



## PENSION ADMINISTRATION ***BULLETIN***

Reference No.      2009-04

Date: July 13, 2009

**TO: Pension Administration Contact Persons at Contributing Member Organizations**

**RE: NSAHO Pension Plan – Changes in Calculating Required Employee/Employer Contributions**

As announced at the fall 2008 Administrator's Session, the Plan is being amended to change the method by which contributions, both employee and employer, are deducted. Employers who will be using SAP (the new province wide payroll system) do not have to take any action at this time as SAP will be programmed to reflect this change.

*Other employers will need to make programming changes to their payroll systems by the end of this year. **Therefore you may need to start planning for this change now.** For this reason we are providing you with this advance notice. These employers should supply their payroll system provider with this information.*

### **What change is being made?**

The Plan is being amended so that the contribution rate will be based on each member's annualized earnings. This contribution rate will then be applied to a member's actual earnings throughout each calendar year. As a result of this change:

- Members with annualized earnings less than the YMPE (\$46,300 in 2009) will not experience a change;
- Members with annualized earnings more than the YMPE, and who also work full-time hours throughout the year, will not have a change in their *total* contributions. However, they will pay their contributions at a constant rate throughout the year. Currently they pay a lower contribution rate for the first part of the year, and a higher contribution rate for the latter part of the year;
- Members with annualized earnings more than the YMPE, who work less than full-time hours throughout the year, will also pay their contributions at a constant rate throughout the year. However, their total contributions throughout the year will be higher than they currently pay. This increase is being made so that the contributions more fairly reflect the benefits that these members accrue compared to other members.

The change will apply to contributions from members and also their employers.

### **When will the change take effect?**

The change will be effective with the **first payroll period for the 2010 Plan year.**

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**Why is the change being made?**

The current contribution method is inequitable. Contributions from higher paid members (currently annualized earnings above \$46,300) who do not work full-time throughout the entire year are lower (relative to the benefits that they earn) than the contributions for other members. This is illustrated in the examples below.

Current Contribution Method	Actual Earnings	Employee Contributes	Lifetime Pension Earned	Bridge Benefit Earned
Member A (Full-time)	\$70,000	\$5,465.39	\$1,122.20	\$277.80
Member B (60% of full-time)	\$42,000	\$2,967.97 (54.3% of Member A)	\$673.32 (60% of Member A)	\$166.68 (60% of Member A)

As the table above illustrates, under the current contribution method, Member B is paying less than their fair share of contributions. They are getting a benefit that is 60% of Member A's but are contributing much less than 60%.

To correct the inequity described above, contributions for part-time members will be changed to be at the full-time equivalent rate, prorated to the proportion of the year that they work. This will result in the following:

New Contribution Method	Actual Earnings	Employee Contributes	Lifetime Pension Earned	Bridge Benefit Earned
Member A (Full-time)	\$70,000	\$5,465.39	\$1,122.20	\$277.80
Member B (60% of full-time)	\$42,000	\$3,279.23 (60% of Member A)	\$673.32 (60% of Member A)	\$166.68 (60% of Member A)

While the reason for making this change is to correct the inequity that is described above, there is also a second advantage. After the change, there should be no shortfalls in contributions for members who work at multiple facilities or who transfer during the year.

To assist Employers who are not part of the SAP project, we have prepared the attached Calculation Instruction Guide.

We are available now to respond to any questions you or your payroll system provider may have. In addition, we will hold training sessions in September if there is sufficient interest.

Please contact the NSAHO Pension Plan if you or your payroll provider has any questions. We will be preparing a member communication bulletin that you can distribute to advise Plan Members later this year.

**For Employers who are NOT part of the SAP project**



## **Guide to Calculating Employee and Employer Contributions - New Methodology**

This Guide has been developed to assist you with calculating required Employee and Employer contributions using the new methodology basis to be effective with your first payroll for 2010.

If you or your payroll system provider has any questions about making these changes, please contact Judy Paul at (902) 832-8518 or email at [jpaul@nsaho.ns.ca](mailto:jpaul@nsaho.ns.ca)

**Your payroll system provider may require time to implement these changes; therefore, it is important you take immediate action to make these changes.**

## Blended Contribution Method

The blended contribution method will calculate one blended contribution rate for each member.

### Calculating Employee Contributions

The current Employee contribution rates are:

Pensionable Earnings	Contribution Rates
Up to YMPE (i.e. \$46,300 in 2009)	7.0666%
Excess Earnings over YMPE	9.2555%

Based on these contribution rates and the 2009 YMPE, the formula to calculate the blended contribution rate is:

$$\frac{(0.070666 \times \text{Annualized Earnings up to } \$46,300) + (0.092555 \times \text{Annualized Earnings over } \$46,300)}{\text{Annualized Earnings}}$$

When you use the above formula, remember what "Annualized Earnings" means:

$$\text{Annualized Earnings} = \text{Hourly Rate} \times \text{Full Time Equivalent (FTE) hours}$$

In short, Annualized Earnings are what a member's Pensionable Earnings would be if they worked full-time for the full-year.

