

The B.C. Public Sector Pension Teleconference Call - Transcript

Operator: Good evening, ladies and gentlemen. Thank you for holding. I'd like to introduce Mark Huber, Certified Financial Planner with guest Ken Smith, who is a well known authority on the B.C. Public Sector Pension Plan. Please go ahead.

Mark: Great, thank you, very much. Good evening, everyone. My name is Mark Huber and I welcome each and every one of you listening in to the call tonight. As you've heard, I'm a Certified Financial Planner and I've worked with the financial services industry for over 21 years. But before I introduce my guest this evening, I want to give you some of my reasons for hosting the call. I've long recognized that my role is to partner with individuals to create prosperity and financial peace of mind for them. And so I work proactively to try and bring the most innovative planning tools and strategies and ideas and products, to the attention of my clients on an ongoing basis. And so I've authorized numerous downloadable e-books through my premier website at www.HowToBeSetForLife.com; however, increasingly, I've been getting questions from individuals as, I guess, we're all getting older and more interested in what the future holds or life after work. So I started getting more questions regarding information or analysis of their B.C. Public Sector Pension Plan. And I'm sure as you can all appreciate and recognize, this is a very specialized area of expertise and though I certainly don't claim to have the knowledge or skill necessary to adequately speak to these concerns, I'm still asked to comment and give direction and/or advice which I'm always hesitant to do, of course. So my motto is if you don't have the expertise, find it and hire it. So I pursued a meeting with Ken Smith some years ago and we did a physical seminar together and by "physical" meaning getting a group of people in one room and as I recall, it was a rainy autumn evening. Anyway, he did a great job as he always does. He assisted me then and is assisting me tonight because I thought it was high time to do a teleconference call. And why a teleconference call? Well, because I believe we're all time starved. I know for a fact there are people listening here

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tonight from their home phones, from their office phones and car phones, multi-tasking to be sure. However, it's much easier to communicate and disseminate information this way and I call it "information on demand." Oh, don't forget, we are recording the call so all of you will get a copy of this audio and the transcript of this call within the next few days. So watch out for an email from us notifying you when and where you can download the information. Then you can listen to it again and again on your iPod as you're jogging to or from work, the CD in your car as you're driving the kids to school, you know, et cetera. I really love technology and try and utilize it as much as possible. These are certainly things that weren't around four years ago when we did our original seminar together. So it's with great pleasure that I welcome Ken Smith to tonight's call. For those of you who don't know Ken, he is retired. So I'm extremely fortunate to have called him out of retirement for about an hour tonight. Over the past eight years, Ken Smith has worked for the B.C. Teachers' Federation providing advice and seminars to the membership on their pension entitlements. And during this time, he was also an active member of the Teachers' Pension Advisory Board. Now since leaving the BCTF in 1996, Ken has provided workshops to various groups of members of the Teachers' Pension Plan, the Public Service Pension Plan and the Municipal Pension Plan as well as extensive individual counseling sessions relating to choosing the optimum time to retire, choosing the pension options, purchasing service and other retirement income issues. Ken Smith has a Bachelor of Science degree, secondary teaching certificate, a certificate of employee benefits and is an active member of the Canadian Association of Pre-Retirement Planners and the International Foundation of Employee Benefit Plans. Though retired, Ken is currently a trustee on the Teachers' Pension Board of Trustees, a member of the Teachers' Pension Plan Advisory Committee, a member of the B.C. Teachers' Federation Pension Committee and Chair of the B.C. Retired Teachers' Association Pension and Benefits Committee. Ken Smith is an author of a brand new pension analysis software programme specifically designed for the B.C. Public Sector Pension Plan and I'm sure you'll be hearing more about this amazing piece of software later on in the call. So without further ado, welcome to the call, Ken.

Ken: I think I should take my cape and leap over tall buildings. I'm pleased to be here, Mark and let's see what we can do in terms of helping people out.

