

# **Retirement Planning for the Civil Servant**



# WHEN LESS CAN MEAN MORE

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REIN SELLES, MSC., PRP

[www.reinsellesretirementservices.com](http://www.reinsellesretirementservices.com)



# THE QUESTION:

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- After 40+ years of Retirement Education is there still something to say?

# WHAT WE MAY FEAR....

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From Charting Your Financial Future – “What Every Woman Truly Fears” (No copyright infringement intended)

MAY NOT BE  
REAL!

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# WHAT HASN'T CHANGED

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- Most Canadians don't plan
  - CIBC poll found 6 out of 10 Canadians had no plans for retirement
  - Many will spend more time planning holidays than the next 35 years of life



CRANKSHAF



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# WHERE TO BEGIN?

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- The list is long:
  - Financial Planning
  - Income Planning
  - Health Management
  - Leisure and Recreation
  - Housing Options
  - Legal and Estate Planning
  - Risk Management
  - The Pursuit of Happiness & How to Arrive There



## QUICK EXERCISE

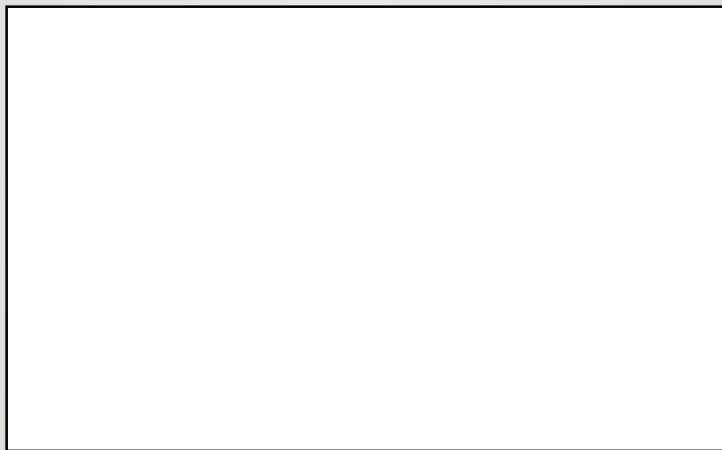
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- May help you consider what a 'retirement plan' might look like

## WHAT YOU'LL NEED

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- A pen
- A piece of paper (provided)



# CENTRE THE PLAN BY PUTTING YOURSELF IN THE MIDDLE

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Name

# ADD FOCUS

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Name

One Thing You Could Do  
(Retired)

# ORIENT THE PLAN TO PLACE

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Where are you  
doing this?

Name  
One Thing You Could Do  
(Retired)



# WHAT IS THE POINT?

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Where are you  
doing this?

Name  
One Thing You Could Do  
(Retired)

# WHAT IS EVERYONE GOING TO ASK YOU IN THE SIX MONTHS BEFORE YOU RETIRE?

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- Hand them your card!

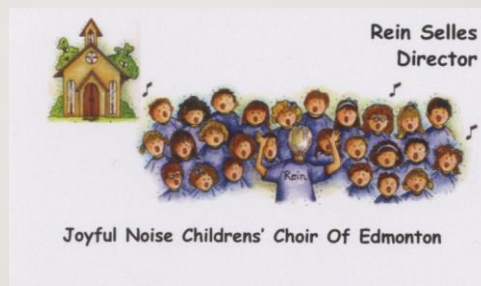
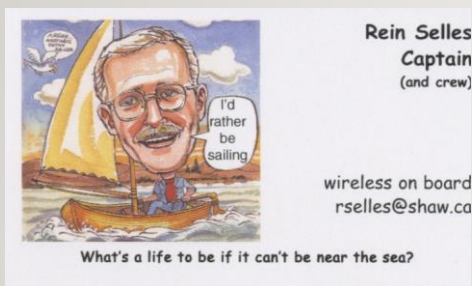
# A LITTLE PRACTICE DOESN'T HURT EITHER

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- You can't begin a conversation retired with what you were (or "used to be")
- Stand up
  - Turn to someone nearby and exchange retirement cards

# CARDS ARE LIKE PROMISES TO YOURSELF

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# WHEN LESS IS MORE INSIGHT

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- One small card (plan) may tell you more than all the pages of a financial planner's report

# WHEN LESS IS ABOUT MONEY

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- Case study is representative of what I see
  - Single female (Mary) aged 59.6 with 27.5 YOS
  - Current earnings are \$84,000
  - Net income (after deductions) \$56,133 or **\$4,677/mo.**



# WHEN LESS IS ABOUT MONEY

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- Her goal and research:

- Retire at 60
- Pension estimate \$3,046
- Net pension (after tax) would be \$2,609

# HOW CAN I RETIRE?

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- Net Income Today

- \$4,677

- Net Income Retired

- \$2,609

# HOW CAN I RETIRE?

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- Will spending change?
  - Car Loan \$600/mo.
  - Pay parking of \$125/mo
  - RRSP saving \$300/mo
  - Other saving \$200/mo.
- Any Alternate Sources?
  - RRSP of \$120,000
  - Savings (TFSA) of \$80K
  - Early CPP (but reduced)

# HOW CAN I RETIRE?

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- If she wants to maintain her lifestyle the retirement target should begin at **\$3,452** not \$4,677

# MARY CAN RETIRE WITHOUT CHANGING HER LIFESTYLE

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- By Design:

• Pension	\$3,046
• RRSP	\$600
• CPP	<u>\$726</u>
	\$4,372
Tax (18.5%)	(\$809)

- Retirement Net is **\$3,563**
- I would suggest she take \$500/mo from TFSA to 65
- Net income available **\$4,063** covering her **\$3,452** plus a surplus of **\$499/mo** for travel

# THE MOST COMMON MISCONCEPTIONS IN MEETINGS:

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- You shouldn't/can't access your RRSPs to 71
- You shouldn't take CPP if retiring
- I probably won't get OAS (most will)
- What I earn now should be my goal for retirement
- Don't touch your savings



# THERE ARE THREE “VARIABLES” IN A RETIREMENT PLAN ...

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- 1) How much you save for retirement (and the level of risk you take in investment)
- 2) The age you pick to retire
- 3) The standard of living you want after you retire.

