"June 30" Strategy for Increasing Pension

Original by Bill Kuehnbaum, revised by Darryl Bedford

Faculty members who retire at June 30 significantly increase their pension benefit over what they would get by retiring at the end of August.

Why is this true? It is based on two principles contained in the Academic Collective Agreement and in the CAAT Pension Plan. The first principle is that our annual salary is earned over 10 months even though it is paid over 12 months, which has the effect of making a lump sum vacation payout part of pensionable earnings. The second principle is that pension entitlement is based on the best consecutive 60 months of pensionable earnings.

A specific case illustrates why this works. Consider a faculty member who has worked 35 years and retires at the end of the vacation period. The best 60 consecutive months would be all pensionable earnings back to September 1, 2006, which includes the amount earned during the vacation period of July and August 2011. If this person's 60 month total were $476,834 the annual pension would be $55,720. (Note: Dividing $476,834 by 5 gives a 5 year average of $95,367. The pension is 1.3% x AYMPE $43,620 x 35 years of service plus 2% x $51,247 above the AYMPE x 35 years of service. Therefore the pension of $19,847+$35,873=$55,720.) The first monthly pension cheque of $4,643 would arrive in September.

If the same faculty member were to leave the college at the end of June with a lump sum vacation pay in their pocket the calculations are as follows. The best 60 consecutive months would include all pensionable earnings back to July 1, 2006, and would include the lump sum vacation payout earned over the 2010-2011 academic year. The effect would be to increase the above 60 month total by an amount equal to earnings in July and August 2006 — about $14,100. This increases the 5 year average from $95,357 to $98,187 which will increase the annual pension. The number of years of service would fall by 2 months. (Note: The pension is 1.3% x AYMPE $43,620 x 34.83 years plus 2% x $54,567 above AYMPE x 34.83 years. Therefore the annual pension is $19,751+$38,011=$57,762). The increase of $2,042 annually is created solely by leaving at the end of June rather than waiting until the end of August.

As an added bonus, those who retire at the end of June and take the lump sum will also collect pension payments of $4,813 in July and in August.

The net effect of leaving at the end of June is to increase the annual pension and to start payments from the pension plan two months earlier.

Assumptions: 35 years of service at the end of August 2011

Annual salary step 21 - $100,183 for 2010-2011

Retirement Date	Aug 31, 2011	June 30, 2011
60 Month Total	$476,834	$490,934
Annual Average	$95,367	$98,187
Years of Service	35	34.833
Annual Pension	$55,720	$57,762
July — August 2011 Pay	$16,697	
July — August 2011 Lump Sum		$16,697
July — August 2011 Pension		$ 9,627

Retirement 101

by Phil Cunnington, Vice-Chair & Ron Golemba, Trustee, CAAT Pension Plan

Getting Ready to Retire Checklist

- ☒ Obtain accurate information about your pension status from the CAAT Pension Plan (CAATPP)
- ☒ Consider purchasing all eligible credited service in CAATPP at the earliest opportunity
- ☒ Check collective agreement for retirement sick leave gratuity and see the Local about any College early retirement incentive plans
- ☒ Apply for sick leave gratuity and any early retirement incentive and make investment decisions
- ☒ Write letter of resignation to your supervisor
- ☒ Gather your documents
- ☒ Check that your pension application has been forwarded to CAATPP through the Human Resources department
- ☒ Decide about insured health benefit coverage
- ☒ Consider applying for a reduced Canada Pension Plan (CPP) benefit when you turn 60 (if you take early retirement) or an unreduced CPP benefit when you turn 65
- ☒ Apply for old Age Security (OAS) when you turn 65

Obtain accurate information about your pension status

As a member of CAATPP you should be receiving an Annual Statement each year from the plan. It is important to make sure the CAATPP's records agree with yours when you receive your statement. If unsure of a fact, check with Human Resources in the College.

