

PEA GLP Members'
Lunch and Learn Retirement
Provisions and Pension
October 7, 2015

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Agenda

- Collective Agreement Retirement Provisions
- Overview Public Service Pension Plan (PSPP)
 - Basic pension plan designs
 - PSPP – benefits, contributions, terms
 - Resources for members
- Questions and Answers

Collective Agreement - Retirement

Vacation in your last year before retirement

1. Full vacation year entitlement (21.07)

Provided:

- you work even just a few days into a new calendar year, and
- you qualify to retire (55 years old)

2. Vacation can earn pension service up to the day you collect your pension

3. When is vacation pay paid out?

Employee's last working day or within 6 days (Employment Standards)

Collective Agreement - Retirement

Retirement Allowance (32.09)

Eligibility

- 20 years of service.
- Entitled to receive pension (55 years or older)

Amount

- one month's full salary for 20 years
- an additional one-fifth of a month for each year above 20 years to a maximum of 30 years.

Form to get the Retirement Allowance and go on Pre-Retirement Leave?

- Yes, there is the Paid Absence Prior to Retirement form. Once it has been filled out and signed and the leave has started, no further adjustments will be made to the leave for reasons of illness or other circumstances, other than death.

Collective Agreement - Retirement

Retirement Allowance Entitlement

Employees	
Service	Entitlement
20 years	21.75 days
21 years	26.10 days
22 years	30.45 days
23 years	34.80 days
24 years	39.15 days
25 years	43.50 days
26 years	47.85 days
27 years	52.20 days
28 years	56.55 days
29 years	60.90 days
30 or more years	65.25 days

Collective Agreement - Retirement

Pre-Retirement Leave

- Pre-retirement Leave means that the retiring member can opt to take the Retirement Allowance as paid leave or as cash. If it is opted to be taken as paid leave it must be taken immediately prior to retirement.
- Your retirement allowance entitlement can be confirmed by BC Government Financial Management Division. They do this service in any event for employees considering retirement?
- To track, update or review your service requests and history, visit AskMyHR at www.gov.bc.ca/myhr/contact.

Collective Agreement - Retirement

Retirement Allowance

Cash Payout Options

Select the one payout option (Cash or Retirement Savings Plan) that works best for you or decide to combine the options. A T4 will be sent to you in February of the year following the payout.

NOTE The retirement allowance falls under the *Income Tax Act*. Tax laws change and individual circumstances vary widely. You should seek the advice of a reputable financial planner or financial institution before deciding the manner in which these payments should be disbursed.

Collective Agreement - Retirement

May opt to take the allowance as equivalent paid leave of absence to be taken immediately prior to retirement.

What if I elect to take the Retirement Allowance in cash?

If you prefer to receive cash for your retirement allowance, you will receive payment in the month following your last day on payroll. The payment is subject to withholding tax deductions.

Payment Amount

Withholding Tax

\$5,000 or less	10%
\$5,001 - \$15,000	20%
\$15,001 or more	30%

Collective Agreement - Retirement

How can I lessen the tax?

Avoid the withholding tax by directing all, or a portion, of the allowance to an RRSP or RPP. You can direct your allowance to:

- a Registered Retirement Savings Plan (RRSP) in accordance with Canada Revenue Agency (CRA) rules (currently \$2,000 per year of contributory service pre-1996); or
- an RRSP in accordance with CRA statement of accumulated RRSP contribution room (a copy of the latest tax assessment notice is required to confirm the available room).
- Complete a TD2R form and submit an online service request through AskMyHR >> Pay & Reimbursements >> Work-Related Reimbursements & Allowances. Attach the TD2R (Direct Transfer of an Eligible Retiring Allowance) form.

Collective Agreement - Retirement

Can I do contract work while I am on Pre-Retirement Leave?

The Employer's view:

- Modified employment relationship under Pre-Retirement Leave.
- Working for others is not considered conflict of interest by itself.
- Paid employment of any nature while on pre-retirement leave is subject to the Standards of Conduct.
- Refer to the sections on Conflict of Interest and Outside Remunerative and Volunteer Work.

