

# When Life Throws You a Curve: Protecting Your Financial Security Against Unexpected Loss

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**We C.U.**<sup>™</sup>

**The  
Credit Union**  
For All Government Employees  
Ontario Civil Service Credit Union Ltd.

2012

# Ontario Civil Service Credit Union

- A financial co-operative owned by its members
- Established in 1945
- Full-service banking
- Approximately 18,000 members across Ontario
- Government employees, current and retired, and their family members

# Learning objectives

- Assessing and preserving cash flow
- Debt and asset management for security and liquidity
- OPS employment surplus options
- Employment Insurance
- OPS pension plans – income and lump sum options
- Canada Pension Plan and Old Age Security

# Managing Financial Security

# Assessing your financial position

- Cash flow
  - Income minus expenses
  - Positive / negative (surplus / deficit)
  - Reliability
  - The “engine” which drives net worth
  - Plan and control using a budget
- Net worth
  - Assets minus liabilities
  - Positive / negative
  - Liquidity
  - Flat, growing or declining
  - Driven by cash flow

# Cash flow - income

- Assess availability and timing of income sources
- Prioritize based on availability, cost, and impact on future plans
- If leaving OPS with no immediate pension or pension bridging income
  - Pay-in-lieu
  - Termination payments (i.e., severance, vacation pay)
  - Employment Insurance
  - Withdrawals from savings (e.g., savings accounts, money market funds)
  - Borrowing (e.g., line of credit)
- If retiring
  - Pay-in-lieu
  - Termination payments (i.e., severance, vacation pay)
  - OPS pension
  - CPP
  - OAS
  - Withdrawals from savings

# Cash flow - expenses

- Non-discretionary
- Required for basic needs
- Low level of control

- Food
- Clothing
- Transportation
- Personal spending
- Mortgage / rent
- Utilities
- Insurance
- Income tax

**Basic**

- Discretionary
- Desired for enjoyment
- High level of control

- Food
- Clothing
- Transportation
- Personal spending
- Cell phone / internet
- Travel
- Cottage / vacation property
- Gifts
- Entertainment
- Hobbies
- Savings

**Extra**

# 8 ways to cut your spending \*

1. **Do it yourself** – Stop paying others to do things you can do yourself.
2. **Eat out less** – Commit to cooking more at home.
3. **Shop smarter** – Shop with a list so you won't buy something you don't really need. Look for weekly specials at the grocery store, sales on big items and discounts for services.
4. **Use less energy** – Spend less on heating and cooling your home. For example, don't leave lights on when you're not using them. Use less heat or air conditioning if you're away from home or sleeping.
5. **Use your car less** – Save money on gas by walking more. Use a bicycle or take public transit if it's cheaper than driving your car.
6. **Find cheaper alternatives** – Rent movies instead of seeing them in the theatre. Spend less on your cell phone by getting a cheaper package or talking less.
7. **Pay cash** – It may seem easier to use a payment plan that allows you to make small monthly payments. But if there's interest on those payments, they'll cost you more over time.
8. **Borrow smarter** – You'll pay a high rate of interest to borrow money on your credit card. Instead, try to get a cheaper loan that will leave you with lower monthly payments overall.

\* From *GetSmarterAboutMoney.ca*



# Net worth - assets

- High liquidity
- Easily convertible to cash AND no significant cost to access
- Intended for short-term goals
  - Savings accounts
  - Canada / Ontario Savings Bonds
  - Money market funds
  - Fixed income investment funds
  - Short-term / redeemable GICs
  - Life insurance dividends
- Preferred income tax arrangement
  - TFSA
  - Open / non-registered
- Low liquidity
- Not easily convertible to cash OR may incur significant costs to access
- Intended for long-term goals
  - Real property
  - Long-term, non-redeemable GICs
  - Equity investment funds
  - Market-traded securities
  - Life insurance cash value
- Potential income tax on withdrawal
  - RRSP / LIRA / LIF / LRIF
  - Significant capital gains

