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Financial Focus

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Bill 43

By Clinton Orr

Over the last few months, I have had numerous conversations with folks about Bill 43. Understandably there are lots of questions about this legislation, as it could have a significant impact on someone's retirement plan.

For starters, what is Bill 43? It is a proposed amendment to the Civil Service Superannuation Act. The Civil Service Superannuation Board of Manitoba (CSSB) is in favour of the amendment. Bill 43 has received second reading in the Manitoba legislature and has passed through the committee stage. The house is currently not sitting; however, many folks expect the bill will receive third reading and royal assent when the house resumes sitting this Fall.

CSSB, amongst other duties, manages the Civil Service Superannuation Fund. In short, they handle the pension for provincial employees. Employees at Manitoba Hydro, the Liquor, Gaming and Cannabis Authority, any employee of the province will have a pension with CSSB.

Bill 43 proposes several changes. For someone taking maternity or paternal leave, Bill 43 will extend the timeline you have to decide whether or not to contribute to the plan during their time away from work. Bill 43 also proposes for employee representatives to be appointed to the board. The big change, however, is an adjustment in the calculation of pension commuted values.

If you have a defined pension plan when you retire you can choose to receive a monthly income, essentially a pension cheque for the rest of your life, or you can elect to receive the commuted value as a lump sum payment. For example, you might receive a monthly income of $4,500 for life, or a lump sum of 1.3 million, the lump sum will have two components. A portion that will be locked in, for the above example that would be roughly $640,000, and an excess portion, approximately $660,000 in our example. How to determine whether the monthly payment or lump sum is best for you is a topic for another day. The big change is that Bill 43 will reduce the lump sum payment.

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The monthly income will remain the same, but the commuted value could be significantly lower.
We will skip the details of how a commuted value is calculated but will say that it is based on interest rates. The lower the rate, the higher the commuted value. In a period of record low interest rates, commuted values have significantly increased. According to the CSSB, the increase in commuted value has been so large, that it is now to the point where some of the recent lump sum payments to retirement age workers have been larger than the amount the worker and the employer paid into the fund. Because of historic low interest rates, folks are pulling out more from the pension than they put in, which creates a loss for the pension fund. According to an actuarial report at December 31, 2019, after adjustments, the pension had a funding ratio of 84.30% and a solvency ratio of 62.20%. Bill 43 will change the rate used to calculate the commuted value, which will reduce the size of the lump sum payments. According to the CSSB website, "A reduction in the lump sum amounts paid out of the plan will have a direct positive impact on the funded status and long-term sustainability of the pension fund".

If you are near retirement and were thinking about taking the commuted value of your pension, you might want to consider retiring prior to Bill 43 being implemented. It is worth talking to your financial advisor and ensuring your retirement plan is up to date and won't be negatively impacted by Bill 43.

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