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Financial Focus

Becker Orr Wealth Management

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Bill 43 Receives Royal Assent

By Clinton Orr

Bill 43 has been a topic of discussion for months now. We went over the details of the bill in one of our columns during the summer. On October 14, 2020 Bill 43, The Civil Service Superannuation Amendment Act, received Royal Assent in the Manitoba legislature. The changes and provisions of the bill became effective immediately.

As a refresher, Bill 43 amends the Civil Service Superannuation Act. The Civil Service Superannuation Board of Manitoba (CSSB) was in favour of the amendment. 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 makes several changes. 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, if you contributed to your pension for several decades, come retirement 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.

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. How to determine whether the monthly income or the lump sum payment is right for you is a conversation for another day, suffice it to say that with large commuted values more and more folks were taking the lump sum payment.

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According to the CSSB, the increase in commuted value has been so large, that it got to the point where some of the recent lump sum payments to retirement age workers were larger than the amount the worker and the employer paid into the fund. Because of historic low interest rates, folks were pulling out more from the pension than they put in, which creates a loss for the pension fund.

The big change in Bill 43 is that it adjusts the rate used to calculate the commuted value. This adjustment will significantly reduce the lump sum payment. The monthly income will remain the same, but the commuted value will be dramatically lower. The impact in the change of lump sum payments varies with age, but according to the CSSB website it is estimated that for workers over the age of 55 with at least 10 years of service the new rate could decrease the commuted value by one third to one half. So, in our example above the monthly income would remain the same, but the 1.3 million lump sum payment could be reduced to $650,000 now that Bill 43 has been implemented. That is a substantial difference.

If you have a pension through CSSB, the implementation of Bill 43 could have an impact on your retirement. 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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