



RETIREMENT SAVINGS: A GUIDE

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Introduction

Workplace Pensions and other retirement savings

This guide provides basic information on pensions and other retirement savings vehicles. Its main purpose is to educate OPSEU members on the different types of available retirement savings vehicles and encourage members to start saving early, in whatever way best suits them.

If you are not sure what's available to you, check your collective agreement. If you don't find anything, don't stop there. It may be your collective agreement is silent on the issue of retirement savings. If this is the case, do not assume there is no retirement savings plan. Sometimes collective agreements are silent on

retirement savings because the employer refuses to put it in, or the plan is not negotiated. Even so, there may still be a plan in place. Be sure to check with your local union representative and/or your human resources department.

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When it comes to retirement savings, pension plans are the best way to ensure you a have sufficient and sustainable retirement income. They are tax effective for both employers and members and support a disciplined way to save for retirement, often without members even missing the savings. Unfortunately, they are not available to everyone; in an ideal

world they would be. OPSEU continues to fight on behalf of our members so that everyone can enjoy their retirement with a secure income.

Workplace pensions

Let's take a look at some basic information about pensions. There are two main types of pension plans:

Defined benefit pension plans

A defined benefit pension plan (sometimes referred to as a DB plan) is a superior form of pension plan for workers. In a typical defined benefit pension plan, the member will make contributions and their employer will at least match them. Member contributions are tax deductible for the employee. The contribution that the employer makes is not included in the member's taxable income.

Highly-skilled money managers invest the contributions made to the pension plan in order to provide a benefit at retirement that is guaranteed; members do not have to worry about making investment choices themselves. In this type of plan, the benefit members will receive at retirement is known years in advance. It is "defined." The formula often looks something like this:

$$\text{Years of service} \times \text{benefit amount} = \text{pension amount}$$

Members will receive a yearly statement showing when they can retire and how much they can expect to receive during their retirement. This is what is known as the pension promise. These pension plans have expanded benefits such as:

- Guaranteed lifetime income – as long as the member is alive they will receive a monthly pension.
- Survivor pension – if the member passes away first, their spouse will receive a 60 per cent survivor pension for life.
- Portability – if the member leaves employment prior to retirement, they could be allowed to transfer their pension between plans or into a self-directed investment account.

In addition to these benefits, many plans may also offer other benefits such as:

- Inflation protection – many plans will index pensions to ensure buying power remains consistent throughout retirement.
- Unreduced early retirement – many plans allow members to retire prior to age 65 without a reduction being applied to their pension, if they meet certain criteria.
- Bridge benefit – if a member retires prior to age 65, many plans will pay an extra amount until the member turns 65 to "top up" the money they are receiving until they are eligible to receive Canada Pension and/or Old Age Security.
- Disability pension - many pension plans offer a benefit if the member becomes disabled prior to retirement age.

Money put into a defined benefit pension plan generally generates greater returns from investments than individuals acting alone. More money is available to members for their retirement. In fact, in a defined benefit pension plan, approximately 70 per cent of the pension payment received in retirement

is a result of investment returns, and contributions only represent approximately 30 per cent. Another great feature is that longevity risk is spread among all participants of the plan. Members do not have to worry about outliving their money. Defined benefit pension plans have lower administrative and financial management costs. In addition, the large capital in these funds allows them to successively weather the volatility of the markets, and provides

access to greater investment income opportunities.

When a member of a defined benefit pension plan wants to retire, they simply notify their employer and

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the employer assists them in getting the appropriate forms completed and sending them with supporting documentation to the pension plan, which in turn arranges for their pension to commence on their retirement date.

