

Revalorization or Continued Participation? A Comparison

Note:

*This is for illustrative purposes only; some numbers
are rough estimates*

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- (1) Pension calculated in the usual way, as before the NRD
- (2) Revalorized pension

Example 1.

Gender	Male
NRD	1 June, 2015
Credited Service	30 years
FAE	\$105,000
Pension at NRD	\$ 55,696
Postponed to:	1 June, 2021
Credited Service	36 years
FAE	\$122,000
Pension at PRD*	\$78,000
Post-65 Contrib. (without interest)	\$33,000

* This assumes the (average) YMPE = \$55,000.

The revalorized pension is calculated like this:

Actuarial value of pension

Actuarial value of

must equal

benefits payable at NRD

deferred benefits

Annual Pension
at NRD

Probability of death
× Death benefit

×

+

Lifetime factor
*(based on mortality
and interest)*

must equal

Prob. of surviving ×
Reval. Pension R ×
Def. pension factor

$$\$55,696 \times 12.6$$

=

$$(.1) \times \$590,000 +$$

$$(.9) \times R \times 8.9$$

now solve for R

$$R = \frac{700,000 - 59,000}{7.92}$$

=

$$\$80,300$$

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- ▶ So in this example the difference between the pension calculated for each year of service to age 71 and the revalorized pension is about \$ 5,000 or 6.4 %.

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Example 2.

Gender	Female
NRD	1 June, 2015
Credited Service	10 years
FAE	\$100,000
Pension at NRD	\$ 17,400

Postponed to:	1 June, 2021
Credited Service	16 years
FAE	\$116,000
Pension at PRD*	\$33,000
Post-65 Contrib. (without interest)	\$32,000

* This assumes the (average) YMPE = \$55,000.

Now the revalorized pension is calculated like this:

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Annual Pension
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Probability of death
× Death benefit

×

+

Lifetime factor
*(based on mortality
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must equal

Prob. of surviving ×
Reval. Pension R ×
Def. pension factor

$$\$17,400 \times 12.6$$

=

$$(.08) \times \$184,000 +$$

$$(.92) \times R \times 11$$

now solve for R

$$R = \frac{219,000 - 14,000}{10.1}$$

=

$$\$20,300$$

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 - ▶ These increased pensions generally (although not always) are less than revalorized ones (of course they are less than for a contributory Member past age 65).
 - ▶ As a continuing Member of the pension plan the RRSP room is significantly reduced.
 - ▶ Consequently for most individuals there (usually) is no advantage to being a non-contributory Member after age 65.

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- ▶ Members with fewer years of service are better off remaining in the Plan as contributory Members
- ▶ The comparison depends strongly on the interest rate being used and the expected salary increases over the next 6 years.
- ▶ HR provides information on **exactly** what you will get under the revalorization option. You will have to estimate what you will get if you remain in the Plan based on your highest salary averaged over 36 consecutive months.

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 - ▶ Age is at least 60
 - ▶ Credited (pensionable) service is at least 30 years
 - ▶ Age plus credited service is at least 80

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 - ▶ Age is at least 60
 - ▶ Credited (pensionable) service is at least 30 years
 - ▶ Age plus credited service is at least 80
- ▶ **Example** Someone who retires at age exactly 55 with exactly 20 years of service is in this category; he or she would have a reduction of 3% per year for 2.5 years, i.e. 7.5%. That is because in 30 months this persons age + service = 80, so one of the conditions would be satisfied. The calculation is based on months.

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- ▶ The bridge is intended to replace the QPP which normally begins at age 65.
- ▶ The bridge amount is obtained by **not** subtracting the 0.5% (up to the AYMPE max.) from the 2% in the formula - i.e.

$$C36 \times \text{Years} \times (0.02)$$

instead of

$$C36 \times \text{Years} \times (0.02) - \text{AYMPE} \times \text{Years} \times (0.005)$$

with a similar adjustment for non-contrib. years.

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- ▶ In addition to the above there is “excess interest indexation” based on the 2 - year average rate of return of pension fund $-5\% - \text{CPI}$, up to a maximum of 2% .
 - ▶ The excess or negative for the year are adjusted for cumulative unused credits and negatives from prior years.

APPROXIMATE JOINT/LAST SURVIVOR REDUCTIONS

Conversion of a lifetime pension with a 10-year guarantee to a 60% Joint & Survivor pension

	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69
50	91%	90%	89%	88%	88%	87%	86%	85%	85%	84%	83%	82%	81%	80%	80%
51	91%	90%	90%	89%	88%	87%	87%	86%	85%	84%	83%	83%	82%	81%	80%
52	91%	90%	90%	89%	89%	88%	88%	87%	86%	85%	84%	83%	82%	81%	81%
53	92%	91%	91%	90%	89%	88%	88%	87%	86%	85%	84%	83%	83%	82%	81%
54	92%	91%	91%	90%	90%	89%	88%	87%	86%	86%	85%	84%	83%	83%	82%
55	92%	92%	91%	91%	90%	89%	89%	88%	87%	86%	85%	84%	84%	83%	82%
56	93%	92%	92%	91%	91%	90%	89%	88%	87%	87%	86%	85%	84%	84%	83%
57	93%	92%	92%	91%	91%	90%	90%	89%	88%	88%	87%	86%	85%	84%	84%
58	94%	93%	93%	92%	92%	91%	90%	89%	88%	88%	87%	86%	86%	85%	84%
59	94%	93%	93%	92%	92%	91%	91%	90%	89%	89%	88%	87%	86%	86%	85%
60	94%	94%	93%	93%	93%	92%	91%	90%	89%	89%	88%	87%	87%	86%	86%
61	95%	94%	94%	93%	93%	92%	92%	91%	90%	90%	89%	88%	88%	87%	86%
62	95%	95%	94%	94%	94%	93%	92%	91%	91%	90%	90%	89%	88%	88%	87%
63	95%	95%	94%	94%	94%	93%	93%	92%	91%	91%	90%	90%	89%	89%	88%
64	96%	96%	95%	95%	95%	94%	94%	93%	92%	92%	91%	90%	90%	89%	89%
65	96%	96%	95%	95%	95%	94%	94%	93%	93%	92%	92%	91%	91%	90%	90%
66	97%	97%	96%	96%	96%	95%	95%	94%	93%	93%	92%	92%	91%	91%	91%
67	97%	97%	96%	96%	96%	95%	95%	94%	94%	93%	93%	93%	93%	92%	91%
68	97%	97%	96%	96%	96%	96%	96%	95%	95%	94%	94%	93%	93%	93%	92%
69	98%	98%	97%	97%	97%	96%	96%	96%	96%	95%	95%	94%	94%	94%	93%
70	98%	98%	97%	97%	97%	97%	97%	96%	96%	95%	95%	95%	95%	94%	94%