LIBRARY *of* PARLIAMENT
BIBLIOTHÈQUE *du* PARLEMENT

An Introduction to Federal Government Pension Plans

Publication No. 2015-110-E
28 October 2015

André Léonard

Economics, Resources and International Affairs Division
Parliamentary Information and Research Service

Library of Parliament ***Background Papers*** provide in-depth studies of policy issues. They feature historical background, current information and references, and many anticipate the emergence of the issues they examine. They are prepared by the Parliamentary Information and Research Service, which carries out research for and provides information and analysis to parliamentarians and Senate and House of Commons committees and parliamentary associations in an objective, impartial manner.

An Introduction to Federal Government Pension Plans
(Background Paper)

Publication No. 2015-110-E

Ce document est également publié en français.

CONTENTS

1 INTRODUCTION 1

2 KEY PROVISIONS OF THE FEDERAL PENSION PLANS 1

2.1 Eligibility for an Immediate Annuity 1
2.1.1 Public Service 2
2.1.1.1 Group 1 2
2.1.1.2 Group 2 2
2.1.2 Royal Canadian Mounted Police 2
2.1.3 Parliamentarians 3
2.1.4 Canadian Armed Forces: Regular and Reserve Forces 3
2.1.5 Federally Appointed Judges 3

2.2 Value of the Immediate Annuity 4

2.3 Other Common Features 4

3 EMPLOYEE AND EMPLOYER CONTRIBUTIONS 5

3.1 Employee Contributions 5
3.1.1 Employees Subject to the New 50:50 Cost-Sharing Ratio 5
3.1.1.1 Public Service, Royal Canadian Mounted Police, Canadian Armed Forces: Regular Force 5
3.1.1.2 Parliamentarians 6
3.1.1.3 Employees of Crown Corporations 6
3.1.2 Employees Not Subject to the New Cost-Sharing Ratio 6
3.1.2.1 Canadian Forces Members: Reserve Force 6
3.1.2.2 Federally Appointed Judges 6
3.1.2.3 Other Federally Regulated Employees 6

3.2 Employer Contributions 7
3.2.1 Pension Plan for the Public Service of Canada 7
3.2.1.1 Group 1 7
3.2.1.2 Group 2 7
3.2.2 Pension Plan for the Royal Canadian Mounted Police 7
3.2.3 Pension Plan for the Members of Parliament 8
3.2.4 Pension Plan for the Canadian Forces: Regular Force 8
3.2.5 Other Federal Pension Plans 8

4 CONCLUSION 8

AN INTRODUCTION TO FEDERAL GOVERNMENT PENSION PLANS

1 INTRODUCTION

As an employer, the federal government partly funds six pension plans:

- the Pension Plan for the Public Service of Canada;
- the Pension Plan for the Members of Parliament;
- the Pension Plan for the Federally Appointed Judges;
- the Pension Plan for the Canadian Forces:
  - for the Regular Force;
  - for the Reserve Force; and
- the Pension Plan for the Royal Canadian Mounted Police (RCMP).

These six pension plans are funded partly by employee contributions and partly by government contributions, which until now have been larger than those of employees.

In Budget 2012, the federal government announced plans to make employee pension plan contributions equal to those of the government (50:50). Comparable changes were also to be made to the pension plans for parliamentarians, for members of the Canadian Armed Forces (CAF) and for the RCMP.[1] As well, as a result of other changes, employees hired after 1 January 2013 would have to work longer to receive a pension.

This background paper begins by summarizing the key provisions of these pension plans. It then shows the impact of the new employer/employee cost-sharing arrangements on employee contribution rates, and the government's expected savings.

2 KEY PROVISIONS OF THE FEDERAL PENSION PLANS

2.1 Eligibility for an Immediate Annuity

An immediate annuity may be paid without penalty upon termination of employment, depending on the type of termination (e.g., retirement or disability), the number of years of service, and age. Eligibility may also vary as changes are made to the plans over time. As for the CAF and the RCMP, members' ranks may affect eligibility for an immediate annuity.

