Special Features of the University Pension Plan and the Queen’s Pension Plan Compared

A breakdown of the new features in the University Pension Plan (UPP), and of features in the Queen’s Pension Plan (QPP) that are not replicated in the UPP

Pension plans differ with respect to the rules and rights around how and when the pension can be activated, as well as with respect to contribution and accrual rates. Some of the rules and rights are set by the Canada Revenue Agency and other regulatory bodies, but some are features of individual plans. There are new features in the University Pension Plan (UPP) that will be beneficial to QUFA Members, and there are a couple of features of the Queen’s Pension Plan (QPP) that are not replicated in the UPP. This QUFA Pension News document explains those features to help you compare the two plans.

New Options with the UPP

These features were negotiated as part of the package of offsets or benefits to QUFA Members for agreeing to join the new pension plan. They will come into effect, pending the creation and inception of the UPP, on 1 July 2021. Some additional details are outlined below, but a complete set of rules will only be developed once there is consent to move ahead with pension conversion.

- **Unreduced early retirement:** At 60 years of age with 20 or more years of service, you can take the minimum guaranteed pension you’ve earned to date without penalty. In contrast, under the QPP, you must pay approximately 10% of the value of the pension to take it 5 years early (i.e., before age 65). When the QPP merges with the UPP, this new feature will apply to the QPP portion of Members’ pension as well as the UPP portion.

- **Phased retirement:** Starting as early as age 62, you can signal your intention to retire and, over the next 3 years, enjoy a reduced workload and payroll, but with pension accruing per your full salary. As well, if you have not already activated your pension, you will receive a bonus equal to 75% of your salary (calculated at the beginning of the 3-year period). This bonus can be taken as salary over the 3 years or as a retirement allowance at the end.

Unreduced Early Retirement: On 1 July 2021, if the UPP has been created on schedule and QUFA Members have voted to convert to this new pension plan, there will be a new option for early retirement. If you are at least age 60 and have at least 20 years’ service, including service in the QPP, you will be eligible to take your minimum guarantee pension, and retire without paying any penalties for taking the pension earlier than the current rules permit. This generous new option is a subsidy to the Member’s pension of about 10% for UPP members.

This unreduced pension option only applies to the minimum guarantee pension. This is because the value of money purchase accounts is determined strictly by the contributions of the Member and the university, and the investment returns on those contributions. Please note, however, that in the pension summary you receive every year, the minimum guarantee amount that it states you will receive at age 60 has already been discounted by the penalties you have to pay under the QPP to activate your pension early. To estimate your pension under the UPP, add another 10%. For many people, this 10% brings their minimum guarantee and money purchase values closer. Market downturns, of course, also bring those numbers closer together, or even invert their relationship.

**Phased Retirement:** This feature is modelled on the phased retirement offered to University of Toronto faculty and librarians. Key features include:

- reduced workload with prorated salary to a maximum of 200% of duties over 3 years;
- pension benefits accrue on nominal salary for all three years;
- bonus of 75% of nominal salary (as it stands in the first year of phasing), which can be taken over 3 years to offset reduced salary or as lump sum upon retirement (which attracts different tax rates), as long as you have not already activated your pension;
• possible combination with an academic leave if the Member has earned one, with the period of leave counting as 100% workload, so that in the other two years, the maximum workload is 50% each year;

• duties across the full range of responsibilities (teaching, research, and service) in each of the 3 years, except where combined with an academic leave, with specific duties to be agreed with the head, director, or dean;

• commencement of phasing in 2021 with initial requests to be submitted in 2020;

• denial of requests to initiate phased retirement limited to once per Member.

• irrevocable commitment to retire.

More details about this will be forthcoming.

QPP Options Not Replicated in the UPP

The UPP will not replicate the QPP with respect to two options Members currently have:

• **Commuting the pension at any time:** Under the QPP, you can choose to take the commuted value (the net present value of the future pension obligation in your pension account) anytime up to when the pension must be activated at age 71. This will change with the UPP, as explained below.

