

## ugFact Pensions

Based on feedback from the Members regarding the last Pension Primer Newsletter, the UGFA Pension and Benefits Committee has put together the following list of helpful definitions relevant to our pension plan.

### KEY PENSION DEFINITIONS -

**Pension Income Calculation (Retirement Income Formula):** Used to determine what your pension entitlement will be.

#### FORMULA:

$[(\text{Years of Credited Service}) \times (1.5\% \text{ of your Best Average Earnings UP TO the average YMPE})] +$   
 $[(\text{Years of Credited Service}) \times (2\% \text{ of your Best Average Earnings ABOVE the average YMPE})]$

Example: Sally has 35 years of service and she will retire at the end of December 2010. Her salary for the last three years is as follows: 2010 - \$110,000; 2009 - \$104,000; 2008 - \$99,000 (average = \$104,333). Average annual YMPE for the past 5 years has been: \$44,840. Sally's pension calculation would therefore be:

$[(35) \times (1.5\% * \$44,840)] + [(35) \times (2\% * (\$104,333 - \$44,840))] = \$65,186.10$  annually

#### Early Retirement Options:

**85 Factor ('Rule of 85').** Your pension will be unreduced for early retirement if you have reached your "85 Factor". You reach your "85 Factor" on the first of the month following the date when both:

- (your age) + (your years of credited pension service) = 85
- your age is at least 55.

**Rule of 60.** As part of past practice, the University invites all members of the pension plan who are over age 60 to retire with no penalty/reduction for early retirement.

**Indexation:** A calculation carried out annually in which the pension of a Member may increase as a result of an increase to the previous year's Consumer Price Index (CPI). Our current formula provides for indexation of pensions as follows: CPI – 2%, to a maximum CPI value of 8%.

### OTHER RELEVANT PENSION DEFINITIONS -

**Best Average Earnings:** the annual average of a Member's highest thirty-six (36) consecutive months of earnings.

**Commutated Value:** an immediate 'lump sum' payment estimated to be equal in value to a series of future pension payments, representing the actuarial present value of the benefit to which an employee is entitled. Certain assumptions, such as future economic conditions and life expectancy, are used in the determination of the lump sum amount; these are based on standards issued by the Canadian Institute of Actuaries. The payment of the commuted value is subject to Canada Revenue Agency guidelines and must be transferred into a locked-in retirement fund.

**Consumer Price Index (CPI):** an indicator of changes in consumer prices experienced by Canadians. It is obtained by comparing over time the cost of a fixed basket of commodities purchased by consumers. Indexation of our pension plan is linked to the CPI.

**Early Retirement Penalty:** When a Member retires earlier than the *Normal Retirement Age* (65), *AND* she/he does not qualify for one of the above early retirement options, the Member's pension is reduced by one quarter of one percent (0.25%) for each month prior to Normal Retirement age.

**Maximum Pension:** Pensions payable from the all pension plans are subject to the maximum pension limits specified in the Income Tax Act (Canada). For 2010, the maximum lifetime retirement pension is limited to \$2,494.44 per year of pensionable service. This limit results in an \$87,305.40 annual pension for an employee who has earned the maximum 35 year of service.

**Normal Retirement Age:** the normal age of retirement is defined in our Pension Plan document as sixty-five (65) years of age. The Normal Retirement Age is used to determine a number of factors related to your pension, including eligibility for early retirement plan provisions. Normal Retirement Age should not be confused with "mandatory" retirement age. Since 2006, there has been no mandatory retirement in Ontario and you are therefore not required to retire when you reach the Normal Retirement Age.

**Pensionable Salary:** Some types of salary are NOT included in your salary for the purposes of calculating your pension. Examples include: administrative stipends for Department Chairs and Stipends for overload teaching.

**Pensionable Service (Years of):** the number of years of employment (service) at the University of Guelph, which is used to determine an employee's pension benefit.

**Terminated or Terminating from the Plan:** When a Member's employment with the University ceases for any reason other than death or retirement, she/he has terminated from the Pension Plan.

**YMPE (Yearly Maximum Pensionable Earnings):** The YMPE is the year's maximum pensionable earnings under the Canada Pension Plan (CPP). The YMPE is the ceiling upon which CPP benefits are based. It changes annually and is set by the government at the beginning of each calendar year. For 2010, the YMPE is \$47,200.

**YMPE Average:** the average YMPE in effect during the sixty (60) consecutive months immediately preceding a Member's retirement. This number is used in the Member's pension income calculation.