

How Well Do You Know Your PENSION?

It goes without saying that most people do not pay much attention to their pension plan benefits until they are nearing retirement age or are ready to retire. It is critically important for members to understand how their plan works and what benefits they can expect in retirement. It is recommended that people pay attention to this throughout their careers by participating in 'at least one' retirement session hosted by the BCPVPA.



Regardless of where you are in your career, or how long you have been contributing to the plan, when you take this Retirement Quiz you will discover how well you understand the Teachers' Pension Plan.

You'll find the answers to these ten questions on the following pages.

by

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QUESTIONS

1. Is your plan a '**defined benefit**' or a '**defined contribution**' and what is the difference between the two terms?
2. The Teachers' Pension Plan is a very successful plan which provides members a level of financial security once they enter into retirement. How does your plan provide security during your retirement in the face of '**inflation**'?
3. How can you find out what your pension will be in '**retirement**'?
4. Both you and your employer contribute to the Teachers' Pension Plan. The percentage of salary contributed by each party may vary slightly depending on the '**valuation**' which is conducted every three-years by actuaries. How did the December 2017 '**valuation**' affect contribution rates?
5. According to the Government of Canada – Canadian Retirement Income Calculator and the CIBC, how much should you have **saved for a successful retirement**?
6. Are you able to **change your pension plan** once you have submitted it to the Teachers' Pension Plan?
7. On your pension statement it includes both '**pensionable service**' and '**contributory service**'. Which one of these two is used to calculate your monthly pension amount?
8. What does the **Inflation Adjustment Account (IAA)** provide for members?
9. There are many options to consider when planning your retirement such as **Joint Life**, **Single Life** and **percentage of plan**. By 'law', what is the minimum level of coverage that you must provide to your partner/spouse?
10. What is a **temporary annuity**?

1. Is your plan a 'defined benefit' or a 'defined contribution' and what is the difference between the two terms?

The Teachers' Pension Plan is a 'defined benefit' plan. A defined benefit plan provides a guaranteed income for life, and the amount you are entitled to is calculated on a formula that uses your years of service, highest average salary (HAS uses your best 60 months), and multiplies this by a set accrual rate (percent) established by the plan.

A 'defined contribution' plan is one in which both the employer's and the plan member's contributions are defined. The pension benefit amount that members receive upon reaching retirement is entirely dependent upon how much money they have contributed to the plan, how the money was invested and how those investments performed over time.

2. The Teachers' Pension Plan is a very successful plan which provides members a level of financial security once they enter into retirement. How does your plan provide security during your retirement in the face of 'inflation'?

The Teachers' Pension Plan is 'indexed'. This means that each year on January 1, the plan factors in the inflation rate, uses the Consumer Price Index (CPI) for the previous 12 months and applies it to the pension that a person is receiving. This rate is calculated from October 1 to September 30. This allows the pension to remain current in relation to the price of goods and services purchased by Canadian consumers. This is called a 'cost-of-living adjustment' (COLA) which becomes part of your yearly pension. On January 1 of most years, retirees will see a raise in their pension benefit amount.

3. How can you find out what your pension will be in 'retirement'?

Each June, members receive their updated pension statements from the Teachers' Pension Plan indicating the earliest retirement age without penalty, the years of pensionable service and information regarding retirement based on current information. If a member wishes to see what their pension will be on a specific date and year, they can go to 'My Account' to register and then use the personalized pension estimator to compare their estimated pension at different retirement ages.

4. Both you and your employer contribute to the Teacher's Pension Plan. The percentage of salary contributed by each party may vary slightly depending on the 'valuation' which is conducted every three-years by actuaries. How did the December 2017 'valuation' affect contribution rates?

In October 2018, the board announced that contribution rates will be reduced for both members and employers, effective January 1, 2019. This change results from a strong valuation as at December 31, 2017. Your contribution rates as a percentage of your salary dropped to 11.17 from 12.92. This means for every \$1,000.00 of salary, you now pay \$17.50 less in pension contributions. The employer's portion also dropped from 13.23 percent to 11.30 percent which resulted in a savings of \$19.30 per \$1,000.00 of salary that they pay. The next valuation will be December 2020.

5. According to the Government of Canada – Canadian Retirement Income Calculator and the CIBC, how much should you have saved for a successful retirement?