The healthiest plans are those that encourage flexibility.

Malcolm Hamilton (William Mercer)



# LESS (WORK) MAY MEAN MORE BOREDOM

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- What do we need to ensure that retirement will be successful?
  - Life needs to have a purpose
    - You need something that drives you forward
    - A reason to get up

# BUILDING SUCCESS

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- Life needs to have a purpose
- Meaningful Activities
  - Doesn't matter what you do as long as it is meaningful to you!

# BUILDING SUCCESS

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- A sense of purpose
- Meaningful Activities
- We need structure



# SOMETHING TO PONDER....

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- What happens to holidays when you retire?



# LESS TIME AT WORK MAY MEAN MORE TIME AT HOME

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- Should two people who have been reasonably happy five days per week away from each other, now retire together?

## COPING WITH RETIRED HUSBAND SYNDROME

### More time with hubby making Japanese women sick

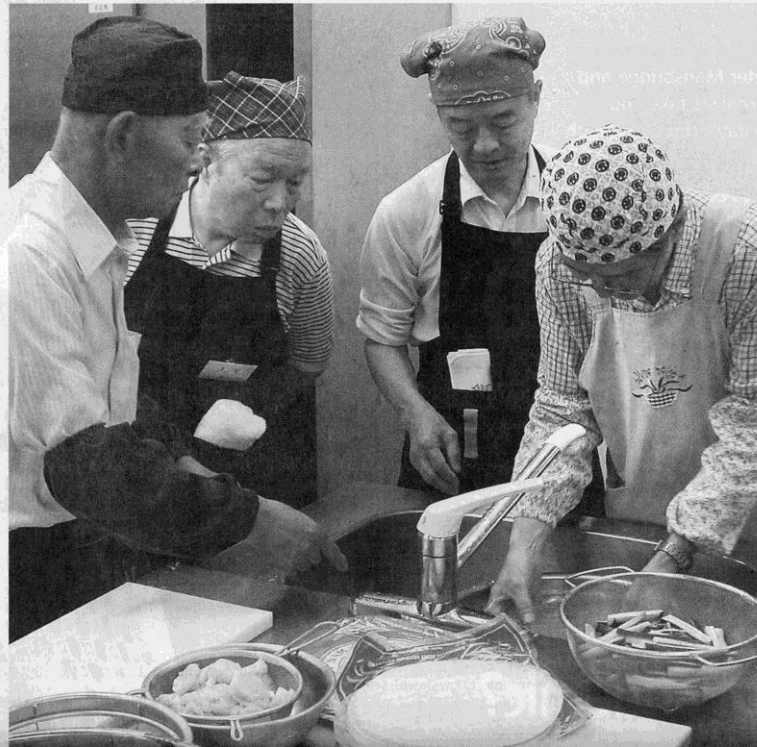
More time together causing ulcers, rashes

ANTHONY FAIOLA  
*The Washington Post*  
TOKYO

Sakura Terakawa, 63, describes her four decades of married life in a small urban apartment as a gradual transition from wife to mother to servant. Communication with her husband started with love letters and wooing words under pink cherry blossoms. It devolved over time, she said, into mostly demands for his evening meals and nitpicking over the quality of her housework.

So when he came home one afternoon three years ago, beaming, and announced he was ready to retire, Terakawa despaired.

"This is it," I remember thinking. "I am going to have to divorce him now," Terakawa recalled. "It was bad enough that I had to wait on him when he came home from work. But having him around the house all the time was more than I could possibly bear."



"This is it. I am going to have to divorce him now."

# DO WE EVEN TALK ABOUT RETIREMENT?

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Almost 60%  
disagreed about their  
goals for retirement

- *Less than 8% agreed that they would rather spend more time with each other than family and friends*

## FUTURE PLANS

# Well, we're retired — now what?

Couples should talk  
about how they want  
to spend their golden  
years, experts suggest

ERIC BEAUCHESNE  
and HELEN MORRIS  
CanWest News Service  
OTTAWA

Many older couples are approaching retirement with very different ideas about what those golden years will be like, even about whether they want to retire and how much time they want to spend together once they do, says a bank report, titled: We need to talk.

A lot of couples aged 50 and above simply don't agree with each other on important aspects of retirement because they don't discuss the issues enough, according to the Scotiabank study, based on results of a survey by pollster TNS Facts.

