

University of Victoria

Money Purchase Pension Plan

Description of the Variable Benefit Option

November 2019

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ELIGIBILITY

- A variable benefit is available if
 - (a) you have terminated employment;
 - (b) you have attained the minimum age of 55; and
 - (c) the amount applied to this option totals at least twice the Year's Maximum Pensionable Earnings according to Canada Pension Plan (in 2020, this amount is $\$58,700 \times 2 = \$117,400$); you may combine your regular account with a voluntary account to satisfy this requirement.
- A variable benefit is similar to a life income fund (LIF) so spousal consent¹ is required in order to select this option with any locked-in² funds.
- A variable benefit is also available if you are the surviving spouse of a member who had not commenced a benefit as at the date of death, or who died while in receipt of a variable benefit pension. The same minimum account balance requirement applies but there is no minimum age for a surviving spouse.
- The remainder of the brochure is written from the perspective of a member selecting a variable benefit. In the case of a surviving spouse, the names of some forms may differ; however other information, such as the calculation of minima and maxima, would apply equally.

¹**spousal consent** entails a spouse (legal, common law or same sex) completing and signing a prescribed form outside the member's presence.

²**locked-in funds** are regular contributions made after 1992 plus net returns, or additional voluntary contributions transferred on a locked-in basis from other pension plans or RRSPs.

SETTING UP A VARIABLE BENEFIT

- A variable benefit is selected on a Notice of Selection of Retirement Benefit form and Variable Benefit Payment Election form. The forms are part of a forms package that must be completed and submitted at least one full calendar month prior to the first payment.
- Proof of age documentation will be required if not already on file. Contact Pension Services for information on what constitutes acceptable proof of age documentation.
- On the effective date of the Notice, a Variable Benefit Account (VBA) is established in your name and is credited with funds from your Money Purchase Contribution Account (MPCA) and/or Unrestricted or Restricted Voluntary Account (UVA or RVA) according to directions you provide on the Notice form(s).
- You retain ownership of the VBA (just as you owned your MPCA and/or UVA or RVA).
- Locked-in funds are tracked separately from non locked-in funds.
- You effectively pay yourself a monthly income from your VBA. You specify on the Variable Benefit Payment Election form, how much you wish to withdraw each month from each of the locked-in and non-locked-in portions of your VBA.
- The withdrawals are subject to statutory minima prescribed under the *Income Tax Act* (Canada) and statutory maxima prescribed under the *Pension Benefits Standards Act* (BC). The limits change each year and are described below.
- The total monthly withdrawal, less any applicable withholding tax, is deposited to your bank account on the first of each month.

LIMITS ON WITHDRAWALS

- Withdrawal limits are calculated annually.
- Limits are calculated separately for the locked-in and non locked-in portions of your VBA.
- In the first year, you will be notified of the limit(s) when your opening VBA balance has been determined - approximately 4 weeks after your first payment.
- After the first year, the limits are communicated on an annual statement, issued in February.
- If the amount withdrawn from either of the locked-in or non locked-in portions of the account is outside the limits, the withdrawal from just that portion will be adjusted to ensure compliance with the limits.

MINIMUM WITHDRAWAL

- Under the *Income Tax Act* (Canada), the minimum does not take effect until the year you reach age 72.
- In the year you reach age 72 and in all subsequent years, the minimum total withdrawal from each of the locked-in and non locked-in portions of your VBA, is the balance in each portion at the start of the year, multiplied by the percentage rate shown in the age-based table (on page 13) for the age you will reach in the year.
- If you have a younger spouse, you may elect to use your spouse's age for purposes of determining the appropriate percentage rate for the minimum withdrawal. You can make this election on the Variable Benefit Payment Election form. The form, along with acceptable proof of age documentation for your spouse, must be submitted before the start of the calendar year in which the election is to take effect.

