Message from Naomi Andrew, Acting Vice-President (Administration)

In January 2020, the Canadian Institute of Actuaries (CIA) released amendments revising the standard for Defined Benefit pension plans when determining a present-day “lump sum” value of a pension benefit also known as a commuted value (CV).

This revised standard affects all Defined Benefit pension plans in Canada. The standard is revised from time to time, and in recent years largely as a response to economic changes or to reflect increased average Canadian lifespans. The latest revision is **effective December 1, 2020,** and includes changes to the assumed age of retirement and the interest rates**,** which are two key assumptions required to be used in the lump sum calculation.

In response, the University has made an amendment to its own University of Manitoba Pension Plan (1993) (hereinafter referred to as “the Plan”) to ensure that the first change resulting from the revised CV standard (i.e., the assumed age of retirement) has no negative impact on lump sum calculations. This amendment was supported by the Staff Benefits Committee as well as the participating Unions.

The second change resulting from the revised CV standard (i.e., an adjustment to interest rates used in the lump sum calculation), cannot be avoided. It will have a some impact on the total calculation.

Who does this change affect?
This change affects the interest rates used in the lump sum calculation of the “Supplementary Pension”. Only those who are age 55 with 5 or more years of service may be eligible to commence receiving a Supplementary Pension; and of those, the revised CV standard will only affect new retirees opting to transfer their lump sum out of the Plan. See "Supplementary Pension " note below.

Supplementary Pension note
At retirement, the benefits calculated under the Defined Benefit (formula pension) and the Defined Contribution (Plan Annuity) methods, will be compared. You receive the greater of the two benefits.

If your formula pension is greater than your Plan Annuity, the difference will be paid to you as a **Supplementary Pension** from the Plan.

If you are planning to retire in the next three months and you would like to better understand how this change may affect you, please email the Pension Office at pension.office@umanitoba.ca as soon as possible to discuss your options.

To be clear, if you leave the University without being eligible for a Supplementary Pension or if you plan to collect a monthly lifetime pension from the Plan (i.e. not a lump sum)**, the revised CV standard will not affect you.**

What is the impact for those affected?
Some pension plans are much more affected than others are by the revised CV standard. However, because of the hybrid design of the University of Manitoba 1993 Pension Plan*,* the revised CV standard will have some impact on the total lump sum calculation. We estimate that the impact of interest rates will be approximately a 1% to 3% reduction in the total lump sum calculation. However, the commuted value calculation has many variable components including interest rates, the Plan fund returns, your service and your earnings.

Please note *The University of Manitoba 1993 Pension Plan is administered in accordance with the plan provisions, the Pension Benefits Act* (Manitoba)*, and the Income Tax Act* (Canada) *and Income Tax Regulations* (Canada) *to which the methodology outlined by the CIA Standard of Practice applies.*

FAQs

To assist you in understanding the impact of the change in commuted value (CV) standards we have prepared the following questions and answers.

Why is this change in CV standards happening? Who is making this change?

Lump sum amounts, or commuted values, payable from pension plans must be calculated in accordance with a specific actuarial methodology outlined in a standard published by the Canadian Institute of Actuaries. This standard is revised from time to time and has been revised a few times in the last two decades, largely in response to economic changes or to reflect a better understanding of how long people live. The latest revision is effective December 1, 2020. This change **was not initiated by the University**.

Is my pension being reduced?

Your monthly pension payable from the Plan **is not** being reduced and should you decide to collect a lifetime pension from the Plan when you retire, the revised CV Standard **will not affect you**. The revised CV standard only affects how **lump sums payable from the Plan** are calculated and therefore there is only an impact if you elect a lump sum when you retire.

I don't understand the difference between the Supplementary Pension and the Plan Annuity - which is being affected?

The Plan ensures that a minimum guaranteed pension is payable at retirement to those members eligible to retire with at least 5 years of service. Members can elect to take their pension as a monthly plan annuity or they can elect to transfer the money out as a lump sum. **For those choosing to take their pension as a monthly plan annuity there will be no impact.**

For those electing to transfer their pension out as a lump sum, the Plan applies a "better of" formula. This means comparing the amount of money in your contribution accounts (your contributions and the University's matching contributions) against the minimum guaranteed pension you would be entitled to. It is possible that the total of your contribution accounts and the University's matching contributions is less than this minimum guaranteed pension (for example, due to poor investment returns). If that is the case, you will be entitled to receive a "Supplementary Pension" to make sure that you receive at least the Plan's minimum guaranteed pension.

It is only the lump sum value of this Supplementary Pension that is affected by the revised CV Standard. Your contributions and the University's matching contributions **are not** affected by the revised CV standard.

I was thinking of retiring soon and taking a lump sum. Should I commit <u>before</u> December 1 to retire?

If you are over age 55 with 5 or more years of service with the University, you are generally eligible to retire, and you will be provided with an option to receive a lifetime pension from the Plan, or to take a lump sum out of the Plan when you do so. At the time you receive this option, the interest rates in effect, your length of service with the University, your earnings and the Plan fund returns are all variables that will impact the lump sum calculation you are provided with. The impact of the change in the interest rates methodology under the revised CV standard is expected to reduce CVs by approximately 1% to 3% if all of the other required assumptions are held constant. Therefore, it is difficult to say whether rushing to make a commitment before December 1, 2020 to retire would result in a favourable outcome, as opposed to delaying your retirement for a few more months.

What do I need to do if I want to retire?

If you were considering retiring very soon–in the next few months– and you would like to better understand the impact of the change in CV standards, please contact the Pension Office as soon as possible by email at pension.office@umanitoba.ca to discuss your options.

Note that lump sums will be calculated under the current standard and will be treated as per the current process <u>only</u> for members who:

> **i) make or have made a firm commitment by no later than November 30, 2020 to retire via email message to the Pension Office at pension.office@umanitoba.ca ;**
> **ii) actually retire by no later than January 10, 2021; AND**
> **iii) return their duly completed forms electing a lump sum transfer to the Pension Office by no later than February 26, 2021**

In <u>all</u> other circumstances the revised CV standard shall apply.

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