Pension Review

Recommendation:
That the June 25, 2012, Corporate Services report 2012COH016, be received for information.

Report Summary

This report summarizes Human Resources' findings of a review of the pension options and RRSP allowances for the City of Edmonton Council, City of Calgary elected officials and Alberta Urban Municipalites.

Previous Council/Committee Action

At the June 11, 2012, Independent Council Compensation Committee meeting, the following motion was passed:

That Administration provide a report to the Independent Council Compensation Committee outlining the following:

- terms and conditions of the RRSP allowance that City Council currently receives.
- review of City of Calgary elected officials proposals and current pension options.
- review of AUMA pension plan.
- possible pension options, pros and cons of RRSP versus pension, and any further relevant information.

Report

City of Edmonton RRSP Allowance

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 option to participate in the City of Edmonton Group Registered Retirement Plan is also available. Presently Great West Life is the carrier for the Group Plan.

The City of Calgary Pension and Proposals

The City of Calgary elected officials participate in an Elected Officials' Pension Plan and an Elected Officials' Supplementary Pension Plan. These two plans are defined benefit pension plans which provide a 2% retirement benefit based on the elected official's three years' final average earnings. The Plan provides for an unreduced early retirement benefit at age 60. A cost of living adjustment is paid annually at 66.7% of the annual Canadian Consumer Price Index. Members are required to contribute 6% of their taxable earnings.

Prior to 2006, the Elected Officials' Pension Plan contribution rate was 9% of taxable earnings. The contribution rate was lowered to 6% at the time that the non-taxable salary portion was eliminated, in order to maintain the same dollar value of member contributions. The grossing- up of the previously non-taxable portion of Council members' salaries resulted in an immediate increase in accrued pension benefits and an increase in Plan costs. The effect of the Council members' grossed-up salaries and reduced member contributions increased members' accrued pension benefits but reduced their share of the funding responsibilities. The Calgary Council Compensation Review

Committee recommended that Council approve the restoration of required Elected Officials' Pension Plan contributions to 9% of taxable earnings. Calgary City Council passed this recommendation at the January 23, 2012, meeting.

Both the Elected Officials' Pension Plan and Elected Officials' Supplementary Pension Plan provide two different Normal Forms of pension benefit for retirees with and without a spouse or common-law partner. A Normal Form of pension is generally a life annuity with a guarantee number of payments (e.g., payments for life of the plan member for a minimum of sixty months). The Normal Form must be specified in the Pension Plan.

A retiring member, with a spouse or common-law partner, is provided with a lifetime annuity or pension guaranteed for 60 monthly payments. If the member predeceases their spouse, the surviving spouse receives an annuity equal to 66.67% of the member's pension for the remainder of the surviving spouse's lifetime.

A retiring member without a spouse is provided with only a lifetime annuity guaranteed for sixty months.
Both plans offer the retiring members the option of selecting one of several other retirement options, subject to actuarial adjustment.

It is very common to provide different Normal Forms for partnered and single retirees but the forms are usually of equivalent value on an actuarial basis. Currently the elected officials' plans provide a more valuable pension to partnered retirees than to the single retirees.

The Calgary Council Compensation Review Committee recommended that Council approve an amendment that both the Elected Officials' Pension Plan and Elected Officials' Supplementary Pension Plan provide the same Normal Form of benefits to all retiring members, regardless of marital status, in the form of a lifetime annuity guaranteed for a minimum of 60 monthly payments. Members with partners may still elect an optional form of pension, such as one providing a continuing benefit to a surviving spouse, but the option chosen must be subject to an actuarial adjustment.

The Calgary Council Compensation Review Committee further recommended that the change should apply only to pension benefits accrued after the adoption date and previously earned benefits should remain unchanged.

Calgary City Council passed these recommendations at the January 23, 2012, meeting.

<u>Alberta Urban Municipalities</u>

The Alberta Urban Municipalities Association and Alberta Municipal Services Corporation provide five retirement service options, two of which City of Edmonton Members of Council are not eligible to participate in as participation in the Local Authorities Pension Plan is required.

The three Alberta Urban Municipalities options that City of Edmonton Members of Council may choose to participate in are:

1. <u>Alberta Communities Pension Plan (Defined Contribution plan for</u>

elected officials not eligible to participate in the LAPP).

The Alberta Communities Pension Plan is a defined contribution pension plan. This is a registered pension plan and is subject to the *Employment Pensions Plan Act* of Alberta and the Canada Revenue Agency.

Plan participation is voluntary and not dependent on all Members of Council's participation. Once enrolled in the Plan, the member must remain in the Plan until they cease to be an elected official of the municipality or they attain the age of 71, whichever comes first.