MAXIMUM WITHDRAWAL (LOCKED-IN FUNDS ONLY)

- Under the *Pension Benefits Standards Act* (BC), there is an upper limit on the amount you may withdraw from locked-in funds. (There is no upper limit for non locked-in funds.)
- The maximum withdrawal from the locked-in portion of your VBA varies according to your age and long-term interest rates. If you have been on the variable benefit for at least one full calendar year, the Plan's prior year investment returns are also considered.
- The age-based table is updated annually to reflect long-term interest rates from November of the preceding year. The table on page 13 in this brochure uses a reference rate of 6%; 6% is the minimum reference rate and the rate which has been in effect since 2001.
- In the first (partial) year, the maximum withdrawal is the amount of locked-in funds applied to the variable benefit, multiplied by the percentage rate shown in the age-based table for the age you will reach in the year. There is no option to use your spouse's age for determination of the maximum. The maximum is not prorated for partial years.
- In subsequent years, the maximum withdrawal is the greater of
 - (a) the balance in the locked-in portion of your VBA at the start of the year, multiplied by the percentage rate shown in the age-based table; and
 - (b) provided you have been on the variable benefit for the whole of the prior calendar year, earnings credited to the locked-in portion of your account in that prior year.
- If you terminate your variable benefit and transfer the remaining balance to a LIF, either directly or via a locked-in RRSP, no withdrawals are permitted from that LIF until the next calendar year. If you wish to maximize your withdrawal you must do so before making the transfer.

EXAMPLE OF THE APPLICATION OF LIMITS

You turned 65 in 2019 and you elected the variable benefit starting **1 July 2020**, with payments of \$650 per month, \$250 from the non locked-in portion and \$400 from the locked-in portion of the account. Assuming future plan returns of 0.5% per month (6% annual), the limits in this example would be as follows:

Year	Non locked-in portion of VBA	Locked-in portion of VBA	TOTAL
2020: (part year)	Opening Balance: \$100,000 minimum: nil (under age 72) maximum: n/a selection: \$250 per mo	Opening Balance: \$50,000 minimum: nil (under age 72) maximum: \$3,690 (7.38% at age 66) selection: \$400 per mo (permitted because starting part way through the year and the maximum is not prorated for partial years; will likely be too high for subsequent years)	Jul-Dec: \$650 per month (\$250 plus \$400).
2021:	Opening Balance: \$101,511 minimum: nil (under age 72) maximum: n/a No change to payment of \$250 per month as it is within limits (may optionally request a different amount)	Opening Balance: \$49,076 minimum: nil (under age 72) maximum: \$3,690 (7.52% at age 67) <i>"greater of" rule not applicable as not on benefit for whole of 2020 (for information on this rule, see section on maximum withdrawals)</i> 1 May 2021 reduce payment to \$261 per month to bring total for year down to maximum (may optionally request a different amount provided total for year is no more than \$3,690)	Jan-Apr: \$650 per month (\$250 plus \$400) May-Dec: \$511 per month (\$250 plus \$261)

INVESTMENTS

- Monies allocated to a variable benefit are invested in the Balanced Fund. This is the same fund where members' MPCA, RVA and UVA are invested.
- The Balanced Fund is invested in a mix of equities, fixed income and real estate and can have considerable month-to-month volatility. Investments and asset mix are subject to change without notice.
- Each year's Annual Report, includes information on returns and a list of assets held in the Balanced Fund as at that year end. The information should be reviewed by those considering a variable benefit and those already on a variable benefit to ensure that the Balanced Fund is appropriate and suitable for your circumstances.
- Withdrawals are debited from your VBA on the first of each month, with the remaining balance experiencing the net gains and losses of the Balanced Fund for that month.

ANNUAL MEMBER STATEMENT AND PAYMENT DIRECTIONS

- In February of each year, you will receive a statement showing the changes in the non locked-in and locked-in portions of your VBA in the prior calendar year due to withdrawals and net investment returns.
- The statement will include your withdrawal limits for the current year for each portion of your account, compare the limits to current withdrawal amounts, and report required changes (if any) to comply with the revised limits. Required changes take effect with the May 1 payment.
- A Variable Benefit Payment Election form will be included with your statement. **You will have 30 days from receipt of your annual statement to complete and return an updated Variable Benefit Payment Election form setting out payments you wish to receive for the remainder of the year. The form is required even if you are not making any changes to your payment(s)** as it provides Pension Services with authorization to continue with the current payment schedule. **If you have both non locked-in and locked-in portions**, you must indicate a payment amount for each portion of your VBA.
- To change a payment amount, complete a Variable Benefit Payment Election form. The form must be received in Pension Services *at least* one full calendar month prior to the effective date of the change(s). More notice is suggested so that, if necessary, Pension Services can clarify your instructions without resulting in a delay in implementing the change(s). To keep administrative costs low, plan members are encouraged to limit changes to once a year and to coordinate them with the annual statement process.