Defined contribution pension plans

While not as good as defined benefit pension plans, defined contribution pension plans are still an excellent way to create a disciplined approach to saving for retirement. Typically, in a defined contribution plan (sometimes referred to a DC plan) members and their employer will contribute an agreed amount each month (the employer must make a minimum one per cent contribution in Ontario), and this amount is put into a locked-in individual account. Like in a DB plan, the contributions made to these plans are tax deductible for both the employee and the employer. Typically, members are responsible for investing the money through the investment choices made available to them through the plan (typically mutual funds, and guaranteed investment certificates), and their retirement savings grow over time based on the market and the nature of the investments chosen. Members bear all of the investment risk and, unlike a DB plan, there is no guarantee on how much pension a member will receive.

Members participating in these types of plans should ensure that they understand how much they are paying to have their money managed within the mutual fund in which they invest. The cost is

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expressed as a management expense ratio (MER). MERs can be as high as 2.75 per cent or more. If the MER is 2.75 per cent members will not make any money on the investment in any year when the returns are less than 2.75 per cent, and could in fact lose money if the fund only makes one per cent. Index funds can be a good way to pay lower fees and diversify investments. They tend to have lower MERs and no front- or back-end fees.

If you are in a defined contribution plan, learn as much as you can about the markets, the funds you have available to you, and what the costs are for investing in those funds. Ensure you understand whether they have any front-or back-end additional fees. Ensure that you use all of the tools available to you through the mutual fund provider. They often have tools that will help you assess your risk tolerance.

Another thing to consider is your time horizon; make your investment decisions according to those. While you are younger, you have the ability to take on more risk because you have time to make up any losses. The closer you approach retirement, the less risk you can afford to take as you will need your money sooner rather than later. Remember that risk and reward are linked. It's pretty hard to make a lot of money on a low risk investment, especially when interest rates are at historic lows. At the same time, it is pretty hard to lose a lot of money on a low-risk investment. The challenge is that you need to try and maximize your returns to generate a good retirement income and that usually means taking on some risk.

Seek out independent financial advice if you do not understand an investment, are not clear on its terms, or feel ill prepared. Independent means that you pay for the advice yourself. This helps ensure that the

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advice is what is best for you, not best for the advisor: they can be receiving commissions on funds they sell.

When you retire in a defined contribution pension plan, you have two options: 1) purchase an annuity based on the current market value of your account; or, 2) open a life income fund and manage your own retirement income.

If you choose to purchase an annuity, it will act very much the same as a pension. You will receive a monthly income and it can be payable for life or for a fixed amount of years, depending on what type of annuity you purchase.

How much of an income stream your DC account will

buy will be based on numerous factors, including: long term interest rates at the date of purchase, what features you choose for your annuity, how old you are, and whether you are a man or a woman.

Unfortunately, for every feature you wish your pension to have, you will have to pay the insurance company for it. Want a payment guarantee period? You will pay a premium for it. Want a survivor benefit? You will pay for that as well. Want your payments to be indexed to inflation? That is an additional cost. Are you a woman? That will cost you extra as well (because statistically women live longer than men). Although they can be expensive, especially in low-interest-rate environments, annuities can protect you from outliving your money. You essentially can transfer your longevity risk (the risk of outliving your money) to the insurance company, for a price.

There are many sources on the internet that can provide you no-obligation quotes on annuities so you can get an idea of the amount of money you would need in order to buy yourself an adequate retirement income in today’s economic environment.

