

# RETIREMENT PLAN FOR THE NON-TEACHING EMPLOYEES OF SD43 (COQUITLAM)

## Reciprocal Agreements with other BC Pension Plans

Reciprocal agreements govern transfers between this Plan and certain other B.C. pension. This note provides information on how reciprocal agreements may apply to you.

### B.C. Plans covered by reciprocal agreements

In this note, "reciprocal agreements" are those that address the recognition or transfer of service between the following pension plans:

- Retirement Plan for the Non-Teaching Employees of SD3 (Coquitlam) ("SD43 Plan")
- B.C. College Pension Plan
- B.C. Public Service Pension Plan
- WorkSafe B.C. Pension Plan
- B.C. Municipal Pension Plan
- B.C. Teachers' Pension Plan

If you have moved between the SD43 Plan and one of the other listed plans before April 1, 2004 and remain entitled to benefits under one or more of those plans, you may be covered by an older "prorata" reciprocal agreement under which combined service is considered for benefit eligibility, but no service is actually transferred. See the "Old Reciprocal Agreements" attachment for more information.

If you moved or are moving between the SD43 Plan and one of the other listed plans on or after April 1, 2004, you may be eligible to transfer service under the new reciprocal agreement, known as the Public Sector Transfer Agreement (PSTA). If you also have prior service in another reciprocal plan that has not yet been transferred, you can consider transferring that older prior service under the new agreement at the same time. See the "New Reciprocal Agreements" attachment for more information.

### Transfer of Service Considerations – New Agreement

In deciding whether to make use of the new agreement, you will be faced with a number of considerations. The main ones fall into two categories, and are discussed further below:

#### 1. Decisions regarding transfer of service

##### A. Service Currently Under Old "Prorata" Reciprocal Agreement

If you came to SD43 on or after April 1, 2004, but moved between reciprocal plans prior to that, you may still have past service in one of the above plans that could be considered under the old agreement. Remember that there is no transfer of service or assets under the old reciprocal agreement. Instead, at retirement, service can be combined for benefits eligibility in both plans and earnings from both plans are considered in the calculation of average earnings. If you wish to retain this ability to combine reciprocal service at a future retirement date under the old agreement, you **cannot** transfer prior plan benefits out of the plan(s).

However, you could instead choose to transfer that other prior past service to your current employer's plan under the new agreement. This is the only way to include that older service in the pension from your current plan.

This is an overview of reciprocal transfers between the BC public service pension plans and the SD43 Non-Teaching Pension Plan. It is not intended to replace advice from a qualified financial advisor. Questions should be directed to the Pension Coordinator or Pension Clerk, who can be reached at the SD43 Board Office at 604-939-9201

Under the old agreement, earnings will only count up to the date you leave the last plan that remains under the old agreement (referred to "capped earnings"). For example, if you moved from the Municipal Plan to the SD43 Plan in 2000, then to the Teachers' Plan in 2010 you would be eligible to move your Municipal Plan service and your SD43 service to the Teacher's Plan under the new agreement. If you did not move either the Municipal Plan service or SD43 Plan service to the Teacher's Plan you would still be eligible to use the old agreement between the Municipal Plan and the SD43 Plan for those periods of service. However, for the purposes of the old agreement, earnings would be frozen at the date you left the SD43 Plan.

Because of capped earnings, it is generally better from a pension point of view, to transfer all past service to the new plan under the new agreement, unless there is a reason that may outweigh pension considerations. This might include the level and availability of post retirement health and dental benefits. Note that these are **not** guaranteed benefits in any of the plans under discussion.

Keep in mind that one pension plan may have a feature, such as favourable early retirement, that you may qualify for even in the absence of a transfer. The plans are very similar with respect to retirement ages but you should consider your individual situation.

#### **B. New Reciprocal Agreement – No Transfer**

If you move to a new plan on or after April 1, 2004, you can still elect not to transfer service under the new agreement. As noted in the previous section, you might want to retain separate pensions for access to post-retirement benefits coverage or to take advantage of a special feature in one plan. This must be weighed against the fact that prior service not transferred will provide a pension based on frozen salary at the time of termination. This can be a substantial negative factor if the service was well in the past.

#### **C. New Reciprocal Agreement – Transfer**

A reciprocal transfer involves the transfer of assets equal to the projected actuarial reserve required to fund projected benefits based on the applicable period of past service. In return for the transfer, service is granted in the new plan and entitlements to benefits in the old plan are extinguished, as is the ability to elect post retirement benefits under the old plan.