2.1.1 Public Service

2.1.1.1 Group 1

Group 1 members are public service employees hired before 1 January 2013. They are eligible for an immediate annuity if they have at least two years of service and meet one of the following conditions:

- termination, regardless of age, is due to disability;
- termination, other than for disability or death, occurs when the employee has at least 30 years of service and is 55 years of age or older;
- termination, other than for disability or death, occurs when the employee is 60 years of age or older.

Correctional Service Canada employees also belong to Group 1, although their eligibility for an immediate annuity is more complex and is described in Appendix 1 of the most recent actuarial report on the Pension Plan for the Public Service of Canada.[2]

2.1.1.2 Group 2

Group 2 members are people who were hired on or after 1 January 2013. The difference between the members of this group and the members of Group 1 is that these members are eligible for an immediate annuity if they have at least two years of service and if termination, other than for disability or death, occurs when they have at least 30 years of service and are 60 years of age or older, or if they are 65 years of age or older.

2.1.2 Royal Canadian Mounted Police

Regular and civilian members of the RCMP are entitled to an immediate annuity if they have at least two years of service and belong to one of the following groups:

- regular members with at least 20 years of service whose termination is due to mandatory retirement in light of budget considerations or to promote efficiency within the RCMP;
- regular members who retire due to age (i.e., at 60 years of age or more) or, for those who began working for the RCMP before July 1988, at the prescribed age based on rank at the time;
- regular members who retire voluntarily with at least 24 years and 1 day of service;
- civilian members who retire voluntarily before 60 years of age and with at least 35 years of service;
- civilian members who retire voluntarily and are 60 years of age or older; and
- regular and civilian members with at least two years of service – whether or not they have the prescribed age and number of years of service to receive an immediate annuity – who stop working because of disability. However, if they are no longer considered disabled, the annuity stops and they must reach the required age and number of years of service needed to once again receive an immediate annuity.

2.1.3 Parliamentarians

Members of Parliament and senators are entitled to an immediate annuity if they have earned at least six years of service before 12 July 1995. Parliamentarians whose years of service are after that date must not only have six years of service, but also be at least age 55 (for service between 1995 and 2015) or 65 (as of 1 July 2016) to be entitled to an immediate annuity.

2.1.4 Canadian Armed Forces: Regular and Reserve Forces

Eligibility for an immediate annuity is more complex in the CAF pension plan, partly because members may be eligible for an annuity for years of "qualifying service" or "pensionable service."

Basically, qualifying service is service in the CAF. The days of service are calculated according to a scale. For example, days of training or duty of less than six hours are considered half-days. Pensionable service may also include years working in the public service. In addition, eligibility may depend on the type of engagement (short-term, indeterminate, or intermediate and then indeterminate).[3]

For the Regular and Reserve forces, eligibility for an immediate annuity is simplest when it is based on pensionable service, following at least two years of service:

- if termination is involuntary, as the result of a workforce reduction program and the member has 20 years of service and is less than 50 years of age, or has 10 years of service and is 50 years of age or more; or
- if termination is voluntary and occurs at 55 years of age or more with at least 30 years of service, or at 60 years of age or more with at least two years of service.

2.1.5 Federally Appointed Judges

Federally appointed judges are entitled to an immediate annuity in one of the following situations:

- in case of disability;
- with less than 10 years of service, at the "normal" retirement age of 75 years, or 70 years for certain judges appointed before 1 March 1987;
- when the sum of the years of service (at least 15) and age is at least 80; and
- for justices of the Supreme Court of Canada, when there are at least 10 years of service, regardless of age.

2.2 VALUE OF THE IMMEDIATE ANNUITY

For public service employees and members of the RCMP and the CAF Regular Force, the initial immediate annuity is calculated by multiplying the number of years of service (up to 35) by 2%, and then multiplying the product by the average salary during the five consecutive years of highest-paid service. For example, if this average is $100,000 and the employee worked 35 years, the annuity payable is $70,000 per year.

For federally appointed judges, the immediate annuity is equal to two thirds of the judge's annual salary upon termination, or the higher annual salary received previously if the judge had temporarily occupied a higher-paid position.

