nshepp

NOVA SCOTIA HEALTH EMPLOYEES' PENSION PLAN

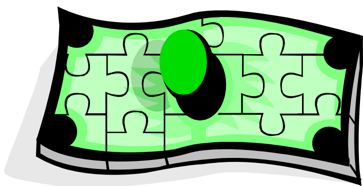
Spring 2013 Newsletter

For Active Members of the NSHEPP

Putting the Pieces Together

Your Annual Pension Statement is included in the envelope with this Newsletter. This statement provides projections of what your pension may be when you retire. However, these projections only tell part of the story. Most of us can also expect to receive pensions from Canada Pension Plan (CPP) and Old Age Security (OAS).

Deductions from your income are usually less when you retire. Your cost for pension and benefit programs usually reduce or stop completely. Income taxes also usually go down.



How will these pieces fit together when you retire? Will you have enough or should you try to save a little extra? *The answers to these questions, of course, depend on your personal situation.* However, let's consider Mary Smith's situation as an example.

Mary is planning to retire this year:

Mary's data
Age: 58
Base year (2010) Earnings: $43,000
NSHEPP Credited Service: 30 years

What will Mary's "take-home" be after she retires? The answer will change over the next few years. Her CPP is assumed to start at age 60. Her OAS starts at 65 and, at the same time her "Bridging Benefit" from NSHEPP stops.

We estimate that Mary's take-home relative to her pre-retirement take-home will be about:

- 70% before age 60;
- 88% between 60 and 65; and
- 92% after age 65.

There are a few important things that we can learn from Mary's situation:

1. Mary's take-home during retirement is expected to be less than when she was working. She may find that this is at least partially offset by a reduction in her work-related expenses (such as commuting). To help prepare for this adjustment, many financial planners suggest an objective of being "debt free" by retirement.

2. Mary's take-home is lowest prior to age 60 before her CPP starts. If you plan to retire before age 60 and it's still a few years away, consider investing a few dollars to help provide for this period. Alternatively, many members are able to retire and work part-time during this period.

Base Year vs. Final Average Earnings

Most Canadian public sector pension plans are based on members' average earnings over the five years prior to retirement. NSHEPP uses a different approach. In our Plan, benefits are based primarily on earnings in the most recent Base Year.

From time to time our Base Year is improved. Early this year our Base Year was changed from 2009 to 2010. This resulted in earlier years' earnings being adjusted to be equal to 2010 earnings *(unless an earlier Base Year provides a higher benefit, or the average earnings over 3 years provides a lower benefit)*. Improvements in the Base Year are not guaranteed until they are granted.

Most of the time over the past decade, the Base Year has lagged the current year by 2 or 3 years.

With a 2-3 year Base Year lag, our Plan will provide benefits that are similar to a Final 5-Year Average Earnings plan. There are good financial reasons to use our Base Year approach. One such reason is that the contributions that are required for our Base Year approach are lower than would be required if benefits were based on Final Average Earnings.

Contact us: **NSHEPP, 2 Dartmouth Road, Bedford, NS B4A 2K7**
(902) 832-8500 (local call in the Metro Halifax area) ● **1-866-400-4400** (Toll Free) ● **(902) 832-8506** (Fax)
e-mail: **pensionplan@nshepp.ca**

10th Year Increase in Value

This article will be of interest to members who have *less than 10 years of continuous employment*.

The value of your pension increases significantly after 10 years of continuous employment. This is caused by the way your early retirement provision works.

If you terminate employment before 10 years, you are entitled to an unreduced pension at age 65. After 10 years you are entitled to an unreduced pension at age 60. Even if you transfer your money out of the Plan, the value will be much larger if it is based on an unreduced pension at age 60.

Let's look at an example. Consider a 40-year-old member with annual earnings of $37,000. If they terminate after 9 years and 11 months of continuous service, and were in the Plan the whole time, the amount that could be transferred out of the Plan would be about $41,951. By waiting one month more to terminate, this amount increases to about $59,023.

What's the bottom line? If you are thinking about terminating and don't quite have 10 years of continuous service, consider waiting.

Note: This article assumes that you have been in the Plan for at least two years. Funds may not be transferred out of the Plan after you are eligible for an immediate pension (whether it is unreduced or reduced).

Working After Retirement

Many NSHEPP members return to work part-time after starting to receive their pension. This can be an attractive way to phase into retirement.

If you return to work *and re-start contributing* to NSHEPP, your pension will be temporarily suspended. This is a result of federal legislation. Your pension resumes when you retire again.

Most members prefer to not have their pension suspended when they return to work. To avoid having your pension suspended, you need to avoid contributing to NSHEPP when you return to work.

How do you avoid contributing? You don't have to contribute during the first three months of your return to work. After three months, you don't need to contribute *as long as you are not regularly scheduled for work for 50% or more of full-time hours*.

There is an obvious benefit of returning to work to supplement your pension income. This can be especially helpful before age 60, before you can start your CPP retirement pension.

We don't believe that retiring early and returning to work is the best idea for all members. *For members with **shorter service** it can be a better financial result if you delay retirement*, and continue to contribute to make your pension bigger.

Let's look at an example. Consider a 60-year-old member with 10 years of service credited under the pension. In the *short-term* they may find it attractive to retire and return to work part-time. They will have more free time and may be just as well off financially, especially if they start their CPP. However, it is important to note that when their NSHEPP contributions stop, they will not be credited with any additional pension service. In the *longer-term* when this member stops working completely, they may find that their pension is smaller than they need. A better strategy for members with shorter service may be to delay retirement, increasing the number of years that they contribute to the pension.

Your ability to return to work after you retire is subject to the agreement of your employer. Retirement may impact your seniority and your non-pension benefits. You should consider all of these factors before deciding on the date of your retirement.

Have a Question About Your Annual Statement?

If you have a question about your Annual Statement, please call or email us. Some of the questions we frequently hear are:

- Is all of my service included in my pension record?
- What is the "Base Year" and how does it impact my pension?
- What if I die?
- Can I make my children my beneficiary?
- What are my employer's contributions?
- Why does my pension reduce at age 65?
- Will my pension reduce my CPP?

Our telephone number and email address is on the bottom of the first page of this newsletter. *We look forward to answering your questions.*