# Net worth - liabilities

- Fixed credit
- Cannot re-borrow amounts paid without renegotiating
  - Mortgage
  - Personal loans
  - Vehicle loans
- Revolving credit
- Can re-borrow amounts paid
  - Secured line of credit
  - Unsecured line of credit
  - Credit cards
  - Overdraft

- Debt consolidation
  - Combine several debts into one
  - Reduce interest expense
  - Reduce total payments toward debt
  - Increase cash flow upon payout
  - Increase net worth more quickly

	Rate	Balance	Min. payment
VISA	12%	\$3,000	\$90
MasterCard	19%	\$2,000	\$60
Line of credit	10%	\$5,000	\$150
<b>Balance after 3 years: \$10,000</b>			
Consolidation loan	6.15%	\$10,000	\$300
<b>Balance after 3 years: \$0</b>			

# Net worth – managing savings and debts

- Create an emergency fund
- Reduce or suspend contributions to savings
- Assess need for withdrawals from savings
- Seek liquidity and predictability
- Use low-interest savings to reduce high-interest debt
- Seek lower interest rates
- Exercise borrowing options while salary continuance is in effect
- Prioritize extra debt payments - high-interest to low-interest

# Employment Surplus – OPSEU Employees

# Surplus pre-notice

- Notice period: 6 months prior to date of surplus
- **Option 1: Leave OPS**
  - Pay-in-lieu of notice - lump-sum OR salary plus insured benefits (no STSP / LTIP)
  - Employee may have option to remain at work for part or all of notice period; pay-in-lieu is pro-rated
  - Legislated severance + enhanced severance
- **Option 2: Stay in OPS, apply for redeployment**
  - Default selection if employee does not send completed election form
  - Direct assignment / “Bump”
  - If no assignment is available within 6 months – pay-in-lieu provisions apply
- **Option 3: Retire, receive immediate pension**
  - Must be eligible for an EURD\* before end of notice period (factor 60/20, factor 90, age 65)
  - Pay-in-lieu of notice
  - Legislated severance
- EURD = Early Unreduced Retirement Date

# Pension bridging

- For employees interested in Surplus Option 3: Retirement
- Employee has not reached EURD by end of notice period
- Pension credits continue to accrue between date of surplus notice and EURD
- Bridging period may include:
  - Surplus notice period
  - Paid leave of absence - covered by severance, vacation, COC & time-banked credits
  - Unpaid leave of absence of up to 2 years
- Must qualify for an unreduced pension at end of bridging period
- Employee pension contributions
  - Surplus notice period: Deducted from pay-in-lieu
  - Paid leave of absence: Deducted from severance payments
  - Unpaid leave of absence: Employee may arrange for deductions from severance payments

# Termination payments

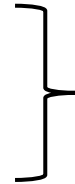
- Pay-in-lieu
  - 6 months' pay less amount for work during notice period
- Legislated severance
  - 1 week's pay for each year of continuous service, maximum 26 weeks
- Enhanced severance
  - 1 week's pay for each year of continuous service, no maximum
- Payable earned unused vacation credits
  - Current (pro-rated) and prior year's unused vacation credits at current salary rate
- Credits not eligible for payout
  - Approved excess vacation carry-over
- All termination payments are taxable

# Termination payments – income tax

- Legislated and enhanced severance

- Lump-sum withholding tax:

\$0 to \$5,000.00	10%
\$5,000.01 to \$15,000.00	20%
\$15,000.01 +	30%



**Withholding amounts may not reflect actual income tax payable**

- Pay-in-lieu / vacation

- Per payroll withholding rates
  - Withholding rate based on expected taxable income payments for year

- Deferral option

- Severance / vacation
  - May elect to receive any portion of payment in year following calendar year in which payment would normally be received
  - May reduce income tax payable



