Pension Airwaves

Episode 9 - Pension Benefit (*Transcript*)

Thanks for joining us for today's episode about the Pension Benefit offered by the UBC Staff Pension Plan. And I have a guest today to help discuss some of the details about this benefit -- I'd like to welcome Margaret Leathley, SPP Pension Administrator, to the podcast. Thanks so much for joining me, Margaret.

Margaret: Thanks for having me!

Chelsey: So let's dive in! Tell us, what is the purpose of the pension benefit?

Margaret: The SPP pension benefit is designed to help support you financially when you decide to retire. This could be because you're no longer able to work, or perhaps you've made the personal decision to stop working or take on new adventures in life post-career.

Chelsey: The SPP offers various benefits for members under different circumstances. So when we hear about the term "pension benefit," what exactly is that referring to? Is that just another way to refer to a member's entitlement to receive a pension when they retire?

Margaret: Exactly. Basically, it's what you've accrued and what you're entitled to under the Plan. Technically, your pension benefit could be a lump sum if you've left the Plan under the age of 55, but most of us consider the "pension benefit" as the actual pension amount that you're going to get in retirement.

Chelsey: Is that applicable to your spouse as well?

Margaret: Yes. Under legislation, if you have a spouse, your spouse must be your primary beneficiary in retirement unless they've signed a waiver giving up that right. They're entitled to a minimum percentage of your pension benefit in retirement under the law, because it is considered a family asset.

Chelsey: There's a wonderful example that I like to touch on, that you use in your workshops - UYSPP (Understanding Your Staff Pension Plan) - and it illustrates how a pension is designed to support us in retirement. There's a three-legged stool analogy used, implying that the stool can only stand up if it's got all three legs intact: the first leg being public pension (CPP, OAS, government), the second leg would be the Staff Pension Plan pension, then the third would be our own savings, like an RRSP or something similar. Can you elaborate more on that analogy?

Margaret: You know, they say in the industry that you need around 70% of your pre-retirement income in retirement in order to maintain the same lifestyle. That's just an estimate, but it comprises the legs of that stool in the analogy: your CPP/OAS, your company pension (if you're lucky enough to have one), and then your own savings such as your RRSP or TFSA. Some people might also consider the inheritance they might get from family members. But with those three stool legs, hopefully you can meet that 70% and be able to maintain the same lifestyle.

Now again, that's just an estimate. Some people might need a lot more in retirement if they have ambitious goals or hobbies, especially early on. Some people may be fine with less than 70% of their pre-retirement income, maybe they don't have a lot of expensive hobbies, or perhaps they plan to keep working after they retire. It's just an estimate to kind of give you a framework for retirement planning.

Chelsey: Regarding the Staff Pension Plan, what kind of pension benefit can we actually expect when we retire?

Margaret: You can certainly expect to get a benefit from UBC's pension plan if you're a member. The actual benefit amount will depend on a few factors: your earnings, how long you've been in the Plan, whether you have a spouse or not, etc.

The benefit is based on a defined formula that uses your best average earnings and your years of service in the Plan. Other factors may also come into play and affect your amount, such as having a spouse. Under law, your spouse is entitled to at least 60% of your pension unless they waive their rights, so that affects your benefit amount, and those factors are shown when you are looking at your own estimates online. If you have a spouse listed, you'll see the amount you get with a Joint & Survivor (married) pension benefit, and your spouse's age will affect the benefit amount as well.

Chelsey: Can you talk a little bit about retirement ages? I know that there's "normal" retirement, we also have "early" retirement... can you talk more about that?

Margaret: Yes. Normal retirement is age 65. That's the age at which you can retire without a reduction factor applied to your pension. If you choose to retire before age 65, you can, but there's a reduction factor attached to it, meaning your pension payment may be a little lower than if you retire at 65. That's because, in theory, you're going to receive the pension longer than you would be if you waited until 65, so there is a cost to taking it early.

The latest you can take your pension is the December of the year in which you turn 71, regardless of whether you decide to stop working or continue working. You must take your pension at age 71 because it's a CRA requirement. Your pension contributions that you made during your career in the Plan are pre-tax, so when you start taking your pension benefit, you need to pay the tax on it.

Chelsey: What about if a member's salary changes during their career? Like, hopefully if they get a promotion, or have an increase in their salary, how does that affect the formula calculation?

