November 2013

Frequently Asked Questions

Ontario Corporate Pension Plan and Vacation Policy

Here are the answers to some of the questions you may have on the upcoming changes to your Pension Plan and Vacation Policy. For more information, please send us an email at pensionquestions@metro.ca.

PENSION PLAN CHANGES

1. What are the changes?

Effective January 1, 2015:

1. You will begin making contributions towards the Pension Plan of 1% of salary up to the YMPE and 2% of salary above the YMPE.
2. The maximum number of years of credited service in relation to the pension formula will increase from 33 1/3 years to 35 years.

Effective January 1, 2017:

1. (a) The age as of which you may receive an unreduced pension will increase from age 63 to age 65.
   (b) The current 4% per year reduction will now apply if you retire before age 65, rather than 63.
2. The current normal form of pension, which varies according to your marital status at retirement, will change to a lifetime pension with a 10-year guarantee for all members. You will continue to have other choices of pension payments upon retirement.

- ✓ YMPE, or Year's Maximum Pensionable Earnings, is the maximum amount on which employers and employees contribute to the Canada Pension Plan.
- ✓ It is adjusted annually by the Government.
- ✓ The YMPE for 2013 is $51,100.

The most important thing to remember about these changes is that they **affect future service only,** from the effective date of January 1, 2015 or January 1, 2017 onward. This means that the pension related to all service up to the effective date of the changes will continue to be administered based on the current rules. This applies to current employees.

The new Pension Plan rules will apply to employees hired on November 18, 2013 or after, on all their credited service. This means you will start contributing to the plan as you enroll and that all your credited service will be administered under the new plan rules.

2. When are the changes effective?

The changes to your pension plan will take effect in two phases: the first two changes (regarding your contributions to the plan and credited service maximum in the formula) take effect on January 1, 2015; the other two pension changes (regarding the earliest age you may receive an unreduced pension and the normal form of pension payment at retirement) take effect on January 1, 2017.

However, for employees hired on November 18, 2013 or after, all the changes above will immediately apply. This means you will start contributing to the plan as you enroll and that all your credited service will be administered under the new plan rules.

3. What do I need to do?

You do not need to take any action as a result of these changes. However, you are encouraged to read the relevant material about the changes so you can learn and understand how the changes might impact you. And as always when it comes to retirement, you are encouraged to speak to a financial advisor to assist in your retirement planning.

4. What is a defined benefit plan?

A defined benefit (DB) pension plan is one in which the pension income at retirement is calculated using a set formula, which typically factors in age, salary and years of service and which is payable for the life of the employee. The employer is responsible for providing the DB pension according to the formula, thereby providing employees with predictable retirement income. In other words, the employer must ensure that there are sufficient funds to pay the plan members' pensions.

An increasing number of DB plans require contributions from the employees. Both employee and employer contributions are invested in the pension fund, a trust fund, and serve to fund the benefits provided by the plan.

In a DB plan, the employer is responsible for managing the money in the DB pension fund and making prudent investment decisions.

5. What is a defined contribution pension plan?

A defined contribution (DC) pension plan is one in which retirement income is based on a contribution formula and investment earnings from those contributions. DC plans typically provide for employer contributions as a counterpart to employee contributions. The income received at retirement is based on the amount of money accumulated in the plan member's DC retirement account, which depends on how much was contributed, how long the money was invested, and the amount of investment returns, less plan fees and expenses.

In a DC plan, plan members are responsible for managing the funds in their DC retirement account and determining how the money in the account should be invested to produce the desired retirement income.

6. Why are we not changing to a DC plan?

Metro needed to make changes to the Pension Plan for several reasons, including controlling costs and ensuring sustainability of the plan for future years. But throughout this process, Metro also wanted to make sure the impact of any plan changes on each of you would be as limited as possible.

Going to a DC plan would have required our employees to make their own investment choices, and to take the related risks – both upside and downside. It would also have required our employees to manage the risk of outliving their retirement account. Because of the magnitude of the change it represents, Metro looked at how the current plan could be modified to meet its objectives.

After weighing several options, it was concluded that adjusting our current DB plan achieves the best balance between controlling costs while minimizing the impact on employees.

7. **How does our pension plan compare to others offered in our industry?**
According to information we have gathered, Metro's pension plan compares favourably to those offered by our competitors. Generally speaking, our competitors offer defined contribution plans to their management and support employees. The employer's contribution paid by our competitors to their employees' DC accounts is less than the Metro-paid portion of our pension plan costs. Moreover, with respect to our two main competitors, we understand that employees have to contribute between 5% and 6% of their salary to get the maximum employer contribution, which is significantly more than what you have to pay.

8. **How will these changes affect my RRSP contribution room?**
Your RRSP contribution room will not be affected.

