

To: Plan members, employers, unions and associations  
From: Municipal Pension Board of Trustees  
July 8, 2014



## **Pension Option Factor Tables are Changing January 1, 2015**

**It is important for employers to share this information with members considering retirement before December 31, 2014.**

The pension option factor tables (option tables) are changing. They do not impact how a member's basic (normal) pension is calculated; however, for a member it may change the amount payable at retirement, depending on the pension option selected, or for their spouse or beneficiary(ies) after their death effective January 1, 2015. The terms for converting from normal form to other forms of lifetime pension are going to improve; however, the cost for converting lifetime pension into a temporary annuity will increase. Details on how these changes may affect you can be found below.

*Members: when you retire, you will choose a pension option that is right for you and your family. You will choose between a single life option or a joint life option. There are different reasons for choosing either option, and the Choosing Your Best Pension Option guide can help you make that choice. View the guide on the Plan website: [mpp.pensionsbc.ca](http://mpp.pensionsbc.ca)*

The option tables are used to provide members with pensions other than a single life pension (the normal pension provided by the Municipal Pension Plan). The option tables are also used to convert lump sums, such as special agreement accounts, to a monthly pension benefit. The factors in the option tables are based on the assumptions used in the actuarial valuation and if the assumptions change then the option tables must change too. The last actuarial valuation was as at December 31, 2012, and there was a change in assumptions. Consequently, the factors in the option tables need to change and will change on January 1, 2015.

In most cases, periodic adjustments to the option tables have a modest impact on pension benefits and accordingly the changes are implemented without any specific member communication. On this occasion, the impact on pension benefits, particularly with respect to lump sum conversions, is potentially more significant than usual and therefore the Municipal Pension Board of Trustees has issued this special communication.

## Background: lifetime pension

The lifetime pension payment is just that—an amount of money the Municipal Pension Plan pays to a member every month for the rest of their life regardless of the pension option they choose. When a member provides for their spouse or any other beneficiary(ies) to receive a pension after their death—for a specific period of time, such as with a single life, 10-year guarantee option, or for the spouse or beneficiary’s lifetime, such as with a joint life pension—it reduces the lifetime portion of the member’s monthly lifetime pension payment. This works in the same way as it does when buying life insurance: the monthly pension payment is reduced to reflect the likelihood that the benefit will be paid for a longer period of time when a guarantee is added, or more than one person’s lifetime is involved.

## What do the changes mean for a member planning their retirement in the latter half of 2014?

The changes to the option tables do not impact how a member’s basic (normal) pension is calculated. What changes is the amount payable depending on the option they select at retirement.

**Here are two examples to illustrate the factor change using a single life, 10-year guarantee option\*:**

### Member Age 55

Normal Form Monthly	Current	Jan. 2015	Change
\$1,000	\$ 992	\$ 993	\$1
\$1,500	\$1,488	\$1,490	\$2
\$2,000	\$1,984	\$1,986	\$2

### Member Age 60

Normal Form Monthly	Current	Jan. 2015	Change
\$1,000	\$ 984	\$ 985	\$1
\$1,500	\$1,476	\$1,478	\$2
\$2,000	\$1,968	\$1,970	\$2

**Here are two examples to illustrate the factor change using a joint life option \*\*::**

### Member Age 55 – Spouse age 55

Normal Form Monthly	Current	Jan. 2015	Change
\$1,000	\$ 874	\$ 897	\$23
\$1,500	\$1,311	\$1,346	\$35
\$2,000	\$1,748	\$1,794	\$46

### Member Age 60 – Spouse age 57

Normal Form Monthly	Current	Jan. 2015	Change
\$1,000	\$ 827	\$ 856	\$29
\$1,500	\$1,241	\$1,284	\$43
\$2,000	\$1,654	\$1,712	\$58

\* **Single life, 10-year guarantee:** If you choose a single life option with a time guarantee, and you die before the guarantee period expires, the monthly pension will continue to your beneficiary(ies) for the remainder of the guarantee period only. If you live beyond the guarantee period, you will continue to receive your monthly pension until your death, but there will be no pension paid to your beneficiary(ies) when you die.

\*\* **Joint life 100 per cent:** This option ensures that the full amount of your lifetime pension continues to your spouse after your death. It provides a smaller monthly pension than the single life options, because the pension is guaranteed for two lifetimes.

### **Are you considering retiring in 2014? What you need to know:**

- If you are planning to retire between July 1, 2014 and December 31, 2014, there could be a difference in your pension payment if you retired on or after January 1, 2015.
- The new pension option factors that are effective January 1, 2015, cannot be made retroactive for members who retire before December 31, 2014.
- Pension estimates for 2015 retirement dates that reflect the changes to the option tables, cannot be produced prior to January 1, 2015.

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