COVID-19
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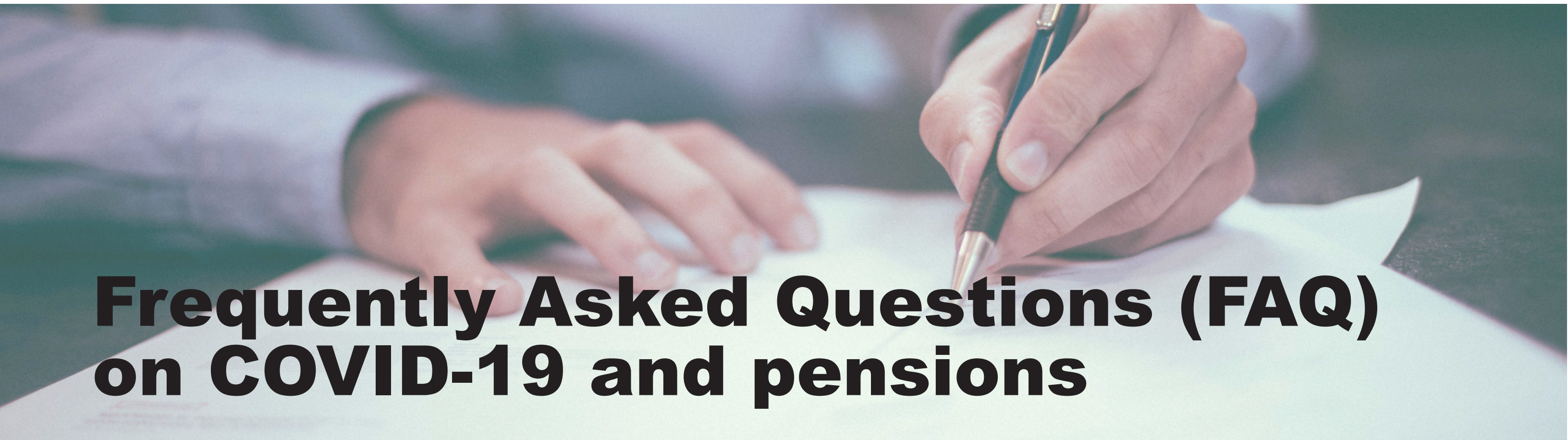

Frequently Asked Questions (FAQ) on COVID-19 and pensions

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As the effects of COVID-19 continue to ripple through the economy, many workers are concerned or have questions about their financial future. The Unifor Pensions and Benefits Department has compiled answers to some of the most commonly-asked questions here.

Note: this document refers specifically to the Canada Pension Plan. The Quebec Pension Plan (available to Unifor members in Quebec) is a similar program, although not identical. For information on specific retirement supports in Quebec, visit: https://www.retraitequebec.gouv.qc.ca/en/flashretraite/Pages/capsule_retraite_007.aspx

Additional information about the union's response to the pandemic, as we as resources for members can be found at unifor.org/COVID19.

How will COVID-19 impact my Canada Pension Plan (CPP) benefit?

The CPP is a contributory pension plan that plays a vital role in the retirement plan for all working Canadians. CPP has exposure to markets so it will not be immune to recent market declines caused by COVID-19. However, it is a robust fund and a recent review, released in December 2019, proved the fund will continue to be sustainable for more than another 75 years at current contribution rates.

The CPP can navigate through market volatility unlike individual investors - as contributors retire, another generation enters the workforce. During the last Global Financial Crisis in 2008/2009, the CPP Fund's value dropped by 18.8 percent in one year. Six years later, the Fund's investments gained 18.3 percent in one year alone. Unlike individual investors, the current market collapse is a buying opportunity for the CPP as it pursues an active, long-term investing strategy.

What will I receive in CPP benefits if I retire this year?

Monthly CPP benefits are calculated based on the earnings history and amounts for each worker and will be different, based on the income earned over time and the contributions made. The maximum monthly CPP benefit in 2020 is $1,175 per month for new beneficiaries, i.e. those retiring in 2020, if earnings are more than the Years Maximum Pensionable Earnings (YMPE) between the ages of 18 and 65. The average CPP pension benefit for a typical Canadian in 2019 is $679 per month.

How will COVID-19 impact my Old Age Security (OAS) benefit?

The OAS is a universal pension available to seniors aged 65 and older who meet Canadian legal status and residence requirements. The program is funded from Federal government general revenues and includes a Guaranteed Income Supplement (GIS) for low-income Canadians - a monthly non-taxable top-up to Old Age Security that is income-tested. Both the CPP and OAS benefits are adjusted for inflation.

