Introductions

• Background & How CPP Expansion Affects Your Plan
  – Greg Heise, Partner, George & Bell Consulting

• Private-Sector Perspective & the ORPP
  – Jo-Ann Hannah, Director, Pension and Benefits, Unifor

• Public-Sector Case Study: B.C. College Pension Plan
  – Dominique Roelants, Executive Officer, B.C. College, Public Service & Teachers’ Pension Boards

* Comments made at this session are strictly the views of the speakers and were derived from sources that have been publicly available.
Background & How CPP Expansion Affects Your Plan

Panelist: Greg Heise, Actuary & Partner
George & Bell Consulting
CPP Background

- Formed in the mid-1960s, CPP is an employment-based social security program
  - vs. Old Age Security (OAS) which is residency-based
- Provides pension of 25% of final earnings, subject to earnings caps and contribution history
- Employers / employees share contributions equally
  - First generation of employees received larger benefits than contributions would have otherwise supported
  - Current actuarial reports show stable long-term contribution rate, but contributions significant higher now (9.9% total)
CPP Integration

• Since 1960s, employment pension plans (RPPs) have considered the effect of social security programs
• CPP (and OAS to a lesser extent) is considered in the benefit formulas of many public and private sector RPPs
• Other minor effects of CPP on benefits from RPPs:
  – Small benefit unlocking rules
  – Small benefit force-out rules
  – Maximum bridging benefits
  – Maximum enhanced disability benefits
  – Integrated optional forms in pension upon retirement
CPP Integration Types – DB Plans

• Implicit:
  – RPP benefit formula considers CPP coverage
  – e.g. RPP formula = 1.4% FAE below FYMPE, 2.0% above
    • FAE = final average earnings
    • FYMPE = final average YMPE
  – common in private-sector plans

• Explicit:
  – RPP benefit formula is reduced by CPP benefit
  – e.g. RPP formula = 2.0% FAE – CPP benefit
    • implies a bridging benefit from early retirement to age 65
No Integration

- Flat benefit plans
  - e.g. $50/month per year of service
  - Common to many multi-employer pension plans
- Some private-sector DB plans
  - e.g. 2% x FAE x Years of Service
  - Some provide a bridge benefit on top, if retire prior to 65
- DC / RRSP programs
  - e.g. 5% employee contribution subject to match by employer
Private-Sector Perspective & The ORPP

Panelist: Jo-Ann Hannah, Director Pension and Benefits
Unifor
Lessons with the Ontario Retirement Pension Plan (ORPP)
Labour’s Goals
Ideal: Mirror the CPP

• Universal
• Mandatory
• Employer/Employee shared contributions
• Defined Benefit
• Indexed to inflation
• Publicly administered
• Independent Investment Fund
Latest ORPP Details

- Contributions:
  - 1.9% Employer and Employee (each)
  - Earnings $3,500 to $90,000

- Defined Benefit:
  - 15% of earnings
  - indexed
“Comparable” Plans Exempt from ORPP

- Registered Plan - not RRSP or DPSP
- Defined Benefit minimum 0.5% of earnings
- Defined Contribution minimum 8% of earnings and employer contributes half
- MEPPs – either DB or DC test
“Waves” of Implementation

• Large (500+ employees) 2017 2018
• Mid-size (50+ employees) start 2018
• Small (<50 employees) start 2019
• Employers with registered plan but not “comparable” start 2020
  – or make plan “comparable”
Contributions

• Waves 1 – 3
  – Employer & employee contributions phased over 3 years
  – 0.9% - 1.6% - 1.9%

• Wave 4
  – Make plan “comparable” or
  – Immediate 1.9% ORPP contribution
Collective Bargaining

Employers Demand “Offset” for ORPP

• Group RRSP 3% employer contribution
  – 1.9% contribution to ORPP
  – 1.1% contribution to RRSP

Cost neutral to employer = 3% to retirement income
Collective Bargaining

Employers Demand “Offset” for ORPP

- No pension plan (and likely low earnings)
  - Reductions in wages or other compensation

Cost neutral to employer = employee paid retirement
Collective Bargaining
Comparable Plan? Or ORPP?