The basis for reciprocal transfer calculations is mandated and reviewed periodically and there is no discretion. The amount transferred is the lesser of the "export value" (calculated on plan provisions, final earnings and credited service under the prior plan) and the "import value" (calculated on new plan provisions, earnings at hire, and service to be recognized in the new plan based on dates of hire and entry in the prior plan). If the import value is higher than the export value, the export value is transferred, service is prorated, and the difference is described as "shortfall". Unfortunately the "shortfall" terminology implies you are losing accrued pension at transfer, which is generally not the case (see illustrations below for more explanation.). If you do choose to pay the difference between the export value and import value, then you will increase the credited service recognized in the new plan to the higher level used in the import value formula. This, in turn, will increase your ultimate pension amount and is an opportunity to be considered.

To illustrate what is actually happening under the new reciprocal transfers, we look at some basic principles demonstrated by very simplified examples as follows:

*Illustration 1 (different salary levels in the prior and new plans):* Because the defined benefit formulas in all these plans are products of a factor times service times salary, a pension from one plan based on a given level of salary and service may be the same as a pension from another plan with higher salary and lower service or vice versa.

For example, if we have a 2% plan, then a pension of \$20,000 is achieved with service of 10 years and salary of \$100,000 ( $2\% \times 100,000 \times 10$ ) or by service of 8.33 years and a salary of \$120,000 ( $2\% \times 120,000 \times 8.333$ ). This simplistic principle demonstrates why the reciprocal transfer process often results in differences in the amount of service that can be transferred, particularly when the salary at hire in the new plan is much higher than the final salary in the prior plan. The difference between the actual past service and the service recognized in the new plan represents an opportunity for the member to make a buyback to enhance pension. This buyback opportunity is called the shortfall payment. The key point is that the pension is expected to be the same before and after transfer even though the service credited differs.

*Illustration 2 (different benefit formulas in the two plans).* Using our simplified example, it can be seen that a 1% plan transferring to a 2% plan would involve recognizing only one-half of the accrued service to maintain parity in the amount of pension payable.

As noted above, the presence of a shortfall does not necessarily mean that you have lost something. It means that the pension you have earned under the old plan can now be provided with less credited service under the new plan provisions with the new salary levels.

## **2. Decisions regarding payment of "shortfalls"**

In the preceding section we discussed the mechanics of the reciprocal transfer. As we turn now to the next decision, it is appropriate to reiterate that the shortfall terminology is a bit unfortunate. The shortfall payment represents a buyback opportunity. As with most buybacks, the cost is determined on the basis of actuarial assumptions. If those assumptions come exactly true, then a member would be indifferent between the pension purchase and leaving the money in their RRSP. Some factors to consider when looking at a buyback are:

- (i) Transfer of risk to the pension plan – Once the money is transferred to increase the pension, it becomes part of the formula guaranteed by the pension plan. Investment, longevity and other risk considerations are removed from the member's area of concern.
- (ii) If you think you may do better than the assumptions used for the buyback, and are prepared to retain the risks noted above, then you may choose to leave the money in your RRSP. The key economic assumptions are reviewed and revised periodically. You can obtain these from your Plan administrator if you are interested.
- (iii) If you can obtain credit for more service, it is possible that a milestone benefit might kick in. The most obvious example is unreduced retirement when age plus service is equal to 90 (80 in the SD43 Plan). This might entice you to pay the "shortfall" in order to increase the total service in the new plan.

## OLD RECIPROCAL AGREEMENTS

Members who changed plans before April 1, 2004

Subject to meeting the eligibility conditions, you are covered under the "old" reciprocal agreements.

### *Am I eligible?*

To be eligible, you must:

- have terminated from the one of the listed plans before April 1, 2004,
- have not received any benefit from that plan, including a refund of your own contributions,
- have joined another of the listed plans within 3 years of leaving the other plan, and
- currently be an active or deferred member of that other plan.

### *What happens if I am eligible?*

You can count your combined service in both plans to qualify for early retirement and other benefits when you terminate or retire. You remain a member of both plans and each plan will pay you a separate benefit. You remain entitled to any post-retirement benefits available in conjunction with either or both plans.

### *Do I need to do anything to obtain this treatment?*

Upon retirement or termination, you must request that both plans count your combined service for benefit eligibility. You can obtain the approved request form from your current plan or from the SD43 Pension Coordinator or the Pension Clerk, who can be reached at the SD43 Board Office at 604-939-9201.