CIVIL SERVICE SUPERANNUATION FUND

PLAN SUMMARY

January 1, 2016
Pensions & Benefits
Province of Prince Edward Island

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Introduction

The Civil Service Superannuation Fund ("the Plan") was established in 1945, under the *Civil Service Superannuation Act* (CSSA), to provide retirement income to permanent employees of the Province of PEI, Health PEI, and certain participating employers. The Plan also provides survivor benefits to eligible spouses and dependants of deceased members.

The Plan is a contributory, defined benefit pension plan financed by:

- employee contributions (i.e. regular payroll deductions, contributions made for early maternity/paternity leave) which are matched by the employer;
- employee contributions (i.e. purchase of service, transfers) which are not matched by the employer;
- special contributions from the Province of Prince Edward Island, and
- investment earnings from the plan's assets.

The assets of the Plan are held within the Province of Prince Edward Island Master Trust, which is administered by external investment managers. It operates under policy guidelines set by Executive Council and is supervised by an advisory committee to the Minister of Finance. The assets of the Plan are separate from the Operating Fund of the Province.

Major changes made effective January 1, 2014

In order to address financial challenges, and to help the Plan remain sustainable, changes were made to the *Civil Service Superannuation Act (*effective January 1, 2014).

The most significant change was the removal of the guaranteed inflation protection (also known as indexation) for both active and inactive members. The guarantee was replaced by a rules-based formula under which inflation protection is dependent on the funded status of the Plan.

Other Plan changes include delaying when an unreduced pension can be accessed and introducing variable contributions which are activated by changes in the funded status of the Plan.

What does "funded status" mean?

The ***funded status*** is a measure of the financial health of the Plan and is calculated annually. Funded status has an impact on things such as fund contribution rates for employees and employers, indexation to be applied to annual pensionable earnings for active members, and adjustments to pension benefits for retirees.

The funded status is calculated by dividing the assets by the liabilities. The result is expressed as a percentage and is known as the funded status.

Assets are made up of contributions made by employees and employers, in addition to investment income and special payments.

Liabilities are made up of any benefits earned by members at the date the liabilities are measured (i.e. April 1st each year).

Funded Status = 100 percent (i.e. Assets = Liabilities)
Funded Status <u>less than</u> 100 percent (i.e. Assets <u>less than</u> Liabilities)
Funded Status <u>greater than</u> 100 percent (i.e. Assets <u>greater than</u> Liabilities)

What is a vested member?

A participant's right to a pension (called vesting) occurs after two years of continuous service from the date the member starts to contribute to the plan.

The following may help you understand the vesting concept:

Example 1 (**Non-Vested Member**):

Jane Doe is hired on January 1, 2015 and terminated employment on October 1, 2016.

In this example Jane Doe's pension has not vested as she did not have two years of continuous service when she terminated from the Plan.

Upon termination Jane Doe's benefit is a refund of her contributions (plus interest), which she is required to take.

Example 2 (**Vested Member**):

John Doe is hired on January 1, 2015 and terminated employment on February 1, 2017.

In this example John Doe's pension has vested as he has more than two years of continuous service when he terminated from the Plan. Upon termination John Doe may:

a) take a refund of his contributions (plus interest), or

b) transfer the value of your pension to another defined benefit plan with which the CSSA has a reciprocal transfer agreement, or

c) leave his contributions in the Plan and draw a pension as early as age 55.

What is the earliest I can start to draw my pension?

The earliest age at which a vested member or a vested former member can access their pension is age 55.

How much am I and my employer required to contribute to the pension plan?

a) Base Contribution Rates

When the Plan is between 110 and 135 percent funded, base contribution levels are as follows:

- 8.09 percent of pensionable earnings up to the YMPE, and
- 9.75 percent of pensionable earnings in excess of the YMPE.

The employer matches contributions made by the members on a bi-weekly basis.

These employee and employer contributions are known as **"Base Contributions"**

- **YMPE** is a Canada Pension Plan (CPP) term that stands for Yearly Maximum Pensionable Earnings and is equal to $54,900 for 2016. The CPP increases the YMPE amount each year.

b) Variable Contribution Rates

The Plan also includes a provision for variable contributions. These variable contributions will be based on the funded status as outlined below (note that contribution changes are total and not cumulative).