The OAS benefit is a flat rate payment that is reduced if an individual has less than 40 years of residence in Canada after the age of 18, as well as marital status. COVID-19 related impacts on stock markets will have no effect on OAS benefits.

The maximum monthly flat rate OAS pension for 2020 is $613.53. If your 2020 net income exceeds $79,054, you may have to repay OAS benefits by 15 cents for every dollar of income up to the maximum annual income allowable of $128,137.

Will I still accrue pension credits if absent from work due to COVID-19?

Depending on the nature of your work absence, you may continue to accrue credited service towards both your public and workplace pension plans. For instance, the CPP plan is contributory, so you continue to accrue service while CPP contributions are being made. Likewise, if your workplace pension plan is contributory, you would generally continue to accrue service while pension contributions are being made.

If you are absent while on a ‘job-protected’ leave provided under any federal or provincial Employment Standards statute you are generally entitled to accrue credits, unless you elect to stop participating in the pension plan during your absence. Your collective agreement may provide for other types of leaves or longer durations of absences (temporary lay-off, sick leave) than provided in provincial employment standards statutes.

Additionally, pension plans often require a minimum threshold, e.g. 1,700 hours, as the basis for earning one ‘year’ of credited service. If you are laid off, the impact on credited service accrual will not be known in such a case until the end of the year. Contributory pension plans may also provide for additional voluntary contributions (AVC) or a purchase or buyback of service that would allow a member the opportunity to restore lost service due to a COVID-19 absence, where this was not otherwise negotiated for all absent plan members.

Has the loss in stock markets impacted the valuation of my pension and health care benefits?

The recent drop in stock and bond markets will certainly have a short-term impact on any pension or benefit fund invested in those markets and which rely on those investment returns to fund the promised accrued benefits. That impact will first be felt by the plan sponsor – the employer – in most instances, but only to the extent that the market impact is more lasting or enduring.

Pension regulators have generally allowed for extensions around filing deadlines as the first relief and are likely to be responding to requests for more substantial relief from employers. That will allow for some time for assets to recover and markets to stabilize. However, we anticipate pension plan sponsors – i.e. employers – to be aggressive in seeking solvency funding relief to shift the burden to plan members by delaying or postponing not only their reporting obligations, when valuation reports need to be submitted, but also their funding obligations, and how quickly the deficits appearing in their pensions need to be fixed.

Anecdotally, major pension consulting firms are suggesting the typical Canadian plan's solvency funding – the ratio of assets to the liabilities or estimated cost of paying future benefits, which indicates the financial health of the pension plan – has dropped 10 to 25 percentage points since the end of 2019, due to both the recent decline in asset values and interest rate drops. Of course, any specific pension plan's performance in 2020 will also depend on the extent it held bonds or was diversified into real estate and or infrastructure assets.

I have a retirement date in the coming months. Can I still retire?

For members approaching retirement with money-purchase or capital accumulation plans, i.e. defined contribution or RRSP-type plans, the impact around an April retirement date, for example, will be far more severe. In those cases, the plan member faces all the risk and consequences of poor timing with respect to current market conditions – and faces the difficult decision of working longer to wait until the market rebounds or receiving less income if they choose to retire immediately.

For members of defined benefit plans, and target benefit plans intending to retire in April, their decision need not be based on current market conditions. As long as the plan sponsor employer or pension fund) backstopping the pension plan is not at immediate risk of insolvency, the accrued pension benefit must be paid.

Can I sign up and retire now, and is the commuted value transfer (CV) still an option?

Generally, it is at the discretion of the pension plan sponsor whether to permit plan members to receive a lump sum transfer of their commuted value or a monthly pension, if they were otherwise entitled to receive their monthly pension, with some restrictions.

Given a significant negative impact on pension plan solvency ratios mentioned above, it is likely that defined benefit pension plans falling under some jurisdictions will need to calculate an updated transfer ratio for the plan and seek regulatory consent before proceeding with any transfer of funds.

A commuted value transfer is certainly a less attractive option for members given that current interest rates make an annuity purchase cost prohibitive for most individuals. In this case, the member would need to predict when the market will rebound and risk further losses if their timing is wrong. As well, not all of the transfer amount may in fact remain tax-sheltered so members may also be on the hook for significant tax obligations.

For more specific information on CPP and OAS, please refer to: https://www.canada.ca/en/services/benefits/publicpensions.html

Unifor will continue to provide updates about the impacts COVID-19 is having on workers as information becomes available at unifor.org/COVID19. Please sign up for the union's weekly newsletter at unifor.org/subscribe and download the Unifor mobile app on your phone.