CUPE: Introduction to Pensions

Three sources of retirement incomes:

1. **Public Pensions**:

Old Age Security (OAS):

- Monthly benefit that anyone over 65 can apply for;
- Be a Canadian citizen at the time of approval, have resided in Canada for over 10 years after turning 18, or if living outside of Canada the individual needs to have lived over 20 years in Canada after turning 18. You may also qualify if living outside of Canada is the country has established a Social Security Agreement with Canada;
- Employment history is **not** a factor;
- There is a claw back for people with incomes between $69,562 & $112,966. Anyone with an income more than $112,966 is not entitled to an OAS;
- Calculated by the length of time you have lived in Canada after the age of 18, your income level, and your marital status;
- Can earn a maximum of $563/monthly;

Advantages:

- The program is not based on employment history;
- The amount is supposed to reflect increases in the cost of living;
- You can defer and get a higher amount later.

Disadvantages:

- Taxable;
- Not everyone is eligible;
- Subjected to recovery tax if your net income is higher than the net world income threshold set for the year.

Changes:

- Deferral & Access has changed from 65 to 67;
- Changes to how long you can defer to increase lifelong benefits.

Guaranteed Income Supplement (GIS):

- Additional income for low-income OAS recipients;
- Need to be a legal resident in Canada;
- Need to qualify and be receiving OAS;
- You annual income (or in case of a couple) is lower than the maximum annual income;
- Calculations depend on marital status and previous year's income;
- Payment every 3 months for one year.

Advantages:

- The program supports low-income recipients;
- Non-taxable.

Disadvantages:

- Residents of higher income brackets are not eligible;
- Ineligible if married;
- Benefits may end if you leave Canada for 6 consecutive months;
- Ineligible if you are in jail in a federal prison.

Allowance (like a bridge program):

- A benefit available to the spouses or common law partners of GIS recipients;
- Recipient must be between 60 & 64, partnered with a recipient on OAS, and is eligible for GIS;
- Canadian Citizen or legal resident, who has resided in Canada for 10 years since turning 18;
- Annual income is less than the maximum annual income;
- You might still qualify even though your spouse or partner is in jail;
- If you have not been in Canada for at least 10 years since turning 18, but resided or worked in a country that has a Social Security Agreement with Canada;
- Calculations depend on marital status and previous year's income;
- You can obtain a maximum of $1037.03.

Advantages:

- Support spouses and partners of low-income GIS recipients.

Disadvantages:

- Benefits may end if you leave Canada for 6 consecutive months;
- The benefits are available for a maximum of 5 years;
- Ineligible if your income is above maximum annual income.

Canadian Pension Plan (CPP):

- Monthly benefit to those who have contributed to the plan;
- You can begin collecting at the age of 60;
- For over half of retired Canadian workers, CPP is the only work-related pension they receive;
- CPP is designed to replace about 25% of the earnings on which contributions were made;
- You are eligible if you worked and made one valid contribution;
- Standard age to begin collecting is 65. If you begin receiving at age 60, it will involve a reduced amount. However, if you choose to begin receiving after the age of 65, it will involve an increased amount;
- Calculations depend on general drop-out provision (possible to remove years of very low or no income from the average calculations), child-rearing provision (possible to remove years when you did not work in order to care for a child), and consumer price index;
- Difference between being employed and self-employed, as self-employed earners pay the whole share, whereas employed earners share the payment with employer;
- Resources to help calculate include Canadian Retirement Income Calculator, My Service Canada Account, or to complete a Form.

Advantages:

- At 70, you stop contributing even though you might continue to work;
- Predictable in that the benefit depends on annual earning and amounts contributed throughout the years;
- If you live outside of Canada, you might still qualify if you reside in a country that has a Social Security Agreement with Canada.

Disadvantages:

- Government should help low-income self-employed businesses;
- The amount collected might be impacted by any changes in marital status;
- You need more to be comfortable in your retirement.

Changes:

- If you work from 65 to 70, your benefits increase;
- At 70, it will be your choice to contribute;
- Number of years of low income that can be removed under the drop-out provision increased from 7 to 8;
- The definition of retirement has changed, as "work cessation" is not required.

2. **Workplace Pension Plans**

Defined Benefits Pension Plan:

- The benefits are predictable;
- There is a collective support for the pension to help the fund remain healthy;
- If there isn't enough money in the fund, the employer is responsible for increasing contributions, or negotiations with the union can help problem-solve to keep the pension promise;
- Provisions that can help low wage workers, part-time workers, and/or workers who take time off/away;
- Pension plan surplus could be used to provide increases to retires on ad hoc basis;
- Such plans feel the pressure of low interest rates and sluggish returns on investments;
- Refer to YSB space for copy of report on Retirement Plan for Employees of YSB for more details.

What can be negotiated?

- Depends on pension legislation, plan rules, and collective agreement (possible: contributions, benefits, inflation protection, disability payments, early retirement options, etc.).

How is the employer's contribution determined?

- As set out in the plan. Actuary calculates employer's contribution, depending on funded status of pension fund.

How is the retirement wage determined?

- All plan members are guaranteed a pension wage defined by the same formula.

Who carries the risk?

- The risk is shared between the employer and the plan members collectively, and spread over time.

Are additional benefits possible?