For parliamentarians and CAF Reserve Force members, the calculation depends on when the contributions were made, whether they are a senator, member of Parliament or prime minister, or, for Reserve Force members, their rank. Given the complex calculation involved, it is best to refer directly to the actuarial report of the plan in question.[4]

2.3 OTHER COMMON FEATURES

The six pension plans also share certain features:

- A reduced annuity may be granted after a certain age (often 50). This is an annuity payable immediately upon termination but with a penalty based on a percentage multiplied by the number of years before the plan's "normal" retirement age.
- A deferred annuity may be granted after a certain age (e.g., 60), later than the age at which termination occurs (e.g., before age 50). The annuity is adjusted for inflation between the date of termination and the date the deferred annuity commences.
- Annuities are indexed from the date the annuity begins or, in certain cases, from a certain age or combination of age and years of service (e.g., at age 60 or at age 55 with 30 years of service). Annuities are indexed annually to changes in Statistics Canada's Consumer Price Index for the 12 months before 30 September. If the index decreases, the annuity stays at the same level until the index is higher than the level before the decrease.
- When termination occurs after less than two years of service (six for parliamentarians), members are entitled to a refund of their contributions, but not to an annuity.
- When members have contributed for at least two years but have not reached a certain number of years of service or a certain age, they may be entitled to a transfer value (an amount is transferred into an RRSP or another fund) or to a deferred annuity.
- There are other types of annuities and allowances, including disability pensions, survivor benefits and a one-time benefit for members who die with no eligible survivors.

3 EMPLOYEE AND EMPLOYER CONTRIBUTIONS

3.1 EMPLOYEE CONTRIBUTIONS

3.1.1 EMPLOYEES SUBJECT TO THE NEW 50:50 COST-SHARING RATIO

The pension plans using the 50:50 cost-sharing ratio are for public service employees, parliamentarians, RCMP members, Crown corporation employees and members of the CAF Regular Force. For this last plan, however, the government's objective is to ensure that member contribution rates do not exceed rates paid by members of Group 1 of the public service, even though the CAF Regular Force plan is on average more expensive than the public service plan, mainly because its members may reach the number of years of service required for an immediate annuity at an earlier age than public service members.

3.1.1.1 PUBLIC SERVICE, ROYAL CANADIAN MOUNTED POLICE, CANADIAN ARMED FORCES: REGULAR FORCE

The increases in contribution rates between 2012 and 2018 for public service employees, RCMP members and CAF Regular Force members for the first 35 years of service are presented in Table 1. After 35 years, employee contributions equal 1% of earnings. The rates are lower for Group 2 employees since they must wait longer to be eligible for an annuity.

Table 1 – Approved and Estimated Pension Plan Contribution Rates for Public Service Employees, Royal Canadian Mounted Police Members and Canadian Armed Forces Regular Force Members, 2012–2018 (%)

	2012	2013	2014	2015	2016	2017	2018
On earnings up to the maximum covered by the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP)							
Group 1	6.20	6.85	7.50	8.15	8.80	9.47	9.52
Group 2	–	6.27	6.62	7.05	7.47	8.11	8.16
On earnings over the maximum covered by the CPP and the QPP							
Group 1	8.60	9.20	9.80	10.40	11.00	11.58	11.65
Group 2	–	7.63	7.89	8.54	9.29	10.27	10.37

Note: The rates for 2016 to 2018 were estimated by the Office of the Chief Actuary.

Sources: Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report Updating the Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2011*, *Actuarial Report on the Pension Plan for the Royal Canadian Mounted Police as at 31 March 2012*, *Actuarial Report on the Pension Plan for the Canadian Forces: Regular Force at as 31 March 2013*.

