

APRIL 2008 - LL764 PENSION COMMITTEE REPORT

The YMPE and you, or everything you ever wanted to know about the YMPE but were afraid to ask. Like, first of all, what the hell is a YMPE and why do I care? The **Year's Maximum Pensionable Earnings (YMPE)** is defined by the Canada Revenue Agency (CRA) as follows - *"The YMPE is the maximum amount of earnings on which contributions to the Canada Pension Plan (CPP) are based."* It is set annually by the CRA and is a measure of the average industrial wage in Canada based on the previous year's Income Tax returns.

As a comparison, in 1990 the YMPE was \$28,900. In 2000 it was \$37,600 and in 2008 it is \$44,900. This is significant to all of us for several reasons. First, as defined, it determines how much of your salary you make CPP contributions on as well as being part of the benefit formula used to calculate your CPP benefit.

Secondly, and of primary importance to us, it is used to define the benefit formulas of all Pension Plans in Canada. Pension Plans are governed by 2 Federal statutes. The Income Tax Act (ITA) determines the maximum values of pension plan contributions and benefits and the Pension Benefit Standards Act (1986) (PBSA) sets the values for the minimums.

Because you pay contributions on your salary up to the YMPE limit every year, you will receive a CPP benefit based on those dollar amounts when you retire. This is factored into the funding formulas of pension plans such that they pay you less on earnings up to the YMPE limit and a higher pension benefit on your Average Annual Compensation (best 36 months) on earnings in excess of the YMPE. Our pension plan is structured to maximize the benefit you receive on earnings in excess of the YMPE.

The ITA sets the maximum pension benefit payable at 2% per year of service to a maximum of 35 years of service for a total maximum pension of 70% of your pensionable earnings. In our funding formula, we receive 2% for all earnings in excess of the YMPE and our contribution rate is set at 6% of our gross earnings above the YMPE. For all earnings below the YMPE limit, we pay 5.25% and our pension benefit is 1.75%.

For service pre-transition (merger) the CAIL Plan was set at 4.5% contribution rate and 1.4% benefit up to the YMPE and 6% / 2% above the YMPE. This is the major difference between the pension benefits paid for service pre and post transition. We paid less money in so we get less money out on that portion of our final average earnings below the YMPE. Both plans had identical contributions and benefits above the YMPE limit.

The net result of all of this is that the higher the value of the YMPE, the larger the amount of your pension that is calculated at the lower benefit rate (1.4% and 1.75%). I will explain the funding formulas in more detail in a future pension report. Email is the most effective way to reach me. I may be contacted at pres764@telus.net with any questions or concerns that you may have.

Respectfully Submitted,
Christopher Hiscock
Chairman, LL764 Pension Committee