Pension 101 for Elected Officials

Fall, 2018

Presented by Pension & Benefits Governance & Design

Attachment #3
PFC2018-1162

Purpose

To provide information on the Pension Plan for Elected Officials of The City of Calgary and the Supplementary Pension Plan for Elected Officials of The City of Calgary to help prepare councillors for individual meetings with Human Resources in accordance with Notice of Motion C2018-0935:

> "… to gather their observations, experiences and suggestions relating to the Council pension plans, including plan governance; …"

Basic Information About EOPP (Elected Officials Pension Plan)

- Defined Benefit Registered Pension Plan
  - Governed by the Income Tax Act (ITA) and the Employment Pension Plans Act (Alberta) (EPPA)
- Single employer plan, sponsored by The City of Calgary
- Voluntary
- Effective October 1, 1989
- Council Compensation Review Committee recommends changes to design with approval from Council
- Aon is plan administrator and actuary

EOPP - Eligibility

- ✓ The date an Elected Official assumes office

- ✓ For Elected Officials who do not enroll when first eligible, the first day of any month thereafter

Note: once an Elected Official has enrolled in the EOPP, participation must continue while an Elected Official

EOPP - Pension Formula

2% x Best Average Earnings x Credited Service

- e.g. 2 terms in office with Best Average Earnings of $115,000

  2% x $115,000 x 8 years =

  $18,400 per year, payable monthly

- Details
  - The ITA imposes a maximum pension allowable from a pension plan ($2,944.44 x Credited Service (2018 limit)
  - Best Average Earnings is the highest 36 consecutive calendar months of taxable remuneration up to ITA maximum ($147,222 in 2018)
  - Payable if retire on or after Unreduced Retirement Date*
  - Payable in Normal Form*
  - Earnings are defined as taxable remuneration
  - Credited Service is the period while the Elected Official receives remuneration from The City while a member of the EOPP

* Explained further in the presentation

EOPP – Leaving Council

At Least Age 55

- Retirement

Less than Age 55

- Termination

Death While on Council

Members are immediately vested in these benefits upon enrollment in accordance with Albert pension rules.

EOPP - Retirement Dates

Normal Retirement Date

- Age 65

Unreduced Retirement Date

- Age 60

Early Retirement Date

- Age 55

Latest Retirement Date

- An Elected Official must begin receiving a pension by December 31 of the year in which the Elected Official turns age 71
  - Rule applies even if the Elected Official is still in office

EOPP - Early Retirement

If an Elected Official is at least age 55, the Elected Official will be a retirement for purposes of the EOPP

The pension from the pension formula will be reduced for each month prior to attaining Unreduced Retirement Date (age 60)

- 0.25% per month = 3% per year
- e.g. age 58
  - 2 years before age 60
  - Pension reduced 2 years x 3% = 6%

EOPP - Normal Form of Pension

For Credited Service Earned After January 22, 2012

- ❖ Life, Guaranteed 5 Years (G5)

For Credited Service Earned Before January 23, 2012

- ❖ Without Pension Partner*: Life, Guaranteed 5 Years (G5)
- ❖ With Pension Partner*: Joint and Survivor 66 2/3%, Guaranteed 5 Years (J&S 2/3 G5)

- G5 is payable for the pensioner’s lifetime, with a guarantee that at least 5 years of payments will be made

- J&S 2/3 G5 is payable for the pensioner’s lifetime, reducing to 2/3 of that amount payable for the pension partner’s lifetime, with a guarantee that at least 5 years payments will be made

* At retirement

EOPP - Optional Forms of Pension

- Life, Guaranteed 5, 10 or 15 Years

- Joint and Survivor 100%, 75%, 66 2/3% or 50%, Guaranteed 5 Years

- Integrated Income:
  - The pensioner receives increased amounts of pension until age 65,and a reduced pension thereafter
  - Intent is to provide increased pension income before the pensioner receives payments from CPP/QPP and OAS
  - The form of pension could be any of the options

Pension Partner and Beneficiaries

Pension Partner

- Defined specifically in pension legislation
- Automatically primary beneficiary
- For EOPP, has tax protection and options which non-pension-partner beneficiaries do not
- Has the right to waive this benefit

Named Beneficiaries

- Receive the benefit if there is no pension partner
  - After retirement, the value of the remainder of the G5 paid as a taxable lump sum
  - 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 you know what's on file for EOPP?

- Pension partners and beneficiaries are listed on the annual statement received from Aon
- If you need to make a change, contact The City help line at 268-5800

EOPP - Retirement Options

Start the pension immediately

- Choose the normal form or one of the optional forms

Defer starting the monthly pension

- No later than Latest Retirement Date
- Default if forms not returned

EOPP - Cost-of-Living Adjustments

Cost-of-Living Adjustments (COLA) calculated annually

- 2/3 of Canada Consumer Price Index (CPI)

COLA is prorated in first year of retirement

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

- CPI changes are tracked until there is a cumulative increase

EOPP - Termination Options

Defer starting the monthly pension

- No earlier than Early Retirement Date
- No later than Latest Retirement Date
- Default if forms not returned

Take the lump-sum ("commuted") value of the pension

- Transfer to a locked-in RRSP (LIRA) to the extent allowed by the ITA, any remainder is taxable cash
  - Different for each person
- If the commuted value is small, an RRSP or taxable cash option may be offered

EOPP – Death While on Council

If the Elected Official had a pension partner, pension partner is paid:

- Commuted value of the pension the Elected Official would have been entitled to had he/she left Council the day before death
  - Payable as a transfer to a locked-in RRSP (LIRA)
  - If the commuted value is small, an RRSP or taxable cash option may be offered