For both Group 1 and Group 2, the contribution rates are higher for earnings over the maximum covered by the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP), since the federal government pension plans are coordinated with the CPP and the QPP. When a retiree begins receiving CPP or QPP benefits, the employer-provided pension is reduced, although the amount of the combined benefit (CPP/QPP + employer) remains the same.[5]

3.1.1.2 Parliamentarians

The contribution rates for parliamentarians were recently increased by one percentage point per year over three years, from 7% in 2012 to 10% in 2015. Starting 1 January 2016, the Chief Actuary will calculate the contribution in such a way that on 1 January 2017, the total contributions from plan members will make up 50% of the current service cost of the plan.[6]

3.1.1.3 Employees of Crown Corporations

Budget 2012 announced that Crown corporations would also have to make changes to their pension plans to bring them into line with those of the public service.[7] This was echoed in budgets 2013 and 2014.[8] For example, CBC/Radio-Canada reduced employer contribution rates and increased employee rates as of 1 July 2015, thereby increasing the proportion of pension costs funded by employees from 40% to 43.3%. This will rise to 46.7% in July 2016 and 50% in July 2017.[9]

3.1.2 Employees Not Subject to the New Cost-Sharing Ratio

3.1.2.1 Canadian Forces Members: Reserve Force

CAF Reserve Force members contribute 5.2% of their pensionable earnings[10] up to two thirds of the maximum covered by the CPP and the QPP, which in 2015 is $53,600.[11] Their contribution rates are therefore lower than the plan rates presented in Table 1.

3.1.2.2 Federally Appointed Judges

Federally appointed judges are not subject to the 50:50 objective.[12] They contribute 6% of their salary to the Consolidated Revenue Fund if they are not eligible for an immediate full annuity (before age 60) and 1% of their salary to the Supplementary Retirement Benefits Account.

3.1.2.3 Other Federally Regulated Employees

In 2014, the government announced plans to introduce a new type of pension plan, target benefit pension plans, for federally regulated private sector and certain Crown corporation employers, but not for the six pension plans addressed in this paper. Target benefit pension plans would be a hybrid between a defined benefit plan, such as the public service pension plan, and a defined contribution plan, where the contributions are defined but the benefits depend on the amounts invested and the returns on investment. For target benefit pension plans, the contributions and benefits could vary within a certain band.

This change would be voluntary, and "[t]he framework would require all parties to agree to convert existing defined benefit and defined contribution plans to a TBP."[13] In Budget 2015, the federal government said that it would continue to "assess a voluntary Target Benefit Pension option for Crown corporations and federally regulated private sector pension plans."[14]

3.2 Employer Contributions

The federal government sets its contribution rates for the various pension plans so as to sufficiently provide for future benefits, taking into account employee contributions.

3.2.1 Pension Plan for the Public Service of Canada

In 2013–2014 the employer's contribution to this plan was $2.6 billion, or 61% of total contributions, and the employees' contribution was $1.6 billion, or 39% of the total.

3.2.1.1 Group 1

In 2017–2018, the government's contributions are expected to total $2.1 billion for Group 1 members under the public service pension plan's new employer/employee cost-sharing provisions.

Without these provisions, these contributions would be $3.1 billion, which means that there will be $976 million in savings in 2017–2018.

3.2.1.2 Group 2

The government's contributions for Group 2 members are expected to total $312.2 million in 2017–2018. The Office of the Chief Actuary calculated that amending the plan for this group by increasing the retirement age would yield savings of 12% of the plan costs for group member benefits, compared with the situation had these members been subject to the same provisions as Group 1 members.

Without the increase in the retirement age, the government's contributions for Group 2 members would have been approximately $354.8 million. And if the cost-sharing ratio had remained the same as in 2013–2014 (60.9% for the government instead of 50% in 2017–2018), government contributions would have totalled $432 million.

Taken together, the change to the retirement age and to the proportion paid by the government should represent a saving of $120 million in government contributions for Group 2 members in 2017–2018.[15]

3.2.2 Pension Plan for the Royal Canadian Mounted Police

In 2012–2013, the RCMP pension plan's current annual service cost was $440 million, of which $297 million was paid by the government and $143 million by members. That means that the government was paying 67.5% of the cost of the plan and employees were paying 32.5%.

According to the Office of the Chief Actuary, the current service cost is expected to reach $475 million in 2016–2017, with $266 million (56%) paid by the government. This is because the contribution rate for RCMP members, as for CAF members, cannot be higher than the rate for employees in Group 1 of the public service. Since the current service cost for both plans is higher than for the plan for Group 1 members of the public service, RCMP and CAF members will not be required to pay half of the plan's current service cost.