Funded Status	Employee Contributions[5]	Employer Contributions
Less than 100% [1]	9.09 / 10.75	12.09 / 13.75
100% to 110% [2]	9.09 / 10.75	10.09 / 11.75
Base Contributions (i.e. 110 to 135%)	**8.09 / 9.75**	**8.09 / 9.75**
135% to 145% [3]	7.09 / 8.75	6.09 / 7.75
145% +[4]	7.09 / 8.75	4.09 / 5.75

1. Employer contribution rate remains in effect until a funded status of ≥ 105% is attained.
2. Employee and Employer contribution rates remain in effect until a funded status of ≥ 115% is attained.
3. Employee and Employer contribution rates remain in effect until a funded status of ≥ 130% is attained.
4. Employer contribution rate remains in effect until a funded status of ≥ 140% is attained.
5. Employee contributions are subject to the *Income Tax Act* Rules for maximum contributions.

What is the pension formula?

The simplified pension formula, (which does not reflect the offset at age 65 for estimated Canada Pension Plan (CPP) benefits), is;

"2%" *times* **"years of pensionable service"** *times* **"indexed career average salary"**

While the simplified pension formula was maintained after the Plan re-design, the "best three years' average salary" has been replaced with an "indexed career average salary" in which the indexation is dependent on the Plan's funded status.

"Indexed Career Average Salary", *for the purposes of this summary, means the average of all earnings (after indexation has been applied) over the career of the member while in the Plan.*

It is important to note that the dollars of pension benefits earned prior to 2014 will not be affected under the new design. Also, future indexation and benefit once awarded or earned respectively, become part of the base pension and will not be reduced.

For a more comprehensive calculation, you must use the following formula:

PART 1 ***(for earnings less than the CPP's annual YMPE limit)***	
"1.3%" *times* **"years of pensionable service"** *times* **"indexed career average salary"**	This portion is payable to the member for his or her lifetime.
"0.7%" *times* **"years of pensionable service"** *times* **"indexed career average salary up to the YMPE"**	This portion is payable to the member until the month following his or her 65th birthday.
PART 2 ***(for earnings greater than the CPP's annual YMPE limit)***	
"2%" *times* **"years of pensionable service"** *times* **"indexed career average salary over the YMPE"**	If a member's average salary is above the average YMPE, this portion is payable to the member for his or her lifetime and is added to the lifetime portion calculated from Part 1.

"YMPE" *is a Canada Pension Plan (CPP) term that stands for Yearly Maximum Pensionable Earnings and is equal to $54,900 for 2016. The CPP increases the YMPE amount each year.*

How are my earnings protected against the effects of inflation while I am working?

In order to calculate your career indexed average salary, all of your historical earnings will be indexed annually, if the funded status allows. However, for 2016, indexation is fixed at 1.5 percent per annum; after 2016, pre-retirement indexation will only be awarded annually when the funded status is greater than 100 percent. If the funded status falls below 100 percent, no indexation will be awarded for that following year.

Funded Status		Pre-Retirement Indexation
Less than 100%		Suspended
100% +		Provided

The maximum pre-retirement indexation that the Plan can award is 100 percent of the increase in the Average Industrial Wage (AIW) in Canada. The minimum inflation protection is zero percent, and there may be years in which only partial indexation is awarded.

If full indexation is not awarded in any year after 2016, and subsequently the Plan's funded status reaches 115 percent, the Plan allows for the awarding of missed indexation on a go-forward basis.

How is my indexed career average salary calculated?

Average salary is calculated using your annually indexed earnings over the course of your career. For those members who work part-time, your earnings will be annualized to what you would have earned had you worked full-time.

All past earnings will be adjusted upwards to protect against the effects of inflation from the year earned to the year of termination. This is commonly referred to as indexation and the level of indexation shall be determined each year based on the Plan's prior year funded status. Indexation must be awarded if the Plan is greater than 100% funded, and if the Plan's funded status falls below 100% indexation must not be awarded.

Example A shows how an *indexed career average* is calculated for full-time members with service earned post-December 31, 2013. In this example, the average salary is calculated as follows:

($63,100 + $63,546 + $62,577 + $63,050 + 63,523 + $63,996) *divided by* 6 = **$63,299**

EXAMPLE A

2014	2015	2016	2017	2018	2019
					$63,100
				$62,000	**$63,546**
			$61,350	$61,350	**$62,577**
		$60,900	$61,814	$61,814	**$63,050**
	$60,450	$61,357	$62,277	$62,277	**$63,523**
$60,000	$60,900	$61,814	$62,741	$62,741	**$63,996**

- The underlined earnings shown on the diagonal are as provided for by way of a collective agreement.
- Earnings to the right of each underlined value demonstrate what happens, on an annual basis, to your earnings for pension purposes (i.e. indexation where applicable).
- After 2016, indexation shall not be awarded when the funded status is less than 100 percent.
- Remember, indexation applied for 2014, 2015, and 2016 is pre-set at 1.5 percent.
- 2018 demonstrates how earnings are treated where indexation is not awarded for a year (in this example, the funded status for 2017 had to have been <100%). For pension purposes, the earnings from 2017 remain unchanged when carried forward for 2018.
- Indexation applied for 2019 is at a rate of 2.0 percent for this example, but the actual indexation applied to 2019 earnings will be determined by the funded status calculated in 2018.

