

Civil Service Superannuation Fund

TRANSFER VALUES AND LUMP SUM PAYMENTS

The Civil Service Superannuation Fund is a “defined benefit” pension plan, which means that your benefit is a monthly pension that is calculated based on a formula. You and your employer pay towards the cost of providing that pension, but your pension is not based on the amount contributed.

There are several situations where it may be preferred or required to have a pension paid as a lump sum settlement instead of a series of monthly payments. In those cases, the “transfer value” of that monthly pension must be determined.

The transfer value of your pension is the lump sum present value of your anticipated future monthly pension payments. In other words, it is the amount you would need to invest today in order to provide yourself that same monthly pension for your lifetime.

The transfer value of your pension may be available for transfer out of the pension plan...

- when you cease to be an employee under the plan, even if you are eligible for a retirement pension,
- to your eligible spouse or partner, beneficiary or estate following your death if you are not yet retired, or
- in part to your former spouse or partner in the event of a relationship breakdown.

How is a Transfer Value Calculated?

The *Pension Benefits Act* Regulations require that transfer values be determined in accordance with the Standards of Practice issued by the Canadian Institute of Actuaries. The *Civil Service Superannuation Act* contains additional requirements for calculating transfer values.

The value is calculated based on your accrued pension and current age, and uses assumptions about expected interest rates (how much you’re expected to be able to earn on your lump sum) and mortality (how long you’re expected to live). The interest rate used in the calculation of the transfer value of your pension is the same interest rate as the actuary uses to determine the funding requirements of the pension plan.

Transfer values tend to increase over time, but they don’t necessarily increase consistently or in a straight line. Values can fluctuate up and down if there are changes to the applicable interest rates or mortality assumptions, or to the legislated methodology. Also, once a person is eligible for an immediate pension, the transfer value tends to decrease with age.

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TRANSFER VALUES & LUMP SUM PAYMENTS (cont'd)

Transfer values are very sensitive to the interest rates used. All other factors being equal, the lower the interest rate, the higher the transfer value will be, because the amount set aside today is projected to earn less interest in future. Alternatively, the higher the interest rate, the lower the transfer value will be, because the amount set aside today is projected to earn more interest. A transfer value determined at a particular date may be substantially different if it is redetermined at a future date.

Fluctuations in your lump sum transfer value will not affect how your monthly pension is calculated. Your monthly pension is calculated based on a formula that uses your pensionable service and best 5 years of pensionable earnings. If you plan on collecting a monthly pension from the pension plan at retirement, interest rate fluctuations will not affect the monthly pension you will receive.

Ancillary/Early Retirement Benefits

Transfer values are also affected by the pension plan's rules on when the member's monthly pension can start to be paid.

The transfer amount for a terminating employee does not include early retirement benefits unless the employee is eligible for early retirement at the time the transfer amount is determined. This means that early retirement benefits will only be included in the termination value if the employee has at least 10 years of qualifying service and is at least age 55 at the date of termination (or recalculation if applicable).

If you have less than 10 years of qualifying service or you're not yet age 55, the transfer value is the estimated equivalent of the pension that would be payable to you commencing at age 65.

If you are at least age 55 and have 10 or more years of qualifying service, the transfer value is the estimated equivalent of the pension that would be payable to you commencing immediately.

For a member with at least 10 years of qualifying service, a transfer value determined for an age less than 55 could be lower than the value at age 55 by 40% or more.

How is a Transfer Value Paid?

The options for payment of a transfer value depend on whether the benefit is considered to be "locked in" under the Pension Benefits Act. When pension benefits are "locked-in", it means that they must be used to provide retirement income and can only be paid out in specific ways.

Locked-in benefits are not available for cash or direct transfer to an RRSP.

The *Pension Benefits Act* requires that pension funds be locked in except for:

- **"Small" benefits** – Pension benefits are unlocked if the annual pension at normal retirement age is less than 4% of YMPE for the year or the pension has a value of less than 20% of the YMPE.

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For 2020, a monthly pension less than \$195.66 or a lump sum transfer value less than \$11,740 would be considered a small benefit and not locked in.

