

The word "Calgary" in white sans-serif font on a red rectangular background.

# SPP / OCPP Pension Plans Information Session

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## Some Acronyms

- LAPP Local Authorities Pension Plan
- SPP The City of Calgary Supplementary Pension Plan
- OCPP The City of Calgary Overcap Pension Plan
- RPP Registered Pension Plan
- CRA Canada Revenue Agency
- ITA Income Tax Act
- AFE Alberta Finance and Enterprise
- EPPA Employment Pension Plans Act
- YMPE Years Maximum Pensionable Earnings (\$55,300 in 2017)



## Who is Eligible to Join The SPP?

- ✓ Level F or above
  - Base level
  
- ✓ Permanent employee
  
- ✓ Union exempt
  
- ✓ Contributing to LAPP



## Basic Information About The SPP

- Defined Benefit pension plan
  - Registered pension plan (RPP) with AFE and CRA
- Effective February 1, 2000
  - Even if you were in an eligible position before then, service doesn't extend backwards
- Optional
  - Not a one-time choice
  - But you can't buy back service if you join later
  - Once you are in, you cannot opt-out
- Sponsored by The City of Calgary
  - Single-employer pension plan
  - No reciprocal agreements with other pension plans
- Supplemental to LAPP



## How Does This All Fit Together?

Experts say the average Canadian needs about 70% - 80% of pre-retirement income in retirement (gross of taxes)

70% of earnings = 35 years in the workforce x 2% of earnings per year

80% of earnings = 40 years in the workforce x 2% of earnings per year

MAGIC NUMBER 

- This is the limit allowed by the ITA
- There is also a \$ maximum (“cap”) on these earnings

LAPP formula:

- 1.4% per year for earnings up to the YMPE, and
- 2.0% per year for earnings over the YMPE (up to the cap)

LAPP formula revisited:

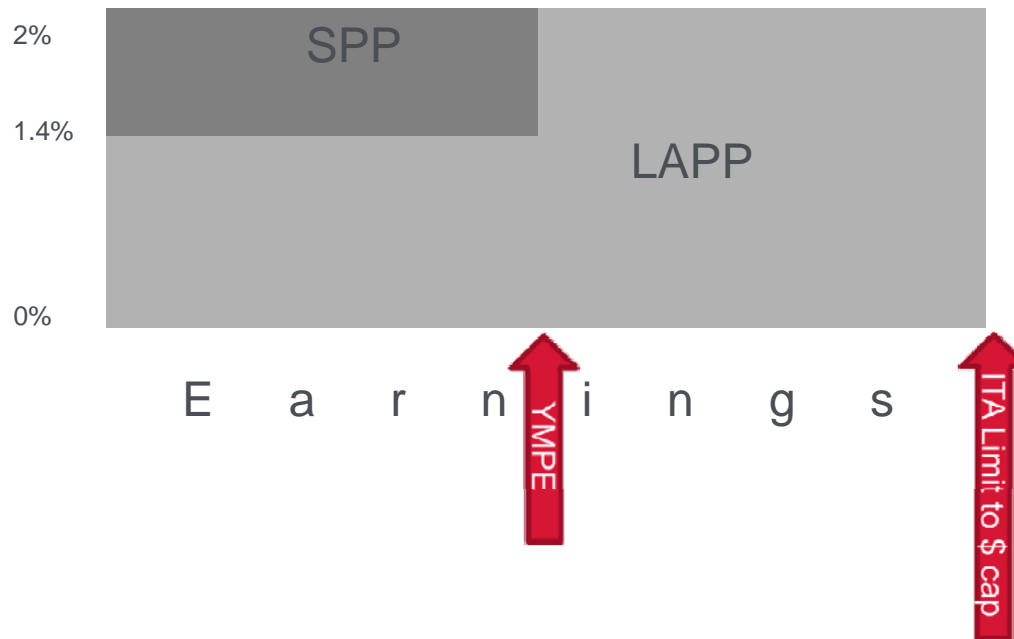
- 2.0% per year of all earnings (up to the cap), less
- 0.6% per year of earnings up to YMPE



# Enter the SPP!! (aka the most important slide!)

ITA Limit formula – LAPP formula =  
2% of earnings –  
(2% of earnings - 0.6% of earnings up to YMPE) =  
0.6% of earnings up to YMPE

This is the basic SPP formula, for SPP service





## How is The SPP Pension Paid?

It depends on if you have a pension partner or not...