# Termination payments – transfer to RRSP

- Transfer termination payments directly to a Registered Retirement Savings Plan (RRSP)
- Amounts transferred incur no withholding tax and are not taxable until withdrawn from RRSP
- Personal unused RRSP deduction limit
  - Indicated on income tax assessment provided by Canada Revenue Agency; based on:
    - prior year's earned income
    - unused contribution room carried forward from previous years
    - pension adjustment
  - Allows for transfer to employee's RRSP or a spousal RRSP
- Retirement allowance transfer limit
  - Specified by employer on termination payment options documents, based on:
    - \$2,000 per year or partial year of service prior to 1996 PLUS
    - \$1,500 per year or partial year of service prior to 1989 for years not included in pension credit
  - Allows for transfer to employee's RRSP only
- Deferral option
  - May allow for greater transfer amount

# Employment Insurance (EI)

- Contributions from earned income
- EI Regular Benefits - Loss of employment (involuntary / not-at-fault)
- Must apply at Service Canada
- Record of Employment (ROE)
  - Issued by employer
  - Required for claim
  - Apply immediately; DO NOT wait for ROE
- Qualifying period
  - Lesser of 52-week period prior to start of claim OR period since previous claim
  - Minimum 400 – 700 hours worked depending on location (e.g., Toronto = 595 hours)
  - Requirement may be adjusted based on # of hours worked in previous 52-week period
- Waiting period
  - 2 weeks from loss of employment and employment income
  - Extended based on period covered by termination payments

# Employment Insurance (EI) - continued

- Benefit amount
    - Basic rate = 55% of average insurable weekly earnings
    - Maximum annual insurable earnings: \$45,900
    - Maximum weekly EI Regular Benefit: \$485
- } 2012
- Timing and duration
    - Not available until period covered by termination payments
    - Not available if immediate pension is elected
    - Up to 45 weeks depending on location and # of qualifying hours (e.g., Toronto = 42 weeks)
    - May be reduced or terminated if claimant receives earned income
  - Reporting
    - While on claim, must send EI Report bi-weekly to Service Canada indicating:
      - Absences from Canada
      - Attendance at school or training
      - Earnings
      - Availability and willingness to work
      - Job status
      - Monies received other than those already reported

# Pension Plans

# OPSEU Pension Plan

- Administered by OPSEU Pension Trust (OPT)
- Unreduced pension =  $2\% \times (a \times b) - (c \times d)$ 
  - a** = your best consecutive 60 months' average annual salary
  - b** = your credit (years of pensionable service)
  - c** = At age 65: reduction for CPP Integration =  $0.655\% \times$  the LESSER of:  
your best consecutive 60 months' average annual salary  
AND  
final five-year average Yearly Maximum Pensionable Earnings (YMPE; \$50,100 in 2012)
  - d** = your credit after 1965 (to a maximum of 35 years)
- Taxable, indexed to inflation
- Insured health and dental benefits

# OPSEU Pension Plan – income options

- Unreduced pension
  - Age 65
  - Factor 90:  $\text{age} + \text{pensionable service} = 90+$
  - Factor 60/20:  $\text{age} = 60+$  AND  $\text{pensionable service} = 20+$
- Reduced pension
  - Age 55 +, no factor at termination
  - Reduced by 5% per year between retirement date and 65th birthday
- Deferred pension
  - Age 55 +, no factor at termination
  - May receive reduced pension starting as early as age 55
  - May receive unreduced pension at age 65
  - Pension based on credited service as of termination date
- Grow-in option (permanent layoff)
  - Age 55 +, no factor at termination
  - Unreduced pension at pre-65 EURD

} Early retirement

# OPSEU Pension Plan – grow-in option

- Introduced in Ontario Pension Benefits Act, July 2012
- For employees who are laid off permanently
- No unreduced pension factor at termination
- Employee would have reached a pre-age 65 EURD (factor 60/20, factor 90) if not laid off
- Employee eligible to receive an unreduced pension as of EURD
- 55-point test
  - Age plus pension credit OR
  - Age plus continuous service date OR
  - Pensionable service
- Pension based on credited service as of termination date
- Option may be withdrawn by July 1, 2013

