pension perspectives

Fall 2018

Plump it up!!

Are you taking full advantage of your workplace pension and the tax sheltering it offers? Contributions to the Public Employees Pension Plan (PEPP) are made on pre-tax dollars which means you immediately reduce your tax burden on payday. In other words, pension contributions come off your paycheque before income tax is applied. If you earn $2,000/bi-weekly and contribute $140 to your pension; tax is applied to the remaining $1,860 rather than on the full $2,000.

When you invest in a pension you also defer paying tax on any investment earnings your account may accumulate within the Plan. However, all pension payments are taxable, so once you start to draw income from your pension you will have to pay tax on the amount you withdraw annually.

Each year Canada Revenue Agency (CRA) sets the maximum a person may contribute for retirement. The maximum for 2018 is the lesser of:18% of annual gross income (before tax) OR $26,500.

Here's an example of how to figure out if you have room to plump up your pension. John's gross income is $43,500 annually. His required pension contribution is 7% of his salary. His employer makes a matching 7% contribution. The annual maximum John can contribute is 18% of his gross salary or $7,830.

Annual Salary	Contribution rate	Annual contribution
$43,500	John required @ 7%	$3,045
$43,500	Employer required @7%	$3,045
Total	14%	**$6,090**
	+ John voluntary @ 4%	$1,740
Total	18%	**$7,830**

John may be able to contribute another 4% or $1,740 ($7,830 - $6,090) annually to his PEPP account as a voluntary contribution or contribute the difference to an RRSP (provided he has the room) outside PEPP. Contributing the additional $1,740 or $145/month as a voluntary contribution to PEPP reduces John's immediate taxable income and plumps up his pension account at the same time.

If John is 30 years old and works to age 63, that extra $145 each month translates to about $15,000 in tax savings over the years he worked and potential for an additional $120,000 in his pension.

Contribute the maximum, save and defer taxes, and plump up your pension

No time like the present - ask your employer to set you up to make voluntary contributions through payroll deduction. You may stop making voluntary contributions at any time. Voluntary contributions to PEPP are not accessible until you terminate or retire. Please see our website for the PEPP*Talk* on *Voluntary Contributions* for more information.

In the last fiscal year active PEPP members contributed $38 million in voluntary contributions by payroll deduction.

Spousal waivers

Spousal relationship breakdowns, second relationships, and personal preferences are all reasons you may at some point need a spousal waiver. There are two types of spousal waivers:

Spouse's Waiver of Death Benefits ***Prior*** *to Retirement* This form allows your spouse to waive entitlement to a death benefit should you die before retirement. This will allow you to name someone other than your spouse as a beneficiary.

Spouse's Consent and Waiver of ***Post****-Retirement Survivor Benefits* Your spouse can use this form to waive the right to a minimum 60% survivor benefit from your pension so you can purchase a Variable Pension Benefit, prescribed Registered Retirement Income Fund, or Single Life Annuity on retirement.

Before your spouse waives his or her rights to a death or survivor benefit, you both should:

- fully understand the benefits payable to a spouse under PEPP and the conditions under which they become payable;
- investigate whether or not the waiver can be revoked and if so, what time constraints are involved; and
- contact professionals such as a financial planner and possibly legal counsel to help you understand all the implications of a waiver.

See the PEPP *Talk* on *Waiver of Spousal Benefits* on our website for a definition of spouse and more information.

Retirement Video

Take two minutes (literally!) of your time and watch the video on ***Creating a Retirement Plan***.

Paint a picture of your retirement. This video is a simple guide for you to use when creating a retirement plan and some things to consider before you decide to retire.

Adiós 2018

Here's a few things to think about as yearend approaches.

1. Voluntary contributions are a great way to plump up your pension. Consider contacting your employer and setting them up through payroll deduction. Start your new year off investing in your future.
2. Consider scheduling a free review of your PEPP investments with one of our Retirement Information Consultants who hold their Certified Financial Planner (CFP) designations.
3. If you are nearing age 70 and haven't retired yet – start thinking about how you are going to draw your pension. The *Income Tax Act* (Canada) says you must convert your pension to income by the end of the calendar year you turn age 71.
4. Variable Pension Benefit members who are age 72 or older are required by CRA to withdraw a minimum amount every year. You will get a letter in November if you are impacted by this. The letter will tell you how much you must withdraw in the coming calendar year. When you get the letter, think about how you want to take your money out – monthly or annual scheduled payments, or as lump-sum payments spread out over the year (these incur a fee after the first payment).

Choose paper-free

e-comm
Paper Free Communications

Be in the know! E-Comm members get advance notice by email that Plan news and personal information (like your member statement) is available on the website or in your PEPP*Access* account. To sign up, click on the E-Comm logo on the PEPP homepage.

Interesting fact: If everyone signed up for E-Comm about $140,000/year would be saved on postage alone.

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