ADDITIONS TO A VARIABLE BENEFIT ACCOUNT

- Funds may be added to your VBA, subject to the following conditions:
 - (a) *Eligibility*: You must be the original plan member.
 - (b) *Source of funds*: The funds must be transferred from another registered pension plan, a registered retirement savings plan (not a spousal plan) or a registered retirement income fund.
 - (c) *Processing fee*: There is no fee for the first transfer. Each additional transfer is subject to a fee of \$50 which must be paid before the transfer(s) will be accepted. If the fee has not been received, the transfer will not be deposited and will be returned.
 - (d) *Minimum transfer*: The minimum transfer is 50% of the Year's Maximum Pensionable Earnings (YMPE). The YMPE in 2020 is \$58,700. The minimum transfer in 2019 is therefore \$29,350. The minimum may be achieved by combining transfers, provided the timing of the transfers is coordinated to occur in the same calendar month, and provided the fees for multiple transfers are paid.
 - (e) *Maximum transfer*: The total transferred in may not exceed \$1 million.
 - (f) *Date to start sharing in returns*: Funds transferred in will be credited to a your VBA at the end of the calendar month in which the funds are received and will start sharing in Balanced Fund returns after that month-end (for example, a transfer in September will be credited to a member's account 30th September; and will participate in net returns for the month of October).
 - (g) *Impact on minimum withdrawal limits*: Minimum withdrawal limits will not be recalculated until the year following the transfer. If funds are transferred from a registered retirement income fund, the minimum withdrawal requirement for the year must be satisfied prior to the transfer.

(h) *Impact on maximum withdrawal limits:* If monies are transferred from a locked-in registered retirement savings plan, the maximum withdrawal limit for the year of transfer will be increased based on the amount transferred in.

- Before transferring funds to your VBA, you are encouraged to consult a qualified financial advisor regarding the appropriateness of the asset mix of the Balanced Fund for your situation. The Balanced Fund asset mix policy at 31 December 2018 is 21% Canadian equities, 36% foreign equities, 33% fixed income, and 10% real estate and is subject to change without notice. More information is in Annual Reports which are available at www.uvic.ca/pensions.
- If, after reviewing the above, you wish to initiate a transfer, please request a Direct Transfer form (T2033) from Pension Services. Pension Services will complete Area II of the form confirming the funds will be accepted by the plan; you then complete Area I and forward the form to the financial institution that is currently holding the funds. (Non-residents are eligible to transfer in funds but the monies must be in a Canadian retirement plan as outlined above and the applicable form is an NRTA1 instead of a T2033).

TERMINATION OF A VARIABLE BENEFIT

- Variable benefits cease upon your death or upon selection of another option with the balance in your VBA.
- In the event of your death, your spouse as of the date you commenced benefits is the beneficiary of the balance in your VBA.
- If you had no spouse when you commenced benefits or if your spouse waived the right to the survivor benefit before your first payment, the beneficiary is whoever you have designated on a Beneficiary Information for Variable Benefit form (a form must be properly completed, executed and filed with Pension Services in order to be valid).
- If there is no spouse or designated beneficiary, the survivor benefit is paid to your estate.
- A beneficiary other than a spouse receives the survivor benefit as a lump sum, less withholding tax. The actual tax payable is determined when the beneficiary files their own tax return for that year.
- In order for your surviving spouse to continue on the variable benefit option, you must designate your spouse as a ***“specified beneficiary”*** on the Notice of Selection of Retirement Benefit form. Your surviving spouse then has the option of selecting the variable benefit or another option. The options available to a surviving spouse are the same as the ones that are available to you if you terminate your variable benefit.
- With one full calendar month of notice, and provided you have already withdrawn the required minimum for the year, you may terminate your variable benefit and apply the balance remaining in your VBA to one of the following other options:
 1. External Annuity
 2. Registered Retirement Income Fund (RRIF, for non locked-in funds) and/or Life Income Fund (LIF, for locked-in funds)

