

The presentation can be accessed online at:  
<http://www.mcgill.ca/hr/pensions/mupp/sessions> .

# McGill University Pension Plan

## Understanding the Defined Benefit Minimum

### Session for Part A (Hybrid) Members

(members who joined prior to January 1, 2009)

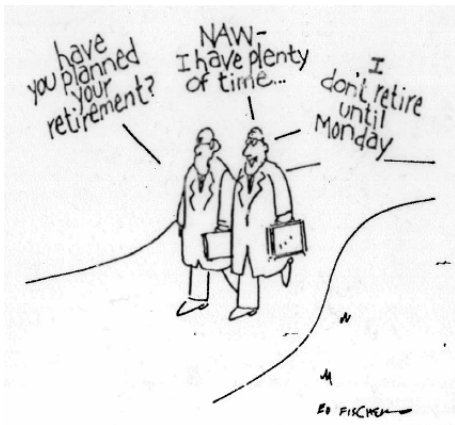


## Webpages to access prior to start of session

- Login to your pension account on Sun Life website (see slide #11)
  - ✓ Confirm Part A (Hybrid ) participation (see slide #12)
  - ✓ Identify your current investment holdings (see slide #12)
  - ✓ Access your defined benefit minimum account balance (see slides #13 - 14)

- This presentation is intended to inform you about the McGill Pension Plan & the hybrid component
- This is not financial advice & should not be taken as such. It is meant to alert you to the matters to look into.
- Your individual needs & circumstances may not be adequately addressed by the info contained in this presentation.

# Learning Objectives

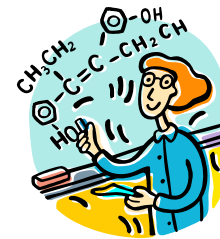


- Assist newly retired or active Part A members to understand the hybrid design of the McGill University Pension Plan;
- Learn how to access your account information and understand how the defined benefit minimum supplement is calculated;
- Learn which factors impact the value of the defined benefit minimum supplement as well as the forms of payment; and
- Know the decisions you will need to make and the timing thereof.