9. **How do the changes affect the Pension Adjustment?**
Your Pension Adjustment, which reduces your RRSP contribution room, will not be affected because the DB pension benefit formula is not changing. Furthermore, employee contributions in a DB plan do not affect the calculation of the Pension Adjustment.

10. **How is the tax deduction applied to my contributions?**
Your contributions will be withheld from your pay each pay period and affect the amount of income on which you are taxed. Because you are receiving less in pay each week due to the withheld contributions, the amount on which you are taxed decreases.

For example, if your salary is $40,000, typically you would make an annual contribution to the Pension Plan of $400 (1% of salary up to the YMPE), that is, a before-tax weekly contribution of $7.69. However, because pension contributions are tax-deductible, your net weekly pay will decrease by only $5.96. The table below summarizes the calculations of our example:

	Without Contributions	**With Contributions**
Weekly salary	$769.23	$769.23
Contribution to pension plan (1%)	N/A	$7.69
Taxable income	$769.23	$761.54
Income Tax (assuming rate of 22.5%)	$173.08	$171.35
Net weekly pay	$596.15	$590.19
Difference		-$5.96

11. **What is a normal form of pension?**
"Normal form" refers to the automatic form of pension payment you will receive when you retire.

When you are about to retire, you have different options regarding the way in which your pension payment will be made. You can choose options where you will receive your pension and your spouse or estate will also benefit. You can also choose an option where only you will benefit. It all depends on your circumstances and the choices you make.

Depending on the choice you make in relation to your pension payment, we will calculate your pension entitlement differently. For example, if you choose an option where your spouse will continue to receive a portion of your pension after you pass away, your pension payment will be a little less than if you choose a pension payment where no one will continue to receive your pension after you pass away. In this context, the "normal form" refers to the type of calculation we will make to determine your pension entitlement if you don't make another choice.

12. What does 50% Joint & Survivor mean? What does Lifetime 10-year guarantee period mean? Are there any other forms of payment available?

A 50% Joint & Survivor form means that your spouse will continue to receive, for as long as he/she lives, 50% of your pension upon your death. As an example, if you retire with a pension of $1,000 a month, you will receive $1,000 a month for as long as you live. Upon your death, if your spouse survives you, he or she will receive $500 a month for as long as he or she lives.

A lifetime pension with a 10-year guarantee means that you will receive monthly pension payments for your lifetime. However, if you pass away before the end of the 10-year guarantee period, the remaining payments for the rest of that period are paid to your beneficiary or estate. If you pass away after the end of the 10-year guarantee period, your pension will stop upon your death. As an example, if you retire on January 1, 2020 with a pension of $1,000 a month, and pass away on January 1, 2027, 7 years after you retired, your beneficiary or estate will receive the remaining 3 years of payment.

There are several other forms of payment available, such as:

- A life only pension (where monthly pension payments are made for the member's lifetime);
- Lifetime pension forms with other guarantee periods (5 or 15 years); and
- Other Joint & Survivor forms with different percentages continuing to your spouse upon your death (60%, 66 2/3%, 75%, 100%);

The monthly amount of pension provided under these various options are adjusted to be actuarially equivalent to the monthly amount of pension provided by the plan under the normal form. So, when you choose an alternative form of pension that offers enhanced benefits compared to the normal form, the monthly amount will be reduced to reflect the value of any applicable guarantees or spousal benefits.

After the changes to the pension plan are implemented, a portion of your total pension is calculated using the 50% Joint & Survivor form (or the Life only form if you do not have a spouse), which is the current normal form under the Plan. The other portion of your pension will be calculated using the Lifetime with 10-year guarantee form, which is the new normal form from January 1, 2017. Note: this does not apply to an employee hired on or after November 18, 2013.

Provincial pension regulations and the Income Tax Act may limit the range of options that are available to a plan member depending on his or her circumstances. The available options will be described in more details in the revised pension booklet that will be available in early 2014.

13. Is the plan adequately funded?

Yes. As with all DB plans, your pension is paid from a pension fund in which money has been specifically set aside as required by provincial and federal pension rules. It is the responsibility of Metro to ensure prudent management of the fund and it is solely responsible for ensuring the pension fund has enough money to pay out all promised pensions according to the plan formula. In addition to the regular contributions, Metro makes special contributions, as required, to make sure this is the case.

14. Is the pension formula changing?

The pension formula is currently the following:

1.6% of your Final Average Earnings less 1.5% of the Canada Pension Plan (CPP) benefit
multiplied by
your credited service to a maximum of 33 1/3 years.

The only change made to the formula is to increase the maximum number of years of credited service to 35 years starting in 2015, with the impact of increasing the pension of employees that will continue to work for the Company beyond 33 1/3 years of credited service.