If not:

The pension is payable for your lifetime, with a guarantee that at least 10 years of payments will be made

- “Life, Guaranteed 10” or “G10”

If so:

The pension is payable for your lifetime, reducing to 2/3 if you die before your pension partner, with a guarantee that at least 5 years of payments will be made

- “Joint and Survivor 2/3, Guaranteed 5” or “J&S 2/3 G5”
- But that’s not all – more later!

# LAPP and SPP

## Apples and Oranges (Part I)



It sounds like splitting hairs, but...

The “normal form” of payment from LAPP is “Life, Guaranteed 5” or “G5”

- Simple subtraction shown on previous slide is not possible
- G5 has to be converted into the LAPP form which *most closely matches the applicable SPP form*
- **You cannot do this yourself**; it is based on your age, your pension partner’s age, mortality tables, assumed interest rates and assumed inflation rates
- For example:
  - $G5 \text{ pension} \times \text{Present value of G5} = G10 \text{ pension} \times \text{Present value of G10}$
  - Solve for G10 pension
  - The older you are, the farther apart the G5 and G10 pensions will be
- Pension partner normal form is trickier – more soon!



## LAPP and SPP



## Apples and Oranges (Part II)



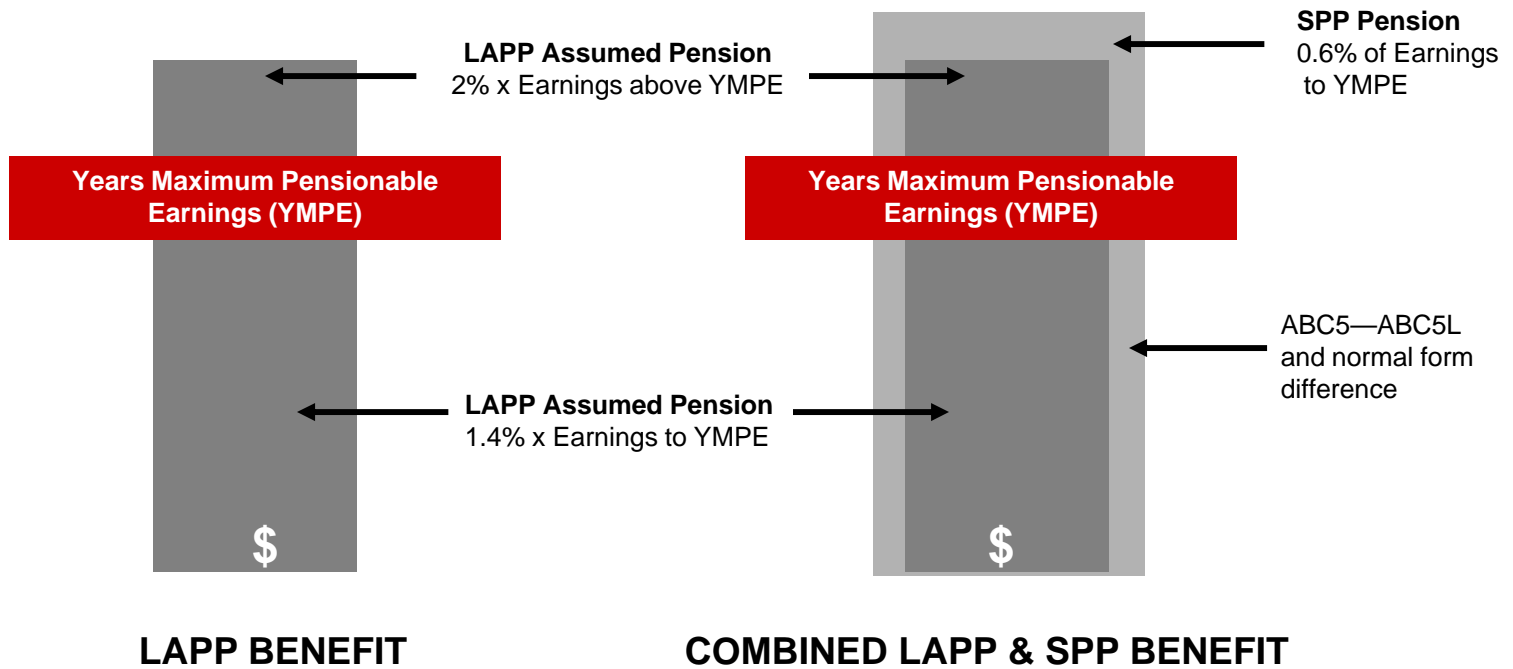
It sounds like splitting hairs again, but ...

