# PENSION ADMINISTRATION BULLETIN

**Reference No. 2010-05** **Date: November 23, 2010**

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

**RE: NSAHO Pension Plan – Changes in Calculating Required Employee/Employer Contributions – A follow-up**

In July, 2010, you received Bulletin 2010-04 that describes the new contribution basis that comes into effect with the first payroll in 2011.

To assist Employers who are not part of the SAP project, we have prepared an updated version of the *2011 Blended Contribution Calculator* that reflects the 2011 YMPE and maximum pensionable earnings and attach herewith. **The sample calculator provided with Memo 2010-04 is now out of date and should be discarded**. This updated version also includes two additional columns to identify Retro Earnings to prior years and Pensionable Lump Sums. For your convenience the new contribution basis is summarized in **Appendix A.**

Further, as Employers have been working through the programming changes necessary to accommodate the new contributions basis, we have received questions about how the new blended contribution method will work in various scenarios. As a result, we have prepared examples in the attached Appendices for all Employers to refer to as follows:

**1. How are contributions calculated for employees who work in multiple jobs at different rates and different FTE's?**

**Appendix B** provides examples of the calculation method in these scenarios.

**2. What contribution rate do we apply to retroactive payment settlements?**

NEW

Effective in 2011, there is a change in the calculation method to be applied when calculating contributions due on pensionable retroactive earnings paid for years PRIOR to a settlement payout.

As of 2011, required contributions on pensionable retroactive earnings will now be based on the balance due for each applicable year after the retro earnings have been factored into each prior year. In essence, **what would the required contributions have been for each prior year if the retro earnings had actually been received in each prior year that they were earned?** Compare this to the contributions already paid for each prior year and the difference is the balance due on the retro earnings for each prior year.

ALERT

With this change, starting in 2011, Employers will be required to report the portion of contributions paid on retro earnings received for each prior year in separate columns. This is similar to the current reporting method for retro earnings for each prior year.

Please refer to the attached **Appendix C** for further information in respect of calculating required contributions on pensionable retro earnings.

Please contact the NSAHO Pension Plan if you or your payroll provider has any questions.

## APPENDIX A – Blended Contribution Method - Summary

2011 Employee and Employer contribution rates:

| <u>Annualized</u> Pensionable Earnings | EmployEE Contribution Rates | EmployER Contribution Rates – non ERIP* | EmployER Contribution Rates – ERIP* |
|---|---|---|---|
| Up to YMPE (i.e. $48,300 in 2011) | 7.0666% | 8.4961% | 9.0961% |
| Excess Annualized Earnings over YMPE | 9.2555% | 10.6806% | 11.2806% |
| *ERIP – Early Retirement Incentive Plan that was in place from 1994 to 1998 | | | |

2011 Employee Required Contributions Formula:

**= Pensionable Earnings** x

<u>(7.0666% x **Annualized Earnings** up to $48,300) + (9.2555% x **Annualized Earnings** over $48,300)</u>
**Annualized Earnings**

Where:
**<u>Pensionable Earnings</u>**
The basic wages or salary a member earns in a given pay period.
- Excludes additional forms of pay such as overtime, shift premiums, etc. (refer to the *Pensionable Earnings Quick Reference Guide* included with your year-end package).

**<u>Annualized Earnings</u>**
What a member's Pensionable Earnings would be if they worked full-time for the full year.

**Annualized Earnings** = Hourly Rate x Full Time Equivalent (FTE) hours
OR
**Annualized Earnings =** (*Regular Pensionable Earnings / Pensionable Hours) x FTE hours
{*Only include Pensionable Earnings earned on the Pensionable Hours used in this formula}

- In years with **27 bi-weekly pay periods** a Member's FTE hours will be inflated which will result in higher Annualized Earnings and possibly a different blended rate.

- <u>Annualized</u> Earnings will be different from the year's <u>Actual</u> Pensionable Earnings ***<u>if the member works less than full-time</u>*** hours.