Now let's look at an example using an employee, who earns \$30.00 per hour and has FTE hours of 1950.

$$\text{Annualized Earnings} = \$30 \times 1950 = \$58,500$$

$$\begin{aligned} \text{Blended Contribution Rate} &= \frac{(0.070666 \times \$46,300) + (0.092555 \times (\$58,500 - \$46,300))}{\$58,500} \\ &= 7.5231\% \end{aligned}$$

So required contributions for all employees with an FTE of 1950 and an hourly rate of \$30.00 are calculated by multiplying the employee's actual Pensionable Earnings by the 7.5231% (see Additional Notes #2 on page 3 for further information on Pensionable Earnings).

This method will work for all Members who are full-time, part-time, absent for part of a pay period or casual. The method is also suitable for any length of payroll period. Let's look at a few examples.

#### Example #1 – Part-time Employee who works 60%:

Hourly Rate = \$30.00 FTE = 1950 Pensionable Hours = 1170

Pensionable Earnings = \$30 x 1170 = \$35,100

Blended Contribution Rate = 7.5231% (see above)

$$\begin{aligned} \text{Required Contributions} &= \text{Pensionable Earnings} \times \text{Blended Contribution Rate} \\ &= \$35,100 \times 7.5231\% = \$2,640.61 \end{aligned}$$

**Example #2 – Full-time Employee:**

Hourly Rate = \$30.00 FTE = 1950 Pensionable Hours = 1950

Pensionable Earnings = \$30 x 1950 = \$58,500

Blended Contribution Rate = 7.5231% (see above)

Required Contributions = Pensionable Earnings x Blended Contribution Rate  
= \$58,500 x 7.5231% = \$4,401.01

**Calculating Employer Contributions**

The blended contribution method for Employer contributions works exactly the same way as for Employee contributions. The only difference is the contribution rates which are used in the formula.

The current Employer contribution rates are:

Pensionable Earnings	Employer Contribution Rates – non ERIP*	Employer Contribution Rates – ERIP*
Up to YMPE (i.e. \$46,300 in 2009)	8.4961%	9.0961%
Excess Earnings over YMPE	10.6806%	11.2806%

\* ERIP – Early Retirement Incentive Plan that was in place from 1994 to 1998

Based on these contribution rates and the 2009 YMPE, the formula to calculate required annual Employer Contributions under the NSAHO Pension Plan using the blended contribution rate for **non ERIP** employers is:

$$\frac{(0.084961 \times \text{Annualized earnings up to } \$46,300) + (0.106806 \times \text{Annualized earnings over } \$46,300)}{\text{Annualized Earnings}}$$

For **ERIP** employers the formula changes to:

$$\frac{(0.090961 \times \text{Annualized earnings up to } \$46,300) + (0.112806 \times \text{Annualized earnings over } \$46,300)}{\text{Annualized Earnings}}$$

**CAUTION** - The 2009 YMPE is used in the formulas and examples for illustration purposes only. It is important to note that the actual YMPE to be programmed into your payroll system will be for 2010 and so it will be different. We will provide the 2010 YMPE as soon as it is available – we anticipate this will be in November of this year.

**Additional Notes:**

1. Remember - Annualized Earnings ***will be different*** from the year's Pensionable Earnings ***if the member works less than full-time*** hours.
2. **Pensionable Earnings** are the basic wages or salary a member earns in a given pay period and exclude additional forms of pay such as overtime, shift premiums, etc. (Please refer to the Quick Reference Guide included with your year-end package for further details on Pensionable Earnings).

Here are a few examples to illustrate the difference between Annualized Earnings and Pensionable Earnings:

Hours Worked	Hourly Rate	FTE hours	Annualized Earnings	Actual hours Worked	Pensionable Earnings
100% of Full-time	\$25	2080	\$52,000 (\$25 x 2080)	2080 (2080 x 100%)	\$52,000 (\$25 x 2080)
80% of Full-time	\$25	2080	\$52,000 (\$25 x 2080)	1664 (2080 x 80%)	\$41,600 (\$25 x 1664)
30% of Full-time	\$25	2080	\$52,000 (\$25 x 2080)	624 (2080 x 30%)	\$15,600 (\$25 x 624)

**Note: There is a maximum Annualized Pensionable Earnings each year under the Plan - for 2009 that maximum is \$136,112.00.**

