

Government of Alberta ■

Finance

**Understanding Your Pension Plan:
Contributions to a Specified Multi-Employer Pension Plan**

This document is general in nature and is intended only to provide general guidance and information. It may not accurately reflect the terms of any specific pension plan and as such, this document has no legal standing.

Released: February 18, 2005

What is a Specified Multi-Employer Pension Plan?

In Alberta, a Specified Multi-Employer Pension Plan (or SMEPP for short) is a pension plan for members of a trade union and is administered by a Board of Trustees (the Board).

Usually, these plans are established through a collective bargaining agreement between the union and the various employers that are parties to that agreement. The Board of the pension plan is the administrator of a SMEPP and has the responsibility to set the provisions of the pension plan in accordance with the requirements of the *Employment Pension Plans Act* of Alberta and to run the plan in accordance with a trust agreement.

One of the decisions that the Board must make is the level of pension benefit the pension plan can afford to offer. The amount of pension credits earned by active members (and eventually paid out as a pension to retirees) depends on how much the plan takes in from contributions, and the investment income earned on those contributions. The contributions are negotiated between the union and the participating employers in the collective bargaining agreement.

What is the benefit that I am earning in my pension plan?

The type of benefit you earn in your pension plan¹ is known as a *defined benefit*. This means that the amount of monthly income you will ultimately receive when you decide to start collecting your pension is based on a pre-determined formula that has been established by the Board.

In most SMEPPs, each hour that you work in covered employment will earn you a corresponding amount of pension benefit. Thus generally, the longer you are an active member of the plan, and the more hours you work, the greater your pension entitlement.

In addition, once you start collecting your pension, you may receive an increase in your monthly pension if the Board determines that the pension plan can afford the increase.

¹ One SMEPP registered in Alberta is a defined contribution plan.

How is my pension funded?

In each round of collective bargaining, the amount of money that will be paid into the pension plan fund on behalf of a union member, usually on a cents-per-hour basis, is negotiated between the union and the participating employers. Once the contribution rate has been set, it is up to the Board, on the advice of their actuary, to calculate the amount of monthly pension benefit they can afford based on factors such as:

- Average age of the members in the plan;
- Mortality expectations;
- Proportion of members who are married;
- The types of ancillary benefits (e.g. death benefits and early retirement benefits) provided on top of the basic pension starting at normal retirement age;
- Rate of return on investment of the plan fund;
- Expected hours to be worked by plan members;
- Dollar value of contributions to be deposited to the pension fund, and
- Expenses of the pension plan.

The actuary must use the negotiated contribution rate as an average for all members. Consequently, it is important to realize that the cost of the benefit you will earn as an individual may or may not be covered by the contribution paid by the participating employer for each hour you worked.

Are the contributions paid on my behalf like a savings account?

No. The participating employer is required, by the terms of the collective bargaining agreement, to contribute an amount to the pension plan fund based on your employment with that participating employer. Although the contribution is remitted on your behalf, and is reflected as an employer contribution for your pension on your income tax T4 slip, that money is credited to the plan fund as a whole, rather than to you as an individual. It is the total contributions paid by all participating employers for all members that pay for the pension offered under the plan. Your individual benefit is only a part of the total benefit payable from the pension plan.

It is important to realize the connection between the total contributions being paid to the plan fund and the total benefit offered. It is incorrect to view the contributions paid to the pension plan for your employment as a savings account because your benefit is based on a formula, not on the contributions being paid to the pension plan fund.

Further, every year that you are a member of the pension plan, you will be issued a Pension Adjustment (PA) for your income tax return. The PA will reduce the amount of eligible RRSP contributions you can make, however, this still does not mean you should view your pension plan as being similar to a savings account. As a member of a pension plan, you are issued a PA to reflect the fact that you are earning tax deferred retirement benefits.

What happens if I am collecting a pension and I go back to work?

Your pension plan will have rules regarding pensioner re-employment. For some plans, you may have your monthly pension suspended while you are re-employed. During this period of suspension, you will earn additional benefits based on your period of re-employment. When you decide to start collecting your pension again, the amount you will receive will be adjusted to reflect the additional hours you worked, your revised age, and the pension you had already accumulated.

In other pension plans, you will not be permitted to re-join the plan. Instead, you will continue to receive your monthly pension as well as your paycheck. Even though you are not earning an additional benefit, the participating employer will likely be required to pay the negotiated contribution rate to the pension fund because your work is covered by the collective agreement. The contributions received are added to the general funds available to pay everyone's benefit.

Please be aware that the *Income Tax Act* of Canada will not permit you to earn an additional pension benefit while you are receiving a pension from that same plan.

Why isn't my plan like a savings account – couldn't I earn a greater benefit?

The Board has hired the services of fund managers and investment professionals who make a career out of advising pension plan sponsors. These professional advisors assist the plan in obtaining a positive rate of return on investment that can boost the level of pension provided under the pension plan. By purchasing the expertise on behalf of all plan members, the Board can most likely get a better deal than an individual could get. Additionally, the pension you earn is backstopped by the plan fund and cannot be reduced except in rare situations.

There is no certainty that you would be able to earn a greater benefit if your plan were set up like a savings account. Under this type of pension scheme, also called a defined contribution pension plan, the individual benefit earned per member is the sum of the contributions with interest, minus any expenses charged to the savings account. You bear all investment losses and there is no guaranteed level of benefit you will receive. Also, this type of pension does not necessarily pay a guaranteed specific monthly pension – it can fluctuate from year to year.

Conclusion

Your pension plan provides you a defined benefit according to what the Board of Trustees determines using its judgment about what the plan can afford, taking into account plan demographics, negotiated contribution rates, and investment returns.

If you have any questions about your pension plan, please contact the administrator of your plan.