The member is vested after two or more years of continuous service with the current employer or two years of membership in the Plan. Once vested in the Plan, this means the Plan member is entitled to the employer contributions when they leave the Plan. Prior to vesting, the member is not entitled to the employer contributions upon termination from the Plan. They are entitled to their own contributions on termination.

Contributions to the Plan can be set between 3% and 7%. The municipality selects the contribution rate. Contributions made by the Members of Council are matched by the municipality. Member contributions are made with "before- tax" dollars.

The Plan member makes investment choices from a platform of investment options administered by Sun Life Financial.

2. Group Registered Retirement Savings Plan (RRSP)

Participation is voluntary and contributions are made through payroll deductions. The employer may make contributions to the Plan but is not required to. All employer contributions are taxable to the member.
Employee and employer (if applicable) contributions in a group RRSP are vested immediately

3. Tax Free Savings Account (TFSA)

Contributions to the TFSA are voluntary. There are no employer contributions to a TFSA. The fund options available are the same as are available in the Group RRSP.

Options for Edmonton Members of Council

Any Member of Council may participate in any of the three options described. If the Member of Council chooses not to participate in the Alberta Communities Pension Plan, he/she may still participate in the Alberta Urban Municipalities group RRSP and/or the TFSA. Members of Council currently have total discretion with the retirement compensation they receive. The benefit of contributing to the Alberta Communities Pension Plan, the Alberta Urban Municipalities group RRSP, or TFSA is that it would be disciplined savings through payroll deduction.

If Members of Council were to participate in the Alberta Communities Pension Plan (Alberta Communities Pension Plan), they will be required to make contributions to the Plan. If the contributions were at the maximum percentage of contributions allowed under the Plan, the annual cost to the City and each Member of Council participating would be $$9,675 using the maximum Members of Council salary of $87,955.

Participation in the Alberta Communities Pension Plan would reduce the City's current contribution level as the City contributes eleven percent towards Members of Council's retirement compensation. Maximum contributions the City could make towards the Alberta Communities Pension Plan are seven percent. Members of Council would see an increase to their costs as they would have to contribute the same amount as the City towards the Alberta Communities Pension Plan.
Although Members of Council have the opportunity to invest in their own RRSP, the advantage of the Group RRSP is that the platform of funds chosen has been assessed for risk, reward, performance and fees. Some of the chosen options, such as "Target Date Funds" are typically not available to individuals through the retail market. This is a fund that is designed to adjust the asset mix from a more aggressive to a more conservative mix as you approach retirement. The member selects the Target-Date fund closest to the date of their target retirement date and the asset mix will be adjusted accordingly as the member moves closer to retirement.

Currently two-thirds of the Member of Council's retirement compensation is taxable and one-third is non-taxable. If the taxable portion of the retirement compensation were contributed to the RRSP, the taxable portion would be tax-deferred. The investment returns would be taxed when the monies are withdrawn from the RRSP. Because an RRSP contribution through payroll deduction is not taxed at source, this means that the tax deduction is received immediately and the Member would not have to wait until tax time to receive their tax-deduction. The additional benefit of contributing to an RRSP on a regular basis is the benefit of tax-deferred compounding investment returns.

If the non-taxable portion of the retirement compensation were to be invested in a TFSA, the monies would remain tax-free as the investment returns from a TFSA are tax free when withdrawn from the Plan.

<u>Plan Termination Options</u>

Pension legislation requires that, once vested, employee and employer contributions to a pension plan are "locked-in". This means that, once vested, a member would not be able to withdraw their pension funds until they formally retire. If they leave the Plan before retirement age, they are eligible to receive the value of the pension they earned.

In Alberta, this could occur as early as age 50. Funds, once transferred out of the pension plan will flow into a Locked in Retirement Account (LIRA). The pensioner would then have a choice to convert the account into a life annuity or Life Income Fund (LIF).

Group RRSP plans can be withdrawn as a lump sum cash payout, transferred into an annuity or withdrawn as a Registered Retirement Income Fund (RRIF). There is no age restriction to withdraw funds from a RRIF.

<u>Retirement Compensation Options</u>

Attachment 3 compares the various retirement compensation options. A 5%

annual investment earnings for the various plans is assumed. The first chart shows calculations for all 9 years. The second chart shows calculations for 5 years for some of the options (DB and DC pensions, RRSP), assuming age 66 for the Councillor. At age 66 there are only 5 years of contributions until maturity as the *Income Tax Act* states these plans must mature at age 71. There cannot be any further benefit accrual after age 71.

The only two options that are not subject to maturity are the COE Retirement Compensation and TFSA.

