

**Alberta School Boards Association's
Supplementary Integrated Pension Plan**

And The

SERP Retirement Program

April 2010

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- Registered SiPP: ASBA sponsored registered pension plan supplementing benefits accruing under either ATRF or LAPP
- Non-Registered SERP: Individual school board sponsored program supplementing the SiPP registered pension plan

Registered SiPP General Information

- Implemented on January 1, 2004
- Subject to pension legislation - registered with *Alberta Finance* and the *Canada Revenue Agency*
- At December 31, 2009 39 school divisions participated (covering approximately 130 individuals)

Registered SiPP General Information

- Provides a prospective benefit only (accruing for service on or after the time a school district begins participation)
- Members cease accruing pension credit upon reaching 35 years of service in ATRF or LAPP

Why have the registered SiPP?

- School board employees currently participate in the government sponsored ATRF or LAPP
- ATRF and LAPP does not provide the maximum pension allowable under the *Income Tax Act (ITA)*
- For more senior employees, the ATRF or LAPP alone may not be competitive when compared to pension benefits for executives in the private sector

Why have the registered SiPP?

- To attract and retain the best talent and to provide the maximum pension allowable under the ITA, a supplement to ATRF or LAPP would be desirable
- As a result, the ASBA introduced the SiPP registered pension plan

How much does the registered SiPP cost?

- Employers contribute 5.0% of pensionable earnings on behalf of the employees participating in the program each year
- Contributions are made monthly to Standard Life
- Contributions are subject to yearly limits (eg. in 2010 the SiPP registered earnings cap in \$124,700, as a result, the maximum contribution is \$6,235)

Administration of the registered SiPP

- Information you will have
 - ▶ Enrolment forms (for new entrants)
 - ▶ Administration manual (what to do in case of retirement, termination, death)
 - ▶ Employee booklets (common language summary of the SiPP registered program)
 - ▶ Annual information package
- Information you have access to
 - ▶ Actuarial valuation report filed with pension regulators
 - ▶ Formal pension plan text

- Annual administrative tasks
 - ▶ Determine pension adjustments (PA)
 - Calculated by individual school division (Morneau Sobeco available for assistance)
 - Added to ATRF or LAPP PAs
 - Reported on T4
 - ▶ Annual pension benefit statements
 - Required by pension legislation
 - Includes only the SiPP registered benefit
 - Distributed before June 30 every year

Administration of the registered SiPP

➤ Ad hoc administrative tasks

▶ What to do when someone leaves

Consult administration manual

Contact Morneau Sobeco (tell us who and when)

Morneau Sobeco will prepare benefit package and send to school division

Package given to member

Member signs and provides required information

Send signed package back to Morneau Sobeco

Morneau Sobeco will coordinate payment with ASBA and Standard Life

Answers to Frequently Asked Questions Concerning Registered SiPP

- The SiPP registered pension plan is sponsored by the ASBA
- The school division's financial requirement is to contribute as required (ie. currently 5.0% of capped earnings)
- This is an employer provided benefit, the employee does not contribute
- The registered SiPP is a final average pension plan – pension benefits are determined based on earnings at retirement, not current earnings

Non-registered SERP General Information

- Registered SiPP is a registered pension plan and is subject to *ITA* limits on the pension that may be provided
- Non-registered SERP extends the registered SiPP promise to employees who are affected by these limits

Non-registered SERP General Information

- Non-registered SERP is sponsored by the school district
- Not subject to provincial pension legislation
- Template program is an extension of the SiPP registered program
- Individual school districts may tailor the program as they wish
- Currently, the non-registered SERP ceases accruing at 35 years of ATRF or LAPP service

Non-registered SERP General Information

- Like the registered SiPP, the non-registered SERP is prospective service program (with one exception)
- A retro-service option exists for the non-registered SERP
- Any pension plan, no matter how generous takes time to accrue significant value

Non-registered SERP General Information

- SERP non-registered retro-service option allows an immediate accrued benefit to be provided to participating individual
- The retro-service option relates to pre-SiPP service
- The non-registered SERP is a supplement to the registered SiPP (cannot choose to participate in SERP non-registered only)

Why have non-registered SERP?

- Pension programs in the private sector are similarly affected by the *ITA* limits
- As a result, private sector employers commonly provide executives pension benefits without reference to these limits for competitive reasons

Why have non-registered SERP?

- For the same competitive reasons a school division would participate in the registered SiPP, the non-registered SERP could be implemented for your senior employees

Financial statement disclosures for non-registered SERP

- Retirement benefits are subject to Canadian Institute of Chartered Accountants (CICA) section 3461
- Non-registered SERP is a retirement program and must be accrued during working lifetime of individual participants
- CICA Section 3461 outlines requirements for entries in the income statement and balance sheet
- We will prepare the required disclosures for your auditors

Financial statement disclosures for non-registered SERP

- CICA 3461 prescribes their own actuarial basis to perform the calculations
- Amounts provided in annual actuarial costings likely to be different from CICA 3461 disclosures

How much does the non-registered SERP cost?

- To determine the annual costs of this program, you will be provided an actuarial costing
- Actuarial costings are estimates based on assumptions (costs change over time)
- When an individual retires, actual costs may be more or less than the actuarial costings
- Prudent to perform costings frequently (eg. annually) to reduce deviation

How much does the non-registered SERP?

- Annual cost to school district
 - ▶ Amounts disclosed in actuarial costing for participating individuals
 - ▶ Fees for performing actuarial costing
 - ▶ Fees for preparing financial statement disclosures
 - ▶ Fees for preparing individual pension projection estimates and actual terminations

Earmarking assets for non-registered SERP

- The non-registered SERP is technically an 'unfunded' retirement arrangement
- Canada Revenue Agency has issued an advance tax ruling for a similar program that allows 'earmarking' of assets to recognize the liability for non-registered retirement benefits
- 'Earmarked' assets remain the property of the school division and are not to be used exclusively for retirement benefits

Earmarking assets for non-registered SERP

- If assets were to be formally allocated to individuals, Canada Revenue Agency would view the arrangement as a Retirement Compensation Arrangement (RCA)
- There are tax consequences for an RCA even for non-taxable entities

➤ Information you should have

- ▶ Enrolment forms (for new entrants)
- ▶ Administration manual (what to do in case of retirement, termination, death)
- ▶ SiPP registered employee booklet can be used (ignore references to Income Tax Act maximums)

- Annual administrative tasks
 - ▶ Prepare CICA 3461 disclosures
 - ▶ Have actuarial costing performed
 - ▶ Compare actuarial costs to 'earmarked' asset to determine any unrecognized liability

➤ Ad hoc administrative tasks

▶ What to do when someone leaves

Consult administration manual

Contact Morneau Sobeco (tell us who and when)

Morneau Sobeco will prepare benefit package and send to school division

Package given to member

Member and school division determine payment form

School division arranges payment

- How to pay non-registered SERP benefits
 - ▶ Typically, SERP benefits are paid as a lump sum
 - ▶ This lump sum could be a single amount or amortized over a number of years (eg. 5 years)
 - ▶ Any non-registered SERP benefit payment is subject to tax

Tax implications of non-registered SERP

- The SERP is an employer provided benefit
- Benefits provided by the SERP are not taxable to the individual until receipt of benefit payments
- Upon retirement, termination, or death, benefits are then subject to applicable tax

Tax implications of non-registered SERP

- We understand that total compensation of individual may be reviewed (and potentially adjusted)
- To avoid immediate taxation of amounts allocated to SERP, no direct trading of salary for SERP benefits should occur