Members with a small benefit do not have the option to draw a pension or to leave their funds in the plan as a deferred pension. The funds must be removed from the pension plan, either as a taxable cash payment or a transfer to a RRSP.

- Exception – Members who terminated prior to May 31, 2010 and have a deferred pension may still elect to receive a small monthly pension from the plan.
- **Excess Contributions** - When a member leaves employment we do a test to ensure that the member has not contributed more than 50% towards the value of their pension. Any over-contributions on the member's part are returned to them.
- **Registered Pension Excess** - The Income Tax Act limits the amount that may be transferred from a pension plan on a tax-sheltered basis. The maximum transfer value is determined by a formula that multiplies the annual pension at age 65 by an age-based factor published by the Canada Revenue Agency. Any portion of a member's transfer value that exceeds the resulting maximum transfer value will be paid as a taxable cash payment.
 - Common question on termination estimates: "Why has my cash refund decreased since the last time I ran an estimate?" The total transfer value is first calculated, then the ITA formula applied. As interest rates increase, the total transfer value decreases, causing it to appear that only the cash portion is being affected.

Transfer values are made up of one or more of locked-in funds, non locked-in funds, excess contributions, and registered pension excess. These portions may have to be paid differently.

➤ **Locked-in Funds**

- Can be transferred to a Locked-in Retirement Account (LIRA), Life Income Fund (LIF) if age 55 or older, or a CSSB Money Purchase Plan locked-in account. Consent of the member's spouse/common-law partner is required, if applicable, for funds to be transferred to a LIF.
- Locked-in funds cannot be transferred to an RRSP
- LIRA's and LIF's are retirement accounts offered by financial institutions that provide an alternative to leaving funds in the pension plan. Information on LIRAs and LIFs and on the provisions for withdrawals from these accounts can be obtained from most financial institutions

➤ **Non-Locked in Funds and Excess Contributions**

- Can be transferred to an RRSP, a CSSB Money Purchase Plan non locked-in account, or paid as cash.
- Cash payments are subject to income tax withholding.

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TRANSFER VALUES & LUMP SUM PAYMENTS (cont'd)

➤ Registered Pension Excess

- Must be paid as cash, subject to income tax withholding.
- Where a member has RRSP room available and intends to transfer their registered pension excess to an RRSP, they may make application to Canada Revenue Agency to have less or no income tax withheld from the cash payment. Form T1213, called a "Request to Reduce Tax Deductions At Source for Year(s)___", is available from the CRA website. (You can find it by searching for "CRA T1213" in your browser.)
- When completing the form, the Employer/Payer must be listed as "Civil Service Superannuation Fund". We will not accept an authorization letter that shows the employer as payer.
- If approved, the member will receive a letter from CRA authorizing the payment with less or no income tax being deducted. CSSB requires a copy of this letter. The amount is still paid directly to the member. It is the member's responsibility to deposit the funds into an RRSP. Any locked-in portion will not be transferred until the cash portion is paid out.
- All documentation must be submitted to CSSB by the deadline indicated on the member's termination option forms – no extensions will be granted if the CRA letter had not been received prior to that deadline.

Where can I get Information on my Transfer Value?

Transfer values can only be determined after a member terminates employment and the employer provides CSSB with final service and earnings information. However, you can get a reasonable estimate of your current transfer value by obtaining a termination estimate. This information will provide an idea of your accrued monthly pension and its estimated transfer value, including how that value is allocated between locked-in funds, non locked-in funds, excess contributions, and registered pension excess.

Termination estimates are available through your CSSB Online Services account or can be requested by contacting the CSSB office.

Questions?

The Board's staff is available to provide information and answer questions about the plan and your entitlements. The Board's staff can be contacted by:

Mail: The Civil Service Superannuation Board
1200-444 St. Mary Ave.
Winnipeg MB R3C 3T1

Phone: 204-946-3200 or Toll Free (Canada): 1-800-432-5134

Fax: 204-945-0237

E-mail: askus@cssb.mb.ca

Web Page: www.cssb.mb.ca

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