# Types of Pension Plans

## Defined Benefit

- Pension is based on a formula tied to service & salary



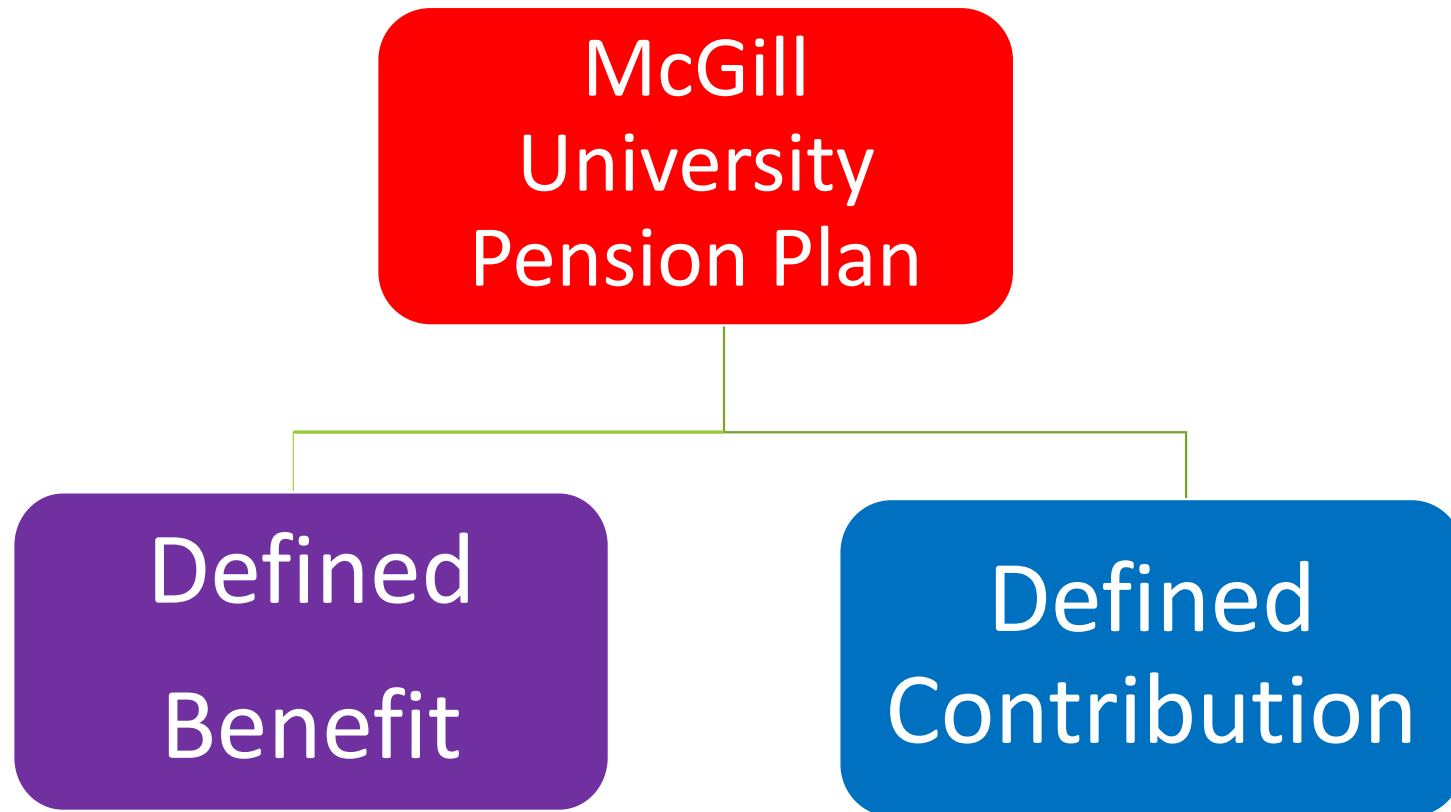
## Defined Contribution

- Retirement income is based on contributions, the investment return accumulated at retirement as well as market conditions