Example B shows how an *indexed career average* is calculated for full-time members with service earned prior to January 1, 2014.

For service earned prior to January 1, 2014, the average salary continues to be calculated using the best three-years and the best three-years average is applied to all pre-2014 service. This results in the average salary of $44,000 being assigned to each year of service pre-2014, and will be indexed each year to retirement.

In this example, the best-three average salary is calculated as follows:

($45,000 + $44,000 + $43,000) *divided by* 3 = **$44,000**

EXAMPLE B

Year Service Earned	Actual Pensionable Earnings	Average of Best-three at December 31, 2013
2013	*$45,000*	$44,000
2012	*$44,000*	$44,000
2011	*$43,000*	$44,000
…	…	…
2000	$35,000	$44,000
…	…	…
1990	$25,000	$44,000

Example B will determine your best-three year average salary which will then be indexed, provided the funded status is at least 100 percent, each year until retirement.

For members who earned service both before and after January 1, 2014, it is a combination of both examples A and B that will be used to calculate your average salary.

What is the earliest a member can retire without a reduction?

*Please note that all service, be it pre-2019 or post-2018,
is considered when assessing a member's eligibility for an unreduced pension.*

Members who retire prior to 2019 (Rule of 30/60)

Vested members who retire prior to 2019 can access an unreduced pension if they satisfy one of the following criteria:

- attain 30 or more years of pensionable service (while being at least 55 years of age); or
- attain the age of 60.

Members who retire after 2018 (Rule of 32/62)

Vested members who retire after 2018 can access an unreduced pension if they satisfy one of the following criteria:

- attain 32 or more years of pensionable service (while being at least 55 years of age); or
- attain the age of 62.

For deferred members, the earliest unreduced date is determined when the service is rendered. For further information, contact the Pensions and Benefits office.

Does this mean that if I retire after 2018 all my service will be subject to the rule of 32/62 (i.e. need to have 32 years of service or be 62 years of age to avoid a reduction)?

No, your service prior to 2019 will still be assessed under the rule of 30/60 (i.e. need to have 30 years of service or be 60 years of age to avoid a reduction).

How is the Early Retirement Reduction calculated?

Please note that all service, be it pre-2019 or post-2018,
is considered when assessing the early retirement reduction.

Members who retire with service** prior **to 2019 only

The total pension amount is reduced by the lesser of:

a) 3.0 percent for each year prior to attaining 30 years of pensionable service, or
b) 3.0 percent for each year prior to age 60.

Members who retire with service both** before and after **January 1, 2019

➢ For that portion of the pension amount *earned prior to 2019*, the pension amount is reduced by the lesser of:

  a) 3.0 percent for each year prior to attaining 30 years of pensionable service, or
  b) 3.0 percent for each year prior to age 60.

AND

➢ For that portion of the pension amount *earned after 2018*, the pension amount is reduced by the lesser of:

  a) 3.0 percent for each year prior to attaining 32 years of pensionable service, or
  b) 3.0 percent for each year prior to age 62.

PLEASE NOTE:

- *Total service for your career is taken into account when adjudicating the early retirement reduction rules.*
- *If you retire after 2018, to fully avoid any early retirement reduction, you must satisfy the rule of 32/62 (i.e. attain 32 years of service or attain age 62).*
- *It should be noted that the early retirement reduction is applied to both the life-time and bridge benefits, and remains in effect for the duration of the benefit payment period.*
- *Reductions are calculated to the day.*
- *The portion of your pension that was earned prior to 2019 will continue be assessed using the rule of 30/60. The degree to which this change will affect you will be determined by how many years of service you earned before and after January 1, 2019. If a significant amount of your service occurred prior to 2019, then retiring without meeting the rule of 32/62 will produce a slightly larger reduction than what you would have faced before pension reform. The following examples illustrate this.*

Example 1:

John Doe plans on retiring when he earns $36,000 of annual CSSF pension (which is approximately 60% of his pre-retirement income). John retires in 2023 (which is 5 years after the early retirement rule changes that take effect January1, 2019).

