THE UNIVERSITY OF BRITISH COLUMBIA

Pension Airwaves

Episode 13 - Taxes & Your Pension (*Transcript*)

Hi there and thanks for tuning in to this episode regarding taxes and your pension, namely around how your pension benefit and your other retirement savings are taxed in different situations. For this conversation, I've got Debbie Wilson, our Director of Pensions with the UBC Staff Pension Plan. Thanks for joining me, Debbie!

Debbie: Nice to be here.

Chelsey: Sometimes we hear from members that they're not quite sure about the tax implications of pension contributions and other retirement savings. One thing that members might notice is that when we talk about SPP contributions, we say that they are taken "pre-tax." Can you explain a bit about what "pre-tax" means?

Debbie: "Pre-tax" really just means that the contributions are taken from your paycheque before taxes are calculated or deducted. So, the fact that it's done pre-tax reduces your taxable income, and that's good because the lower your taxable income, the lower the taxes you pay.

If I give an example that might make it clear:

Let's say your salary is $50,000. And we know that you're contributing 6.5% towards the Staff Pension Plan. 6.5% of $50,000 is $3250. Rather than you being taxed on $50,000, you're only going to be taxed on $46,750 ($50,000 minus $3250) because the contribution that you've made to the Staff Pension Plan has been taken off your gross income. So your taxes are determined on a lower amount, because of the fact that you're contributing to a registered pension plan.

Chelsey: For some members, that could even push them into a lower tax bracket, which could be a really desirable outcome. What else should members consider about that?

Debbie: You know, I think most of us would like to pay as little tax as possible, and one of the other ways that we can reduce our taxable income is to contribute to a Registered Retirement Savings Plan, or RRSP. An RRSP is a savings plan that you arrange with your financial institution, and they're registered with the Canada Revenue Agency, or CRA. They're intended to help you save additional money for your ultimate retirement. And, RRSP contributions are tax-deductable. So they also help you reduce the amount of tax that you ultimately pay.

There's another [type of] savings plan called the Tax-Free Savings Account, or TFSA, and these are a newer creation than RRSPs are, but they're a little bit different than an RRSP, because contributions that you make to a TFSA are from "after-tax" dollars. But, because it's from after-tax dollars, when you ultimately take money out of the TFSA, it's not taxed. So you're using taxable money going in, but when you bring the money out, it's not [further] taxed. And as well, any investment income that you're earning in your TFSA grows tax-free. So there's a different tax treatment, but they both have different implications.

Chelsey: I imagine that since there are advantages and disadvantages to both of these types of savings plans, that you'd recommend members chat with their financial advisor about which ones might be right for them?

Debbie: Absolutely. And there's all sorts of information on the internet about who benefits from contributing to an RRSP versus a TFSA.

Chelsey: What about in retirement, when members receive pension payments? Is that considered income in the same way that salary is considered income when you're working?

Debbie: Yes. When you retire and you start taking a monthly pension from the SPP, it definitely has tax taken off before it's paid to you. In Canada, most income is taxed, so that includes [benefits] in retirement like the Staff Pension Plan, like your Canada Pension Plan (CPP) benefit, Old Age Security (OAS) benefit, and any funds you're taking out of your RRSP. Those would all be taxed in retirement. But in many cases, your income, once you retire, is lower than your income was as an actively working Canadian. So you'd expect to pay lower taxes in retirement because you've got a lower total amount of income.

Chelsey: What about when members leave UBC before retirement age? Many members in that situation defer (or in other words, they leave their pension benefit in the Plan and then come back to it at retirement age). But there is the option of taking the value of their pension benefit with them in order to place it into a different retirement savings plan. What are the tax implications of that?

Debbie: Yes, that depends on the amount that you're transferring out, and how you transfer it. So generally, if you transfer your benefit in cash, then tax will be withheld. If you transfer the value to your RRSP, no tax is withheld, so that's considered a tax-free transfer. It's only when you withdraw money from your RRSP that tax will be withheld. If you transfer the value to a Locked-In Retirement Account (LIRA), this is also considered a tax-free transfer, and again, tax is only withheld once you start taking money out of the LIRA. I think we have more information in one of our podcast episodes, ***Episode 10: Leaving the Plan Before Retirement***.

Chelsey: What about withdrawing money out of the Staff Pension Plan? We've touched on this in a past episode, ***Episode 9: Pension Benefit***, but I think it's worth touching on again here.

Debbie: The only time that you can take money out of the SPP is if you're no longer a member of the Plan. If you're under age 55 and you've left UBC, then you can transfer money out of the Plan but there are often conditions on how that transfer takes place. And then the only other time when you have access to the pension [benefit] is when you retire, so if you leave UBC after age 55.

Chelsey: Is there a limit to the amount of money that we are allowed to contribute to retirement savings in a given year?

Debbie: Yes. Thinking just about the SPP, our contribution rate is 6.5% of your earnings, and we don't accept any [contributions] over that 6.5%, so you can't make a voluntary contribution to the SPP, nor can you elect to contribute anything less. So 6.5% is what all members contribute. For RRSPs, there's an amount that you can contribute each year and it's determined by the CRA.

Chelsey: How do we know what that limit is?

Debbie: Every year after you file your taxes, you'll receive a Notice of Assessment [from the CRA], and your available contribution room, or "deduction limit" as it's frequently referred to as, will be on that assessment.

Chelsey: How is that calculated?

Debbie: Generally the limit is 18% of your prior year's income, minus the Pension Adjustment (PA). The PA is determined by a formula that is set by the CRA. The formula is meant to approximate the value that you're earning in that year.

The CRA wants all Canadians to be treated equally when it comes to retirement savings. So, this 18% limit applies to all Canadians, but if you're in a pension plan, they reduce that amount because you're receiving value in the pension plan. So the PA represents the value of the benefit that you're earning.

The PA that's being offset from your 18% limit is not the amount of contribution that you're making to the SPP, it's based on a formula. We actually have a PA worksheet in ***myPension***, so if you're interested to see how your calculation works for your pension adjustment, you can go into myPension and look at that. The PA ultimately appears on your T4, and CRA uses that to determine your contribution limit.

Chelsey: Can you give an example?

Debbie: If I go back to the example I started with at the beginning, where you're earning $50,000:

CRA would determine 18% of that as your overall tax-deferred limit for that year, so $9000. Then they would look at the PA we've reported on your T4. The PA for someone making $50,000 in 2022 is $7500. So, CRA has those two pieces of information, they take $9000 minus $7500, and you're ending up with $1500. So that means, in this example, you'd be allowed to contribute $1500 to your RRSP in 2023.

But it's really important to know that if you haven't made the maximum contributions each year, that continues to carry forward. So you may have more than just what's determined from this formula. So again, refer to your tax assessment, that will show you exactly how much you can contribute.

Chelsey: I think that clarifies many of the tax implications our members may have had questions about, regarding SPP contributions, retirement savings, and retirement income. Thanks Debbie for clarifying all that and for your time!

Debbie: Great, you're very welcome.

*If you have questions about the Pension Airwaves podcast, you can reach out to **pension.comms@ubc.ca**, or visit **staff.pensions.ubc.ca/podcast**.*

*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**.*