However, if, as in 2013–2014, employees paid 32.5% of the $475-million cost in 2016–2017, instead of the 44% planned for that fiscal year, the government's cost would be $321 million, or $55 million more.[16]

3.2.3 Pension Plan for the Members of Parliament

In 2013–2014, according to the Office of the Chief Actuary, the total current service cost of the pension plan for members of Parliament was $31.2 million, of which $25.8 million, or 82.7%, was paid by the government.[17]

The 50:50 ratio is expected to be reached in the 2017 calendar year.[18] At that time, the total plan cost will be $33–$34 million. This means that the government's cost will be $16.5–$17 million.[19] If cost sharing in 2017 had remained the same as in 2013–2014, the government's cost would have been about $28 million, or $10 –$11 million more.

3.2.4 Pension Plan for the Canadian Forces: Regular Force

According to the Office of the Chief Actuary, in 2013–2014, the government contributed $797 million (68%) toward the CAF Regular Force pension plan's current service cost.

In 2016–2017 the government's contributions are expected to decrease to $729 million, or 60% of the current service cost. If the share of the cost had stayed at the 2013–2014 level (68%), the cost to the government would have been $826 million, a difference of $97 million.[20]

3.2.5 Other Federal Pension Plans

There will be no increase to the contribution rates for the two other federal pension plans for federally appointed judges and for members of the CAF Reserve Force. In 2013–2014, the government's contributions to these plans were $112.1 million for federally appointed judges, or 84% of benefit costs,[21] and $31.4 million, or 66% of the cost for the CAF Reserve Force.[22]

4 CONCLUSION

As an employer, the federal government provides pensions to its retirees through six pension plans, in addition to those for Crown corporations. Plan provisions vary, although they do have certain features in common.

In 2012 the government announced that parliamentarians, public service employees and RCMP members would pay half the cost of their pension plans beginning in 2017, while CAF Regular Force members would contribute more than they had, saving the government over $1 billion annually, not counting the savings from Crown corporation pension plans.

NOTES

1. Department of Finance Canada, *Jobs, Growth and Long-Term Prosperity: Economic Action Plan 2012*, 29 March 2012, p. 225.
2. Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report: Updating the Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2011*, pp. 22–25.
3. Details concerning the difference between "qualifying" and "pensionable" service are presented in Appendix 1 of the actuarial reports on these plans.
4. Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Members of Parliament as at 31 March 2013*, pp. 27–28, and *Actuarial Report on the Pension Plan for the Canadian Forces: Reserve Force as at 31 March 2013*, p. 24.
5. Information obtained from the Office of the Chief Actuary.
6. Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Members of Parliament as at 31 March 2013*.
7. Department of Finance Canada (2012), p. 225.
8. Department of Finance Canada, *The Road to Balance: Creating Jobs and Opportunities*, 11 February 2014, p. 254.
9. Data obtained from CBC/Radio-Canada.
10. Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Canadian Forces: Reserve Force as at 31 March 2013*.
11. Service Canada, *Contributions to the Canada Pension Plan*.
12. Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Federally Appointed Judges as at 31 March 2013*.
13. See Department of Finance Canada, *Frequently Asked Questions on Proposed Target Benefit Plan (TBP) Framework*.
14. Department of Finance Canada, *Strong Leadership: A Balanced-Budget, Low-Tax Plan for Jobs, Growth and Security*, 21 April 2015, p. 259.
15. Author's calculations based on data in Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report Updating the Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2011*, pp. 10–11.
16. Author's calculations based on data in Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Royal Canadian Mounted Police as at 31 March 2012*, p. 16.
17. Author's calculations based on data in Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Members of Parliament as at 31 March 2013*, Table 7, p. 17.
18. Information obtained from the Office of the Chief Actuary.
19. Author's calculations based on data in Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Members of Parliament as at 31 March 2013*, Table 7, p. 17.

20. Author's calculations based on data in Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Canadian Forces: Regular Force at as 31 March 2013*, p. 20.

21. Author's calculations based on data in Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Federally Appointed Judges as at 31 March 2013*, Tables 1 and 2, p. 8.

22. Author's calculations based on data in Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, *Actuarial Report on the Pension Plan for the Canadian Forces: Reserve Force as at 31 March 2013*, Table 7, p. 16.