The earnings averaging is different between SPP and LAPP

- LAPP caps earnings to the amount allowed by the Income Tax Act *every year*, then averages the best 5 years
  - “ABC5L”
- SPP averages the best 5 years of earnings, averages the best 5, then caps the average to the amount allowed by the Income Tax Act in the *year of retirement*
  - “ABC5”
- Only makes a difference if your earnings are around the cap
  - \$162,312 in 2017

# LAPP and SPP – Putting It Together

The prior slide should really look like...





## SPP Pension With Pension Partner

The SPP form with a pension partner is really:

- J&S 2/3 G5 reducing on *member* death

The LAPP form which most closely matches the SPP form is:









- J&S 2/3 G5 reducing on *first* death

We still have apples & oranges!

- In order to address this, SPP increases within the guarantee period, called a “pop-up”

Note: your pension partner cannot waive his/her right to this pension

# LAPP and SPP – What it Really Looks Like

		Assumed LAPP		SPP		Total	
		Within five year guarantee period	After five year guarantee period	Within five year guarantee period	After five year guarantee period	Within five year guarantee period	After five year guarantee period
		\$6,000	\$6,000	\$600	\$600	<b>\$6,600</b>	<b>\$6,600</b>
	<del></del>	\$4,000	\$4,000	\$1,000	\$1,000	<b>\$5,000</b>	<b>\$5,000</b>
<del></del>		\$4,000	\$4,000	\$1,000	\$400	<b>\$5,000</b>	<b>\$4,400</b>
<del></del>	<del></del>	Designated beneficiary(ies) will receive lump sum payment of the value of the remaining payments	\$0	Designated beneficiary(ies) will receive lump sum payment of the value of the remaining payments	\$0	Designated beneficiary(ies) will receive lump sum payment of the value of the remaining payments	<b>\$0</b>

That's it for the Tough Slogging

**PHEW!**



## “When am I Eligible for a Benefit From The SPP?”

### Immediately on enrolling

- The old “2 years of service” rule was eliminated on September 1, 2014 by AFE

Note: the “2 years of service” rule still applies to LAPP



## How is Service Calculated in The SPP?

### ✓ In the same manner as LAPP

- Based on pay periods, not calendar year (= 364 days)
- Including the ability to buy back certain types of leaves and disability
- If you are promoted retroactively, you will be given the opportunity to buy this

### ✓ From the beginning of the pay period in which you enrolled in the SPP

### ✓ While you are making contributions to the SPP

- Except for certain types of disability

### ✓ To a maximum of 35 years in LAPP

- When LAPP pensionable service stops, SPP pensionable service stops

### x But

- No reciprocal agreements
- No buy-back of City service before entry into the SPP



# “What Happens When I Leave The City?”

## Retirement

- Age 55 or older

## Termination

- Less than age 55

## Death-In-Service





## “What if I Retire Early?”

Same as LAPP

Your pension will not be reduced if you:

- Are at least age 65; or
- Your age plus service equal at least 85 (“85-factor”)

Otherwise, your pension will be reduced for each month prior to attaining the above

- 0.25% per month = 3% per year
- Eg. age 62 + 21 years of service = 83 points
  - 3 years before age 65, 2 years before 85 points
  - Pension reduced 2 years x 3% = 6%

Reduction is permanent

- Your pension will not be increased to 1 year x 3% = 3% the following year



## “Does My Retirement Pension Ever Change?”

Same as LAPP

Cost-of-Living Adjustments (COLA) given annually

- 60% of Alberta Consumer Price Index (CPI)

In years when the CPI goes down, there is no increase or decrease

- CPI changes are tracked until there is a cumulative increase



## “What Retirement Options Do I Have?”

### Defer starting your monthly pension

- You must start before the end of the year in which you turn 71
- Default if you do not return your forms

### Start your pension immediately

### Take the lump-sum (“commuted”) value of your pension

- Transfer to your locked-in RRSP (LIRA) to the extent allowed by the ITA, the rest as taxable cash
  - Different for each person
- More information coming up



## Which Option is Better?

### Unknowable!

At the moment of retirement, all options have the same expected value

Which one would have been better depends on:

- When you die
- When your pension partner dies
- Inflation (i.e. COLA increases)
- Investment income on lump-sum
- Tax regimes (pension income, regular income & investment income)
- Government pension programs (CPP, OAS, etc.)
- Beneficiary situation
- Estate law
- Etc., etc., etc.