• **Activating the pension while continuing full employment:** Currently, at age 65, you can choose to activate your QPP without retiring from full employment. If you are age 65 on 1 July 2021 (or whenever the UPP begins to operate as a pension plan), you will retain this right. However, this feature will not be available to those turning age 65 after that date.

**Commuting Value:** Under the UPP, you will be allowed to commute the value of your pension any time up to age 55. After that, you will have to leave your money in the pension plan and activate your pension either upon retirement or when you turn age 71. This change will be phased in as follows:

• the first 3 years of UPP: you will be able to take the full commuted value of the QPP and UPP pensions earned at any age;

• the next 7 years of UPP: you will be able to take the commuted value only of the QPP portion of your pension at any age;

• thereafter: the general rule with respect to the limit of age 55 for accessing commuted value applies.

**Activating Pension while Continuing Full Employment:** One of the requirements for the new pension plan was that members who activated their pension before turning age 71 had to retire. The government made this a non-negotiable condition of the plan’s formation. The rationale for this policy decision is certainly debatable. QUFA recommends conversion to the UPP despite this loss for the following reasons.

Some QUFA Members take advantage of this feature of the QPP in order to enjoy higher earnings for the years they work between age 65 (when the right to activate the QPP without penalty currently vests) and age 71, when the CRA requires you to activate your pension even if you continue to work. Of the 15 QUFA Members currently doing this, 13 are men. The likely reason for this is that men are more likely to have spouses with whom they can “income split” the pension and thus reduce the very high income tax these additional earnings attract. Women are less likely to have spouses with lower or no income of their own, so this is less attractive as an option. The vast majority of QUFA members (75%) currently working between the ages of 65 and 71 have opted to continue to accrue pension credits rather than activate their pension.

We have heard concerns that members wishing to exercise this option will lose “half a million dollars” if we move to the UPP because they will not be able to take their $100,000 pensions for 6 additional years. Doing some simple math shows that this claim is not accurate.

• Using an Income Tax Calculator shows that if you cannot income split, you will enjoy less than half of your pension as take-home income. If your salary is $180,000 and your pension is $100,000, here’s what happens:

  \[ \text{Salary} - \text{Tax} = \text{After-tax income}. \]

  \[ \$180,000 \text{ (salary)} - \$64,121 \text{ (tax)} = \$115,879 \text{ (after-tax income)}. \]

  \[ \$180,000 \text{ (salary)} + \$100,000 \text{ (pension)} - \$116,143 \text{ (tax)} = \$163,857 \text{ (after-tax income)} \]

  Of the $100,000 pension payment, over $52,000 is paid in taxes each year.

• Then, using the QPP self-service tool, you can quickly calculate the loss you incur by activating the pension instead of continuing to accrue service and thereby generating a higher pension. You can do this for yourself, but a rough guide is that you lose about 1.8% of your pensionable income from your final pension for each year that you do not accrue service (and recall that UPP accrual rates are higher at...
For someone making $150,000 per year, the difference between taking the pension at age 65 or taking it at age 71 is about $20,000 pension paid each year for life, which, if you turn out to be long-lived, can translate into a substantial gain from not activating the pension before age 71.

In short, the value lost by losing the right to activate the pension while working has to be understood in the context of tax realities and against the lost service towards one’s future pension. Claims about the loss of half a million dollars are highly misleading, and make assumptions about family forms, gender roles, and lifespans that decreasingly reflect QUFA membership.

Summary

Our concern is to preserve a secure pension that gives good value for all our Members. New features of the plan give Members increased flexibility with respect to retirement, while the plan design itself ensures stability and good value. If it had been possible to get the stability of the UPP and keep all the choices available under the QPP as well as the new retirement options, then the UPP would have been even better. That outcome was not possible given the realities under which the plan was developed. We considered that, on balance, the UPP represents best path forward for our Members.

If you have questions or concerns about this information, please contact QUFA.

Notes

1. There are many online calculators for income tax. These numbers were produced with https://www.simpletax.ca/calculator.


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