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NEWFOUNDLAND AND LABRADOR PUBLIC SERVICE PENSION PLAN

Comparing commuted value and deferred pension options

IT'S RARE THAT YOUR FIRST JOB AND YOUR FINAL JOB WILL BE THE SAME ONE. IT'S RARER STILL THAT THOSE TWO MILESTONES OF YOUR CAREER WILL BE WITH THE SAME ORGANIZATION. THERE ARE LOTS OF REASONS FOR LEAVING A JOB OR AN ORGANIZATION. AS A PLAN MEMBER, THOSE DECISIONS CAN HAVE AN IMPACT ON YOUR PENSION BENEFITS.

MEMBER OPTIONS UPON TERMINATION OF PLAN MEMBERSHIP

If a plan member is not yet eligible to retire with an unreduced pension and terminates their employment and, therefore, membership in the Public Service Pension Plan (the Plan), they have a few options relating to their Plan entitlements.

For members who have five years of credited service, and are therefore vested, a key decision will be whether you chose to remain in the Plan and receive a lifetime pension, or if you will transfer the value of your pension to a financial institution of your choice. The lump-sum value of your pension available for transfer is called the commuted value.

In Canada, commuted values are determined in accordance with pension legislation and the Standards of Practice of the Canadian Institute of Actuaries. The commuted value of your pension represents the value today of the expected benefits that would be paid from the Plan, based on a prescribed set of assumptions which includes interest rates, inflation rates, life expectancies, and marital status. Put another way, it is the amount you would have to set aside today, to grow with tax-sheltered investment earnings, to reproduce your pension in retirement.

THE COMMUTED VALUE WILL REFLECT A FEW IMPORTANT PLAN PROVISIONS, SUCH AS:

The date that you are eligible to retire and the fact that your pension is guaranteed for your lifetime.

The Canada Pension Plan (CPP) Offset, which is a bridging benefit payable to age 65.

Any post-retirement indexing that may be payable on your pension, which would provide annual increases in your pension of up to 1.2% once you reach age 65.

A lifetime survivor pension equal to 60% of your pension, if you predecease your spouse.

Ensuring a secure, comfortable retirement is something to stop and think about. People are living longer —so much so that we expect an average retiree's pension to be payable for 30 years. This means that you need to ask yourself or a financial advisor a few questions when planning for retirement:

As a member, your choice when you leave the Plan will be an important factor in determining your outcome in retirement.

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UPON TERMINATION FROM THE PLAN, YOU HAVE TWO OPTIONS

OPTION 1: DEFERRED LIFETIME PENSION

When considering whether to take a deferred lifetime pension from the Plan, you should consider the following facts:

» The PSPP is a defined benefit pension plan, based on your highest average earnings. This means that when you retire, your pension is guaranteed and payable for your lifetime.

» The Plan is designed to provide you with a consistent income in retirement by providing a bridging benefit to age 65, the normal retirement age under CPP.

» After retiring, a portion of your pension will be adjusted to reflect inflation. This feature helps to maintain your standard of living throughout retirement, as prices increase.

» The portion of your pension that relates to service earned prior to January 1, 2015, is indexed. Every October 1st after reaching age 65, this portion of your pension will be increased for 60% of inflation, up to a maximum annual increase of 1.2%.

» The Plan offers you flexibility on when you can retire and start your pension.

» Your termination package will identify the date you are first eligible to retire with an unreduced pension, but all plan members are entitled to retire at any time on or after reaching age 55.

» Your pension provides a 60% survivor pension to an eligible spouse for their lifetime if you are married at your date of death. In some cases, a survivor benefit is payable to eligible dependent children.

» If the total of all pension payments made to you, your spouse, or your eligible dependent children is less than your total contributions with credited interest at your retirement date, the excess will be payable to your estate.

» In the event of your death prior to retiring, your eligible spouse will receive, at a minimum, a pension equal to 60% of the pension which would have been payable to you. Your spouse will also have the option to choose to receive the commuted value of your pension rather than the survivor pension. In addition, in some cases, a survivor benefit is payable to eligible dependent children. If you do not have a spouse, your estate will receive the commuted value of your pension.

The deferred lifetime pension option may be of interest to you if:

» You would prefer to have a known, predictable monthly retirement income.

» You prefer the security of knowing that pension payments will be made for your lifetime (and your spouse's lifetime).

» You have limited investing experience or you are not comfortable with investment decisions.

» You are not comfortable with the possibility that your retirement savings or income during retirement may decrease.

» Your total commuted value exceeds the maximum that can be transferred on a tax-free basis, and a portion of your commuted value must be paid to you in cash, less withholding tax.

» You would prefer to remain a part of the PSPP, where the Fund is professionally managed and benefits from low investment fees due to its size.

OPTION 2: COMMUTED VALUE

When considering whether to take a commuted value from the Plan, you should consider the following facts:

- » You can transfer your commuted value to a locked-in retirement savings option with the financial institution of your choice.
- » In many cases, due to limits under the Income Tax Act, only a portion of your commuted value will be eligible for direct transfer to a tax-sheltered retirement savings option. Unless you have unused RRSP room which is certified, the remainder will be payable in cash and subject to taxation.
- » The immediate payment will be subject to withholding tax, ranging from 10% to 30%. This may differ significantly from the actual tax owing when calculating your annual income tax.
- » If you receive pension benefits from other employers, you may be able to combine all sources with a single financial institution.
- » You will have control over your investments and must make your own investment decisions. This includes ongoing oversight and monitoring, periodic rebalancing of your portfolio, and assessment of the level of risk that you are comfortable with in your portfolio.
- » In our experience, people usually choose to invest more conservatively as they age. As people enter the retirement phase of their life, more certainty in retirement income is often desired. This means people will choose to reduce the level of risk in their investments, which will generally mean lower expected investment income. When investing your own portfolio, you will need to make these decisions. You will also want to consider how the expected investment income generated by your portfolio may change over time when planning for retirement.
- » Your retirement income will depend on the investment return you earn. It will vary based on your investment choices, investment fees charged to your account, and general investment market performance.
- » To start receiving pension payments when you are eligible to retire, you will have to convert the locked-in retirement savings account to a life income fund (LIF), locked-in retirement income fund (LRIF), or buy an immediate annuity with an insurance company.
- » In the event of your death, your beneficiary assigned to your locked-in retirement savings account will receive the balance of your account.
- » You can decide what type of pension income to receive at retirement if you buy an annuity. The pension you purchase can provide inflation protection, a survivor pension, and/or have a guaranteed term.

- A Pension Adjustment Reversal may be generated when the funds are transferred out of the Plan, resulting in an increase in your RRSP contribution room.
- Taking a commuted value may impact your eligibility for post-retirement health benefits otherwise payable from your employer.

When considering a commuted value and the potential impact on your retirement income, ensuring you receive advice from a qualified professional subject to rigorous standards is recommended.

The commuted value option may be of interest to you if:

- You are disciplined, comfortable making investment decisions, and prepared to assume the individual investment risk.
- You are comfortable with retirement income that may vary with the potential for significant swings or you wish to have greater flexibility in how and when you draw upon your retirement savings.
- Your new employer has a pension plan. In this case, you may be able to transfer your commuted value to your new employer's pension plan.

Want to learn more?

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Disclaimer: The terms of the Plan are detailed in the Newfoundland and Labrador Public Service Pension Plan Plan Text (the Plan Text) and certain legislative requirements are provided under the Public Service Pensions Act, 2019 (the Act). In case of a discrepancy between this document and either the Plan Text or the Act, the Plan Text, the Act, and other plan documents will prevail.