# McGill University Pension Plan (MUPP) – Hybrid (Part A)

Members who joined or were eligible to join prior to January 1, 2009



# Defined Contribution: Investment Options



**Balanced  
Account**



**Fixed  
Income  
Pool**



**Equity  
Pool**



**Socially  
Responsible  
Investment  
Pool**



**Fossil  
Fuel  
Free  
Pool**



**Money  
Market  
Pool**



**Multi-Risk  
Target  
Date  
Funds**

# Defined Benefit Minimum



**Balanced  
Account**



**Fixed  
Income  
Pool**



**Equity  
Pool**



**Responsible  
Investment  
Pool**



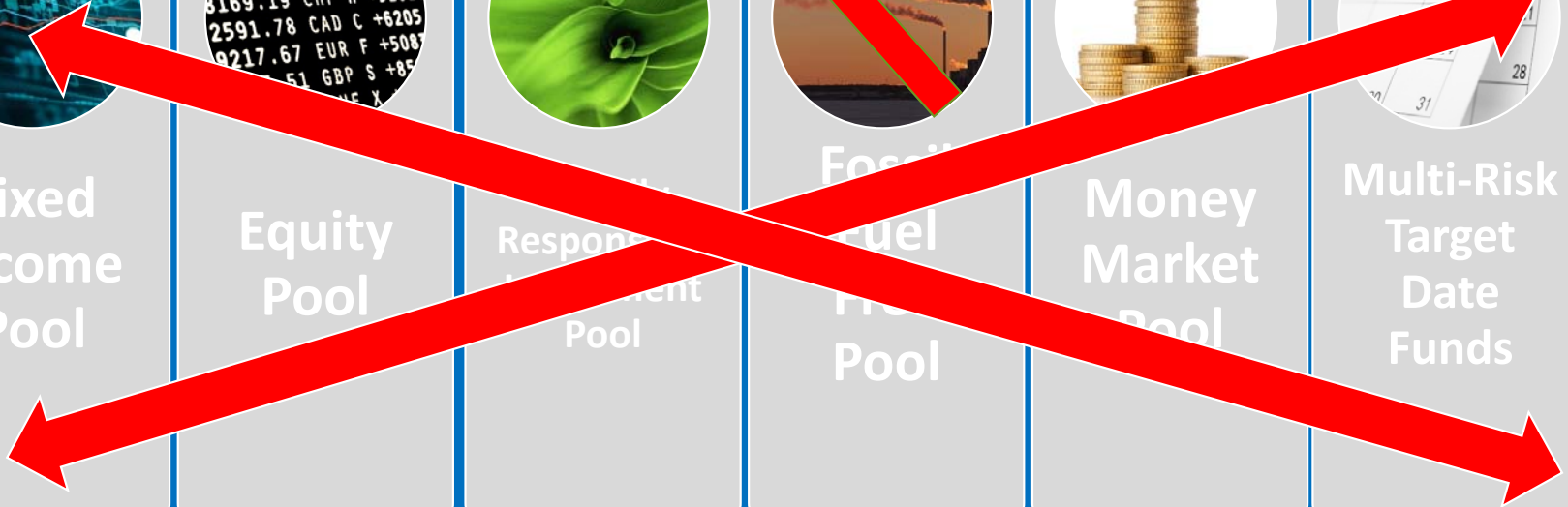
**Fossil  
Fuel  
Pool**



**Money  
Market  
Pool**



**Multi-Risk  
Target  
Date  
Funds**





## Meet Robert

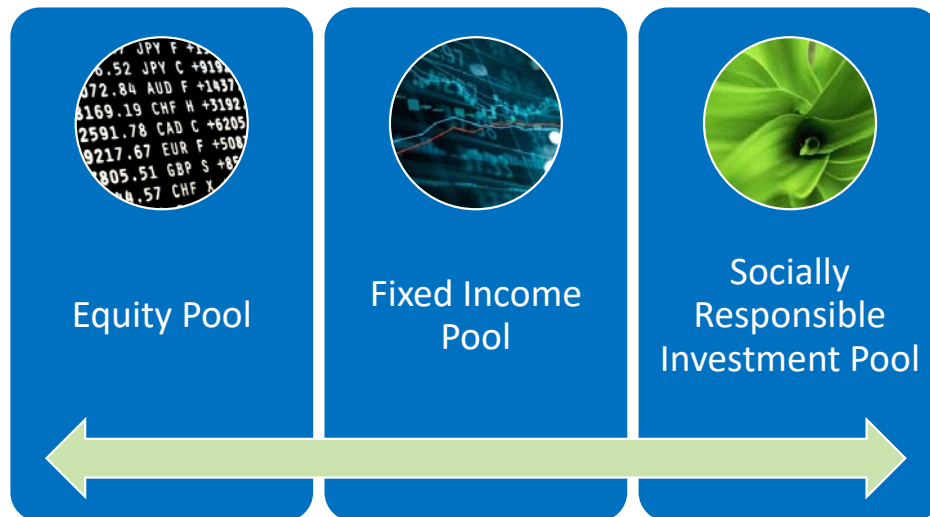


Robert is age 65 and has been participating in Part A of the McGill University Pension Plan for 35 years

- Pre-retirement income is \$81,000
- Average best 60 months consecutive earnings is \$75,000
- Robert held varying investment options and at retirement, his defined contribution account is worth \$475,000
- Had Robert instead only invested in the Balanced Account, his account would be worth \$450,000

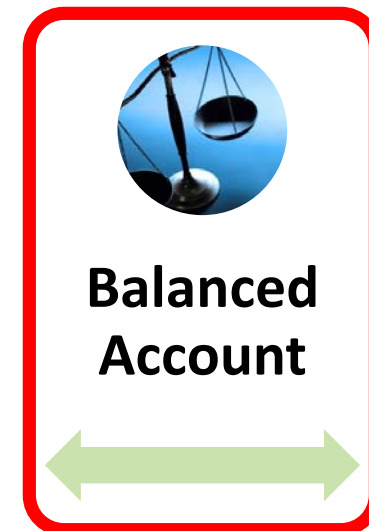
## Robert's case:

### Actual Investment Holdings



\$475,000

### Theoretical Balanced Account



\$450,000

# Access and Manage your Account

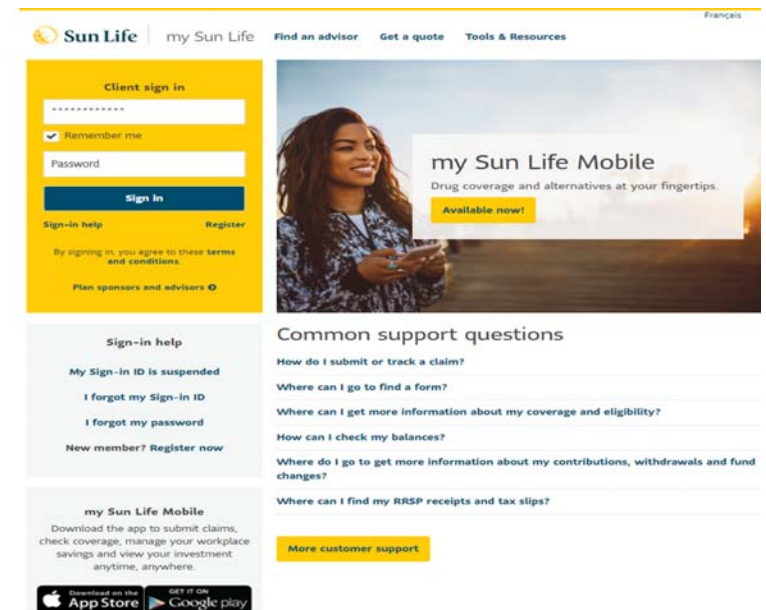
Access your Sun Life account via the link provided on the McGill University Savings Program website: <http://www.mcgill.ca/hr/pensions/mupp/mupp-login>.

