

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

And The

SERP Retirement Program

October 2011

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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, 2010 45 school divisions participated (covering approximately 165 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 2011 the SiPP registered earnings cap in \$127,611, as a result, the maximum contribution is \$6,381)

- 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

- 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

- 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 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

- 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

- 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

- 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

- 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

- 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