

Pension Options – Costing and Benefits

Recommendation:

That the July 16, 2012, Corporate Services report 2012COH020, be received for information.

Report Summary

This report summarizes Human Resources' findings of costing and benefits examples of the Alberta Urban Municipalities Association Defined Contribution Pension Plan at 5.5%, 6% and 7% contribution rates at the current one-third tax exempt salaries and the equivalent grossed-up salaries.

Previous Council/Committee Action

At the June 25, 2012, Independent Council Compensation Committee meeting, the following motion was passed:

That Administration provide a report to the Independent Council Compensation Committee outlining examples of costing and benefits of the AUMA Defined Contribution Plan option at 5.5%, 6% and 7%.

Report

Currently, City of Edmonton Members of Council receive 11% of their total annual salary to support their retirement. This allowance is paid on a bi-weekly basis. One third of the retirement allowance is non-taxable.

The attachments reflect various contribution options to the Alberta Urban Municipalities Association Defined

Contribution Pension Plan using both the current one-third tax exempt salaries and grossed-up salaries. Employee and matching employer contribution rates of 3%, 5.5%, 6% and 7% are illustrated.

As the Members of Council will still receive a total of 11% contribution towards their retirement, participating in the Defined Contribution Pension Plan will direct a portion of the City's retirement compensation to the Pension Plan.

For illustration, at 3% employee contribution (to be paid in addition to salary, and then recouped from the Councillor as the employee contribution), the matching City contribution at 3% would total a 6% contribution to the Defined Contribution Plan. To retain the City's total contribution to the Member of Council at 11%, the remaining 5% retirement compensation could be paid to the Councillor.

However, at 7% contribution by each of the employer and employee, a total contribution of 14% would be made to the Defined Contribution Pension Plan. The City's total contribution of 11% to the Member of Council would be maintained, but an additional 3% would have to be made by the Member of Council.

Total investment earnings of participation in the Defined Contribution Pension Plan are shown in the attachments, assuming a 5% investment return.

Members of Council may accumulate higher investment earnings under a Defined Contribution Pension Plan

because employee contributions are required. The member of the Plan is then able to choose from a suite of investments.

Attachments 1 and 2 include similar Pension Plan option comparisons for the Mayor.

Attachments

1. Comparison of Elected Officials Defined Contribution Pension Plan Options – One Third Tax Exempt Salary
2. Comparison of Elected Officials Defined Contribution Pension Plan Options – Grossed Up Salary

**Comparison of Elected Officials Defined Contribution Pension Plan Options –
One Third Tax Exempt Salary**

Comparison of Elected Officials Defined Contribution Pension Plan Options One Third Tax Exempt Salary - Councillors Less than 63 years of Age						
Retirement Option	ER		EE		Total Contributions	Total Investment Earnings at 5%
	Annual	3 Terms	Annual	3 Terms		
AUMA Defined Contribution Pension Plan (Taxable Salaries)						
3.0%	\$1,759	\$15,832	\$1,759	\$15,832	\$31,664	\$39,752
5.5%	\$3,225	\$29,025	\$3,225	\$29,025	\$58,051	\$72,878
6.0%	\$3,518	\$31,664	\$3,518	\$31,664	\$63,328	\$79,504
7.0%	\$4,105	\$36,941	\$4,105	\$36,941	\$73,883	\$92,754
COE Retirement Compensation (Taxable Salaries)						
8.00%	\$4,691	\$42,219			\$42,219	\$53,003
5.50%	\$3,225	\$29,025			\$29,025	\$38,155
5.00%	\$2,932	\$26,387			\$26,387	\$33,127
4.00%	\$2,345	\$21,109		\$0	\$21,109	\$26,501
COE Retirement Compensation (Non- Taxable)						
11.0%	\$3,225	\$29,025		\$0	\$29,025	\$36,439