Collective Agreement - Retirement

Am I eligible for relocation costs when I retire?

Yes, you can have your moving expenses paid for by the employer when you retire (32.13) if you :

- were relocated to an isolated location by the employer, or moved there due to winning a competition,
- are at least 55 years old,
- served a minimum of 3 years in the isolated location,
- move to the new location within 3 months of retirement,
- give 6 months' notice prior to retirement that you wish to relocate elsewhere in the Province.

The list of isolated locations is found in Information Appendix C of our Collective Agreement. Severely isolated locations are found in Information Appendix G.

Collective Agreement - Retirement

Archived Vacation

This is vacation that exceeded the maximum of 10 days of vacation that could be carried over at any time. It can only be cashed out upon termination or at specific times agreed to in bargaining. It has the value it had in the year it was earned.

Can I take archived vacation as leave?

Archived vacation cannot be taken as leave time and will be paid out at the rate at which it was earned.

Pensions – 2 basic designs

1) Defined Contribution (DC)

- Contributions are certain – the final retirement benefit is not certain/employee assumes risk
- Portable and flexible if moving from employer to employer
- May have more personal control over investment approaches

Pensions – 2 basic designs

2) Defined Benefit (DB)

- The final retirement benefit is certain
- Usually based on a formula of “average earnings” X “years of service” X “%”
- Favourable to employees - risk is assumed by the pension plan
- Contributions (employee and employer) are not certain – subject to external factors (e.g. market downturn) and internal factors (e.g. members’ life expectancy)
- Law requires investing employer and member contributions so that pensions are paid in the future

DB Preferable If

- Want guaranteed lifetime pension/optional guarantee for spouse
- Expect to live a long time
- Expect salary to increase significantly close to retirement
- Value investment downside protection both before and after retirement
- Believe DC pension investment returns will be less than inflation protection in the DB plan

Public Service Pension Plan (PSPP)

- Jointly trusteeed – Unions and Employers
- Actuarially sound – \$194 M surplus (2014) on \$27B assets; contributes to BC's positive credit ratings
- Pension payments are guaranteed
- Indexing not guaranteed - has kept pace with CPI over time, including a 1.8% increase January 1, 2015

Public Service Pension Plan

- Retirees can purchase some extended health and dental benefits (partially subsidized by the plan)
- Portable to many other BC Public Sector Plans and seamless transition for member moving to other PSPP employer
- Assets well managed with low administrative costs 0.26% versus mutual funds 1.5 to 3%
- 8 of 10 PEA chapters have DB plans (FMEP lawyers chapter recently bargained PSPP inclusion)

Public Service Pension Plan

What does it cost?

Salary	Member Contribution	Employer Contribution
Up to the YMPE*	7.93%	9.43%
Over the YMPE	9.43%	10.93%

*Yearly Maximum Pensionable Earnings is \$53,600 for 2015

Public Service Pension Plan

What does it pay?

- $1.35\% \times$ “highest five-year average salary – for earnings up to the YMPE” \times “years of service” and $2.0\% \times$ “highest five-year average salary for earnings above the YMPE” \times “years of service” plus “bridge benefit”
- Bridge benefit = $0.65\% \times$ service \times YMPE; ends at age 65
- Maximum years of service = 35

Public Service Pension Plan

What does it pay – scenarios... Assume - highest five year average salary \$75,000 and single life 10 year guarantee pension option (estimates only)

Scenario 1 – retire at age 65 with 20 years service = monthly benefit of \$2,500 (with bridge)

Scenario 2 – retire at age 60 with 35 years service = monthly benefit of \$4,375 (with bridge)

Public Service Pension Plan (PSPP)

Pension Benefit Options:

- Default – there is a 10 year guarantee for pension payment
- Elect joint life so that spouse receives full pension for life if member dies
 - Reduces monthly benefit
- Other options

