Pension 101

Canada's Retirement System

Nova Scotia
Teachers Union

The NSTU recognizes that we live and work on unceded Mi'kmaq territory, that we are privileged to be together in Mi'kma'ki, that we are all treaty people, and that we wish to acknowledge this relationship.

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Disclaimer

- This presentation is for informational purposes only. It does not constitute legal or professional advice. You are encouraged to consult with appropriate professionals if you have specific questions relating to any of the topics in this presentation.
- This presentation is not complete without the intended presentation, discussion, comments, and explanations offered at the time of presentation.
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Agenda

- Canada's Retirement System
- Incremental Changes
- Trends in Retirement Savings
- Evolution – A New Model?

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Canada's Retirement System

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Three (3) Pillars

- Canada's retirement system has been referred to as a 3-pillar system:
  - Pillar 1 – Government Pensions
  - Pillar 2 – Workplace Pensions
  - Pillar 3 – Personal Savings

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Pillar 1 – Government Pensions

Canada Pension Plan

- Current maximum is $18,091.80 per year ($1,507.65 per month)
- Average for new retirees is $11,104.20 per year ($925.35 per month)
- Funded by employee and employer contributions

Old Age Security

- Current maximum is $9,023.64 per year ($751.97 per month)
  - Increases to $9,926.04 per year ($827.17 per month) at age 75
- If income in a year exceeds $95,323 (2026), recovery tax takes effect
- No direct contributions

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Pillar 2 – Workplace Pensions

Defined Benefit (DB)

- Certain – Monthly pension payment during retirement
- Uncertain – Contributions required to fund the benefit

Defined Contribution (DC)

- Uncertain – Monthly pension payment during retirement
- Certain – Contributions required

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Pillar 3 – Personal Savings

Registered

- Registered Retirement Savings Plans (RRSPs)
- Tax Free Savings Accounts (TFSAs)
- Registered Retirement Income Funds (RRIFs)
- Deferred Profit Sharing Plans (DPSPs)
- Locked In Retirement Accounts (LIRAs)

Non-Registered

- Savings accounts
- Non-registered investments
  - Stocks, bonds, property
- Debt reduction

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Incremental Changes

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CPP Changes (2012-2016)

- Penalty to start CPP early increased by 0.1% (from 0.5% to 0.6%) per month
  - Maximum penalty increased from 30% to 36%
- Incentive to start CPP late increased by 0.2% (from 0.5% to 0.7%) per month
  - Maximum incentive increased from 30% to 42%
- Drop-out months (months that don't count) increased from 15% to 17%
- Post-retirement benefit introduced (must pay into CPP until age 65)

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CPP Enhancement (2019-2025)

- Target benefit increase from 25% of YMPE to 33.3% of YAMPE
- YAMPE = 114% of YMPE
- Changes apply to benefits earned from 2019 forwards
- Changes were phased in from 2019 to 2025
- CPP contributions increased to fund the enhancement

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OAS Enhancement (July 2022)

- OAS increases by 10% the month following your 75th birthday.

Target Benefit (Shared Risk) Pensions

- Target benefit pensions can be described as a hybrid of DB and DC pensions:
  - Contributions are set.
    - Contributions may be adjusted minimally based on funded level of Plan as contained in a pre-defined funding policy to fund the 'target benefit'.
  - Desired benefit (the 'target benefit') is set.
    - Benefits may be adjusted based on funded level of Plan as contained in a pre-defined funding policy.

Trends in Retirement Savings

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Normal Retirement Age

- Normal retirement age in Canada is 65.
  - There was an effort to increase normal retirement age to 67 in 2012.
  - This was reversed in 2016.

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Mortality

- Canadians are living longer so they are collecting pensions longer.

Year	Life Expectancy	Year	Life Expectancy
1965	71.66	2000	79.02
1970	72.49	2005	80.12
1975	73.53	2010	81.17
1980	74.93	2015	81.96
1985	76.25	2020	82.52
1990	77.20	2025	83.26
1995	78.08	2030	???

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Shift Away from DB Pensions

- To:
  - DC Plans;
  - Target Benefit/Shared Risk Plans;
  - RRSP Matching; or
  - No Plan.

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Indexation

- Indexation is the adjustment of a pension to account partially or fully for inflation.
  - Remaining DB plans are moving away from guaranteed indexation to:
    - Conditional indexation; or
    - No indexation.
  - Indexation in a Target Benefit Plan is always conditional.

