MPP Project: Revised Deck and Follow-up Issues

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Date: Mon, 12 Sep 2016 18:39:20 -0400
Attachments: MPP Pension Proposal September 12 6pm.pptx (58.37 kB)

Deputy,

As you know, the SoC had requested some work on the MPP project following the last meeting with Minister Orazietti. There was a delay in Eckler receiving the data they needed from OPB to undertake their analysis, hence the delay. ISPPD has now sent us the attached deck which responds to the issues (I'll send the password separately). Given the confidentiality of this, I'll give you a hardcopy when I come in in the morning rather than leaving it in your binder overnight.

In addition to the attached, the SoC had requested a clarification of the tax treatment of the proposed early severance payment. ISPPD's response to that is below. There is also a response to Minister Orazietti's suggestion that the computation of the pension benefit be based on the best 3 consecutive years as opposed to the current best 5 consecutive years of salary, given that the average working life of an MPP is 7 years. TBS prepared the response to that issue.

William Bromm has asked for the attached as soon as possible. Please let me know if you have any issues before I send it to him.

The SoC is going to schedule a meeting with Minister Orazietti this week (likely Wednesday) and would like to include you and Leah. In Leah's absence, ISPPD has suggested sending Rob Pomykacz who is the one leading the work on this issue. If there's a need or desire, Alex Killoch could attend in addition to Rob. Rob has advised that it would be helpful to also invite Karen Golden (Counsel, TBS) to the meeting. Karen often attends these meetings and is best able to answer questions that may come up on the PSPP.

Thanks,
Dave

Tax Treatment of Severance

The suggestion is to provide Members with an opportunity to elect to receive an amount of money, determined as if the person was entitled to severance as of the date they receive the payment, which would be used to purchase prior pension service credit.

Severance is considered a retiring allowance when it is paid to officers or employees when or after they retire from an office or employment. Generally, amounts received as a retiring allowance are fully taxable as income.

However, the advance severance payment would likely not be characterized as a retiring allowance (as defined by the ITA), but rather as employment income, since the individual has not retired but has continued the employment relationship. As such, the proposed advance payment of severance allowance to MPPs would be considered income from an office for the purposes of the ITA and subject to income tax.

If the after-tax severance amount is used to buy back service (provided there is sufficient RRSP room), the MPP would have an offsetting deduction from income for the amount contributed to the PSPP. This could reduce their tax liability.

However, if there is not sufficient RRSP room, an individual may need to seek a qualifying withdrawal or transfer from their RRSP to allow for the buyback. This would complicate their tax outcome and could result in tax being owed by the MPP.

MPPs would need to seek individual advice on requesting the severance advance.

Best 3-Year Average Salary

The proposal currently being considered is to permit MPPs to move from the existing DC pension plan into the PSPP. Originally this proposal was to be the PSPP "as is" however Minister Orazietti asked whether the computation of the MPP pension benefit could be based on the best 3 consecutive years (36 months) as opposed to the current best 5 consecutive years (60 months) of salary, given that the average working life of an MPP is 7 years.

Response:

It would be possible to amend the PSPP to provide MPPs with a pension based on their best consecutive three years (36 months) and to designate them as a separate class for this purpose.

The proposed three-year averaging is also acceptable from a federal Income Tax Act (ITA) compliance perspective. The ITA uses a three-year average to calculate the maximum pension amounts payable from a defined benefit pension plan. Therefore, any averaging that is at least three years will comply with the ITA. If there is desire to move to an averaging period of less than three years, it would have to be done through the supplemental plan.

Costing numbers would be needed to determine if there is any potential for cross subsidization between the MPPs and the rest of the PSPP members. The cost of the MPPs' benefits would partly depend various assumptions (such as salary increases, length of service, age of pension commencement, etc…) which are likely different than the assumptions for other PSPP members. If the possibility of cross subsidization is there, then a separate periodic valuation of the MPP pension benefits based on the three-year averaging would be needed to ensure their contribution rates are appropriate, given the increased value of a three-year average.

Note that OPP members already have their pensions calculated based on the best 36 consecutive months. Since the OPB already has systems in place to average OPP member salaries over this period, it should be possible to do the same for MPPs. However, there may be some administrative costs related to extending this system for MPPs. Before any proposal goes forward, the OPB should be consulted so that any initial administrative costs are included in the assessment.