Public Service Pension Plan (PSPP)

Bridge Benefit /Integration with CPP

- Canada Pension Plan (CPP) is “integrated” with the PSPP benefit
- Along with a PSPP monthly pension benefit, members retiring prior to 65 receive a temporary “bridge benefit” that ends at age 65
- Members can elect to take reduced CPP as early as 60 or delay CPP until 70 – bridge benefit not impacted; however bridge benefit ends at age 65 while CPP continues
- Old Age Security (OAS) is not integrated in any way with the PSPP

Public Service Pension Plan (PSPP)

When can I retire under the plan?

Without penalty:

1. Age and Service = 85 and member is 55
2. Age 60 with at least two years service in the plan
3. Age 65 or older with fewer than two years/if you worked until 60

Early retirement with penalty:

- pension is reduced 3% or 5% per year depending on age/service
- must be at least 55 to retire

Public Service Pension Plan (PSPP)

What About Vesting?

- After 2 years member is vested
- Prior to that if member is terminated or resigns – receives only their contributions plus interest
- Once vested – various options depending on age – include both employer and member contributions (leave pension contributions in plan; take commuted value, etc.)

Public Service Pension Plan (PSPP)

Other Considerations

- Possible (certain circumstances) to purchase non-contributory (e.g. Auxiliary work, various leaves)
- Death Benefit – paid (spouse or estate) if a member dies before retiring
- Some flexibility in nominating beneficiaries
- Portability (can transfer service both for employers in the plan and to some other public sector plans)

Public Service Pension Plan (PSPP)

Other Considerations (Cont'd)

- Various options if you leave the public service
- Employer and your contributions count against annual RRSP room
- Change in marital status may impact your benefit
- Must apply for benefits by age 71

PSPP other resources for plan members

- Website – **Member log-on** – personalized pension estimator, annual benefit statements, other information and options to update personal data
- **Pension sessions for both mid-career and close to retirement** will be offered in a variety of locations over the year – schedule posted after summer
- **Plan Information Guides and Reports** provide detailed information along with **frequently asked questions**

Conclusion

PSPP

- DB plans are generally favourable to employees - risk is limited
- PSPP well managed and secure (joint trusteeship)
- PSPP resources are available to help GLP members understand their pension and plan for their future

Discussion

Questions and Answers?

Q & A

Retirement Provisions in the Collective Agreement

1. **What is the rate of sick leave pay out for pre-1978 accrued sick leave? Is it the currently hourly rate or the 1978 hourly rate?**

Answer: Employees are paid the rate that exists at time of pay-out, so it is the current rate, not the 1978 rate.

2. **Does an employee who is on Pre-Retirement Leave (accessing retirement allowance and taking vacation) get the Recruitment and Retention Adjustment or TMA (Temporary Market Adjustment) that they had been getting while at work?**

Answer: Employees who have been getting a RRA or TMA will not get it while on Pre-Retirement Leave. Those who were at Step 7 however, will remain at Step 7.

Q & A

Retirement Provisions in the Collective Agreement

3. What happens to a person who has been on STIIP or LTD when they are Pre-Retirement leave?

Answer: Those employees on LTD at 55 are eligible for Retirement Allowance. But Employees on LTD who are 65 not covered by collective agreement and would not be eligible for the Retirement Allowance. Employees who are on STIIP at the time of going on Pre-Retirement Leave will have the STIIP end and will get the Retirement Allowance and the Vacation owed to them. They do not have to get a Doctor's note indicating they are well enough to return to work in order to access the paid retirement leaves.

4. If you maxed-out with 35 years of service do you still contribute to the pension plan?

Answer: No, not if you have maxed out with 35 years of pensionable service (as opposed to contributory service).

Q & A

Retirement Provisions in the Collective Agreement

5. If you work past 65, can you opt out of CPP?

Answer: If you are 65 and collecting CPP you stop paying into CPP submitting a letter to the BC Public Service Agency (BCPSA) from CPP providing proof that you are collecting CPP and requesting to not have to pay into CPP. If you are not collecting CPP, you must continue to pay into it.