You may also request Pension Estimates from the College or the Plan to see the impact different retirement dates will have on your pension. You can also use the Plan's online Pension Estimator at www.caatpensionplan.on.ca

Consider purchasing all eligible credited service in CAATPP at earliest opportunity

In general, you may purchase credited service for prior service, leaves (e.g., maternity or parental leaves), past strike periods and optional service. Optional service is previous service with another Canadian public service employer. The rules are complicated, and costs generally increase as time passes. For complete details talk to the College or to CAATPP.

Check with the local for retirement sick leave gratuity and any early retirement incentives

Check the provisions of the Collective Agreement with your local. The Collective agreement provides a retirement sick leave gratuity based on unused cumulative sick leave (Article 17.01H) and many colleges also include an Early Retirement Incentive (ERI). To qualify for an ERI, you may be required to make your intention known to the college by some deadline. Contact the local for advice.

Apply to the college for sick leave gratuity and any ERI incentives and make investment decisions

You may need to seek independent financial advice about how to handle your sick leave gratuity and/or any early retirement incentive to your best tax advantage. As a general rule, you are allowed to transfer $2,000 per calendar year of service (up to and including 1995) with the college or related employer to an RRSP. If you have RRSP contribution room, you can put the excess into it. Any part of your sick leave gratuity or ERI incentive that exceeds the maximum must be taken as taxable income. It is important that the college transfer the money directly into your RRSP or income tax will be withheld. You can claim a deduction when you file your tax return.

Write a letter of resignation to your employer

A formal letter of resignation to the college must be dated ninety days prior to your retirement date. This is important. Failure to do so may cost you some vacation pay (Article 27.13). Ask the college to pay out your vacation as a lump sum on the last day of active work at the college.

Again, you may have to submit your letter earlier in order to qualify for any early retirement incentives.

The letter of resignation should be addressed to your supervisor indicating that you are taking (early) retirement. Send a copy to the Human Resources department at the college. They will then send you all the necessary forms and documents associated with retirement.

Gather your documents

Once you have informed the college of your intention to retire gather up your documents to avoid delays in processing your application: birth certificate, (common law) spouse's birth certificate, marriage certificate(s), or separation or divorce agreement. CAATPP may need these to process your retirement. These documents can be submitted at any time.

Check that your pension application forms have been forwarded to CAATPP

Forms will be processed through the Human Resources department of the college. It can take up to three months to process a pension application after all documents have been received, so give them enough time.

Decide about insured health benefit coverage

Under Article 19.09, the Collective Agreement allows faculty to continue with extended health benefits, dental and life insurance if the employee so wishes. The employee must be enrolled in the plan(s) before retirement to be able to continue them. The employee must pay the full cost of the premiums. Check with the local.

Consider Applying for Canada Pension Plan (CPP) when you turn 60

You may apply for an early pension from CPP at age 60 (instead of age 65). Your CPP benefits will be actuarially reduced by 0.5% for each month you are younger than age 65 (i.e., 6% per year). Generally, there is no significant financial benefit to delaying application for CPP to age 65. Collecting CPP early has no impact on your CAAT pension.

Apply for Old Age Security (OAS) when you turn 65

Don't forget to apply for your OAS pension about six months before you turn 65. OAS is paid in addition to CPP and your pension from CAATPP. Depending on your total income, OAS may be subject to clawback (repayment) through income taxes.

Keep in Touch

Keep in touch with your Union Local. Give them your address and ask to be kept on the mailing list.

Enjoy Life

Have a happy, healthy retirement - you've earned it!

Type of CAAT Pensions

Unreduced - age 65
- age 60 with 20 years service
- 85 factor (age + service = 85) (even before age 55)

Reduced
- age 55+ and no 85 factor
- age 50 with 20 years of service

Survivor - even if member was not on pension

For more information

Contact the CAAT Pension Plan, 2 Queen Street East, Suite 1400, P.O. Box 22, Toronto ON M5C 3G7.
Phone: 416-673-9000 or 1-866-350-2228