"We have seen many retirement plans hit a road bump almost immediately out of the gate because the shared vision that the couples thought they had wasn't as shared as it could

# How Different Are The Goals?

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- Men                      Expect to work part-time and spend more time with their spouses
- Women                Expect to volunteer and spend more time with their friends and family



# RETIRING TOGETHER – THE ISSUES

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- All retirement is personal (so you need to deal with that first)
  - The individual who retires first is likely to have an advantage

# RETIRING TOGETHER – THE ISSUES

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- Relationships are about communication – you can't communicate what you don't know
  - Once you are comfortable with your own retirement, now you are ready to “accommodate” someone else

# RETIRING TOGETHER – THE ISSUES

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- Avoid adding more stress
  - Moving at retirement



# YOUR THEME – TIMING RETIREMENT

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- How do you know you are ready to retire?
  - Retirement should be your preferred lifestyle
  - Why retire if you cannot see that your lifestyle would improve?

# YOUR THEME – TIMING RETIREMENT

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- How do you know you are ready to retire?
  - Why work, if your lifestyle in retirement is better than the present and you can get paid to live that way?

# ONE MORE THING!

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- Most (if not all) of what you will do in retirement has its roots in the lifestyle you lead now.
- Retire more every day!

# **Retirement Planning for the Civil Servant**



# FMI Edmonton: *Retirement Planning 101*

## *How to Decide When it's Time*

November 28, 2018

Presented by:  
Angus Watt Advisory Group



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# Preparation: Essential to Success in any Endeavour

- + Colonel Chris Hadfield began chasing his dream of becoming an astronaut on July 20<sup>th</sup>, 1969
- + At that time, Canada did not even have an astronaut program
- + In March 2013, he became the first Canadian Commander of the International Space Station

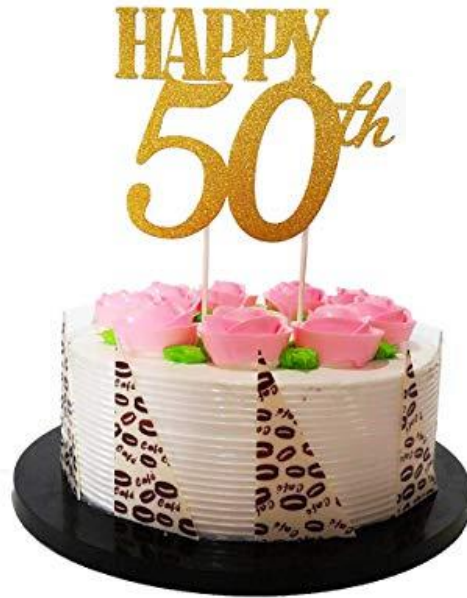


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# When To Start Caring About Retirement?



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# What Might We Anticipate?

According to a national survey by Financial Planning Standards Council (FPSC):