• Age at Retirement =	58		
		Pension Amount (before reduction)	
• Service from 1993 – 2018 =	25.0 yrs →	25 x 2% x 60,000 =	$30,000
Service from 2019-2023 =	5.0 yrs →	5 x 2% x 60,000 =	$6,000
TOTAL SERVICE =	30.0 yrs		$36,000

- Average Salary at Retirement = $60,000

Service	Pension Amount Before Reduction Factor	Reduction Factor to be Applied	Pension Amount After Reduction Factor
1993 -2018 (25 yrs)	**$ 30,000**	**0 %** **(based on rule of 30/60)**	**$ 30,000**
2018-2023 (5 yrs)	**$ 6,000**	**6 %** **(based on rule of 32/62)**	**$ 5,640**
TOTAL SERVICE **(30 yrs)**	**$ 36,000**		**$ 35,640**

As 5 years of John's service is after 2018, the pension earned during those 5 years is subject to the new early retirement rules. Under that calculation, John faces a 6 percent reduction (he is 4 years short of age 62 but only 2 years short of 32 years so the smaller reduction is applied – i.e. 2 years "x" 3 percent for each year short of threshold). If he wishes to attain his goal of $36,000 of pension income he will have to work about another three month. Example 2 illustrates the impact of working another 3 months.

Example 2:

Given John's target amount of take home pension was $36,000, if he works an extra 3 months he will materially attain his goal. The following example illustrates this scenario.

- Age at Retirement = 58.25

		Pension Amount (before reduction)
Service re 1993 - 2018=	25.00 yrs →	25 x 2% x 60,000 = $30,000
Service re 2019-2023 =	5.25 yrs →	5.25 x 2% x 60,000 = $6,300
TOTAL SERVICE =	30.25 yrs	$36,300

- Average Salary at Retirement = $60,000

Service	Pension Amount Before Reduction Factor	Reduction Factor to be Applied	Pension Amount After Reduction Factor
1993 -2018 (25 yrs)	**$ 30,000**	**0 %** **(based on rule of 30/60)**	**$ 30,000**
2018-2023 (5.25 yrs)[1]	**$ 6,300**	**5.25 %** **(based on rule of 32/62)**	**$ 5,969**
TOTAL SERVICE (30.25 yrs)	**$ 36,300**		**$ 35,969**

1 The pension amount earned for post-2018 service is slightly higher and the reduction factor is slightly lower as the employee has rendered another 3 months service.

While John still faces a small reduction to the post-2018 portion of his pension, the overall amount is now materially equal to his pension income goal of $36,000.

What is a vested former member?

You are a vested former member if you were vested when you terminated employment, but have not yet accessed your pension benefits. This is commonly referred to as a deferred pension.

PLEASE NOTE:

- *The value of the deferred pension benefit will be increased annually in line with the indexation awarded to pensioners. This adjustment is awarded from the date of termination to the date your pension commences.*
- *It is not when the deferred pension commences to be paid that determines which early retirement reduction rule will apply, rather it is when the service was rendered (i.e. pre-2019 and/or post-2018) that will determine reduction treatment.*
- *It is the member's responsibility to contact the plan administrator and make application to commence drawing the deferred pension.*

What benefits can my survivor(s) receive after I die?

The Plan will provide survivor benefits to your spouse and dependants, if eligible per the legislation.

The following applies to Active and Retired members.

Member's Survivors	Benefit Entitlement	Frequency / Duration
Spouse Only	60% of member's pension entitlement	Payable monthly for spouse's lifetime
Spouse and Dependants	60% of member's pension entitlement ***plus*** 1/6 of the Spouse's entitlement is payable equally to a maximum of 4 dependants	Payable monthly to spouse for spouse's lifetime Payable monthly to dependants until deemed non-dependant
Dependants Only	The Spouse's entitlement is payable equally to dependants ***plus*** 1/6 of the Spouse's entitlement is payable equally to a maximum of 4 dependants	Payable monthly to dependants until deemed non-dependant
None	Refund of contributions (plus interest) less any pension benefits received	Lump sum paid to Member's Estate

If the Plan Member is not vested then his/her contributions plus interest are refunded to the Member's Spouse, and if no Spouse, then to the Member's Estate.

A dependant is defined as:

1) a child under the age of eighteen;
2) a child in full-time attendance at an institution of post secondary education, and under the age of twenty-one; or
3) a child who is dependent on the individual by reason of mental or physical infirmity.

How is my pension protected against the effects of inflation after I retire?

For 2016, your pension benefit will be indexed at 1.5 percent per annum. After 2016, post-retirement indexation will only be awarded if the funded status is greater than 110 percent. If the funded status falls below 110 percent then no indexation will be awarded for that year.

Funded Status		Post-Retirement Indexation
Less than 110%		Suspended
110% +		Provided

The maximum post-retirement indexation that the Plan can award is equal to 100 percent of the Consumer Price (all items) Index for Canada. The minimum inflation protection is zero percent, and there may be years in which only partial inflation is awarded.

If full indexation is not awarded in any year after 2016, and subsequently the Plan's funded status reaches 118 percent, the Plan allows for the awarding of missed indexation on a go-forward basis.