**<u>Annualized</u> Pensionable Earnings** versus **<u>Actual</u> Pensionable Earnings**:

| Hours Worked | Hourly Rate | FTE hours | Actual hours Worked | <u>Actual</u> Pensionable Earnings | <u>Annualized</u> Earnings |
|---|---|---|---|---|---|
| **100% of Full-time** | $25 | 2080 | 2080 (2080 x 100%) | $52,000 ($25 x 2080) | $52,000 ($25 x 2080) |
| **80% of Full-time** | $25 | 2080 | 1664 (2080 x 80%) | $41,600 ($25 x 1664) | $52,000 ($25 x 2080) |
| **30% of Full-time** | $25 | 2080 | 624 (2080 x 30%) | $15,600 ($25 x 624) | $52,000 ($25 x 2080) |
| **27 bi-weekly pay periods – 80%** | $25 | 2160 | 1728 (2160 x 80%) | $43,200 ($25 x 2160) | $54,000 ($25 x 2160) |

## APPENDIX A – Blended Contribution Method – Summary (continued)

**NOTES:**

- **The YMPE for 2011 is $48,300. This amount must be included in your blended contribution programming for 2011.**

- **There is a maximum Annualized Pensionable Earnings each year under the Plan; for 2011 that maximum is $142,101.00.**

- If a member's annualized earnings are below the YMPE in any year, the blended contribution rate will equal the contribution rate for annualized earnings up to the YMPE (i.e. 7.0666% for 2011).

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

- The calculation 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.

- This method will work for all Members who are full-time, part-time, absent for part of a pay period or casual.

- Changes in the actual number of hours that a member works from one pay period to another will not change the applicable blended contribution rate for that member. The only time a new **blended contribution rate will change** is if changes occur to one or more of the following:
  - NSAHO PP contribution rates;
  - YMPE;
  - member's hourly rate;
  - member's FTE hours;
  - payment of a Pensionable Lump Sum

- In cases where employees work at multiple employers or positions during a year, this method will eliminate contribution shortages. Some overages may occur for such members who have annualized earnings that straddle the YMPE. (See Appendix B)

## APPENDIX B – Employees in Multiple Jobs

**How are contributions calculated for employees who work in multiple jobs at different rates and different FTE's?**

This example is applicable in cases where the jobs are between two different employers or within the same facility. To calculate required contributions for each position:

| | Hourly Rate | FTE | Pensionable Hours | Pensionable Earnings | Annualized Earnings | Blended Rate | Required Contributions |
|---|---|---|---|---|---|---|---|
| **Job #1** | $22.50 | 1950 | 600 | $13,500 | $43,875 | 7.0666% | $953.99 |
| **Job #2** | $25.75 | 2080 | 900 | $23,175 | $53,560 | 7. 2816% | $1,687.51 |

**Job #1**

Contributions Paid = $13,500 x $\frac{(7.0666\% \text{ x } \$43,875) + (9.2555\% \text{ x } \$0)}{\$43,875}$

= $13,500 x 7.0666%

**= $953.99**

**Job #2**

Contributions Paid = $23,175 x $\frac{(7.0666\% \text{ x } \$48,300) + (9.2555\% \text{ x } (\$53,560 - \$48,300))}{\$53,560}$

= $23,175 x 7.2816%

**= $1,687.51**

Total Annual Contributions Paid = $953.99 + $1,687.51 = **$2,641.50**

**Note:** When the data for this person is combined at year-end, the actual required contributions will be different:
FTE = 1950
Pensionable Hours = 600 + (900/2080 x 1950) = 600 + 843.75 = 1443.75 hrs
Annualized Earnings = Pensionable Earnings / Pensionable hours x FTE
= ($13,500 + $23,175) / 1443.75 x 1950 = **$49,535.06**

Total Annual Required Contributions
= ($13,500 + $23,175) x $\frac{(7.0666\% \text{ x } \$48,300) + (9.2555\% \text{ x } (\$49,535.06 - \$48,300))}{\$49,535.06}$

= $36,675 x 7.1212%

**= $2,611.70**

As the actual amount of the annualized earnings will vary depending on the number of hours actually worked in each position, there may be contribution overpayments in certain scenarios, requiring adjustments at year-end reporting time.

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 or Cheryl Mallet-Skelton at (902) 832-8500 ext. 246 or email at cskelton@nsaho.ns.ca

## APPENDIX C – Retroactive Earnings - effective 2011

### What contribution rate do we apply to retroactive payment settlements?

For NSAHO PP purposes, only payments relating to a prior calendar year are considered retroactive payments – this means that any payment received in the current year for prior years is considered to be **retro earnings**. Any payment received in regards to a current year is considered to be an **adjustment** to current year pensionable earnings.