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Mark: That's wonderful. Well, with your background and credentials, tonight's call should certainly be just a walk in the park, as it were. Now as you know, we have teachers, we have school employees, hospital employees, firefighters and public service employees on the call with us tonight. Now, of course, though each comes from a different career background, the one thing that unites all of these individuals is that one day they will be eligible for a B.C. Public Sector Pension when they retire. And they are all here this evening because they want to discover things like, "Am I eligible to buy a leave of absence? Should I? I'd like to retire at age 55. Can I afford to? What happens to my pension if I quit work before being old enough to collect? And what pension option is right for me?" and, of course, much, much more. In fact, the decision that one makes on their pension will have a huge financial implication on the rest of their lives. I ran some numbers earlier tonight on a client who we determined would get about \$35,000 a year pension income starting at age 60. And assuming a fully indexed-to-inflation pension, using a two percent factor I ran the numbers to age 90 and could you believe that that person will be getting a total of approximately \$1.4 million of total pension benefits. So I'm extremely pleased to have you here with us tonight, Ken, so that we can all learn about the B.C. Public Sector Pension because as you well know, the decisions that we make today will have far-reaching implications for us now and in retirement. So let's get started with the basics. Ken, over to you.

Ken: Well, thanks, Mark. It's always a little hard to determine where the best place is to start. But one place that I always like to direct people is to the what's called the Member Benefit Statement. This is a couple of sheets of paper that everybody gets once a year. They should have by now gotten one for this year. And that Member Benefit Statement has a lot of very important information on it. And people should, you know, a lot of people get it, fold it, put it in a filing cabinet but they should really review it. There are things in there that will also raise questions. I'm looking of a sample of one right now, and it shows on here how much a person's pension's going to be. It's estimating forward, of course, and-- to different times in their life, like, 55 or 58 or 60 or 65. And 58 by the way, sort of seems like a strange number but what that probably indicates, and I haven't looked too closely, is that that's when the person hits the so-called "90 formula." So at 55 they're not there yet and at 58 they must be there and then 60 and 65 there is no

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reduction for early retirement mainly because at 60 you're no longer early. I wouldn't say you're late but you're not early.

Mark: Ken, could I stop you for just a minute?

Ken: Yes.

Mark: To those of us that are, well, let me consider myself a newbie here, as we would say in the big wide world of the Internet, what does the factor of 90 mean? What does that pertain to and how is that arrived at?

Ken: Okay, well, it's just a number, in effect for-- to put some fire in our group, the factor's 85. But what the pension plan does is it basically calculates what a pension is worth at age 60 and it says "Well, folks, if you're going to take that pension early--" like let's say you want to go out at 55, you know, Freedom 55 and all that, you're going to draw that pension for at least five years longer than you would have if you'd started at age 60. So there is a reduction factor applied to spread the same amount of money over that five-year longer period of time. Now what happened in the early '90s was the 90 formula came along which basically said if your age and your contributory service, and let me come back to that phrase in a moment, if those two numbers add up to 90, then you've got enough service for us to say, "Hey, hurray, folks, but you don't have to wait to 60 to avoid having your pension reduced. We'll pay you your age 60 pension, the higher amount, without any reduction even though you might be retiring at 58." And so it, in effect, you know, everybody that I talk with calls this reduction a penalty where in fact it's actually a bonus. But everybody, you know, "It's money taken off my pension, it's got to be a penalty," but it's not enough to really cover the costs. Now the kind of service that's counted here is called contributory service. And that's a special kind of service. It's not the time you actually worked because you could be working part time, you could be casual, you could be an auxiliary, you could be all sorts of things. But what contributory service is is it says, "Did you make a pension contribution in September?" Doesn't matter if it was 30 days, 20 days or 1 day. If you made a contribution in September, you have a month of contributory service. There's no part months. Pensionable service, now on the other hand is another animal all together. Pensionable service is how they calculate your pension. So if I only worked one day in September, I'd only have one twentieth or whatever of a month of service, of pensionable service. So those are important factors and when we talk about leaves of absence a little later on, I'll bring that

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back up again because it's an important thing to think about.
What else is on this statement?

Mark: Sorry, you were still on the statement, right?

Ken: Yes.

Mark: Yeah, good, okay. Carry on.

Ken: Also on the statement it shows what your reported salary has been. And that's really not a-- it's not really an important item until you're within five years of retirement and if-- but you might want to-- a person might want to check to just make sure that that makes sense. Especially it makes sense in that it's not too low because your pension's based on your best five years and if that's been under reported, that's going to under calculate your pension. And what else have we got here? At the very bottom, is some, what I consider pretty useless information but it's intriguing. In this case it shows what the member of the pension plan has contributed and how much interest that has earned since that person started. In this case it's a \$127, almost \$128,000. I say it's useless because that's not used to calculate the pension. It's just information.

Mark: So something more to confuse people with.