## ➤ On mysunlife.ca

- View Account balances, included defined benefit (Part A)
- Personal & fund rates of return
- View your Statements (Part A – DC and DB & Part B)
- Complete the Asset Allocation tool
- Use the Retirement Planner
- Monitor your investments with Morningstar
- Transfer in external holdings

DC = defined contribution

DB = defined benefit



[Home](#) > [my plan](#) > Balances

## Balances

McGill University Savings Program

Account #: - 01 As of: 29 Nov 2022

### Summary

### Details

### Defined Benefit Overview

#### Summary : Registered

Plan / Fund	Value	Units
MUPP - Part A (hybrid) (MUPP-A)		
McGill Fixed Income Pool	\$116,432.80	1,661.97952
McGill Equity Pool	\$33,202.54	317.81562
<b>Subtotal</b>	<b>\$149,635.34</b>	

Actual investment  
holdings

# View your Potential Supplemental Retirement Benefit

## My McGill University Pension Plan summary

The McGill University Pension Plan (Part A) is a hybrid plan that combines the features of a defined contribution plan with a defined benefit minimum.

If the value of your Defined Benefit Minimum Pension is higher than the Defined Contribution regular account value if invested 100% in the balanced account, at the earlier of termination (or retirement) or when you turn 65, you may be entitled to an extra amount known as the "Supplemental Retirement Benefit Value". There are various options available if you wish to transfer the amount, or you can have the value paid out in the form of a recurring pension amount.

Note that if you are over age 65, the amounts presented in the table below reflect the annual accrued pension adjusted for postponed retirement and the reduced transfer value at the date indicated. For additional information, please refer to your age 65 package.

We update your Potential Supplemental Retirement Benefit Value monthly within 10 days of month-end.

Description	Values
Defined Contribution account value as of April 26, 2022	\$475,000.00
Potential Supplemental Retirement Benefit Value as a transfer value as of March 31, 2022 ⓘ	\$ 80,000.00
<b>Or</b>	
Potential Supplemental Retirement Benefit Value as an annual life only pension (optional forms are available at settlement) ⓘ	\$ 5,302.00

Sun Life secure member site:

[www.mcgill.ca/hr/pensions/mupp/mupp-login](http://www.mcgill.ca/hr/pensions/mupp/mupp-login).

Go to:

- MUPP – Part A (hybrid) (MUPP-A)
- Defined Benefit Overview
- For projections at a future date, use the Retirement Planner tool

Updated monthly within 10 business days of month-end.

Defined Contribution  
Current Account Value

Potential supplement transfer value

Potential supplement as an annual  
pension

### What's the formula for the defined benefit minimum?

Several things are considered when determining your minimum pension calculation. These include how long you've been contributing to the pension plan, your highest earnings period, and earnings periods subject to Quebec Pension Plan limits. [i](#)

Description	Values
Years of service you've contributed to the pension plan	35 years
Highest average earnings (best 60 consecutive months)	\$75,000.00
Average Quebec Pension Plan (QPP) earnings limit (your average of the last 5 years)	\$59,700.00
A. Defined Benefit Minimum Pension (annual) accrued to date, payable at age 65	\$35,130.90
B. Transfer value of the Defined Benefit Minimum Pension <a href="#">i</a>	\$530,000.00
C. Representative value of Defined Contribution account if invested in 100% Balanced Account <a href="#">i</a>	\$450,000.00
D. Potential Supplemental Retirement Benefit Value as a transfer value as of September 30, 2020 (if B is greater than C) <a href="#">i</a>	\$ 80,000.00
Or	
Potential Supplemental Retirement Benefit Value as an annual life only pension (optional forms are available at settlement) <a href="#">i</a>	\$ 5,302.00

Click on the "+" to see the figures used in your calculation.