## Things to Think About

### ➤ Security vs. Flexibility

- Pension = secure but not flexible
- Commuted value of pension = flexible but not secure

### ➤ Your Health / Expectations of Mortality

- Pension = better if live longer
- Beware! Humans tend to underestimate their lifespan

### ➤ Income needs now vs. later

### ➤ SPP pension in relation to total pension income

### ➤ Commuted value of SPP pension in relation to total assets

- In investment terms, LAPP pension is like a fixed-income security

### ➤ Other uses for commuted value of pension



## Things to Think About

### ➤ Taxes

- Taxable portion of value of pension can be significant; up-front tax hit has to be overcome in order to reproduce pension

### ➤ Beneficiaries

- Do you want to make sure someone is taken care of within 5-10 years of retirement?
- Do you want to leave a lump-sum of money as a legacy?

Everybody is different – don't go by what others have done!

A good financial planner can walk you through

Note: your choice is irrevocable



## “What Termination Options Do I Have?”

### Defer starting your monthly pension

- You must start it before the end of the year in which you turn 71

### Take the lump-sum (“commuted”) value of your pension

- More information coming up



## “What Happens if I Die in Service?”

### If you have a pension partner:

- May take a monthly pension immediately if 55 or over
- May defer the monthly pension
- May take the tax-deferred lump-sum value of your pension

### If you do not have a pension partner:

- Your beneficiaries (or estate, if no beneficiaries) will receive a *taxable* lump-sum payment of the value of your pension





## “What If I Become Ineligible for Participation?”

You become a “suspended” member

- You will receive a communication from the third-party administrator (Aon Hewitt)
- You do not make contributions or accrue pensionable service
  - But your continued employment with The City means you get service towards your 85-Factor, and your 5-year average is based on earnings when you leave The City

If you have at least 2 years of membership in SPP, you will also have the option of taking the lump-sum (“commuted”) value of your pension

If you once again become eligible, the pieces of pensionable service will be added together



# Pension Partner and Beneficiaries

## Pension Partner

- Defined specifically in pension legislation
- Automatically primary beneficiary
- Has tax protection and options that non-pension-partner beneficiaries do not
- Does not have the right to waive this benefit

## Contingent Beneficiaries

- Receive the benefit if there is no pension partner
  - After retirement, the remainder of the G10 or G5
  - Before retirement, if the member and pension partner die at the same time
  - Very important!!! – even if you have a pension partner, designate contingent beneficiaries to avoid pension funds getting stuck in your estate

## How do I know what's on file for SPP?

- Your last annual statement
- Aon Hewitt retirement estimator



## “What Happens if I Become Disabled?”

You are eligible for an unreduced disability pension if:

- ✓ you are enrolled in the SPP; and
- ✓ you are permanently and totally disabled (incapable of any work); and
- ✓ you are *not* covered by
  - ✓ an approved **long-term disability income (LTDI)** continuance plan sponsored by The City or
  - ✓ by a temporary disability benefit under workers’ compensation legislation; and
- ✓ you are under age 65.

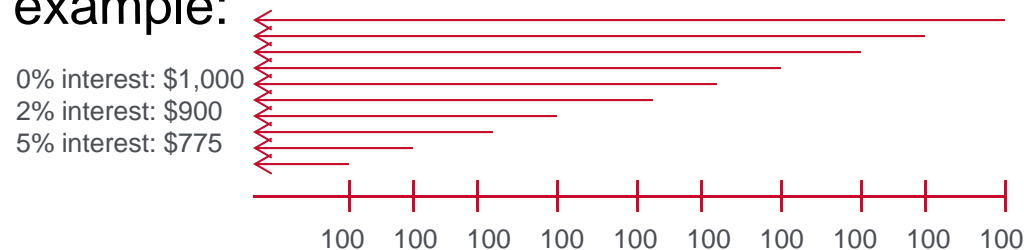
If you *are* receiving benefits under an approved LTDI plan, you are not eligible for disability benefits under the SPP. You continue to participate in and contribute to the SPP while you receive LTDI, and your pensionable service in the SPP continues to grow.