3. The blended contribution rate will equal the contribution rate for earnings up to the YMPE if a member's annualized earnings are below the YMPE in any year. For example, this is currently 7.0666% for Members.
4. All members with the same hourly rate and the same FTE hours will have the same blended contribution rate. If members have the same hourly rate but different FTE hours, the blended contribution rate will be different.
5. For any member who works at multiple positions where the hourly rate or FTE hours is different for each position, a different blended contribution rate will be applicable when calculating the required contributions to be paid for each position.
6. Changes in the actual hours that a member works in a pay period will not change the applicable blended contribution rate for that member. The only time a new blended contribution rate needs to be calculated is if one or more of the following changes occur:
  - The contribution rates change
  - The member's hourly rate changes
  - The YMPE changes
  - The FTE hours change

**Excel Spreadsheet**

We have prepared the enclosed Excel spreadsheet to help you with the calculations. This spreadsheet can be used in a number of ways:

- If you will be calculating the employee and employer contribution rates outside of your payroll system – the spreadsheet can be used to calculate the blended employee and employer contribution rates for each member. The applicable blended rates can then be entered into your payroll system for each member.
- If your payroll system is being programmed to calculate the blended contribution rates – you can use this spreadsheet to verify the accuracy of the rates being calculated when the programming is set up initially. Please note that programming the calculations directly into your payroll system is the desired approach as it will result in less manual calculations and so should reduce the risk of errors.

The spreadsheet shows the rates that would be applicable currently based on the 2009 YMPE. These cells are green in the attached spreadsheet and will need to be updated to 2010 near the end of this year.

To use the spreadsheet, you will need to complete the following steps:

- Step 1: Enter the Member's Name in Column A.
- Step 2: Enter the Member's SIN in Column B,
- Step 3: Enter the Member's Hourly Rate in Column C
- Step 4: Enter the Member's FTE hours in Column D

Columns F, G and H will automatically be calculated and will provide:

- Column F – the Member's annualized earnings
- Column G – the Blended Employee Contribution rate
- Column H – the Blended Employer Contribution rate

If there are any alerts applicable to the member, these will be identified in Column J.

**Example (The following assumes the Employer did not participate in ERIP):**

A	B	C	D	F	G	H	J
				these columns are calculated automatically			ALERTS
Name	SIN	Hourly Rate	Full-time Equivalent (FTE) hours	Annualized Earnings	Blended EmployEE Contribution Rate	Blended EmployER Contribution Rate	
Susie Sample	000-000-000	\$30.00	1950.00	\$58,500.00	7.5231%	9.5517%	

The applicable blended employee contribution rate for this member is shown in column G and is 7.5231%. The rate of 7.5231% would then be applied to her actual Pensionable Earnings for the applicable pay period as shown in the earlier Examples.

**CAUTION - The current spreadsheet uses the current contribution rates and the 2009 YMPE. It is provided for illustration purposes only. We will provide an update as soon as the 2010 data is available – we anticipate this will be in November of this year.**







**2009**

**BLENDED CONTRIBUTION RATE CALCULATOR (Non-ERIP Employers)**

<b>2009 YMPE</b>	<b>\$46,300.00</b>	<b>NSAHO PP Posted Contribution Rates</b>	<b>Up to YMPE</b>	<b>Over YMPE</b>
<b>2009 Maximum Pensionable Earnings</b>	<b>\$ 136,112.00</b>	<b>EmployEE Rates</b>	<b>7.0666%</b>	<b>9.2555%</b>
		<b>EmployER Rates</b>	<b>8.4961%</b>	<b>10.6806%</b>

these columns are calculated automatically

**ALERTS**

Name	SIN	Hourly Rate	Full-time Equivalent hours (FTE)	Annualized Earnings	Blended EmployEE Contribution Rate	Blended EmployER Contribution Rate	Pensionable earnings Hourly Rate CAP
Sampl person 1	000-000-000	\$ 30.00	1950.00	\$ 58,500.00	7.5231%	8.9517%	
Sampl person 2	000-000-000	\$ 30.00	1950.00	\$ 58,500.00	7.5231%	8.9517%	
Sample person 3	000-000-000	\$ 30.00	1950.00	\$ 58,500.00	7.5231%	8.9517%	
sample person 4	000-000-000	\$ 40.00	1950.00	\$ 78,000.00	7.9562%	9.3839%	
sample person 5	000-000-000	\$ 40.00	1950.00	\$ 78,000.00	7.9562%	9.3839%	
sample person 6	000-000-000	\$ 40.00	1950.00	\$ 78,000.00	7.9562%	9.3839%	
0	000-000-000	\$ 70.00	1950.00	\$ 136,112.00	8.5109%	9.9375%	\$ 69.80
	000-000-000	\$ -	0.00	\$ -	7.0666%	8.4961%	
	000-000-000	\$ -	0.00	\$ -	7.0666%	8.4961%	
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