$\frac{1}{4}$

Seniors are concerned they will run out of money before they pass away

$\frac{1}{4}$

Seniors are concerned they will not be able to afford long term care

$\frac{1}{5}$

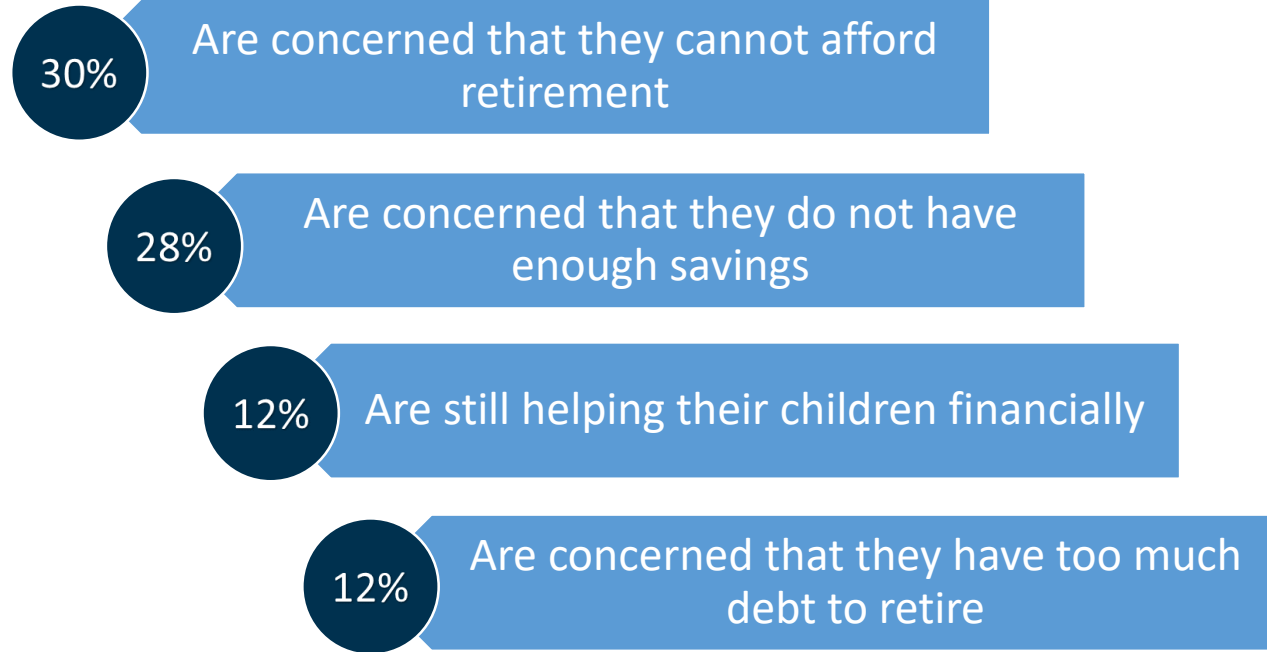
Canadians are working past age 60



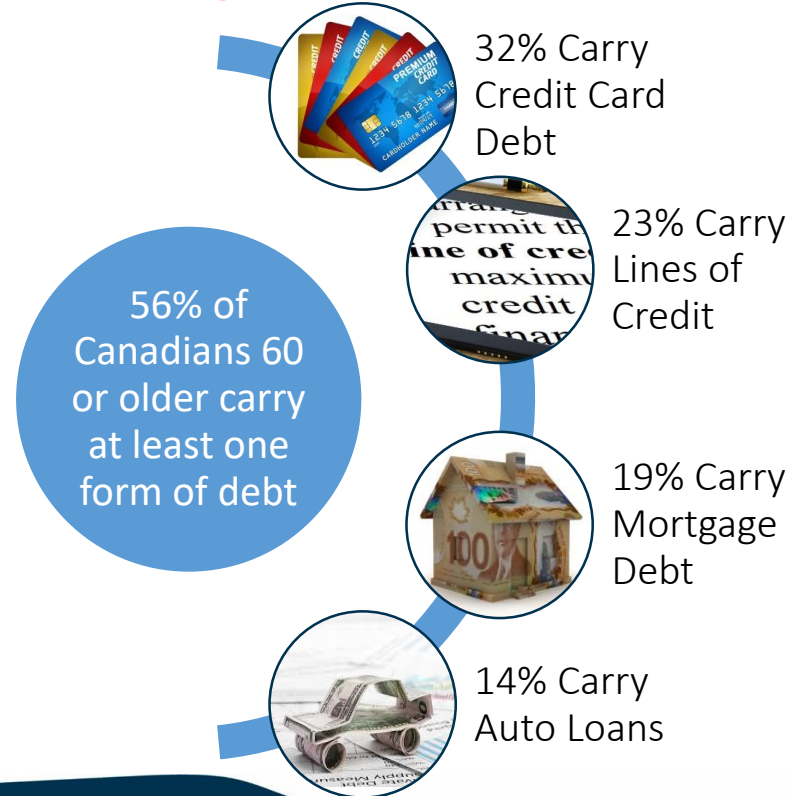
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# Of Those Canadians Working Past Age 60



# Debt Among Canadians Over 60



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# Retirement Plan Acronyms

RRSP

- Registered Retirement Savings Plan

RIF

- Retirement Income Fund

LIRA

- Locked-In Retirement Account

LIF

- Life Income Fund



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# CPP and OAS

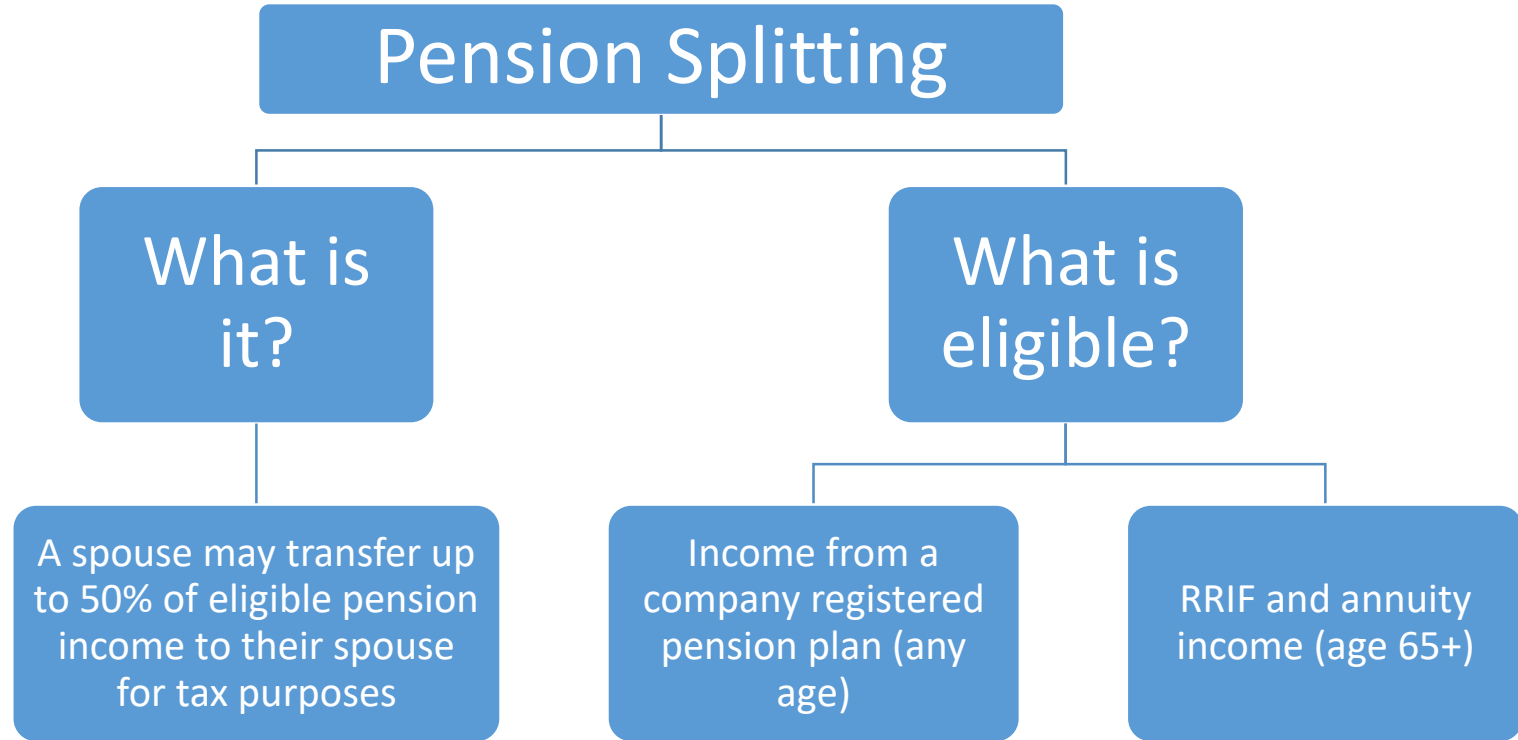
	Canada Pension Plan	Old Age Security
Monthly Amount Received	Depends on how much has been contributed to the CPP	Depends on how long one has lived in Canada after turning 18
Age of Eligibility	Standard age is 65 May delay for increased CPP May receive early for reduced CPP	Must be at least 65 May be delayed for up to 5 years for increased OAS
Taxes	Taxable	Taxable
Clawback Option	CPP pension is not subject to "Recovery Tax"	OAS may be clawed back if your income exceeds \$75,910 up to a max of \$123,386 (2018 income)
Benefit Amounts	Maximum monthly CPP for 2018 is \$1,134.17 at age 65	Maximum monthly OAS for 2018 is \$600.85 at age 65



