

## FEBRUARY 2010 – LL764 PENSION COMMITTEE REPORT

If you opt for early retirement; which is defined as any retirement before attaining age 65 you will usually have 4 different options in how you can receive your monthly pension benefit (money). Last month I talked about 2 of those choices – the J&S50% option and the J&S60% option.

The other 2 options for early retirement that you will have to choose between allow you to either take the “level life” option or what is called the “integrated with government benefits” option. In my opinion this is a very misleading name. This option does not influence the amount of your CPP or OAS as the name suggests but rather is meant to replicate them prior to your 65<sup>th</sup> birthday. It is often colloquially referred to as a “front end loaded” or “higher to 65” option. You are simply borrowing your own pension money and paying yourself at a higher rate (equivalent to a full 2% pension) up to your 65<sup>th</sup> birthday and then paying back the “loan” with an actuarially reduced pension for the rest of your life after you reach age 65.

The “level life” option simply means that your monthly pension payment is calculated to pay you the same amount of money every month from the first month when you retire until the month that you die. When you opt to take your CPP (at anytime after age 60) and your OAS (after age 65) they simply increase the total amount of pension income you receive every month.

The “integrated with government benefits” option will pay you more of your own AC pension money until your 65<sup>th</sup> birthday. This is an attempt to level off your total retirement income at a dollar value that is actually higher than your Air Canada pension alone would provide. It assumes that you will not take your CPP and your OAS until you are 65. Rather than have to wait until then to get that “jump up” in income and allow you to enjoy some of that money at an earlier age, the plan will let you take more of your own money until you reach age 65. Then your “loan is called” and your monthly pension is actuarially reduced by an amount equal to the you “borrowed” from yourself. The idea being that your CPP and OAS will at least equal the reduction in your Air Canada pension, thereby keeping your total income more or less level before and after age 65.

Section 7.1(c) of the plan actually limits the amount of the increase to a dollar value equal to the maximum CPP and OAS that you would qualify for at age 65. The increase will equal either a full 2% pension benefit or the maximum CPP/OAS benefit payable to you at age 65, whichever is the lesser amount. This is to protect retirees from taking too much money up front and leaving themselves vulnerable after age 65. It is this limiting factor that actually gives this option its “integrated with government benefits” name.

This is a very important feature of our plan and is probably the biggest single decision retirees must make. I will continue talking about this topic next month in the March report. Email is the most effective way to reach me. I may be contacted at [pres764@telus.net](mailto:pres764@telus.net) with any questions or concerns that you may have.

Respectfully Submitted,

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