# OPSEU Pension Plan – leaving the plan

- Transfer to another pension
  - May be facilitated per transfer agreement between plans
  - Benefits and actuarial value of credits may vary between plans
  - Excess amounts – transfer to a Locked-In Retirement Account (LIRA)
  - If no transfer agreement – may transfer to LIRA, then use LIRA assets to purchase credit in new plan
- Commuted value transfer
  - Under age 55, no factor at termination
  - Transfer commuted value of pension credits to a LIRA
  - Possible refund of excess contributions – taxable; may transfer to RRSP within contribution limits
  - Employee forfeits rights to any plan benefits
- Key considerations for commuted value transfers
  - Health / life-expectancy
  - Pension income and guarantees vs. LIRA investment required returns and risks
  - Risk tolerance / comfort level re investing
  - Other pensions and income sources in retirement
  - Liquidity



# Canada Pension Plan (CPP)

- CPP Retirement Pension
- Taxable, indexed to inflation
- Income based on average contribution level while working
- Can apply to start receiving income starting at age 60
- Maximum age-65 monthly benefit = \$986.67 (2012)
- Adjusted if starting month is before or after month of 65th birthday (max. at age 70)
- Child rearing & low earnings drop out provisions
- No work-cessation requirement
- Post-Retirement Benefit

## CPP Retirement Pension adjustment per month

<u>Starting CPP in</u>	<u>Before age 65</u>	<u>After age 65</u>
2012	- 0.52%	+ 0.64%
2013	- 0.54%	+ 0.70%
2014	- 0.56%	+ 0.70%
2015	- 0.58%	+ 0.70%
2016 +	- 0.60%	+ 0.70%

# Old Age Security (OAS)

- Taxable, indexed to inflation
- Income based on residence in Canada from age 18 (40 years = 100% eligibility; pro-rated)
- Can apply to start receiving income starting at age 65
- Maximum monthly benefit (Oct – Dec 2012) = \$544.98
- OAS Repayment
  - Based on all non-OAS sources of taxable income
  - Repayment = 15% of income over \$69,562 (2012)
  - Repayment = 100% if income over \$113,160 (Oct – Dec 2012)
  - Following year's OAS pension pro-rated based on reduction; may apply to reinstate
- Additional benefits for low-income individuals and couples
- Proposed changes
  - Increase eligibility age from 65 to 67
  - Voluntary deferral – up to 5 years, +0.6% per month
  - Proactive enrolment

# Putting It All Together

# Key strategies

- Focus on what you control
- Keep your options open
- Assess your needs and resources
- Balance short-term and long-term needs
- Seek professional advice
- Make informed decisions

# Make informed decisions

- Professional resources
  - OPS Pay & Benefits
  - OPSEU Pension Trust / Ontario Pension Board
  - Financial planner (CFP Professional)
  - Accountant, lawyer
- Government, regulatory and consumer resources

For information on...	Source	Link
EI, CPP, OAS	Service Canada	<a href="http://servicecanada.gc.ca">servicecanada.gc.ca</a>
Locked-in plans, insurance policies, insurance advisor registry	Financial Services Commission of Ontario	<a href="http://fSCO.gov.on.ca">fSCO.gov.on.ca</a>
Investor resources, investment advisor registry	Ontario Securities Commission	<a href="http://osc.gov.on.ca">osc.gov.on.ca</a>
Financial planning, CFP Professional registry	Financial Planning Standards Council	<a href="http://fpSC.ca">fpSC.ca</a>
Debt and credit management	Credit Canada	<a href="http://creditcanada.com">creditcanada.com</a>
Financial advice, tools and calculators	Investor Education Fund	<a href="http://getsmarteraboutmoney.ca">getsmarteraboutmoney.ca</a>
	Go Figure	<a href="http://mycreditunion.ca">mycreditunion.ca</a>

# For more information

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