Defined Contribution – Theoretical Balanced Account

## What is the Defined Benefit Minimum Pension Formula?

Annual pension @ age 65 =

(1.8% \* your highest 60 months consecutive earnings  
\* your years of credited service)

**MINUS**

(0.58% \* average Quebec Pension Plan's earnings limit  
\* your years of credited service)

## Defined Benefit Minimum Formula

Robert:

- Highest 60 months consecutive earnings = \$75,000
- Years of Credited Service = 35
- Average QPP Earnings Limit = \$59,700

$$(1.8\% * \$75,000 * 35) \text{ minus } (0.58\% * \$59,700 * 35) = \$35,130.90$$

Annual pension commencing @ age 65 = \$35,130.90

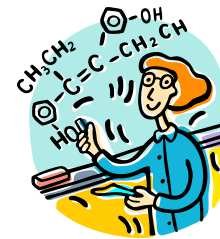
Defined  
Benefit  
Minimum  
(Annual Pay)



# Which is worth more?

## Defined Benefit

Annual pension \$35,130.90



## Defined Contribution (Balanced Account)

- Account value if only invested in the Balanced Account \$450,000

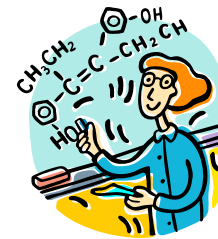
(Actual account holdings \$475,000)



## Converting an annual pay pension to a lump sum transfer value

Defined  
Benefit

Annual pension \$35,130.90



Annual Pay amount X **Commuted Value Discount Rate Factor** =  
Lump Sum Transfer Value

$$\$35,130.90 \times 15.086 = \$530,000$$

## McGill University Pension Plan Hybrid Design

Defined  
Benefit

>

Defined Contribution  
(Balanced Account)

=

Supplement

Defined  
Benefit

<

Defined  
Contribution  
(Balanced  
Account)

=

~~Supplement~~

?



## Supplement as a transfer value

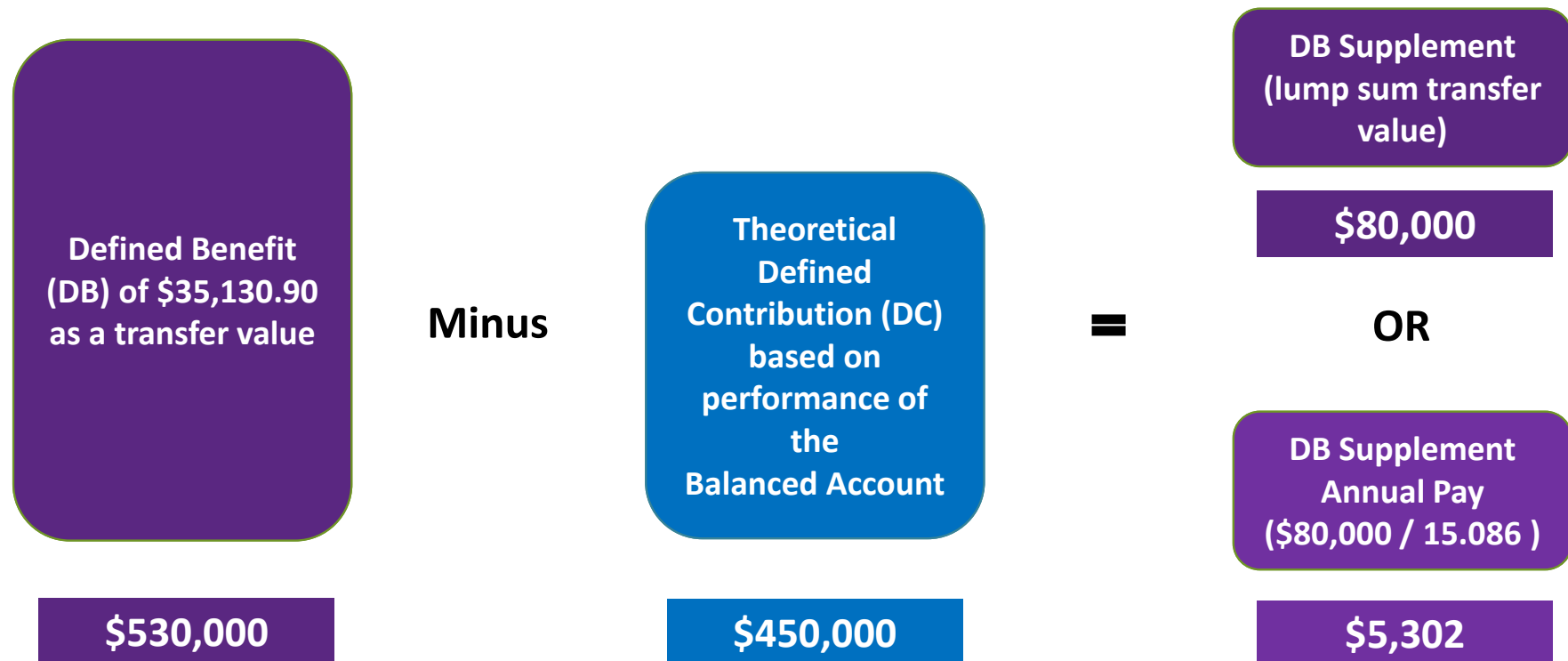
- Lump-sum equivalent amount representing the value of the future pension entitlement
- Canadian Institute of Actuaries recommends the basis to be used
- Transfer Value highly sensitive to changes in the commuted value discount rate
- The Income Tax Act & regulations limit the amount that may be transferred directly from the Defined Benefit to the Defined Contribution segment
- Excess transfer value is paid as a lump-sum cash amount