Ken: Yes. Now there's another bit of information on the most recent pension statement that people should look at and that is-- there is now on the Internet, through the Pension Corporation something called "My Account."

Mark: My Account.

Ken: My Account. And that's-- if it was you, Mark, that would be Mark Huber's pension account. You can only get into it with the password. Nobody else can get into it. That password is on your Member's Benefit Statement.

Mark: Oh, the statement, of what everyone gets once a year.

Ken: That's right. So-- and everybody should go in and check it. It's like looking at your statement on an up-to-date basis and it's very useful in calculating forward what your pension might be. You know, "What will it look like when I'm 55 or 60 or 65?" So I encourage people to try it out.

Mark: Now would people take the information from their pension statement, the physical copy, and enter some of that information on the online My Account or is that already populated?

Ken: It's already there.

Mark: Oh, really.

Ken: Yeah, what you're looking at when you go into My Account is you're looking in the computer at what it has on you. So it's got all your salary, all your service, all the holes in your service if

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there are any and it'll take that information and forward calculate a pension for you.

Mark: That's amazing. This is obviously something in recent years?

Ken: Oh, it's very new. It's probably only a year old.

Mark: Oh, is that right?

Ken: Yes.

Mark: Now do we know a URL that we could give out to the listeners as to where they would find this My Account online or--

Ken: Yeah, everybody should have this memorized so they can do it in their sleep like you have, "How To Be Set For Life" memorized. It's just Pensions with an "s" Pensionsbc.ca and when you're in there, you'll see the four different pension plans and you just select the one you want.

Mark: So that, again, is Pensionsbc--

Ken: Pensions with a plural, Pensionsbc no space .ca

Mark: Oh, that's great. What a great reference tool that'll be.

Ken: Yes, it is.

Mark: And now, though, to fully access that information, a person needs to get their code off of their pension statement.

Ken: That's right.

Mark: I see, okay.

Ken: Now if they've lost their statement and they can't find it, they can always phone the Pension Corporation and tell them their sad story and away they go.

Mark: Okay. Did you find the people over at Pensions helpful?

Ken: I find them very good.

Mark: Excellent. So they're a good resource to utilize as well.

Ken: Yes.

Mark: Okay, excellent. Anything else--

Ken: Well, one other basic that I wanted to raise, because it's the kind of question that people raise and I think it may be one of the questions you've already got, but just to cover it off. There is a difference between a full pension or a maximum pension and a non-reduced pension. Some people think that if they hit the magic 85 or the magic 90 that they've got the maximum pension. No, what they have is a pension that will not be reduced for retiring early. To get the maximum pension you've got to have 35 years of service, pensionable service. So I've had people call me up and say, "I'm not going to retire until I'm 62." And I say, "Why is that?" "Because when I'm 62, I'll have the 90 formula." I say, "No, it doesn't matter anymore because you're over 60. The 90 formula's only between 55 and 60." Or if you're fire police between 50 and 55. But to get the maximum

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pension you have to have the 35 years in, which might mean you have to work until you're 69.

Mark: Ouch. I think we just lost all our callers. Okay, so we've covered off the full pension versus a non-reduced pension. What about salary in the calculations?

Ken: I touched on that on the Member Benefit Statement. The salary basically is everything you earn including allowances, et cetera, that are tacked on to it. It's the best five years. And that doesn't necessarily mean it has to be your last five years. And actually the pension people have a very interesting way of calculating your highest average salary. They have two ways, actually. One is they just take the last five years and average it, nice and simple. But then they will look back to a person's history and say, "Oh, seven years ago, they had this higher salary for some reason, higher than all the others." So what they will then do is take out the lowest other salary in the last five years and bring in the new one.

Mark: Oh, really?

Ken: And not only do they just bring in the new one, they say, "But that's like seven years old. So we're going to index that forward to the cost of living to plunk it into the space we've made vacant." So it may be indexed forward two years, three years, four years.

Mark: Well, that's certainly generous of them.

Ken: It's very good.

Mark: Wow.

Ken: So some people worry about, you know, in the last year of, you know, "I want to work part time in my last year but I'll have a low salary and that's going to hurt my pension." It won't because they'll say, "Oops, last year? That last year's too low. Let's go back to let's say year six and we'll index that forward one year and drop it in," and you're laughing.

Mark: And this is done automatically on behalf--

Ken: Automatic, yeah. They do both ways. It's a very generous calculation.