If you choose to open a life income fund when you retire,

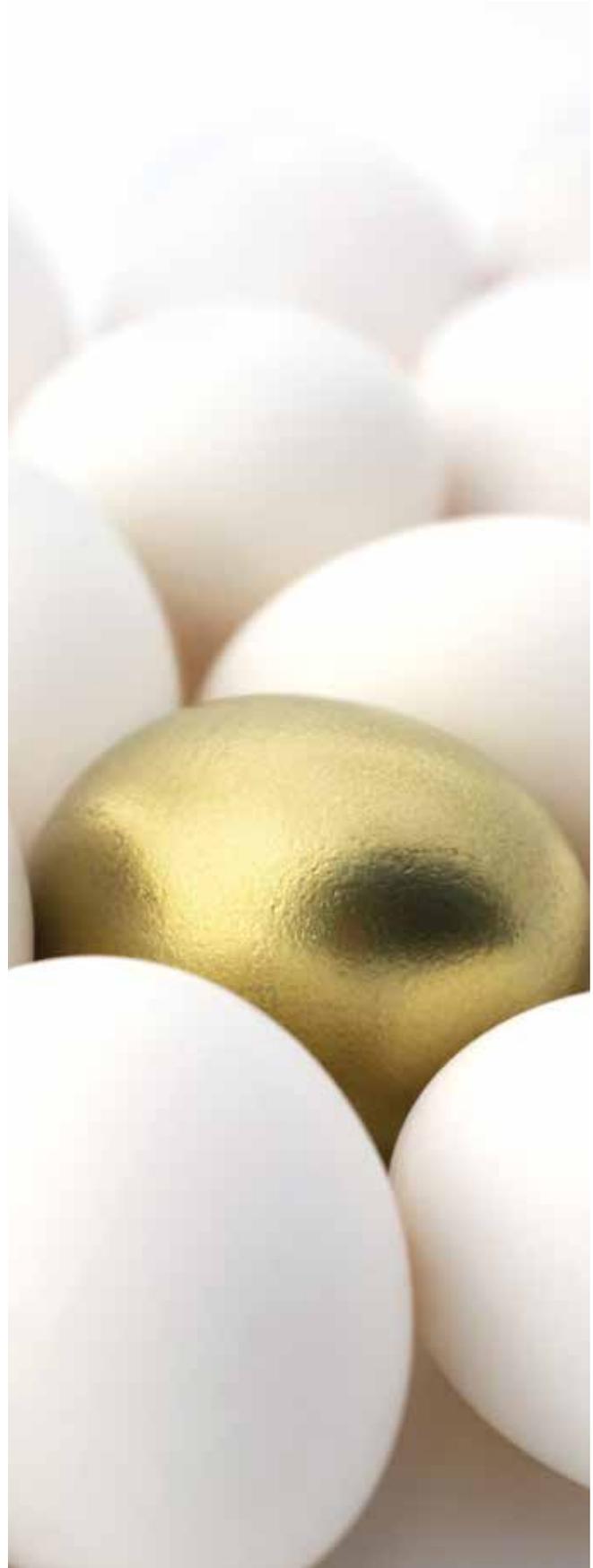


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you take on the risk of outliving your money. The upside is that you keep more of your money in your pocket. Hopefully over the years of managing your defined contribution pension plan, you have made the time to really understand investing and risk as you will have to continue to invest and manage your money yourself. You will need to take out enough each year to keep the Canada Revenue Agency happy, but not so much that you go over the province’s maximum amounts. You also need to try and ensure that you don’t run out of funds too early. It’s a hard balance to get right, but it is less expensive than purchasing an annuity and leaves you with more control over your funds.

Hybrid, targeted or minimum benefit plans

We won’t go into much detail here but it is safe to say these types of plans are a combination of the features of defined contribution and defined benefit plans. Depending on the specific plan there is usually contribution certainty for the employer and member. There can also be a minimum benefit that is guaranteed, or a benefit that is “targeted” but not guaranteed. Depending upon the plan, highly trained and skilled money managers may make investment choices for the plan as a whole (just like a defined benefit pension plan), or individuals may still have to make those decisions (just like a defined contribution pension plan). These types of pension plans usually have at least some of the benefits that are mentioned in the defined benefit plan section above (e.g., guaranteed lifetime income, survivor pension).



