

Limited opportunity to buy your past pension service to increase your guaranteed retirement income

Summary

- Community social service workers can now purchase past pensionable service with their employer, thereby increasing guaranteed retirement income;
- Unlike RRSPs, your pension will provide you with a guaranteed retirement income – a paycheque for life;
- Past service can be purchased until March 31, 2015;
- You can use your RRSP savings to buy past pensionable service - with no tax hold-back if you do a direct transfer.

Thanks to successful union bargaining, BCGEU members working in community social services joined the Municipal Pension Plan, effective April 1, 2010.

Community social service workers who joined the Pension Plan and were employed on April 1, 2010 have up to five years to purchase all or a part of their past pensionable service with the same employer. This means that you have up to March 31, 2015 to purchase past service, thereby increasing your guaranteed retirement income.

Example:

Mary started working for ABC Community Living on April 1, 2005. She joined the Municipal Pension Plan on April 1, 2010. Mary is entitled to buy back up to five years of past pensionable service.

What is guaranteed retirement income?

The Municipal Pension Plan is an important source of retirement income. **Your pension is guaranteed retirement income for as long as you live.**

The Canada Pension Plan (CPP) and Old Age Security (OAS) will form the basis of your retirement income, but they are unlikely to replace enough of the income you were earning before you retired. Relying too much on CPP and OAS can jeopardize your standard of living in retirement.

The Municipal Pension Plan is a defined benefit pension

plan – the sixth largest in Canada - with many advantages, including predictability, stability and low administrative costs.

The amount you will be paid by the pension plan in retirement is guaranteed and predictable, unlike an RRSP or other financial instruments.

For example, your pension plan provides indexing protection, i.e. your pension is adjusted to take price increases into account. Moreover, your actual retirement income will not depend on interest rate levels when you retire, which impact the annuity rates offered to people converting their RRSP's into retirement income. The Municipal Pension Plan also currently offers post-retirement group health benefits. Neither the group health nor the indexing benefits are guaranteed in the future, however.

Second, your investment risk is shared with over 250,000 pension plan participants, and administering the plan is very cost-effective.

The Plan is a very large investor, with over \$30 billion in assets, and the costs associated with professionally managing plan investments are very low - around 0.26% per year. This compares very favourably to the typical yearly cost for managing mutual funds found in RRSPs, which can amount to anything between 1% to 3% or more per year. Less money paid out in administrative fees means that more of your retirement savings are working for you.

Why should I buy back pensionable service?

Community social service workers have a time-limited opportunity to buy pensionable service.

Buying pensionable service will increase your lifetime retirement income. That is because your pension is calculated on the basis of a formula that takes into account your wage level and the number of years of pensionable service.

Buying pensionable service basically means buying extra years of pension coverage, thereby increasing your retirement income.

Why should I buy back pensionable service now?

First, the opportunity to buy pensionable service is time-limited. You must purchase pensionable service by March 31, 2015 with your enrolling employer. After this deadline, you will not be able to buy your pensionable service prior to April 1, 2010.

Second, buying past pensionable service is cheaper now that you have achieved ownership rights to the funds in your pension. All community social service workers who joined the Municipal Pension Plan on April 1, 2010 now have two years of contributions to the pension plan. In pension terminology, you are now "vested." It is less expensive to buy back pensionable service after vesting than before.

Being vested is good news: you are guaranteed a retirement income once your pension has vested, although your projected retirement income is likely modest right now. To increase your guaranteed retirement income, you should consider buying extra years of pension coverage.

Third, the cost to buy back past pensionable service increases as you get older. This is because there is less time for pension assets to grow to pay for your retirement income. Finally, the cost to buy back past service could also increase if the Municipal Pension Plan needs to raise the employee contribution rate in the next three years.

"While it may seem costly to buy past pensionable service, you will increase your guaranteed retirement income - your paycheque for life. RRSPs can't promise the same benefit."

How do I find out about buying back some or all of my pensionable service?

First, please read the document "Purchasing Past Service" available on the Municipal Pension Plan website. at <http://tinyurl.com/MPP-purchasing-past-service>

Second, you need to get an estimate of the cost to purchase pensionable service. The Municipal Pension Plan can provide you with an individualized cost estimate base on the basis of a form that you complete and submit to the plan.

By asking for an estimate, you have no obligation to purchase any past service.

To download the "purchase of service application package," visit <http://tinyurl.com/MPP-past-service-application>

Once you receive your estimate, you may choose to buy back none, some, or all of your past pensionable service. The choice is entirely yours.

While it may seem costly to purchase past pensionable service, please consider the guaranteed benefit you will be getting for life. That is something an RRSP cannot promise.

How do I pay for past pensionable service?

If you have a Registered Retirement Savings Plan (RRSP) at a financial institution, you can transfer funds from your RRSP directly to the Municipal Pension Plan to pay for some or all of your purchase.

Your financial institution cannot refuse your request to transfer your RRSP funds to the Pension Plan, though they may try to discourage you to do so, as this represents a loss of revenue for them.

A direct transfer from your RRSP to the MPP will not trigger any taxes. But please **do not withdraw** your RRSP funds from your bank to send payment to the Pension Plan. You will be taxed unnecessarily.

I need more information. Who do I contact?

For further information, please contact the Municipal Pension Plan at 1-800-668-6335 or visit the Pension Plan website at <http://tinyurl.com/MPP-home>