Attachments

1. Review of Elected Officials Retirement Options
2. Pros and Cons of Pension, RRSP and TFSA
3. Comparisons of Elected Officials Retirement Compensation Options

Review of Elected Officials Retirement Compensation Options

City/ Organization	Plan Type	Basic Plan Provisions	Contributions		
				City	Member
City of Edmonton	RRSP	City pays a retirement compensation in lieu of pension contributions	Fixed % of salary	11%	0%
City of Calgary	Defined Benefit Pension Plan – registered and supplemental	2% Accrual, 3 year final average earnings, 66.7% Cost of Living Adjustment, Unreduced Early Retirement at 60	Member % is fixed and the City pays the rest	19.18%	6%
ALBERTA URBAN MUNICIPALITES	Defined Contribution Pension Plan	Voluntary participation, 2-year vesting, member and municipality matched contributions, investment options administered by Sunlife Financial	Contributions are set by the municipality from within a range as per the guidelines of the plan	3% to 7%	3% to 7%
	RRSP	Participation is voluntary, contributions are through payroll deductions, municipality may make contributions, contributions are vested immediately	Contributions can be a % of pay or a fixed dollar amount	Maximum contributions are up to the limit of the member's available RRSP room as per CRA	
	Tax Free Savings Account (TFSA)	Contributions are voluntary, employee contributions only allowed	CRA provides the TFSA contribution room on the member's	No set contribution rate, annual maximum contributions allowed to a total	

			Notice of Assessment.	of $5,000

Pros and Cons of Pension, RRSP and TFSA

	Pros	Cons
Retirement Compensation	• Complete flexibility and control of investments	• Choosing the appropriate investment to ensure retirement benefits is the member's risk
Defined Benefit Pension	• Benefit is determined by a formula – so member's end benefit is know in advance • Employee contribution rate is set; the employer is responsible for any additional funding • Investment risk is the employer's	• Benefit is linked to the length of service with an employer • Annual RRSP room is reduced to reflect your accrued benefit in the plan
Defined Contribution Pension	• Member's contribution level is known so the beginning benefit is known in advance. • Employee and employer contribution rates are set	• Investment risk is the employee's • No guaranteed income at retirement as the benefit is determined by the contributions and how well the members investment earnings have done • Annual RRSP room is reduced to reflect your contributions to the plan
RRSP (Registered Retirement Savings Account	• Tax deferral plan – contributions are tax deductible • Carry forward unused contribution room • Contributions – 18% of earned income up to the member's annual maximum as determined by CRA	• Must mature by the last day of the year in which the member turns 71 • Withdrawals are taxable • Impacts government benefits such as OAS or GIS • Contribution room is not restored after a withdrawal
TFSA (Tax Free Savings Account	• Annual maximum contribution is $5,000 regardless of earned income • No maturity limit • No impact on government benefits such as OAS or GIS • Contribution room is restored after a withdrawal • Carry forward unused contribution room • Withdrawals are tax free	Contributions are not tax-deductible

Comparisons of Elected Officials Retirement Compensation Options

Less than 63 Years of Age

Retirement Option	Employer		Employee		Total Contributions	Total Investment Earnings	DB Pension Earned Benefit
	Annual	3 Terms	Annual	3 Terms			
COE Retirement Compensation	$9,675	$87,075	N/A	N/A	$87,075	$109,307	
COC Defined Benefit Pension Plan	$9,763	$87,867	$5,277	$47,493	$135,360	$177,939	$211,332
ALBERTA URBAN MUNICIPALITES Defined Contribution Pension Plan 3% 7%	$1,759 $4,105	$15,831 $36,945	$1,759 $4,105	$15,831 $36,945	$31,662 $73,890	$39,749 $92,764	
RRSP at 18%	$0		$10,555	$94,995	$94,995	$119,260	
TFSA	N/A		$5,000	$45,000	$45,000	$56,494	

More Than 62 Years of Age but Less Than 72
(Assume age 66) – Matures at end of year that reach age 71

Retirement Option	Employer		Employee		Total Contributions	Total Investment Earnings	DB Pension Earned Benefit
	Annual	3 Terms	Annual	3 Terms			
COE Retirement Compensation	$9,675	$87,075	$0		$87,075	$109,317	
COC Defined Benefit Pension Plan	$9,763	$48,815	$5,277	$26,385	$75,200	$87,288	$141,641
ALBERTA URBAN MUNICIPALITES Defined Contribution Pension Plan 3% 7%	$1,759 $4,105	$8,795 $20,525	$1,759 $4,105	$8,795 $20,525	$17,590 $41,050$	$19,919 $46,486	
RRSP at 18%	$0		$10,555	$52,775	$52,775	$59,763	

TFSA	N/A	$5,000	$45,000	$45,000	$56,494	