Municipal Pension Plan Partners' Redesign

Moving forward together

Proposed Plan Design Changes

What it means for Group 1 employees (General Membership)

CUPE LOCAL 1004

UNITED SINCE 1911

BACKGROUND

- BC's Municipal Pension Plan is one of the largest pension plans in Canada.
- The plan has not had a redesign in 50 years, and it is time to review it.
- The plan is a joint trusteeship and is managed by plan members and plan employers.
- The representatives of plan members and plan employers are called plan partners.

GUIDING PRINCIPLES

The plan partners' have done this, guided by the following principles:

- improving equity for members,
- aligning benefits with how the majority of members use them,
- setting a strong foundation for the long-term sustainability of the plan, and
- staying within the current cost envelope.

IMPORTANT CONSIDERATIONS

- These are proposed changes. The Plan Partners will consider feedback and a final decision will be made in Spring 2021.
- Proposed changes would apply to future service only. (After January 1, 2022)
- The changes would be adopted as a package, not individually.
- Each member is unique and key factors will play a role on how proposed changes may affect you. These include:
  - Your age
  - Your age at retirement
  - Your highest average salary
  - Total years of pensionable services and contributory service

PLAN MEMBERSHIP*

- Within the plan there are:
  - **213,111 active members**
    - ~97% are general membership – Group 1
    - ~3% are Public safety (firefighters and police) – Groups 2 and 5
  - **106,058 retired members**
  - **45,316 members with contributions in the plan, no longer working for a plan employer**
- Proposed changes primarily affect active members.
- Some key features benefit retired members.

**As at December 31, 2019*

YMPE

- Each year, the federal government sets the **year's maximum pensionable earnings** (YMPE).
- This is the maximum salary amount on which you need to contribute to the Canada Pension Plan.
- MPP uses YMPE to calculate your contribution to the Plan and determine your benefits.

Year	YMPE
2020	**$58,700**
2019	$57,400
2018	$55,900
2017	$55,300
2016	$54,900
2015	$53,600
2014	$52,500

Flat Benefit Accrual

Accrual rates:

Improved lifetime pension (throughout retirement, excluding the bridge)

Accrual Rate:

Benefit	Current accrual formula	Proposed accrual formula on future service
Unreduced Lifetime Pension	1.3 % × HAS* up to YMPE **+** 2.0 % × HAS over YMPE **×** Years of Pensionable Service	1.9 % × HAS **×** Years of Pensionable Service

**five-year highest average salary*

Single Contribution Rate

- This benefit is funded in part through the elimination of the bridge benefit, the rule of 90, and the early retirement subsidies on future service.

Current contribution rate	Proposed contribution rate
8.5% of your salary up to and including YMPE ($58,700 in 2020) 10% of your salary above YMPE	8.61% of your salary

Flat Benefit Accrual & Single Contribution Rate

- One rate, regardless of your earnings – means that all members will contribute the same percentage of earnings.
- Those who earn less than the YMPE will receive the same proportional benefits as those earning above the YMPE.
- Members below YMPE earnings see a slight increase in contribution rates with a significant increase in future service accrual of their lifetime pension (46.1%).

Bridge Benefit

Phase out the bridge benefit to fund the higher lifetime pension

Benefit	Current formula (on service earned to January 1, 2022)	Proposed change
Unreduced Bridge Benefit	0.7 % × HAS up to YMPE **×** Years of Pensionable Service	No bridge benefit on new service after December 31, 2021

PROPOSED CHANGES: Bridge Benefit

Phase out the bridge benefit to fund the higher lifetime pension

- The bridge benefit is only received from retirement to age 65 then it stops.
- All members contribute to the bridge benefit, but not everyone uses it or can choose to retire before age 65.
- Members can still retire before age 65 but will no longer earn a bridge benefit on new service after December 31, 2021; the bridge benefit earned up to January 1, 2022 will be maintained.
- Members who want to front end load their pensions, perhaps to make up for the lost bridge benefit, may elect a temporary annuity to do this.
- Contributions previously used to fund the bridge now to towards funding the increase in the accrual rate and a members' lifetime pension.

Early Retirement Reduction

AT LEAST 2 YEARS OF CONTRIBUTORY SERVICE	
Service to December 31, 2021	**Service on and after January 1, 2022**
3%* for each year before age 60 or Rule of 90	6.2% for each year before age 60

Temporary Annuity Option

Here is an example of what these options could look like for a member retiring at 56 years old with a pension effective date of November 1, 2019, where their:

- Lifetime pension = $2,100
- Temporary annuity = $600

Option	Temporary annuity amount	Pension payable to age 65*	Pension payable after age 65
No temporary annuity	$0	$2,100	$2,100
Temporary annuity	$600	$2,466	$1,846

IF YOU EARN BELOW OR SLIGHTLY ABOVE YMPE TODAY…

- You may see a very small increase in your contribution rates.
- For example, if your salary is $50,000 you would contribute an additional $55 per year – or less than $2 per pay period.
- At the same time, you will see a significant increase in your lifetime pension (pension amount received throughout retirement, excluding the bridge benefit).
- If your salary is $50,000 you were receiving a benefit accrual of 1.3% of salary, the proposed benefit change will have you accruing 1.9% of salary (on service beyond January 1, 2022).

IF YOU EARN ABOVE YMPE TODAY …

- You will see a decrease in your annual contributions if your salary is in excess of $63,345 which means you will have more take-home pay over the course of the year.
- You may see a decrease in your lifetime pension if your HAS is in excess of $410,000 (if all accrual is new and retirement is at age 65).

PROPOSED CHANGES: RSA & IAA

Strengthen plan sustainability through the Rate Stabilization Account (RSA) & COLA for retirees through the Inflation Adjustment Account (IAA)

- Plan partners implemented the RSA in 2016 with funding from the 2015 surplus.
- The RSA has now grown to $2.5 billion through investments.
- Also in 2019, the plan partners established sustainable indexing and increased contributions of 1.06% into the IAA to increase the level of sustainable COLA from 1.95% to 2.1%.
- The proposed new terms of the JTA will include provisions that future surpluses will be used to support the IAA & RSA as first priorities for use of surplus until they reach target funding levels.

HOW DECISIONS WILL BE MADE

- Plan Partners and the HEABC must reach consensus on the package of design changes following consideration of the feedback received through the engagement process.
- Plan Partners will take a final agreement to the Board of Trustees in Spring 2021.
- After ensuring the agreement aligns with their fiduciary responsibilities, the Board will implement the agreement.
- Communication about the changes will begin in Spring 2021.
- New rules will be effective January 1, 2022.

FOR MORE INFORMATION AND TOOLS:

- To learn more and to use the online calculator developed for the proposed plan, visit https://www.mppredesign.ca/.
- Examples of information:
  - Explanation of proposed changes
  - Calculator to estimate impacts of proposed plan redesign on members' pension
  - Background about the plan redesign
  - Why the changes are being proposed
  - Information about plan partners
  - Affects on members