## What About This Commuted Value?

Represents the amount which, if you invested it conservatively today, would yield the same pension stream in the future

Simplistic example:



Note: you can't calculate the commuted value yourself

Takes into account expected / assumed:

- Retirement age (immediate if 55+, assumed if not)
- Mortality
- COLA
- Investment period
  - Using assumed retirement age
  - The younger you are, the lower the commuted value is, all else equal
- Conservative investment rates
  - Assumes you invest in medium- and long-term GoC bonds
  - The higher the interest rates, the lower the commuted value is, all else equal



## What About This Commuted Value?

Commuted values are gross of tax

Tax deferral up to the limit allowed by CRA

- Amounts over that are taxed immediately as regular income
  - No, you can't get around it
  - No, you can't put it into your spousal RRSP
- Does not depend on your RRSP room
- In SPP, this can be a significant portion of the total

Pension partners have special status for commuted value payments on member death



## What About This Commuted Value?

AFE “50% rule”: members can’t pay for more than  $\frac{1}{2}$  of their benefit

- Commuted value is tested against your contributions with interest
  - If commuted value  $< \frac{1}{2}$  contributions with interest, difference is returned to you
  - Usually only happens for younger members with low service

In accordance with the EPPA, the value is subject to recalculation 6 months after calculation date

- If you return your forms after this period, the recalculation will be done with then-current data and assumptions
- The commuted value may go up or down



## Funding

### Cost is split 45%/ 55% between members and The City

- As of July 1, 2014, the member contribution rate is 2.44% of pensionable earnings
- Same definition of pensionable earnings as LAPP
- Rate is examined triennially when the actuarial valuation is done (currently in the works)

### Member and City contributions are placed in a trust fund

- As with all trust funds, it is for the use of the beneficiaries only; The City cannot access the funds
- The trust fund is professionally managed

### Do I care about investment returns?

- For your benefit, no - a defined benefit pension plan, by definition, is not determined by your contributions or the investment income thereon
- For your contributions, yes – the contribution rate is based on the funded status of the plan, and high investment returns help



## Governance of The SPP (and OCPP)

### Pension Governance Committee

- Chief Human Resources Officer (Chair)
- Chief Financial Officer
- Administrative Law Representative
- Administrative Leadership Team (ALT) Representative
- Senior Management Team (SMT) Representative
- 2 Councillors – appointed by Council

### Mandate to:

- Appoint and monitor actuary and third-party administrator
- Appoint and monitor trust fund trustee and custodian
- Appoint and monitor investment manager
- Monitor funded status of the various plans
- Monitor changes in legislation which affect the plans

Meets quarterly, Reports to City Manager and Council annually





## “I’ve Decided to Retire – What Now?”

Fill out the notice of intent form

- Form P924

Make an appointment to see one of the retirement analysts

- Contact HR Support Services (after filling out P924!)

After your last day of pay, The City sends your retirement information to the third-party administrator

- Not your last day of work, your last day of pay
- This can take 3-4 weeks

The third-party administrator (Aon Hewitt) will send out your options with all the forms needed

- This can take another couple of weeks
- Return your forms directly to them, not The City, they will process your monthly payout or your lump-sum payout, with any retroactive payments or interest



## How to Get More Information

### calgary.ca

- SPP/OCPP handbook
- Aon Hewitt contact number

### Aon Hewitt retirement estimator

- [www.cityofcalgary.penproplus.com](http://www.cityofcalgary.penproplus.com)
- SPP/OCPP handbook and other information
- Historical annual statements
- Do your own retirement estimates
  - Not termination estimates