Please refer to your pension booklet or to your most recent annual statement for more detail on the pension payable at age 65.

15. Is there a date at which I should retire to minimize the impact for me?

Unless you have reached the maximum number of years of service that can be credited under the plan, every year during which you participate in the plan, you earn an additional year of credited service which increases your retirement income. As your salary increases, you also enhance your retirement income.

The changes made to the early retirement rules may require a review of your planned retirement date, but are unlikely to require significant changes if your are approaching retirement.

The choice of a retirement date is a personal matter. You are encouraged to speak to a financial advisor to assist in your retirement planning.

16. What is the impact of the changes on my pension?

The changes made to the pension plan will have different impacts depending on the number of years of credited service you have at the effective date of the changes and how close you are to retirement. To help you assess the impact of the changes on you, we have prepared a few examples. All calculations were prepared in 2013 dollars.

- **I was planning to retire in two years**
  Since you will retire before January 1, 2017, the announced changes will have <u>no impact</u> on your pension.

- **I was planning to retire in five to ten years**
  Let's assume you want to retire on January 1, 2021 – a little more than seven years from now. Let's also assume that your final average earnings will be $55,000 and that you will be age 64 at the time.

  In that case, the impact will be greater, in relative terms, if you have been in the Plan for only a short period of time. For example, if you have been a Plan member since January 1, 1993, 4 years out of your 28 years of credited service will be administered under the new plan rules. Your annual pension will be $19,247 instead of $19,537 (1% less).

If, instead, you recently joined the Company and enrolled in the Plan on January 1, 2013, 4 years out of your 8 years of credited service will be administered under the new plan rules. Your annual pension will be $5,292 instead of $5,582 (5% less).

In both cases, you would need to work approximately 4 months longer to eliminate the impact of the reduction.

- **I have been with the Company for a while, but I am not close to retirement**
  Let's assume you have been in the Plan since January 1, 2004 and will not retire for another 20 years. If we also assume that you will therefore retire on January 1, 2034 at age 64 with final average earnings of $55,000, 17 years out of your 30 years of credited service will be administered under the new plan rules. Your annual pension will be $19,700 instead of $20,933 (6% less).

- **I expect to work until age 65**
  Since an unreduced pension is payable at age 65, the announced changes will have no impact on your pension as far as early retirement rules are concerned. However, your pension may increase because the maximum number of years of credited service is increased from 33.3 years to 35 years starting in 2015.

- **I just joined the Company and I have not yet enrolled in the plan**
  If you were hired before November 18, 2013, you will start contributing to the pension plan as of January 2015 and the new pension plan rules will apply on your credited service accruing from January 1, 2017. If you were hired on or after November 18, 2013, the new pension plan rules will apply to all your credited service in the plan.

Note: All pension amounts are annual amounts, expressed in 2013 dollars and based on a 50% Joint&Survivor payment form.

VACATION POLICY CHANGES

17. What are the changes?

Effective May 1, 2014, the Vacation Policy will be enhanced as follows:

Vacation entitlement	Years of service required	
	Current Vacation Policy	Enhanced Vacation Policy
3 weeks	5 years	1 year
4 weeks	9 years	3 years
5 weeks	16 years	8 years
6 weeks	23 years	17 years

This means that if you are eligible to additional vacation under the enhanced policy, you will start accruing the necessary entitlement as of May 1, 2014 and will then be entitled to schedule any additional vacation as of **January 1, 2015.**

As of the implementation of the enhanced vacation policy, a majority of employees will be entitled to one additional week of vacation in 2015 compared to what would be provided under the current policy.

18. When are the changes taking place?

The enhanced vacation policy takes effect with the accrual year commencing May 1, 2014, and if you are eligible, you can schedule additional vacation weeks commencing January 1, 2015.

19. How do I know if I am eligible to receive an enhancement to my vacation?

Your entitlement is based on your vacation eligibility date, which is listed on your department's vacation calendar.

20. When will the additional week of vacation be listed on the department vacation calendar?

The new vacation policy entitlements will appear on the vacation calendars to be issued by February 2015.

21. When can the additional vacation time be taken?

Employees may take their eligible vacation time during a calendar year. However, vacation is earned from May 1, 2014 to April 30, 2015 (reference period). As a result, employees may not be eligible to take **all** of their weeks of vacation before May 1 in a given year if they have not completed the full reference period.

22. How does this change affect my future vacation entitlement?

An employee's eligibility for vacation will be aligned with the enhanced vacation policy. Once employees reach a specific service requirement, their vacation weeks will increase accordingly.

23. Will this change have any impact on my pension?

No, the change to the vacation policy has no impact on your pension entitlement, because your vacation time is counted as credited service under the pension plan.