3. Registered Retirement Savings Plan if you will be under age 72 at the end of the calendar year (locked-in funds are transferred on a locked-in basis).
 4. Cash (non locked-in funds only).
- If you transfer monies from a VBA to a LIF, either directly or via a locked-in RRSP, Pension Standards do not permit any withdrawals from that LIF until the next calendar year. Any required minimum withdrawal must be satisfied prior to the transfer; similarly, if you wish to maximize your withdrawal you must do so before making the transfer.
 - With the approval of the Board of Pension Trustees, you may opt to apply just a portion of your VBA to one of the above options (rather than your whole account), and continue variable benefits with the remainder of your VBA. In that case, the amount remaining in your VBA must be at least twice the Year's Maximum Pensionable Earnings according to Canada Pension Plan (in 2020, this amount is $\$58,700 \times 2 = \$117,400$) and your withdrawal limits may be recalculated. Furthermore, if locked-in funds are divided among more than one option, Pension Standards mandates that the amount allocated to each option must be at least 40% of the Year's Maximum Pensionable Earnings.

COMPARISON BETWEEN A VARIABLE BENEFIT AND LIFE ANNUITY

Variable Benefit	Life Annuity (only available outside the plan)
<ul style="list-style-type: none"> • You retain ownership of your account and pay yourself a monthly income. • When you die, the full account balance remaining is paid to your spouse or other named beneficiary. • Spousal consent is required in order to select this option with any locked-in funds. 	<ul style="list-style-type: none"> • You exchange your funds in return for the promise of a lifetime monthly income. You no longer own the funds. • When you die, the amount (if any) that is paid to another person after your death depends on the annuity option you selected. • Possible annuity options are joint life where payment continues in full or in part to a surviving spouse; or a guarantee where payment continues to a beneficiary until expiry of a guarantee period (5, 10 or 15 years from the start of the original annuity). • Spousal consent is required to select an option that does not provide at least a 60% survivor benefit to the spouse.

AGE-BASED TABLE OF MINIMUM AND MAXIMUM WITHDRAWALS

<i>Age reached in year by member (or spouse, if valid election on file)</i>	<i>Minimum % (not applicable until the year the member reaches age 72)</i>	<i>Maximum % (applicable to locked-in funds only; based on the minimum reference rate of 6%)</i>
Under 55	<i>1 divided by the result of 90 less age before start of year</i>	<i>Refer to FICOM Bulletin 15-005 Life Income Fund Interest Rate and Withdrawal Calculations</i>
55	2.78	6.45
56	2.86	6.51
57	2.94	6.57
58	3.03	6.63
59	3.13	6.70
60	3.23	6.77
61	3.33	6.85
62	3.45	6.94
63	3.57	7.04
64	3.70	7.14
65	3.85	7.26
66	4.00	7.38
67	4.17	7.52
68	4.35	7.67
69	4.55	7.83
70	4.76	8.02
71	5.00	8.22
72	5.28	8.45
73	5.40	8.71
74	5.53	9.00
75	5.67	9.34
76	5.82	9.71
77	5.98	10.15
78	6.17	10.66
79	6.36	11.25
80	6.58	11.96
81	6.82	12.82
82	7.08	13.87
83	7.38	15.19
84	7.71	16.90
85	8.08	19.19

<i>Age reached in year by member (or spouse, if valid election on file)</i>	<i>Minimum % (not applicable until the year the member reaches age 72)</i>	<i>Maximum % (applicable to locked-in funds only; based on the minimum reference rate of 6%)</i>
86	8.51	22.40
87	8.99	27.23
88	9.55	35.29
89	10.21	51.46
90	10.99	100.00
91	11.92	100.00
92	13.06	100.00
93	14.49	100.00
94	16.34	100.00
95	18.79	100.00
96 or older	20.00	100.00

The table above reflects the revised rates in accordance with the Federal Budget 2015.

Refer to the section “Limits on Withdrawals” for a description of how the above limits are applied.

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