If the Elected Official did not have a pension partner:

- Commuted value of the pension the Elected Official would have been entitled to had he/she left Council the day before death
  - Payable as taxable cash

EOPP – Process Upon Leaving Council

After the last day of service:

- The City runs final payroll and communicates in-year earnings, contributions and service to Aon
- Aon calculates the benefit and prepares a package with appropriate options and forms
- The package is mailed to the Elected Official, who liaises with Aon to get the commuted value paid or the pension started

Aon contact number:

- 403-303-1516

EOPP - Contributions

- Members
  - Contribute 9% of earnings (ie. taxable remuneration), up to the ITA maximum
    - $147,222 in 2018 for this pension plan
  - The member contribution rate is codified in the pension plan text
- The City
  - Contributions are reset every 3 years as the result of an actuarial valuation
  - Currently 18.64% of taxable remuneration

EOPP – Pension Adjustments

- Participation in EOPP decreases your available RRSP room
  - A Pension Adjustment (PA) is reported on your T4
  - PA is calculated as
    - ➢ 9 x 2% x $earnings – $600
  - RRSP room granted every year is calculated as
    - ➢ 18% x $earnings
  - ➢ Available RRSP room is $600

Basic Information About EOSP (Elected Officials Supplementary Plan)

- Non-registered retirement arrangement
- Effective October 1, 1999
- Supplemental to EOPP
- Single employer, sponsored by The City of Calgary
- Administered by Aon
- Council Compensation Review Committee recommends changes to design with approval from Council

EOSP - Eligibility

- ✓ The date an Elected Official assumes office and enrolls in the EOPP
- ✓ For Elected Officials who do not enroll in the EOPP when first eligible, when the Elected Official chooses to enroll in the EOPP

Note: once an Elected Official has enrolled in the EOSP, participation must continue while an Elected Official

EOSP - Pension Formula

2% x Best Average Earnings in Excess of Income Tax Act maximum x Credited Service

- e.g. 2 terms in office with Best Average Earnings of $200,000

  Formula: 2% x ($200,000 - $147,222) x 8 years =

  $ 8,445 per year, payable monthly

- Details
  - Same as EOPP

EOSP – Other Provisions

Same as EOPP

- Except that commuted value is only payable as taxable cash

EOSP - Contributions

- Members do not contribute
  - Since it is not registered, there is no trust fund into which to place contributions
- The City records liabilities for the plan on its financial statements
- The City pays benefits as they become due

Governance

- Pension Governance Committee (PGC)
  - Established July 8, 2002
  - Responsible for oversight on all matters relating to the pension plans in which City employees participate
    - Significant changes must be approved by the City Manager and/or Council

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

Governance

- PGC members
  - 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

- Meets quarterly, reports to City Manager and Council annually

Appendix I

Acronyms

Acronyms

- EOPP - Pension Plan for Elected Officials of The City of Calgary
- EOSP - Supplementary Pension Plan for Elected Officials of The City of Calgary

- ATBF – Alberta Treasury Board & Finance
- EPPA – Employment Pension Plans Act (Alberta)

- CRA – Canada Revenue Agency
- ITA – Income Tax Act

- DB – defined benefit
- DC – defined contribution

- COLA – cost-of-living increases

Appendix II

Pension Plan Backgrounder

DB Pension Plans vs DC Pension Plans

Defined Benefit Plan - design	Defined Contribution Plan - design
Retirement income known in advance via a formula	Contributions known in advance
Pension does not change once person retires (except COLA)	Account value used to provide retirement income
Contributions are not known in advance	Retirement income not known in advance
Retiree chooses survivor benefits on retirement	Remaining account value on death goes to survivors
Require actuarial valuations to assess financial situation and set contributions	No actuarial valuation needed

DB Pension Plans vs DC Pension Plans

Defined Benefit Plan - risks	Defined Contribution Plan - risks
Plan bears risk that investments don't perform as expected (investment risk)	Individual bears investment risk
Plan sponsor responsible for choosing investments	Individual responsible for choosing investments from available choices
Plan bears risk that pensioners live longer than expected (longevity risk)	Individual bears longevity risk
Pensioner does not bear the risk of outliving his/her pension	Individual bears the risk of outliving his/her assets
Pensioner bears risk that he/she and/or pension partner doesn't live as long as expected (value of contributions put into the fund may not be returned via pension payments)	Account value goes to individual's survivors on death so no loss in value on early death

Registered Pension Plans vs Non-Registered Retirement Arrangements

Registered Pension Plans	Most Non-Registered Arrangements
Plan provisions registered with CRA and the provincial regulator	Plan is not registered with CRA or a provincial regulator
Plan provisions must comply with the ITA and the provincial regulations	There are no regulations with which to comply
Plan sponsor contributions are tax-deductible	Plan sponsor contributions not tax-deductible
Member contributions are tax-deductible	Member contributions are not tax-deductible (so usually are none)
Investment income in pension fund not taxable	Pension fund not allowed, pensions are unsecured promises by plan sponsor
Pension taxable upon receipt	Pension taxable upon receipt
CRA and ATBF require certain items to be filed with them for continued registration	No filings

CRA vs ATBF

CRA	ATBF
Affects pension plans via the ITA, which allows tax breaks & tax deferrals to pension plans & pension income	Affects registered pension plans in Alberta via the EPPA
CRA wants to limit these breaks & deferrals	ATBF wants to ensure that pension plan members have adequate protections
ITA contains maximums and limits	EPPA contain minimums and guarantees
Pension plans, pension plan sponsors and individuals are caught between the ceilings imposed by the ITA and the floors imposed by the EPPA	

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