Other retirement savings

There are other retirement savings vehicles that are not pension plans, but can be used to save and provide you with income in retirement, such as a registered retirement savings plan (RRSP) accounts and tax free savings accounts (TFSA). Here is a little more information on each:

Registered retirement savings plans (RRSP)

RRSPs have been around since 1957 and are quite similar to defined contribution plans. Contributions made by the employee are tax deductible by the employee. If an employer is offering this type of savings vehicle to its employees they will often make contributions as well, but it is important to note that these contributions are added to the members' taxable income. Contributions are deposited into an individual account and any investment gains are sheltered from tax while in the account. Members make all of the investment decisions and bear all of the investment risk.

The main difference between an RRSP and a defined contribution pension plan is that because RRSPs are saving plans rather than pension plans, RRSP funds are not "locked-in" by legislation.

Each year you are allowed to contribute up to 18 per cent of your previous year's earnings into an RRSP. This is sometimes referred to as your RRSP "room." If you do not contribute the maximum in one year, you can carry forward any unused amounts to the following year and make an even bigger contribution then, or continue to grow your RRSP room.

You are allowed to borrow money from your RRSP (but it has to be paid back later) to buy a home (Home Buyers' Plan - \$25,000 maximum) or borrow to pursue education (Lifelong Learning Plan - (\$10,000 per year to \$20,000 maximum). You can also withdraw money from an RRSP. However it is important to note that you only receive a certain amount of room, and if you remove money from your RRSP (outside of the borrowing opportunities cited above), you cannot replace those funds in the future. Once you remove

those funds, that RRSP room is lost.

At retirement, money from RRSPs can be used to purchase an annuity or open a retirement income fund. Money in an RRSP becomes taxable when you take it out unless transferring it into another tax-sheltered vehicle. The idea behind RRSPs is that you contribute to it to take advantage of tax deductions when you're at a higher tax bracket, and take it out when you are in a lower tax bracket.

Your maximum RRSP contribution is calculated by calculating 18 per cent of your gross income or \$25,370 (as of 2016) – whichever is lower. Any unused contribution room can be carried forward to the next year.

Tax free savings accounts (TFSAs)

TFSAs have been around since 2009 and are funded with after-tax income. This means that you don't get a tax refund by contributing to a TFSA. However, any investment income you generate within a TFSA is not taxable and can also be taken out of your TFSA without penalty. Taking money out of your TFSA will not affect your eligibility for government benefits such as the Guaranteed Income Supplement or affect the amount of Old Age Security you are entitled to.

If you do withdraw money from your TFSA, you need to be careful about contributing it back within the same tax year. You only get back your contribution room in the year following the withdrawal. For example, you will pay a penalty if

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you max out your contribution and then re-pay any monies you may have withdrawn from that account in the tax year.

You can contribute up to \$5,500 per year to a TFSA. (It

is now indexed to general inflation after briefly being raised to \$10,000 per year – with no indexing – under the previous federal Conservative government in 2015). Currently, in 2016, if you have never contributed to a TFSA, you can contribute up to \$46,500.

Government plans

As mentioned earlier, there are government plans that have been in place for quite some time that create a good foundation for retirement income, such as the Canada Pension Plan.

Canada Pension Plan (CPP)

The CPP is a defined benefit pension plan. The plan is on firm ground in terms of funding. The CPP, which was introduced in 1966, was set up to provide for a maximum replacement income of 25 per cent of the average industrial wage for a working life of 40 years. In 2016, the maximum amount payable is \$1,092.50 per month, though the average amounts to \$643.11 per month.

The plan also provides for survivor benefits, disability pensions and death benefits.

The federal government recently announced improvements to the Canada Pension Plan which would increase the replacement income to approximately 33 percent of a higher maximum. However, the deal has not been ratified by all of the provinces, nor are any further details available

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as of the writing of this document.

Old Age Security (OAS)

Old Age Security is a government retirement income program that has been in existence since 1952. It is funded through tax revenue collected by the government of Canada and is an important source of income for low- to middle-income Canadians.

The previous federal government attempted to reduce these benefits but that plan was reversed by the current government.