Comparison of Elected Officials Defined Contribution Pension Plan Options						
One Third Tax Exempt Salary - Councillors						
More than 62 years of Age but Less Than 72						
(Assume age 66) - Matures at end of year that reach age 71						
Retirement Option	ER		EE			
	Annual	3 Terms	Annual	3 Terms	Total Contributions	Total Investment Earnings at 5%
AUMA Defined Contribution Pension Plan (Taxable Salaries - 2 Terms)						
3.0%	\$1,759	\$10,555	\$1,759	\$10,555	\$21,109	\$24,522
5.5%	\$3,225	\$19,350	\$3,225	\$19,350	\$38,700	\$44,956
6.0%	\$3,518	\$21,109	\$3,518	\$21,109	\$42,219	\$49,043
7.0%	\$4,105	\$24,628	\$4,105	\$24,628	\$49,255	\$57,217
COE Retirement Compensation (Taxable Salaries - 2 Terms)						
8.00%	\$4,691	\$28,146			\$28,146	\$32,695
5.50%	\$3,225	\$19,350			\$19,350	\$22,478
5.00%	\$2,932	\$17,591			\$17,591	\$20,435
4.00%	\$2,345	\$14,073		\$0	\$14,073	\$16,348
COE Retirement Compensation (Non- Taxable - 2 Terms)						
11.0%	\$3,225	\$19,350		\$0	\$19,350	\$22,478
COE Retirement Compensation (Base Salary - 1 Term)						
11.0%	\$9,675	\$29,025		\$0	\$29,025	\$31,254

Comparison of Elected Officials Defined Contribution Pension Plan Options One Third Tax Exempt Salary (Mayor) Less than 63 years of Age							
Retirement Option	ER		EE		Total Contributions	Total Investment Earnings at 5%	
	Annual	3 Terms	Annual	3 Terms			
AUMA Defined Contribution Pension Plan (Taxable Salaries)							
3.0%	\$3,176	\$28,586	\$3,176	\$28,586	\$57,173	\$71,776	
5.5%	\$5,823	\$52,408	\$5,823	\$52,408	\$104,816	\$131,589	
6.0%	\$6,353	\$57,173	\$6,353	\$57,173	\$114,345	\$143,552	
7.0%	\$7,411	\$66,701	\$7,411	\$66,701	\$133,403	\$167,477	
COE Retirement Compensation (Taxable Salaries)							
8.00%	\$8,470	\$76,230			\$76,230	\$95,701	
5.50%	\$5,823	\$52,408			\$52,408	\$68,894	
5.00%	\$5,294	\$47,644			\$47,644	\$59,813	
4.00%	\$4,235	\$38,115	\$0		\$38,115	\$47,851	
COE Retirement Compensation (Non- Taxable)							
11.0%	\$5,823	\$52,409	\$0		\$52,409	\$65,795	

Comparison of Elected Officials Defined Contribution Pension Plan Options						
One Third Tax Exempt Salary (Mayor)						
More than 62 years of Age but Less Than 72						
(Assume age 66) - Matures at end of year that reach age 71						
Retirement Option	ER		EE		Total Contributions	Total Investment Earnings at 5%
	Annual	3 Terms	Annual	3 Terms		
AUMA Defined Contribution Pension Plan (Taxable Salaries - 2 Terms)						
3.0%	\$3,176	\$19,058	\$3,176	\$19,058	\$38,115	\$44,276
5.5%	\$5,823	\$34,939	\$5,823	\$34,939	\$69,878	\$81,173
6.0%	\$6,353	\$38,115	\$6,353	\$38,115	\$76,230	\$88,552
7.0%	\$7,411	\$44,468	\$7,411	\$44,468	\$88,935	\$103,311
COE Retirement Compensation (Taxable Salaries - 2 Terms)						
8.00%	\$8,470	\$50,820			\$50,820	\$59,035
5.50%	\$5,823	\$34,939			\$34,939	\$40,587
5.00%	\$5,294	\$31,763			\$31,763	\$36,897
4.00%	\$4,235	\$25,410		\$0	\$25,410	\$29,517
COE Retirement Compensation (Non-Taxable - 2 Terms)						
11.0%	\$5,823	\$34,939		\$0	\$34,939	\$40,587
COE Retirement Compensation (Base Salary - 1 Term)						
11.0%	\$17,469	\$52,408		\$0	\$52,408	\$56,432