## Supplemental Pension

Following earlier of retirement / termination / age 65:

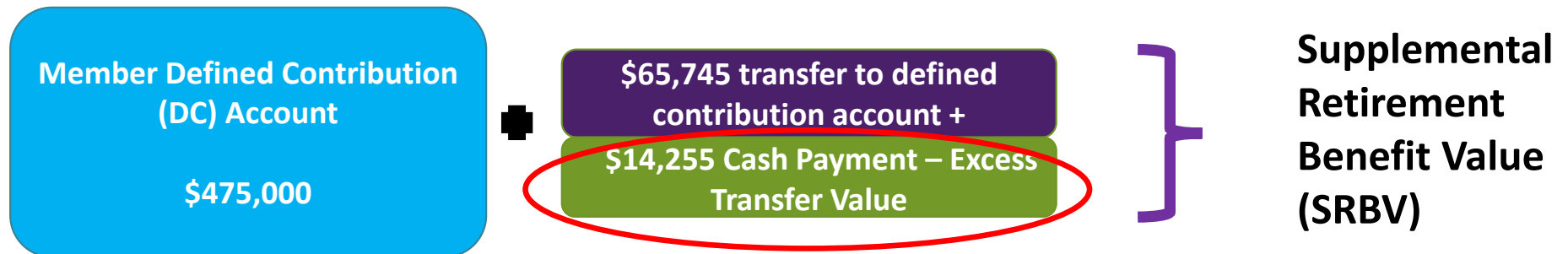
- Unreduced pension @ age 65
- Reduction of .25 of 1% per month prior to age 65
- Base annual pay amount is set (cannot decrease)
- If active employee at age 65, actuarial increase from age 65 to settlement (latest = age 71)
- Optional forms of pension (joint and survivor with or without guarantee period) are provided in settlement package
- If the value of the Supplement is \$0 at 65, the Defined Benefit ends

# Robert's Defined Benefit Minimum Supplement



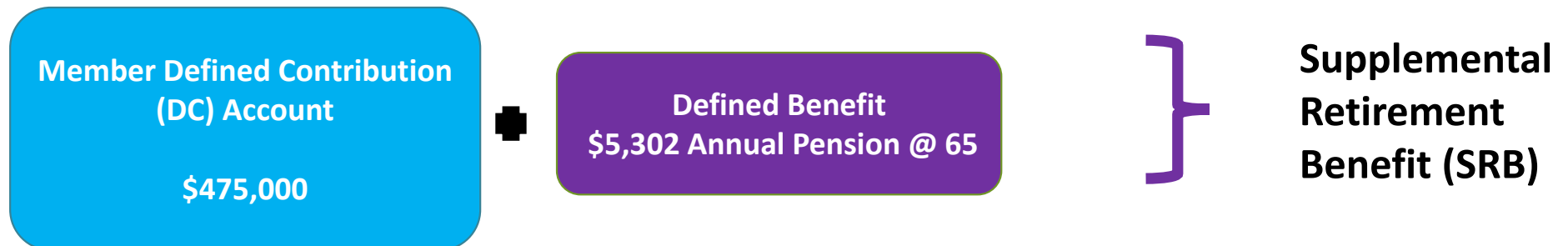
# Payment of the Supplement

## Choice 1 (Transfer Value):



OR

## Choice 2 (Pension):





## How to calculate the excess transfer value of the SRBV for Robert

- A. CRA Present Value factor age 65 = **12.4 (refer to table)**
- B. Supplemental Retirement Benefit Value (SRBV) = \$80,000
- C. Supplemental Retirement Benefit (SRB) = \$5,302
- D. Present Value Factor for SRBV = 15.0886 (\$80,000/\$5,302)
- E. Maximum Transfer Value = \$65,744.80 (12.4 \* \$5,302)