Example:

- On June 1, 2011, hourly rate increases from $26.50 to $27.03 retroactive to a prior year
- Blended rate is 7.2096% when hourly rate is $26.50 and FTE is 1950
- Blended rate is 7.2497% when hourly rate is $27.03 and FTE is 1950
- Member worked 812.50 hours to the rate change date

**Calculation A**: Required contributions owing on the **adjustment** to pensionable earnings for the **current year** (i.e. Jan – June 2011)

**Calculation B**: Required contributions owing on the retro earnings to **each prior year** (i.e. 2010 & earlier)

### Calculation A - Required contributions on adjustments to pensionable earnings for the year of the settlement payout.

**Calculation A – Current Year Adjustment**:

STEP 1: Factor in the new additional earnings with the year to date pension data for the current year;

STEP 2: Recalculate the required contributions due for the current year; (i.e. based on the hourly rate change the applicable blended contribution rate increased from 7.2096% to 7.2497%)

STEP 3: (Recalculated Required Contributions for Current Year)
less (Contributions already paid in Current Year)
= **Required Contributions due on Earnings Adjustment for Current Year**

The required contributions due on the 2011 earnings adjustment will be:

| Earnings and contributions paid YTD; before Adjustment | Earnings and contributions including Adjustment | Required Contributions due on Adjustment |
|---|---|---|
| $26.50 x 812.50 = $21,531.25<br>$21,531.25 x 7.2096% = $1,552.32 | $27.03 x 812.50 = $21,961.88<br>$21,961.88 x 7.2497% = $1,592.17 | $1,592.17 - $1,552.32 = $39.85 |

## APPENDIX C – Retroactive Earnings - effective 2011 (continued)

**Calculation B** - Required contributions on pensionable earnings paid retroactively for years PRIOR to a settlement payout.

**What would the required contributions have been for each prior year if the retro earnings had actually been received in each prior year that they were earned?**

**Calculation B – Retroactive Earnings to a Prior Year**:

STEP 1: Factor in the new additional earnings with the pension data for each applicable "Prior Year";

STEP 2: Apply the contribution calculation method that was in effect for the applicable "Prior Year" and recalculate the required contributions due for the applicable "Prior Year";

| Prior Year Retro Earnings to... | Applicable Contribution Calculation Method |
|---|---|
| 2010 or earlier | Stepped |
| 2011 or later | Blended |

STEP 3: (Recalculated Required Contributions for each "Prior Year")
less (Contributions already paid in each "Prior Year")
= **Required Contributions due on Retro Earnings for each "Prior Year"**

STEP 4: For year-end reporting, report the breakdown of retro earnings and breakdown of retro contributions for each applicable "Prior Year".

**NEW Reporting**

If your payroll systems are unable to accommodate Calculation B, some suggested methods to simplify the process are outlined in options B1 & B2.

### B1. Seek assistance from NSAHO PP staff
- manual entry of required contributions into payroll systems

Upon request, NSAHO Pension Plan can provide a spreadsheet that will assist you with calculating the required contributions due on retro earnings to prior years. Employers enter the additional retro earnings for each prior year and the spreadsheet will then factor in the retro earnings and calculate the balance due for the applicable year. A sample of this spreadsheet is attached for your reference. This method will require manual adjustments to be entered into your payroll systems.

## B2. Simplified method
- may result in some over-contribution adjustments at year-end

**1. PRIOR YEAR Retro Earnings for 2010 or Earlier (Stepped Method):**
Once the retro has been factored in to each prior year, if the member's new actual earnings for the year the retro applies to are below the applicable YMPE, apply the low contribution rate (i.e. 7.0666% for 2010) to this portion of the retro earnings. Alternatively, if the member's actual earnings are above the applicable YMPE, apply the high contribution rate (i.e. 9.2555% for 2010) to this portion of the retro earnings. If the retro earnings cause the actual earnings to exceed the YMPE for the prior year, further adjustments may be required at year-end time.

| If Portion of Retro Earnings (when added to prior Actual Earnings) are | Contribution Rate to Apply to retro earnings |
|---|---|
| less than YMPE | Low Rate (i.e. 7.0666% for 2010) |
| greater than YMPE | High Rate (i.e. 9.2555% for 2010) |

**2. PRIOR YEAR Retro Earnings for 2011 or Later (Blended Method):**
Once the retro has been factored in to each prior year, if the member's new annualized earnings are below the applicable YMPE, apply the low contribution rate (i.e. 7.0666% for 2011) to this portion of the retro earnings. Alternatively, once the retro has been factored in to each prior year, if the member's new annualized earnings are above the applicable YMPE, apply the high contribution rate (i.e. 9.2555% for 2011) to the entire retro earnings. If the retro earnings cause the annualized earnings to exceed the YMPE for the prior year, further adjustments may be required at year-end time.

| Annualized Earnings (including retro earnings) for Prior Year | Contribution Rate to Apply to retro earnings |
|---|---|
| Are less than YMPE | Low Rate (i.e. 7.0666% for 2011) |
| Are greater than YMPE | High Rate (i.e. 9.2555% for 2011) |