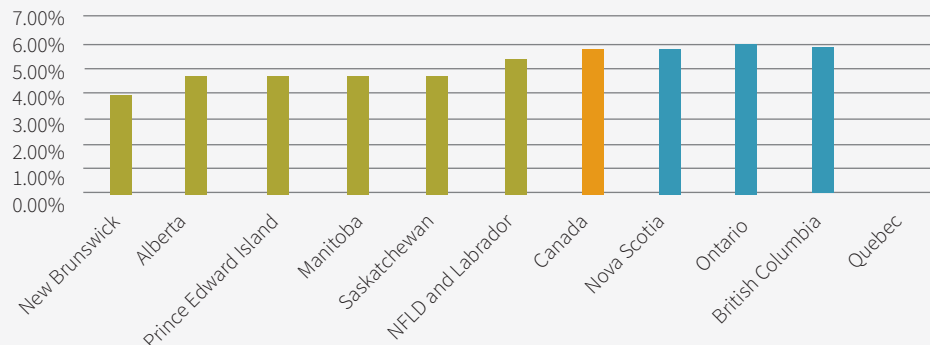
To get an idea of the financial implications for the amount of young people leaving, we'll consider an example. Assuming starting salaries of \$30,000, with salary increases at 3 percent each year over a 35-year career would result in tax revenue of \$166,000 (using a discount rate of 6 percent and assumed long-term inflation of 2 percent). When you consider that each year approximately 14,000 students graduate from post-secondary institutions in Nova Scotia, and less than half will stay in province, the result is almost \$1 billion in lost tax revenue for each cohort of stu-

Age Breakdown in Nova Scotia



(Statistics Canada, 2014)

Post-Secondary Enrollment as a Percentage of Population



dents that are unsuccessfully retained in Nova Scotia.

Considering that, per capita, Nova Scotia ranks fourth in Canada and above the national average for post-secondary enrollment, the dramatic migration out of province once graduating becomes even more apparent (Statistics Canada, 2014).

The situation is exacerbated by the current demographic layout previously mentioned. More aging baby boomers are holding onto their professional roles for longer as a result of their retirement savings made more uncertain due to the recent recession. Because general flow through these positions has stagnated at the top, it has created a buildup of demand for related positions further down the ladder, which inevitably go toward the more experienced and older applicants. Simply put, during 2004 to 2013 the Nova Scotian labor force between the ages of 15 and 44 shrunk by 31.1 percent, while in Canada the same figure grew by 4.2 percent (Community Foundation of Nova Scotia, 2014).

OUTLOOK FOR THE FUTURE

Nova Scotia is facing both an aging population and the outward migration of youth. This issue is being complicated at both ends of the employment spectrum, by the higher cost demand retirees require of their health and pension entitlements, and the lack of financial input by the entry- and midlevel employees. Both the private and public sectors are entering a stage where pension payouts will be vast and become incredibly taxing on organizations. As retirees become more numerous and live longer lives, this problem will only compound itself for the short-term future. Sooner than later, this income tax gap created by the vacant 25 to 34 age group will be a problem for both the public and private sector.

There is no doubt that Nova Scotia could be one of Canada's leading-edge provinces for attracting new residents, especially young people. The province has excellent establishments in education, natural resources, diversity of cultures, and scenic beauty. All of this creates great

potential to further engrain itself as a Canadian mainstay for growth and opportunity, but like anything worth showcasing, serious commitment needs to be taken to mitigate the underlying issues. ■

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