Excess Transfer Amount = SRBV – Maximum Transfer Value: \$80,000 - \$65,744.80 = \$14,255.20

or

Present Value Factor for SRBV – CRA factor \* SRB: (15.0886 – 12.4) \* \$5302 = \$14,255.20

**\$14,255.20** paid in cash, withholding taxes at source apply at settlement

Attained Age	Present Value Factor	Attained Age	Present Value Factor	Attained Age	Present Value Factor
<b>Under 50</b>	9.0	66	12.0	83	6.4
<b>50</b>	9.4	67	11.7	84	6.1
<b>51</b>	9.6	68	11.3	85	5.8
<b>52</b>	9.8	69	11.0	86	5.5
<b>53</b>	10.0	70	10.6	87	5.2
<b>54</b>	10.2	71	10.3	88	4.9
<b>55</b>	10.4	72	10.1	89	4.7
<b>56</b>	10.6	73	9.8	90	4.4
<b>57</b>	10.8	74	9.4	91	4.2
<b>58</b>	11.0	75	9.1	92	3.9
<b>59</b>	11.3	76	8.7	93	3.7
<b>60</b>	11.5	77	8.4	94	3.5
<b>61</b>	11.7	78	8.0	95	3.2
<b>62</b>	12.0	79	7.7	96 or over	3.0
<b>63</b>	12.2	80	7.3		
<b>64</b>	12.4	81	7.0		
<b>65</b>	<b>12.4</b>	82	6.7		

Present Value  
Factor Table  
and the Excess  
Transfer Value

## DB Supplement - Impact of Interest Rates on Transfer Values

At age 60		Impact of Interest Rate	
	Initial	Increase	Decrease
Interest rates used to calculate the DB minimum value	4.5% for the first 10 years & 5.0% thereafter	5.0% for the first 10 years & 5.3% thereafter	4.0% for the first 10 years & 4.5% thereafter
DB minimum pension	\$21,000	\$21,000	\$21,000
Transfer value of the DB min pension	\$310,000	\$299,000	\$327,000
DC – Balanced Account	\$225,000	\$225,000	\$225,000
SRBV	\$85,000	\$74,000	\$102,000

DB = defined benefit  
 DC = defined contribution  
 SRBV = Supplemental Retirement Benefit Value

## The Transition Quote (Settlement package issued following retirement / termination)

### Defined Benefit (Supplement):

- Supplemental Retirement Transfer Value is set for 100 days in order to allow retiring/ terminating members time to make a decision
- After 100 days, transfer value lapses and current discount rates apply
- Discount rate used to compute the transfer value are set monthly by the Canadian Institute of Actuaries
- Rising rates reduce the Supplement / declining rates increase the Supplement

### Defined Contribution:

- You can settle your defined contribution balances separately and in advance of the defined benefit Supplement
- Your defined contribution balances will continue to fluctuate in accordance with market conditions and the investment options you selected

# Tax Planning Tip – Pension Adjustment (PA) & Pension Adjustment Reversal (PAR)

The image shows a stack of T4 tax forms. The top form is the T4 Statement of Remuneration Paid (Est de la rémunération payée). It includes fields for the employee's name and address, the employer's name and address, and various boxes for reporting remuneration, pension adjustments, and other tax-related information. The forms are printed in both English and French.

**Canada Revenue Agency / Agence du revenu du Canada**

**Protected B when completed / Protégé B une fois rempli**

**T10 Pension Adjustment Reversal (PAR) or Pension Adjustment Correction (PAC) / Facteur d'équivalence rectifié (FER) ou correction du facteur d'équivalence (CFE)**

1 Year of PAR or PAC / Année du FER ou CFE	2 PAR or PAC amount / Montant du FER ou CFE	3 Plan registration number / Numéro d'agrément du régime	4 Social insurance number / Numéro d'assurance sociale	5 Report Code / Code du genre de déclaration
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Employee's name and address / Nom et adresse de l'employé  
 Last name (print) / Nom de famille (en lettres majuscules) First name / Prénom Initials / Initiales

Registered pension plan (RPP) administrator or deferred profit sharing plan (DPSP) trustee name and address / Nom et adresse de l'administrateur du régime de pension agréé (RPA) ou du fiduciaire du régime de participation différée aux bénéfices (RPDB)

For more information, see the back. / Pour en savoir plus, lisez le verso.