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Employee Career Path

- Employees more likely to have multiple employers over the course of their working life.
  - Some plans have responded in an attempt to provide portability:
    - CAAT (College of Arts and Applied Sciences) DB Plus Plan
    - NS Public Service Superannuation Plan – new participation levels

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When CPP Is Started?

- CPP can be started as:
  - Early as age 60 (with a reduction compared to 65); or
  - Late as age 70 (with an increase compared to 65)
- Trend is shifting from starting CPP as early as possible to starting at a later date

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Why Are Canadians Starting CPP Later?

1965

- Life expectancy – 71.66
- More likely to have an DB pension (with guaranteed indexing) for a workplace pension
- Pillar 1 & 2 would be expected to keep pace with inflation
- Retirement plan is for 11-12 years for the average Canadian

2025

- Life expectancy – 83.26
- Less likely to have a DB pension (with guaranteed indexing) for a workplace pension
- Pillar 1 would be expected to keep pace with inflation
- Pillar 2 may or may not keep pace with inflation
- Retirement plan is for 23-24 years for the average Canadian

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CPP

- The combined effect of the reduction in CPP for starting at 60 and the boost to CPP for starting at age 70 is that:
  - CPP started at age 70 would be approximately twice as big as CPP started at age 60
- Remember that CPP is fully indexed to inflation

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Evolution – A New Model?

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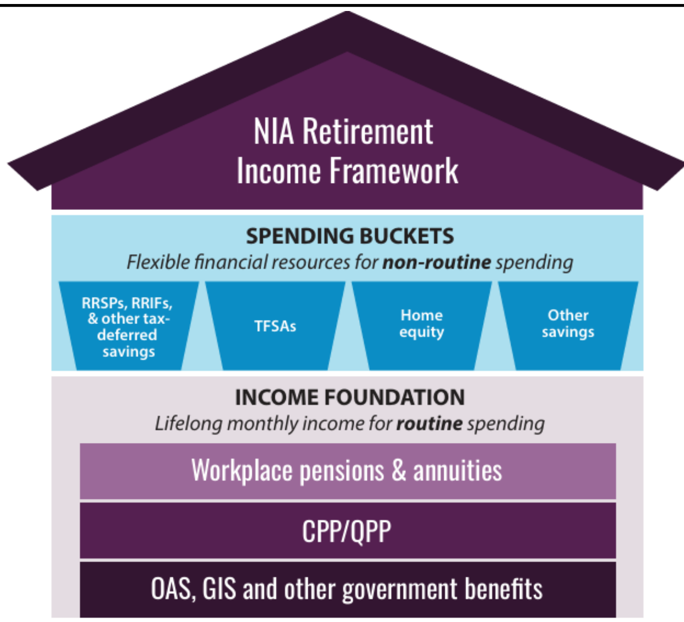
NIA Retirement Income Framework

- The National Institute on Ageing has proposed a new Retirement Income Framework focused on:
  - Income Foundation – for routine spending
  - Spending Buckets – for non-routine spending



MacDonald, B.-J., Chandler, D., Sanders, B., Hodder, A. (2026). Understanding and Communicating the Value of Workplace Retirement Plans. Toronto, ON: National Institute on Ageing, Toronto Metropolitan University.

Comparison to 3 Pillars

- Combines Pillars 1 & 2 for the income foundation
- Uses Pillar 3 for non-routine spending

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Routine Spending

- Routine expenses that last for life:
  - Food;
  - Utilities; and
  - Other ongoing costs.
- Government and Workplace pensions provide this foundation.
  - At least partially inflation protected for life

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Non-Routine Spending

- Non-routine expenses that are:
  - Expensive repairs; or
  - Luxuries.
- Pillar 3 – personal savings provides for this spending.

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How Is That Different?

- It appears to be very similar; however, there is a fundamental mind shift.
- The traditional 3 Pillar system was a savings approach to retirement.
  - How much money should I save?
- The NIA's proposed Retirement Income Framework is a spending based approach to retirement.
  - How much money will I need to support my desired lifestyle?

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Further Information

- Pension 102
  - More detailed information about the Teachers' Pension Plan
- Retirement 101
  - More detailed information about how much money your pensions will provide in retirement

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Questions?

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