



Coming soon...

Enhanced benefits under the Bank of Canada Pension Plan

Retirees/survivors

June 2002

The Board of Directors of the Bank of Canada has approved, in principle, increases to pension and survivor benefits effective 1 July 2002. At this time, some of the changes still require confirmation from the appropriate government authorities. As a result, the measures will not be final until later this year. More communication will follow this summer.

Why pensions are improving

Last spring, the Pension Review Working Group and Steering Committee began a study of the pension plan and long-service benefits at the Bank. An important first step was a round of focus groups with employees and pensioners.

During the employee focus groups, participants with long service said the current pension plan met their needs, but participants with short service called for more control and flexibility. Meanwhile, in both employee and retiree focus groups, participants wondered if there couldn't be something done to boost pensions under the current plan.

The approach approved by the Board responds to each of the groups. The Bank will increase pension benefits for active and retired plan members, as well as introduce a new defined contribution option and Group Retirement Savings Plan for current and future employees.

The improvements

Effective 1 July 2002, the current pension plan will be improved by:

- increasing the lifetime pension (the amount payable from retirement to death); and

- improving the benefits for eligible survivors of employees who left the Bank with a deferred pension, retired from the Bank or died before 1987.

Increased lifetime pension

An increased lifetime pension will benefit most current retirees age 65 or older immediately and eventually other plan members when they reach that age.

The pension formula is the key to calculating all plan benefits. For service after 1965, it determines your pension in two parts:

- the lifetime pension (payable from retirement to death); and
- the bridge pension (payable from retirement to age 65).

Effective 1 July 2002, the lifetime pension will be increased from 1.3% to 1.5% of the member's average salary up to the average YMPE* for each year of credited service after 1965**.

* YMPE stands for Year's Maximum Pensionable Earnings, an amount the government sets each year and uses to determine contributions to and benefits from the Canada/Québec Pension Plan. The average YMPE is the average of the YMPE in the year you retired or died, or your employment terminated, and the two or four preceding years (depending on when the event occurred).

** The C/QPP was introduced in 1966. The Bank lifetime pension since that time has been 1.3 per cent of the portion of average earnings up to the average YMPE per year of credited service, and is now increasing it to 1.5 per cent. However, for service before 1966, the lifetime pension is two per cent of average earnings per year of credited service. Therefore, the improvement mentioned above does not apply for service under the Bank's plan before 1966.

Here are two examples of how the new pension formula works. The enclosed *Frequently Asked Questions* document provides more information on the pension formula, and future communication will include more examples.

All pensions from the plan are indexed for increases in the Consumer Price Index. To simplify the examples, the figures in this bulletin do not account for the indexing factor.

In 2001, Maria retired at age 60 with 35 years of credited service. Her average salary was \$50,000. The average YMPE was \$37,200. In her case, the annual improvement in the pension benefit from age 65 is \$2,604.

Before 1 July 2002	From 1 July 2002
Maria's annual lifetime pension from the Bank's plan	
$[[1.3\% \times \$37,200] + [2\% \times (\$50,000 - \$37,200)]] \times 35 = \$25,886$	$[[1.5\% \times \$37,200] + [2\% \times (\$50,000 - \$37,200)]] \times 35 = \$28,490$
Maria's annual bridge pension from the Bank's plan	
$0.7\% \times \$37,200 \times 35 = \$9,114$	$0.5\% \times \$37,200 \times 35 = \$6,510$
Maria's annual Bank pension until age 65	
$\$25,886 + \$9,114 = \$35,000$	$\$28,490 + \$6,510 = \$35,000$
Maria's annual Bank pension from age 65 when the bridge is no longer paid	
\$25,886	\$28,490

In 2001, Kieran retired at age 55 with 30 years of credited service. His average salary was \$30,000, which was below the average YMPE of \$37,200. In his case, the annual improvement in the pension benefit from age 65 is \$1,800.

Before 1 July 2002	From 1 July 2002
Kieran's annual lifetime pension from the Bank's plan	
$[1.3\% \times \$30,000] \times 30 = \$11,700$	$[1.5\% \times \$30,000] \times 30 = \$13,500$
Kieran's annual bridge pension from the Bank's plan	
$0.7\% \times \$30,000 \times 30 = \$6,300$	$0.5\% \times \$30,000 \times 30 = \$4,500$
Kieran's annual Bank pension until age 65	
$\$11,700 + \$6,300 = \$18,000$	$\$13,500 + \$4,500 = \$18,000$
Kieran's annual Bank pension from age 65 when the bridge is no longer paid	
\$11,700	\$13,500

As the examples illustrate, before age 65, with the lifetime and bridge portions taken together, the old and new benefit formulas are equal, providing a two per cent benefit for your earnings for each year of credited service. At age 65, however, when the bridge is no longer paid, the new formula provides an enhanced benefit of 0.2 per cent up to the average YMPE, for each year of credited service. The benefit for your average salary *above* the average YMPE remains at two per cent.

In addition to the Bank pension, benefits are also payable under the Canada/Québec Pension Plan (C/QPP), based on earnings and contributions to the C/QPP during time spent in the workforce. Normally, C/QPP benefits begin at age 65. However, a reduced pension is available as early as age 60.

We're working on the data and system changes to process the new pension amounts. For retirees age 65 or older, the first payment with the higher pension will appear toward the end of 2002 or in early 2003, and the payment will be retroactive to 1 July 2002.

Improved survivor benefits

Because of changes in pension laws over the years, survivor benefits under the plan can vary depending on when your service occurred or when you retired from the Bank.

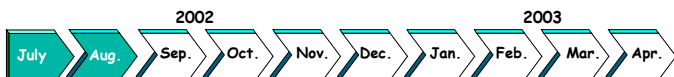
Under current rules, the survivor benefits for eligible spouses of employees who retired from the Bank or died before 1987, is 50 per cent of the member's unreduced pension. Effective 1 July 2002, these eligible spouses will be entitled to a 60 per cent survivor pension.

Bank employees who retired after 1986 and those who will retire in the future are not affected since their survivors are already entitled to the maximum amount.

Surviving spouses of employees who retired from the Bank or died before 1987 will start to receive the higher pension toward the end of 2002 or in early 2003 with a lump sum for any retroactive increase since 1 July 2002.

What's next

Over the next few months, you'll hear more about the new pension program. Here's what you can expect.



- Detailed information bulletin with examples of the improvements to the pension and survivor benefits to help you more accurately estimate your increased benefit



- For eligible retirees and survivors, first payment and lump sums retroactive to 1 July 2002 to reflect the enhancements

For more information...

This summer, you'll receive detailed communication, with examples, on the increased lifetime pension under the Bank's plan. In the meantime, if you have questions about the Bank of Canada Pension Plan, please call Mercer Human Resource Consulting, our pension administrator, at:

1 888 588-6111

or, in the Toronto area, at 416 868-2965

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