### Call Aon Hewitt

- Talk to a real, live Calgarian
- 403-303-1516 or 1-866-831-0111

# Questions about SPP?





## Who is Eligible to Join The OCPP?

✓ Level G or above

- Base level

✓ Permanent employee

✓ Union exempt

✓ Contributing to LAPP

✓ Contributing to SPP

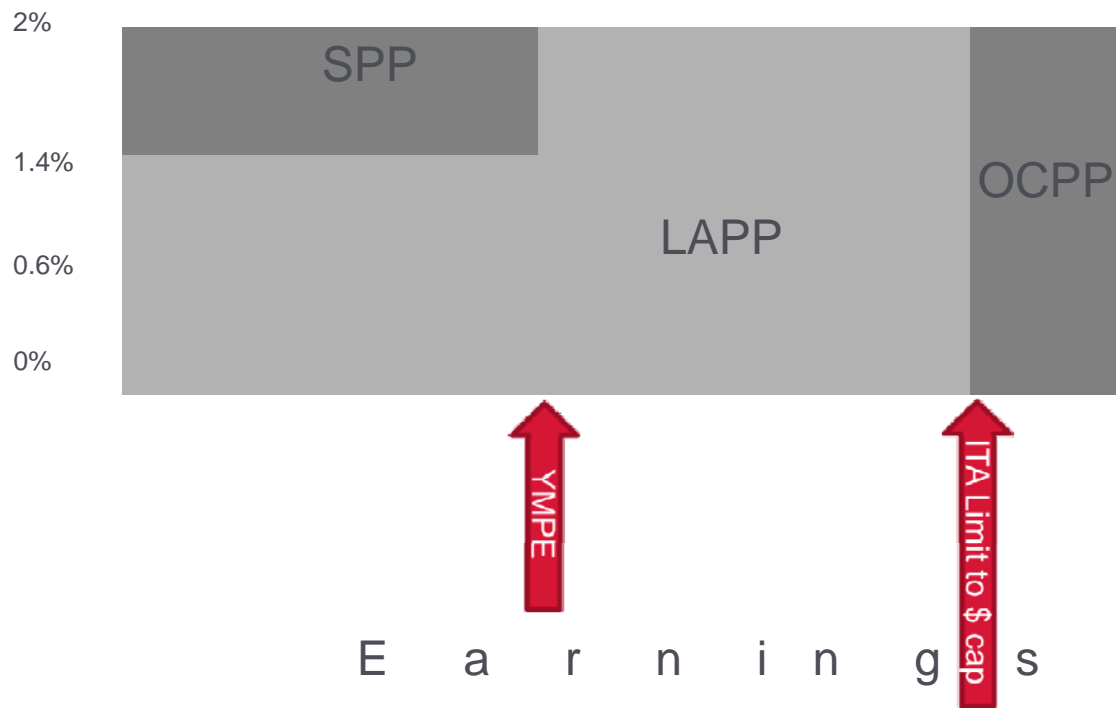


## Basic Information about the OCPP

- Defined Benefit retirement savings plan
- Not a registered pension plan (RPP)
  - No trust fund
  - No member contributions
  - Obligations are accounted for on The City's books
- Effective January 1, 2000
  - Service extends back to January 1, 1992 or LAPP service while employed by The City (whichever is later)
- Optional
  - But must be in SPP
- Sponsored by The City of Calgary
- Retirement process is the same as SPP
  - Except that payments will be made directly through The City, not through a custodian
- Supplemental to LAPP and SPP

# Enter the OCPP!!

Purpose is to provide for benefits up to 2% of earnings which are in excess of the ITA Limit





## What is the salary limit?

In 2017, final average 5 years' of salary at approximately, around, in the neighborhood of... \$155,000 (in 2017)

Why so vague? It depends on a number of factors:

- Your age and your pension partner's age (LAPP conversion affects the SPP which affects the OCPP)



- The ITA defined benefit limit
- Your Early Retirement Factor (ERF) vs. the ITA ERF

Note that your annual statement could show an OCPP benefit in one year and not in the next

- Depends on how your salary moved vs. the ITA defined benefit limit
- *It hasn't disappeared! It's only been shifted to LAPP and SPP!*
- The Aon Hewitt retirement estimator increases your assumed salary and the ITA defined benefit limit at the same rate, but you could still see the benefit decreasing or disappearing
  - The opposite is also true – you could see a huge increase



## How is The OCPP Pension Paid?

Same forms as SPP





## “When Am I Eligible For a Benefit From the OCPP?”

When

- ✓ You have been in the OCPP for 2 years

AND

- ✓ You have reached age 55



## “What Retirement Options Do I Have?”

### Defer starting your monthly pension

- You must start before the end of the year in which you turn 71
- Default if you do not return your forms

### Start your pension immediately

### Take the taxable lump-sum (“commuted”) value of your pension

- Since the OCPP is not a registered pension plan, there is no tax-deferral = the entire commuted value is immediately taxable

Note: you do not have to take the same option as you do for SPP, or at the same time



## “What Happens if I Die in Service?”

If you have less than 2 years in OCPP:

- No benefit

If you have more than 2 years in OCPP but are less than age 55:

- Your beneficiaries will receive a taxable lump-sum payment of the value of your pension deferred to age 65

If you have more than 2 years in OCPP and are over age 55:

- Your beneficiaries will receive a taxable lump-sum payment of the value of your immediate pension
- If you have a pension partner, he/she has the option of commencing a pension starting as young as age 55



# “What Happens if I Become Disabled?”

Same as SPP



## “What If I Become Ineligible for Participation?”

You become a “suspended” member

- You do not accrue pensionable service
- But your continued employment with The City means you get service towards your 85-Factor, and your 5-year average is based on earnings when you leave The City

If you once again become eligible, any pensionable service you accrued in LAPP while suspended counts as pensionable service in OCPP

# Questions about OCPP?