- Current DC plan:
  - 3% employer contribution and voluntary 3% employee contributions

- Comparable DC Plan:
  - 4% employer and 4% employee contributions

- ORPP:
  - 1.9% employer and 1.9% employee contributions
CPP or ORPP?
Public-Sector Case Study: B.C. College Pension Plan

Panelist: Dominique Roelants, Executive Officer
B.C. College, Public Service and Teachers’ Pension Boards
(Former Chair of the BC College Pension Board, appointed by FPSE and former FPSE Vice President)
De-integrating from the CPP: BC College Pension Plan Experience

• Outline:
  – Initial plan rules
  – Union policy
  – Talk of doubling the YMPE
  – Risk to plan members
  – What response to the risk?
  – The solution chosen
  – And some questions about that solution
De-integrating from the CPP: Initial Plan Rules

• For service prior to 1966
  – Full 2% pension

• For service in 1996 and until late 1990s
  – 1.3% below YMPE
  – 2% above YMPE

• Improved the below YMPE coverage first to 1.35% then in January 2002 to 1.7% (both retroactively)

• Unreduced pensions available at age 60
De-integrating from the CPP:
Union policy

• Wanted full 2% pension
• Wanted improved inflation protection
De-integrating from the CPP: Talk of doubling the YMPE

• Canadian Labour Congress
  – Pension Conference in 2007
  – Launches “Retirement Security for Everyone” campaign in 2009

• Others have also indicated support for CPP expansion

• Suggested solutions initially included:
  – doubling the replacement rate
  – doubling the YMPE
De-integrating from the CPP: Risk to plan members

- Big Risk to many members of Defined Benefit Plans that are integrated with the CPP
  - BC College Plan (1.7% Accrual below YMPE):
    - Average salary in 2014: $82,800
    - YMPE in 2013: $51,100
    - Average Years of Service: 16
    - Average Lifetime Pension: $24,000
    - Average lifetime pension if YMPE doubled: $22,500
  - Loss of value for average member is over 6%
De-integrating from the CPP: Risk to plan members

- Big Risk to many members of Defined Benefit Plans that are integrated with the CPP
  - BC Teachers Plan (1.3% accrual below YMPE):
    - Average salary in 2014: $80,000
    - YMPE in 2013: $51,100
    - Average Years of Service: 25
    - Average Lifetime Pension: $31,100
    - Average lifetime pension if YMPE doubled: $26,000
  - Loss of value for average member is over 16%
De-integrating from the CPP: What response to the risk?

• Where does that money go?
  – Big surplus
  – Benefit improvements?
  – Contribution rate reductions?

• Or perhaps make the question moot?
De-integrating from the CPP: Potential options?

- Do nothing
- Remove YMPE reference from rules and replace with something else
- Move to a flat rate pension
De-integrating from the CPP: The BC College Pension Plan solution

• Had to be “cost neutral”
• Goal was to
  – get to a 2% pension
  – get rid of unintended subsidies
• Moved from 1.7%/2% with 3% reduction from 60 to a flat 2% with 3% reduction from 65
• Break even point was 62 for average member
• Had some savings to improve inflation protection
Conclusions

Panelists: All
Addressing CPP Expansion

• If currently integrated:
  – Reaffirm intention of integration & examine options to address

• If not currently integrated:
  – Sponsors may reconsider in light of higher CPP contributions

• Other:
  – Actuarial costings likely necessary
  – Consider CPP expansion phase-in on any integration changes
  – Consider PBSA restrictions on benefits reductions and member notice
  – Don’t forget about the small stuff (e.g. unlocking)
Addressing CPP Expansion

- Finance Minister Bill Morneau, Feb. 18th:
  "Our goal is to work together with all provinces and territories to get to a Canada Pension Plan enhancement, and our aim is to do that in a collaborative way this calendar year,..."