Q & A

Retirement Provisions in the Collective Agreement

6. I always understood the PSPP pension formula was based on 2% X years of service X highest five years earnings. Is this not true?

Answer: The PSPP is "integrated" with CPP. When CPP was introduced in 1966, the provincial government, as the sole trustee, then reduced the benefit formula from the previous pure 2% approach. The employer's rationale was that because CPP would pay benefits up to the YMPE amount (e.g. \$53,600 for 2015), then the PSPP pension benefit should be reduced to offset the equivalent CPP benefit amount that plan members would receive from CPP. Therefore a change was made to reduce the previous 2% that was paid on the highest five year earnings and years of service to approximately 1.4% up to the YMPE and then 2% above the YMPE. Over time, employers became interested in encouraging early retirement and a "bridge benefit" was introduced under the PSPP. Given that unreduced CPP is available at age 65, the PSPP "bridge benefit" more or less offsets CPP for those retiring earlier than age 65. The bridge benefit provided by the PSPP is equivalent to 0.65% X service X earnings and ends at age 65. At age 65, the bridge benefit is deducted from the PSPP benefit for members that have retired earlier.

Q & A

Retirement Provisions in the Collective Agreement

(6. Answer continued)

Following is the monthly benefit formula from section 54 of the Public Service Pension Plan Rules (YMPE is highlighted below as "year's maximum pensionable earnings"):

Calculation of unreduced retirement benefits

54 (1) If a member referred to in section 50 terminates employment on or after March 1, 2002, the member is entitled to receive an unreduced pension, calculated on the basis of the single life guaranteed option under section 56 (1) (b) with a term certain of 10 years, that is the sum of

(a) 2% of the member's highest average salary multiplied by the number of years of pensionable service accrued before January 1, 1966,

(b) 1.35% of the lesser of

(i) the member's highest average salary, and

(ii) 1/12 of the year's maximum pensionable earnings for the calendar year immediately before the calendar year of the effective date of the pension, multiplied by the number of years of pensionable service accrued on and after January 1, 1966 not exceeding 35 years, and

(c) 2% of the excess of the member's highest average salary over the amount determined under paragraph (b) (ii), multiplied by the number of years of pensionable service accrued on and after January 1, 1966 not exceeding 35 years.

Q & A

Retirement Provisions in the Collective Agreement

(6. Answer continued)

(2) In addition to the pension benefit payable under subsection (1), a member is entitled to a pension, payable until the earlier of the death of the member or the member reaching age 65, that is

(a) 0.65% of the lesser of

(i) the member's highest average salary, and

(ii) 1/12 of the year's maximum pensionable earnings for the calendar year immediately before the calendar year of the effective date of the pension, multiplied by

(b) the number of years of pensionable service on and after January 1, 1966 not exceeding 35 years.

(2.1) When determining the pension payable under subsection (2) for a member who is a statutory officer, the number of years of pensionable service for the purposes of paragraph (b) of that subsection is deemed to be the actual years of service for the statutory officer.

(3) Subsections (1) and (2) do not apply to a member to whom section 5 (2) applies.

Q & A

Retirement Provisions in the Collective Agreement

(6. Answer continued)

(4) If section 5 (2) applies to a member and the member is entitled to receive a pension under section 50, that pension, calculated on the basis of the single life option under section 56 (1) (a), is 2% of the member's highest average salary multiplied by the number of years of pensionable service not exceeding 35 years.

(5) A member who is entitled to a benefit under this section and who has made voluntary contributions is entitled to PUBLIC SERVICE PENSION PLAN RULES at July 1, 2015 Page 25

(a) a benefit in an amount obtained by converting to a monthly pension the balance of any voluntary contributions, including interest, if any, on those contributions, or

(b) a refund of the balance of any voluntary contributions, including interest, if any, on those contributions.