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# Income Splitting: Strategy #1





# Income Splitting: Other Strategies

## Prioritize

- Higher income spouse pays household expenses while lower income spouse invests their income
- Household investment income is taxed at lower income spouse's marginal tax rate

## Spousal RRSP

- Higher income spouse contributes to lower income spouse's RRSP
- Contribution aims to distribute retirement income between both spouses



# Conversion of RRSP to RRIF or Annuity

RRSP must be converted by December 31<sup>st</sup> of the year one turns 71

RRSP may be converted to RRIF or annuity at any time

Investments in RRSP can transfer to the RRIF

Commencing RRIF payments at 60 could delay the need to draw early CPP

To determine the best tax strategy for your situation, consulting your advisor or a financial planner is recommended



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# Conversion of LIRA to LIF

LIRA must be converted by December 31<sup>st</sup> of the year one turns 71

LIRA must be converted to a Life Income Fund (LIF) or annuity

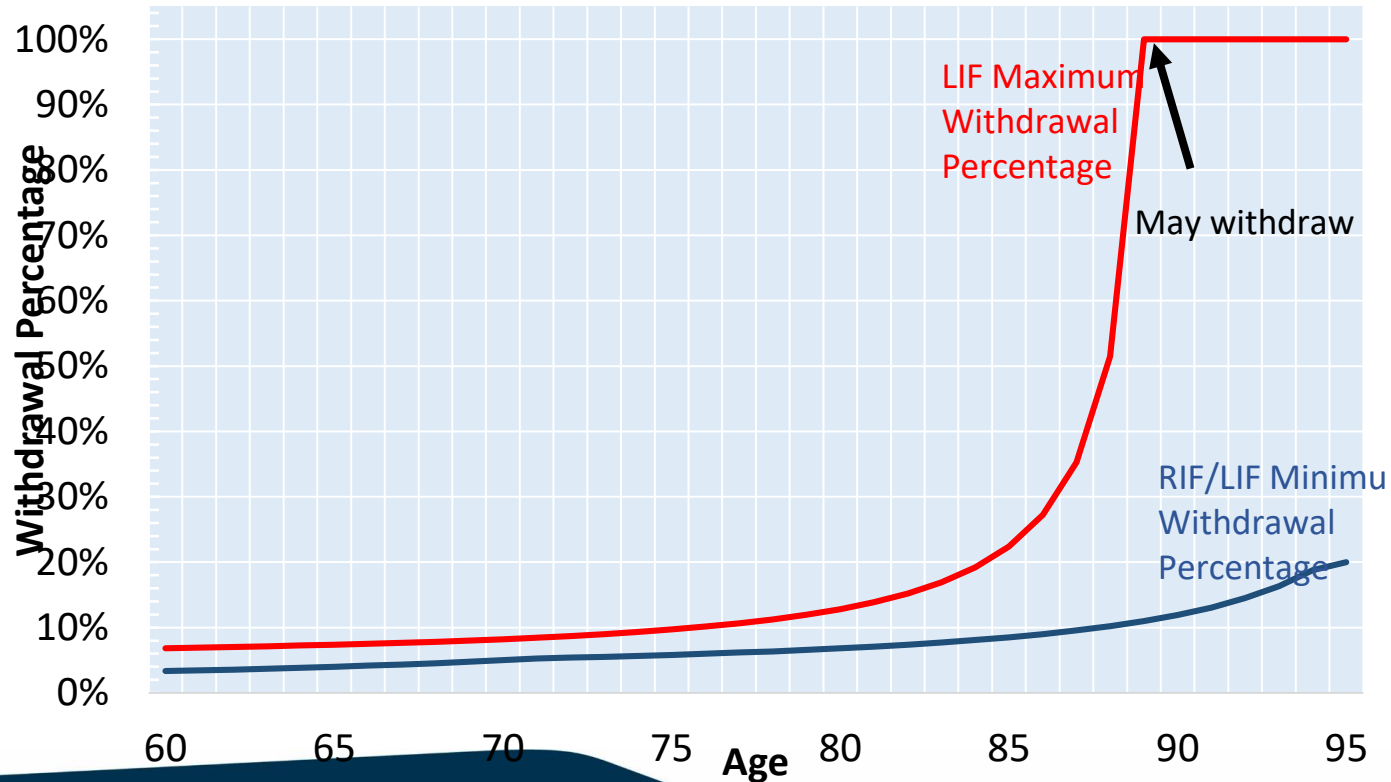
If one is 50+ and has terminated from a pension plan or has money in a LIRA, up to 50% of the money may be unlocked when you convert to a LIF