Margaret: The higher your best average earnings, the bigger your pension. The hope is that your salary has increased over time if you've been here for a while, like with annual increases, promotions, etc, but all of your salary fluctuations are used in our system to calculate.

Your best average earnings (BAE) are considered to be the best three 12-month periods during your pensionable career that will give you the highest pension benefit. That's typically your last 36 months prior to retirement, however you may have had a higher-paying job or temporary promotion five years ago, and now your salary is a lot lower than that. In this case, we would look at all of those 12-month periods during your pensionable career, and if we see periods long ago that will provide you with a better pension benefit, we would use those to calculate it. But for most of us, it's the last 36 months.

If you ever want to know what your BAE is, you can see it on the pension estimator in *myPension*, but it also shows your salary rate. The Plan will always use your BAE to calculate your benefit, so when you're looking at your estimates on myPension, and if you're within three years of retirement, we recommend you to use your BAE in your estimates and not your current salary rate. We don't want you to overstate your pension because you're using your salary rate to calculate, which could be higher than your BAE in most cases.

Chelsey: The pension estimator tool in *myPension* is actually really interesting and useful because you can plug in different ages, your marital status, your job FTE, etc., so I think it's a really useful tool to help toggle some of those variables to determine what your expectations will be.

Margaret: It's a good thing to take a look at. Part of good retirement planning is establishing income expectations.

On the pension estimator, if you have a spouse listed, your spouse's birthday will already be there, so it's going to show you the Joint & Survivor (married) pension options for you. I get this question a lot: "What would my pension be if my spouse decided to waive their rights?" I find that people are curious about how much of a difference it makes to your monthly pension payment by either having a spouse or not having a spouse. The estimator is a tool where you can actually see that. You can see your spouse listed, but if you want to see what your monthly pension payment might be like as a single person, it has a spousal waiver button. Click on it and say "yes" and you can see the differences. Most people are quite surprised when they see that it's not that big of a difference between having a spouse and being single.

Chelsey: Like the dollar amount?

Margaret: The dollar amount, yes. Of course, if your spouse is 40 years old and you're 65, your payment amount going to be significantly smaller than if your spouse waives their rights because technically we could be paying their pension for 55+ years if the spouse lives to be 100... but it does give people the idea of what the difference can be.

Chelsey: What about taxes? We know that contributions are pre-tax, but what about the pension benefit? Is it taxable, and if it is, how much is taken off?

Margaret: Once you start taking your pension, it's considered income that has been tax-deferred. So yes, it's taxable. How much tax will come off will all depend on what you put on the tax forms when you go to retire. Everyone has a basic exemption that they can choose, and that will determine the basic amount of tax they will pay. If they indicate more exemptions, less tax will come off. If less comes off, it doesn't mean that you don't pay the full amount of taxes at the end of the day, it just means at source they're taking less off.
I encourage people to go to the CRA calculator to determine roughly how much would be coming off based on the income that they're going to get from us. Taxes aren't done at the Pension Administration Office, they're done with our custodian when they pay out the pension benefit. So we can't tell you exactly if it's 16.5% or 22% tax rate depending on someone's earnings, but it's based on the tax forms. The CRA calculator will give you a rough idea of what taxes would come off.

Chelsey: A popular question that we get from members is, "How can I get a bigger pension when I retire?" So how do you answer that when people ask you?

Margaret: Well... stay here longer, get more service! [*laughs*] Have higher earnings, aim for a promotion! All those things can help to make your pension benefit bigger.

And, everyone's pension amount will be different. Just because you have the same salary as someone else, doesn't mean that they have the same years of service as you. We encourage you not to compare yourself with someone else who has exactly the same job, because you don't know what their circumstances are for being in the Plan and what their benefit would look like. I do have that question from time to time, where people will say, "My colleague and I have the same job, but why is their estimated pension benefit figure bigger than mine?" Well, maybe their spouse is considerably older. There are many factors. But as a general rule of thumb, a bigger pension is achieved with a higher amount of service and a higher best average earnings.

Chelsey: I think that sums up the basics about pension benefit with the Staff Pension Plan, thanks so much Margaret for explaining all of those things

Margaret: You're very welcome!

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*If you have questions about the UBC Staff Pension Plan or your personal situation, you can reach out to SPP Member Services at **spp@hr.ubc.ca**, or visit **staff.pensions.ubc.ca/contact**.*