When it comes to income required in retirement in Canada, there are several opinions. You can visit the Government of Canada website and use their Canadian Retirement Income Calculator to estimate how much you would require each year based on your spending habits. If this calculator shows that you require \$40,000.00 per year in retirement — and you live for 25 years — you would need \$1,000,000.00 in retirement.

For the purpose of this exercise let's say you believe you require \$1,000,000.00 for a successful retirement, based on your spending habits.

The Teachers' Pension Plan provides you with a base amount to build upon in your retirement. This, combined with CPP, OAS and your other investments and sources of income, means you will retire successfully.

Example: You decide to retire at age 60. You receive an annual teacher pension of \$60,000.00 in retirement based on your highest 5-year average salary (HAS) of \$120,000.00, and you have 30 years pensionable service. You incur a penalty of 4.5% for the one year that you retired under the age of 61. If you collected your pension for 25 years, you would receive \$1,500,000.00 over the course of your retirement, which exceeds your targeted amount. *Please note that in the education field women, on average, live to be 91 years of age and men live to be 89 years of age.*

The above calculation does not include the Canadian Pension Plan, to which you are entitled. The CPP maximum monthly payment — unless you defer collecting your CPP — is \$1,175.83, which is \$14,109.96 per year. If you were to multiply this by 25 years, it equals \$352,749.00 over the course of your retirement. This is in addition to your Teachers' Pension amount. As you can see from these calculations, you will be in excess of the targeted \$1,000,000.00 for your retirement. In addition to this, both your pension and the CPP are indexed so you can expect increases to offset the cost of living throughout your retirement.

6. Are you able to **change your pension plan once you have submitted it to the Teachers' Pension Plan?**

Yes, you have 60 days from the date on your pension letter that you receive from the Teachers' Pension Plan to make a change to your pension option.

7. On your pension statement it includes both 'pensionable service**' and '**contributory service**'. Which one of these two is used to calculate your monthly pension amount?**

Contributory service is the number of years you have made contributions to the Teachers' Pension Plan. Pensionable service refers to your actual working time – the number of full-time equivalent years you have spent working and contributing as a member of the Teachers' Pension Plan. Pensionable Service is used to calculate your monthly pension amount.

8. What does the **Inflation Adjustment Account (IAA) provide for members?**

Your monthly pension payment may increase to reflect increases in the cost of living through the annual cost-of-living adjustment (COLA). This adjustment may be added to your pension to help it keep pace with increases in the cost of living over time. Since 1990, in all but one year, there has been a CPI increase made to pension benefits for retirees.

COLAs are not guaranteed. They are based on:

- Changes in the Canadian consumer price index (CPI) over a 12-month period from September to September
- The funds available in the plan's inflation adjustment account

Both active members and employers contribute to the inflation adjustment account. Each year, the Teachers' Pension Board of Trustees reviews any changes in CPI and the available funds in the inflation adjustment account. If the board grants a COLA, it will take effect in January.

Once a COLA is granted, it becomes part of your lifetime pension. The COLA is also applied to the bridge benefit and temporary annuity portion of your pension, if applicable.

9. There are many options to consider when planning your retirement such as **Joint Life**, **Single Life** and **percentage of plan**. By 'law', what is the minimum level of coverage that you must provide to your partner/spouse?

By law, you must choose at least 60% Joint Life coverage unless waived by your spouse. This means your beneficiary receive 60% of what you were receiving after your death. Joint Life means a benefit is paid for both your and your spouse's lifetime. You are insured you whole life, and your survivor (beneficiary) is insured for their life.

10. What is a **temporary annuity**?

You may purchase or choose a "temporary annuity" along with your pension option. A temporary annuity is a top-up to your pension. It increases your monthly payment until you reach age 65 or your death, whichever comes first. You are basically front-end loading your pension by borrowing from your pension, for a period of time, which will result in a reduced pension amount after the temporary annuity has expired.

We encourage you to visit the Teachers' Pension Plan website and open a "My Account". This website has a wealth of learning resources for you as you navigate your retirement planning.

If you wish to attend one of the Retirement Seminars hosted by the BCPVPA's Member Support Services, please contact Emily Rogness emily@bcpvpa.bc.ca.



"Remember that it is never too early to begin your planning for retirement"