Withdrawals that exceed the minimum amount are subject to withholding tax at prescribed rate

Unlike RIF, there is a maximum annual limit on how much may be withdrawn from a LIF



# Alberta RIF/LIF Withdrawal %'s



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# RRSP versus TFSA

	RRSP	TFSA
What is the main tax advantage?	+ Your savings grow tax-deferred	+ Your savings grow tax-free
Does it affect income taxes?	+ Contributions are deducted from taxable income	+ Contributions are not deducted from taxable income
Are amounts withdrawn taxable?	+ Amounts withdrawn from an RRSP are taxable	+ Amounts withdrawn are not taxable
How much can you contribute?	+ Contribute up to 18% of your annual income (max. \$26,010 in 2018).	+ Contribute up to a total of \$57,500 in 2018 and \$63,500 in 2019
What is the age limit for contributions?	+ Until the year one turns 71 + Funds must then be transferred to another investment	+ One must be at least 18
What happens at the death of a spouse?	+ May transfer to surviving spouse + Tax deferred	+ May transfer to surviving spouse + Tax free



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# Leaving a Legacy

## Cash

- Cash donation to an existing charity
- Charitable receipt provided

## Gifts in Wills

- Leaving a percentage of your estate for donation to charity through your will
- This will also provide valuable tax savings

## Publicly Traded Securities

- No tax on capital gain that results from the gift
- Charitable receipt provided for full fair market value of the security



# Questions

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# Joint Governance of Public Sector Pension Plans

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## Presentation to FMI Canada

David Mulyk, Executive Director, Pension Policy  
November 28, 2018



# Agenda

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- Background / Present Day Governance
- Highlights of Proposed Governance Model
- Implementation

# Background



# Joint Governance – Context

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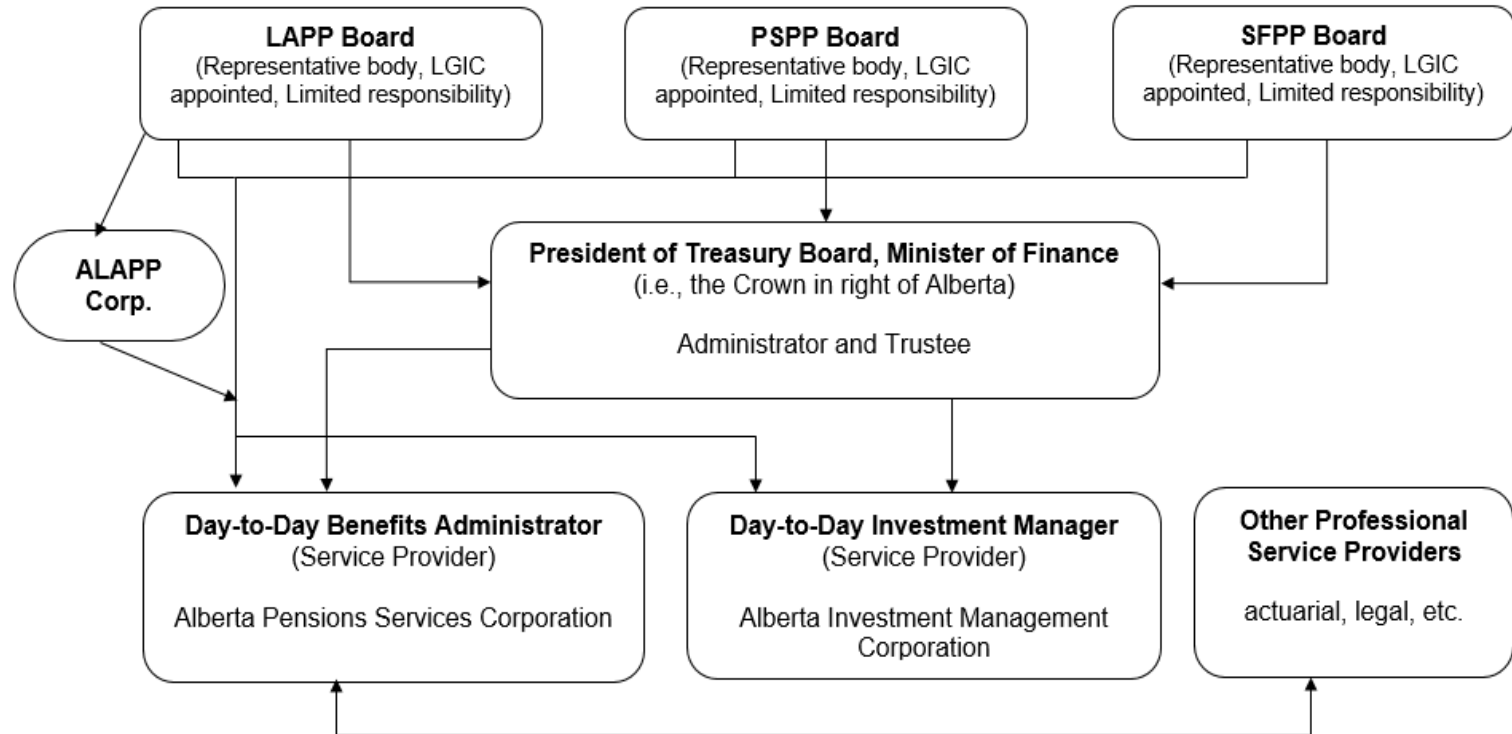
- Employee and Employers in the Local Authorities Pension Plan (LAPP), Public Service Pension Plan (PSPP) and Special Forces Pension Plan (SFPP) have, for many years, sought changes to the governance of those plans.
- Stakeholders have advocated for joint governance, a model of pension governance widely adopted in other major public sector pension plans across Canada.