- Yes, for example: early retirement benefits, inflation protection, disability benefits, and survivor benefits.

What about inflation protection?

- Many defined benefit plans provide indexation;
- Where the plan does not provide indexation, pension plan surplus can be used to provide increases to retirees on and ad hoc basis.

Who makes decisions about my retirement wages?

- Many of CUPE's larger defined benefit plans are jointly trusteed (with 50/50 representation) by employers and participating unions. This ensures that plan members are fully represented in important decisions about the pension plan;
- In plans that are not jointly trusteed, unions are often on advisory committees;
- These structures for "governing" defined benefit plans allow collective decisions about things like improving benefits.

Target benefits Pension Plan:

- A pension plan that is collectively bargained by both employee and employer, where the employer cannot contribute less than the member;
- Employer contributions are fixed;

- Benefits are a "target" and not guaranteed. That means if there not enough money in the plan to pay for pension benefits, the cost of benefits has to be reduced, and so benefits are reduced;
- Employees hold the risks.

What can be negotiated?

- Depends on pension legislation, plan rules, and collective agreement (possible: target benefits, maybe contributions).

How is the employer's contribution determined?

- Fixed at certain level (by legislation, plan rules and/or bargaining).

How is the retirement wage determined?

- Retirement wage is based on earnings and years of service.
- Pension is not guarantee, depends on funded status of the plan.

Who carries the risk?

- The risk rests with plan members. If there isn't enough money in the fund, benefits are reduced.

Are additional benefits possible?

- Only if the plan is fully funded. New benefits can only be added if doable without raising contributions.

What about inflation protection?

- This might be a target benefit, dependent on whether the plan is funded or not.

Who makes decisions about my retirement wages?

- This model is new. Some are jointly trusteed and some have advisory committees.

<u>Defined Contribution Pension Plans</u>:

- Employer and employee contributions are fixed;
- No collective pension fund, but rather individual employee accounts, where they collect interest during the employee's working life;
- On retirement day, employee takes the money from individual account to a financial institution and buys their monthly retirement income (e.g., an annuity);
- Investment is vulnerable to return on investment and interest rates. In addition, if the retiree wants to purchase "extras" (e.g., indexation, survivor benefits) and their monthly income will be lower;
- Monthly retirement income is at risk of low interest, variable monthly interest rates on purchased plan;
- Variance in money made by individual accounts;
- Risk in the choice of financial institutions;
- Employee has limited power in the decision making of the growth of their individual accounts while working. They may have advisory committee, but is limited to monitoring administration of the plan and in some cases provide investment advice;
- Risk to employees contributing low or limited amounts and poor investment returns.

What can be negotiated?

- Contributions and some investment options, like RRSP (your bundle of money is what you create and take out).

How is the employer's contribution determined?

- According to the rules of the plan and the collective agreement.

How is the retirement wage determined?

- Retirement income is based on the amount of money each plan member has in his or her individual account. This will vary according to the amount contributed, investment return and the cost of purchasing a monthly retirement income.

Who carries the risk?

- The risks rests with plan members. The pension is determined by the size of an individual's account, and market conditions when they retire.

Are additional benefits possible?

- At the time of retirement, an individual retiree can purchase additional benefits from the money in their individual account. This will significantly reduce their monthly pension amount.

What about inflation protection?

- Buying indexation is very expensive and significantly reduces the monthly pension. Few annuities and monthly pensions bought from a DC plan provide indexation.

Who makes decisions about my retirement wages?

- Some DC plans have an advisory committee, but they role is limited to monitoring administration of the plan and in some cases, investment advice.

Pooled Registered Pension Plans (PRPP) & Group RRSP Plans:

- PRPPs consist of individual savings accounts, managed by a financial institution like a bank or insurance company;
- The employer is not obligated to contribute at all;
- GRRSPs provide no guaranteed income on retirement;
- The retirement wage depends on the individual's luck and ability to choose investments;
- Members pay fees for managing and converting RRSPs;
- Many members do not use the savings for retirement; rather they cash them (with penalties) in times of financial needs;
- Generally only high-income earners have RRSPs;
- RRSPs place risk onto individual workers.

What can be negotiated?

- Contributions.

How is the employer's contribution determined?

- According to the collective agreement.
- Employer contributions to a group RRSP are considered taxable income, therefore CPP and EI contributions must be made, reducing current take-home pay.

How is the retirement wage determined?

- There is no requirement that the money be used for the purchase of a pension wage. If it is retirement income, it is based on the amount of money each plan member has in his or her individual account. This will vary according to the amount contributed, investment return and the cost of purchasing a monthly retirement income.

Who carries the risk?

- This is an individual savings plan. Employees carry all the risk.

Are additional benefits possible?

- At the time of retirement, an individual retiree can purchase additional benefits from the money in their RRSP. This will significantly reduce their monthly pension amount.

What about inflation protection?

- Buying indexation is very expensive and significantly reduces the monthly pension. Few annuities and monthly pensions bought from a DC plan provide indexation.

Who makes decisions about my retirement wages?

- Employers.

3. **Private Savings**

- Registered Retirement Savings Plans (RRSP's);
- Tax Free Savings Accounts (TFSA's);
- Both present tax savings options;
- They are not pensions.