As of January 1, 2016, the basic OAS pension amounts to a maximum of \$570.52 per month. OAS benefits are also increased quarterly based on changes to the consumer price index. Although OAS and CPP benefits are not indexed at the same time, they are both adjusted to annual cost-of-living increases.

Guaranteed Income Supplement (GIS)

The GIS was introduced as a temporary measure in 1967 and made a permanent feature of the retirement income system in 1976. It provides a monthly non-taxable benefit to Old Age Security pension recipients who have a low income (an annual income of \$17,376 or less for a single person in 2016) and who live in Canada.

For additional general information regarding Old Age Security, and the Guaranteed Income Supplement or the Canada Pension Plan, contact Service Canada at www.servicecanada.ca or by calling toll-free in Canada and the United States: **1-800-277-9914**.

If you have a hearing or speech impairment and use a teletypewriter (TTY): **1-800-255-4786**

From outside Canada and the United States (collect calls accepted): **613-990-2244**.



Preparing for retirement - what you can do

1. Start early

If you have access to a pension plan or other retirement savings option at your workplace and have not already signed up, look into it.

The following websites are for the major defined benefit pension plan that OPSEU sponsors:

- OPSEU Pension Trust: **416-681-6161** or toll-free in Canada: **1-800-906-7738**

<http://www.optrust.com/jointheplan/default.asp>
for OPSEU members working for the Ontario Public Service or one of its agencies, boards or commissions.

- CAAT Pension Plan: **416-673-9000** or toll-free in Canada: **1-866-350-2228**

<https://www.caatpension.on.ca/en/members/new-members> for OPSEU members working at Ontario colleges or related employers.

- OMERS: **416-369-2400** or toll-free in Canada: **1-800-387-0813**

http://www.omers.com/pension/join_the_plan.aspx
for OPSEU members employed in a workplace funded by a municipality.

- HOOPP: **416-646-6445** or toll-free in Canada: **1-877-434-6677**

<http://hoopp.com/Joining-HOOPP/> for OPSEU members working in most hospitals or in some other healthcare-related employer.

“Check out your eligibility to join a pension plan as many of them allow you to join as soon as you are hired. For others, there is a waiting period.”

2. Learn about your pension or other retirement savings plan and how it works

- review your pension or investment statements
- learn about all the benefits and options you have
- attend an information session offered free by your pension or retirement savings plan provider
- use any and all tools that your employer or plan provider make available to you

3. If you are part-time or casual do not assume that you can't join.

Check out your eligibility to join a pension plan as many of them allow you to join as soon as you are hired. For others, there is a waiting period. Know when your waiting period expires and then join. Don't leave money on the table – remember your employer is very likely to put some sort of contribution toward your plan.

4. Educate your members

Share information with your co-workers about

their pension or other workplace retirement savings plan, and encourage them to join it if they haven't done so. See if you can get the pension plan or retirement savings provider to deliver an overview of the plan for your members.

5. Learn about your Canada Pension and Old Age Security.

What you will get when you retire? How old do you have to be to access the benefits? Do they provide other benefits you may be eligible for? How do they work and when do you have to apply?

6. Bargain improvements

If you don't have a workplace pension or retirement savings plan, bargain one. If you do have one but it is too modest, bargain improvements so that you and your colleagues will enjoy better and more secure retirement years. Investigate your options of adopting a defined benefit pension plan.

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Conclusion

This booklet has been prepared to provide you with more insight into workplace pension and savings programs and hopefully you are now thinking more about retirement savings. We encourage you to investigate what types of retirement savings plans are available in your workplace, and take advantage of them. You can contact your steward or your OPSEU staff representative for more information. If they are unable to provide assistance, you can contact the

OPSEU Pensions and Benefits unit. Please email us at pensionsandbenefits@opseu.org or call **1-800-268-7376** and ask to be connected with us. We'd be happy to help.

This publication contains general information and is intended as a reference guide only. It is not intended as a substitute for independent legal advice regarding your specific circumstances.