**Comparison of Elected Officials Defined Contribution Pension Plan Options –
Grossed Up Salary**

Comparison of Elected Officials Defined Contribution Pension Plan Options Grossed Up Salary - Councillors Less than 63 years of Age						
Retirement Option	ER		EE		Total Contributions	Total Investment Earnings at 5%
	Annual	3 Terms	Annual	3 Terms		
AUMA Defined Contribution Pension Plan						
3.0%	\$3,082	\$27,737	\$3,082	\$27,737	\$55,475	\$69,645
5.5%	\$5,650	\$50,852	\$5,650	\$50,852	\$101,704	\$127,682
6.0%	\$6,164	\$55,475	\$6,164	\$55,475	\$110,949	\$139,289
7.0%	\$7,191	\$64,721	\$7,191	\$64,721	\$129,441	\$162,504
COE Retirement Compensation						
8.00%	\$8,218	\$73,966			\$73,966	\$92,860
5.50%	\$5,650	\$50,852			\$50,852	\$66,848
5.00%	\$5,137	\$46,229			\$46,229	\$58,037
4.00%	\$4,109	\$36,983	\$0		\$36,983	\$46,430

Comparison of Elected Officials Defined Contribution Pension Plan Options Grossed Up Salary - Councillors More than 62 years of Age but Less Than 72 (Assume age 66) - Matures at end of year that reach age 71							
Retirement Option	ER		EE				
	Annual	3 Terms	Annual	3 Terms	Total Contributions	Total Investment Earnings at 5%	
AUMA Defined Contribution Pension Plan (2 Terms)							
3.0%	\$3,082	\$18,492	\$3,082	\$18,492	\$36,983	\$42,961	
5.5%	\$5,650	\$33,901	\$5,650	\$33,901	\$67,802	\$78,763	
6.0%	\$6,164	\$36,983	\$6,164	\$36,983	\$73,966	\$85,923	
7.0%	\$7,191	\$43,147	\$7,191	\$43,147	\$86,294	\$100,243	
COE Retirement Compensation (2 Terms)							
8.00%	\$8,218	\$49,311			\$49,311	\$57,282	
5.50%	\$5,650	\$33,901			\$33,901	\$39,381	
5.00%	\$5,137	\$30,819			\$30,819	\$35,801	
4.00%	\$4,109	\$24,655		\$0	\$24,655	\$28,641	
COE Retirement Compensation (1 Term)							
11.0%	\$11,300	\$33,901		\$0	\$33,901	\$36,504	

Comparison of Elected Officials Defined Contribution Pension Plan Options Grossed Up Salary - Mayor Less than 63 years of Age						
Retirement Option	ER		EE			
	Annual	3 Terms	Annual	3 Terms	Total Contributions	Total Investment Earnings at 5%
AUMA Defined Contribution Pension Plan						
3.0%	\$6,146	\$55,315	\$6,146	\$55,315	\$110,629	\$138,887
5.5%	\$11,268	\$101,410	\$11,268	\$101,410	\$202,820	\$254,627
6.0%	\$12,292	\$110,629	\$12,292	\$110,629	\$221,259	\$277,774
7.0%	\$14,341	\$129,067	\$14,341	\$129,067	\$258,135	\$324,070
COE Retirement Compensation						
8.00%	\$16,390	\$147,506			\$147,506	\$185,183
5.50%	\$11,268	\$101,410			\$101,410	\$133,310
5.00%	\$10,243	\$92,191			\$92,191	\$115,739
4.00%	\$8,195	\$73,753		\$0	\$73,753	\$92,591

Comparison of Elected Officials Defined Contribution Pension Plan Options Grossed Up Salary (Mayor) More than 62 years of Age but Less Than 72 (Assume age 66) - Matures at end of year that reach age 71						
Retirement Option	ER		EE		Total Contributions	Total Investment Earnings at 5%
	Annual	3 Terms	Annual	3 Terms		
AUMA Defined Contribution Pension Plan (2 Terms)						
3.0%	\$6,146	\$36,876	\$6,146	\$36,876	\$73,753	\$85,675
5.5%	\$11,268	\$67,607	\$11,268	\$67,607	\$135,214	\$157,071
6.0%	\$12,292	\$73,753	\$12,292	\$73,753	\$147,506	\$171,350
7.0%	\$14,341	\$86,045	\$14,341	\$86,045	\$172,090	\$199,908
COE Retirement Compensation (2 Terms)						
8.00%	\$16,390	\$98,337			\$98,337	\$114,233
5.50%	\$11,268	\$67,607			\$67,607	\$78,535
5.00%	\$10,243	\$61,461			\$61,461	\$71,396
4.00%	\$8,195	\$49,169		\$0	\$49,169	\$57,117
COE Retirement Compensation (1 Term)						
11.0%	\$22,536	\$67,607		\$0	\$67,607	\$72,798