# Present Day

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- Minister-centric
  - Minister is the Trustee and Administrator.
  - Government (through the Minister) is the sole shareholder of AIMCo and Alberta Pensions Services Corporation.
- Statutory Plans
  - Plan provisions contained in Regulation.
  - Limited scope and decision making ability for Employee / Employer reps on current Plan Boards.
  - Government / Cabinet approval required for any change.

# Present Day Governance Structure



# Joint Governance – Developments

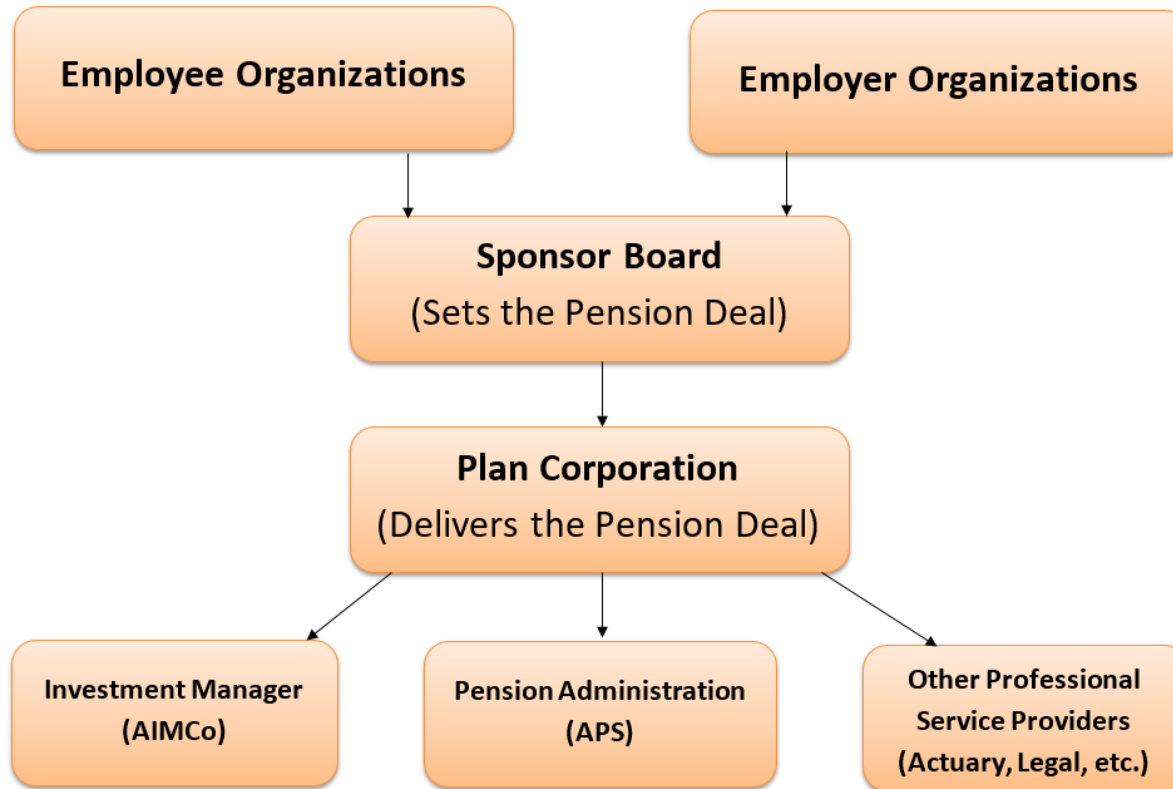
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- June 2018 discussion paper/stakeholder engagement.
  - Online survey
  - Written submissions
  - In-person meetings
- Consultation with employee and employer sponsors helped shape the final governance model.
  - Bill 27: Joint Governance of Public Sector Pension Plans Act.



# Joint Governance – Model for Each Plan

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# Joint Governance Model



## Highlights

# Joint Governance Transition

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- LAPP, PSPP, and SFPP will continue as pension plans.
- Only the governance structure (i.e., how decisions are made) is changed:
  - Plan benefits / plan design is **not** changed.
  - How the plans are funded is **not** changed.

# Joint Governance Legislation

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- Four Key Components:
  - Separation of sponsor and administrator/trustee functions.
  - Selection of nominees and appointment to the sponsor and corporation boards.
  - Service provider retention/choice.
  - *Employment Pension Plans Act* (EPPA) registration and regulation.