See the privacy notice on the next page. / Consultez l'avis de confidentialité à la page suivante.  
 T10 (22)

**Employee copy / Copie de l'employé**

**2**

## What is a Pension Adjustment (PA) & Pension Adjustment Reversal (PAR)?

Pension Adjustment - is the value for tax purposes that is placed on pension contributions and benefits accrued under a pension plan and reported on the T4 tax slip

Pension Adjustment Reversal – is an amount that is added to one's registered retirement savings plan contribution room when they end their participation in a registered pension plan

## Pension Adjustment Reversal Examples

### Robert

- A. Pension Adjustment related to Defined Contribution = \$325,000
- B. Pension Adjustment related to Defined Benefit = \$12,500
- C. Supplement = \$80,000 or \$5,302 annual pay

$$\text{Pension Adjustment Reversal} = B - C$$

$$\$12,500 - \$80,000 = \$0$$



### Marie

- A. Pension Adjustment related to Defined Contribution = \$325,000
- B. Pension Adjustment related to Defined Benefit = \$12,500
- C. Supplement = \$0

$$\text{Pension Adjustment Reversal} = B - C$$

$$\$12,500 - \$0 = \$12,500$$



No Pension Adjustment Reversal is declared if you elect to receive the supplement as a pension.

# Timing of events





# Decisions when you retire

before 65

- Final Test of Defined Benefit vs Defined Contribution (Balanced Account benchmark return)
- If Defined Benefit < Defined Contribution : Defined Benefit ends, Pension Adjustment Reversal Issued
- If Defined Benefit > Defined Contribution: Supplement pension set (100 days), option to commence pension, receive transfer value of supplement or defer decision

At 65

- Defined Benefit: choice of supplemental pension or transfer value
  - Reduction for early supplemental pension ends, no increase after age 65
- Defined Contribution: choice to settle or defer settlement

At 71

- Defined Contribution: Latest settlement date (default = Variable Benefits)

## Active employee – age 65

At 65

- Final Test of Defined Benefit vs Defined Contribution (Balanced Account benchmark return)
- If Defined Benefit < Defined Contribution = Defined Benefit ends, Pension Adjustment Reversal Issued
- If Defined Benefit > Defined Contribution = supplemental pension set
- Settlement decision deferred to earlier of retirement date and age 71
- Can elect to make additional voluntary contributions (defined contribution)

Retirement  
65-70

- Defined Benefit: choice of supplemental pension actuarially increased or transfer value thereof
- Defined Contribution: choice to settle or defer settlement

At 71

- Defined Benefit: choice of supplemental pension actuarially increased or transfer value thereof
- Defined Contribution: Latest settlement date (default = Variable Benefits)

## Other considerations: topics to discuss with your tax advisor

	<b>Supplemental Transfer Value</b>	<b>Supplemental Pension</b>
Timing	Transfer value and “Excess” determined at settlement date	Pension value determined at settlement, can defer commencement of pension to earlier of age 65 or settlement
Form of payment	Transfer of eligible amount to Defined Contribution account, Life Income Fund or Locked-in Retirement Account and lump-sum payment of the Excess	Pension Annuity payments for life: Single, joint life, with or without guarantee period
Taxation	Excess Transfer Value is paid and taxed in year of settlement	Pension payments are taxable income in year of receipt
Pension income tax credit (Federal)	65 years of age or older during the year – payments from a life income fund or variable benefits	Eligible if less than or 65 years of age or older
Income splitting	65 years of age or older during the year – Payments from a life income fund or variable benefits	Eligible if less than or 65 years of age or older
Pension Adjustment Reversal	Eligible if value of defined benefit Pension Adjustment Excess which is greater than the supplement	Ineligible

Flash retirement – Draw Your Defined Benefit Pension or Transfer its Value?

[https://www.retraitequebec.gouv.qc.ca/en/flashretraite/Pages/capsule\\_retraite\\_042.aspx](https://www.retraitequebec.gouv.qc.ca/en/flashretraite/Pages/capsule_retraite_042.aspx)

## Key takeaways

- Track your defined contribution and projected Supplement balances on-line by accessing your account or reviewing the annual statement
- The Supplement is based on the relative performance of the Balanced Account regardless of which investment option(s) you chose
- The Supplement is sensitive to changes in the discount rate
- For most members, the defined contribution balance will far exceed the value of the Supplement
- If eligible to receive a Supplement, consider the features and benefits of both the transfer value and pension annuity options especially if a significant balance is projected
- If you are not projected to receive a Supplement, review with your tax advisor and consider the impact receiving a Pension Adjustment Reversal will have on your tax planning



[pensions.hr@mcgill.ca](mailto:pensions.hr@mcgill.ca)