# Separation of Sponsor and Administrator

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- Common element of major public sector pension plans.
- Each plan will have a Sponsor Board and a Corporation.
  - Sponsor Board: **sets** the pension deal.
  - Corporation: **delivers** the pension deal.
- Sponsor organizations will appoint members to both the Sponsor Board and the Corporation's Board of Directors.
  - Equal representation by employee and employer sponsors.

# Separation of Sponsor and Administrator

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- Sponsor Board duties include, but are not limited to:
  - Make / amend plan text (eligibility, benefit levels, etc.)
  - Set contribution rates
  - Set funding policy
  - Review the Corporation's budget; set Director remuneration
  - Establish a process for recruiting Directors
  - Set employer enrolment / withdrawal provisions
  - Consider retiree interests when making decisions

# Separation of Sponsor and Administrator

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- Corporation duties include, but are not limited to:
  - Administrator and Fund Holder for EPPA purposes
  - Responsible for setting investment policy
  - Responsible for conducting actuarial valuations
  - Transfer / reciprocal agreements with other pension plans
  - Communicate with plan members
  - Liaise with regulators

# Separation of Sponsor and Administrator

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- Although created by statute, the Corporations are not
  - Provincial corporations,
  - Public agencies, or
  - Agents of the Crown.
- The Corporations will provide or arrange for the support, services, and other professional advice required by the Sponsor Boards.



# Board Appointments

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- LAPP Sponsor and Corporation Board (12 person)
  - Employee (6)
    - Alberta Federation of Labour (1)
    - Alberta Union of Provincial Employees (2)
    - Canadian Union of Public Employees (1)
    - Health Sciences Association of Alberta (1)
    - United Nurses of Alberta (1)

# Board Appointments

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- LAPP Sponsor and Corporation Board (12 person)
  - Employer (6)
    - Alberta Health Services (3)
    - Alberta School Boards Association / Council of Post-secondary Presidents of Alberta (1)\*
    - Alberta Urban Municipalities Association / Rural Municipalities Association (1)\*
    - City of Edmonton / City of Calgary (1)\*

\* = seat shared by the respective organizations

# Board Appointments

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- PSPP Sponsor and Corporation Board (8 person)
  - Employee (4)
    - Alberta Union of Provincial Employees (3)
    - Non-Academic Staffing Association (University of Alberta) (1)
  - Employer (4)
    - Government of Alberta (3)
    - University of Alberta / University of Calgary (1)\*

\* = shared by the respective organizations

# Board Appointments

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- SFPP Sponsor and Corporation Board (6 person)
  - Employee (3)
    - Edmonton Police Association (1)
    - Calgary Police Association (1)
    - Alberta Federation of Police Associations (1)
  - Employer (3)
    - City of Edmonton (1)
    - City of Calgary (1)
    - Other SFPP Municipalities (1)

# Board Appointments

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- One member cannot sit on a Sponsor Board and a Corporation Board, for the same plan, at the same time.
- Shared seats are rotated every three years.
  - One organization gets initial Sponsor Board appointment;
  - Other organization gets initial Corporation Board appointment.
- Sponsors can change composition (requires agreement).

# Service Providers and Staff

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- First five years: AIMCo and Alberta Pensions Services Corporation (APS). Thereafter, Corporations can review and renew their agreements.
- Current plan staff (ALAPP Corp. and plan secretariat staff) will be transferred to the new Corporations.
  - Existing plan staff are working on all required transition elements.

# EPPA Registration

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- The plans will be registered under the *Employment Pension Plans Act*.
- Plans will be subject to oversight by the Superintendent of Pensions, consistent with other provincial jurisdictions.
- Bill 27 will not change benefits or plan funding.
  - Future changes are subject to sponsor board approval.
  - Stringent voting threshold to change plan design.

# EPPA Registration

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- Initial plan text must be:
  - Approved by the Sponsor Board, and
  - Confirmed by the Superintendent to comply.
- Existing plan rules continue to apply (with modifications needed to reflect governance transition), until Sponsor Boards endorse a plan text.
  - Up to two years allotted to complete the drafting of the plan text.



# Other Provisions

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- Plans continue to operate on a cost-recovery basis; costs paid from the plan fund.
- Sponsor Boards and Corporations will be subject to strong transparency requirements on public website.
  - Names of Sponsor Board members and Corporation Directors.
  - Any rules made by the Sponsor Board.
  - Any bylaws made by the Corporation.
  - All plan documents (plan text, financial statements, etc.).

# Implementation and Summary



## Highlights

# Implementation

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- Week of November 19 – Legislation tabled
- Coming into force:
  - Some sections on Royal Assent,
  - Other sections on Proclamation.
- Early 2019: Regulation amendments
  - EPPA exemptions to preserve existing plan design,
  - Repeal old PSPPA sections,
  - Update list of employers immediately prior to transition and
  - Execute transfer of assets from Crown to Corporation.

# Summary

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- Transition to joint governance is better aligned with the predominant model of public sector pension plan governance found in Canada.
- The plans provide benefits for more than 350,000 members and hold \$60B in assets.
- Biggest change in governance and regulatory oversight of these major Alberta public sector pension plans since the original pension reforms of 1992.

# UPCOMING EVENTS

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- Economics Society of Northern Alberta - Conference December 6, 2018
- <http://esna.ca/annual-conference/>
- FMI Edmonton Chapter next conference: Supporting Strong Accountability – Meet Our Oversight Agents – February 13, 2019

# **Retirement Planning for the Civil Servant**