Mark: No kidding. Speaking of the last five years and such, one of the questions that came in to us was from Katherine who writes, "If I choose to reduce my hours to part time within the last five years of my retirement, will it affect my pension greatly if I have not reached my magic number for pension?"

Ken: By magic number she means, have I now reached the 90. Well, what's going to happen to Katherine is, let's assume that she works half time. So instead of having five years of pensionable

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service, she'll have two and a half years of pensionable service. And just to put that into real terms, if Katherine's earning, let's say, \$50,000 a year, one year of service is equal to about 70 to 85 dollars a month in pension. So \$50,000 salary means if she misses a year out, she's going to-- if she's half time, she's going to miss two and a half years out, but if she misses a year out of that, her pension will drop by, say, 70 to 85 dollars a month. Because of the range there, one is-- \$85 would be with no early reduction and the 70 would be with a 15 percent reduction.

Mark: Okay. Another question from Trudy, "I reached my 90 mark. I'm a teacher. I do not have my 35 years due to teaching in another province, subbing, et cetera. Do I still get a penalty if I retire?" And she goes on to say-- it's a two-parter here, "Also, if I start collecting Canada Pension at 62, do I have the same penalty that I'd have if I started collecting at 60?"

Ken: Well, a couple of things here. First off, if she has been-- if she was teaching in another province, she might have made contributions to their pension plan and unless she took it out, she should look into the option of transferring that into the B.C. Pension Plan. Alternatively she might be eligible for a second pension so she should work-- Trudy should work through the process. Now if she took the money out, it's very unlikely that she'll be able to put it back in. Now she doesn't have 35 years and do I still get a penalty if I retire? Well, she will if she is retiring between 55 and 60. I always tell everybody, what the heck's 55 to 60? Work until you're 60 and then there's no reduction and you can start picking up your Canada Pension which is the other part of her question. "If I start collecting Canada Pension at 62 do I have the same penalty that I'd have if I started at 60?" No. And the Canada Pension works much like the Teacher Pension Plan. They say-- Canada Pension does the calculations starting at age 65 so if you go at age 60 or 62, they consider you to be retiring early so they say, "We're going to spread this pension out over a longer period of time and therefore we're going to make some reduction in it." And they actually reduce by six percent a year or half a percent for every month that you're under age 65. So if you go at 60, your pension's reduced by 30 percent.

Mark: That's quite the haircut.

Ken: Yeah, it is. But if you're not working and, you know, why not grab the income and spend it or bank it or whatever because you'll be ahead of the game until you're about 78 years old.

Mark: By having taken it--

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Ken: By taking the Canada Pension early.

Mark: Even with the reduction?

Ken: Even with the reduction. So my question is, do you want the money when you're 60 or when you're 80?

Mark: As much as-- as soon as, is my motto.

Ken: Take the money and run, is mine.

Mark: Yes. That's great. Just backing up for one moment, so if she had other pension amounts in other places where she was teaching, she could have those collected and rolled into her B.C. Pension and that would move her closer to the 35--

Ken: To the 35 and also to the 90.

Mark: -- and to the 90, okay.

Ken: And there are transfer agreements with all the provinces with the exception of Newfoundland. And who knows, Newfoundland may come onboard pretty soon.

Mark: And this whole transfer process would be initiated through the Pensions Board by the member?

Ken: Through the Pension Corporation in B.C.

Mark: Through the Pension Corporation in B.C., okay, excellent. Can you comment on the term "purchase of service"?

Ken: Okay, that's the sort of jargon that we use. Purchase of service means buying time that you didn't work or in some cases people worked and contributed and then quit and went somewhere else and then came back and they want to put their money back in which is really called "reinstatement." But-- and there are different sets of rules for both of them. Purchase of service is quite common because we're talking now about people who are working who go on a leave of absence or who went from, say, full time to part time and so they're considered to be on a partial leave of absence. Also people who go on maternity leave or take parental leave. All of these kind of situations there's opportunity and a vanishing opportunity in most of the pension plans. The deadline for most of them, most of the plans of [inaudible] is March or April, March 31st I think of 2007. Then thereafter if you take a leave of absence and come back to work you've got five years to cough up the money.

Mark: Oh, I see, so they're going to a new--

Ken: They're trying to clear up the backlog and say, "Look, if you have some time way back when, let's get it sorted and get it out of the way."

Mark: And there must be some huge numbers potentially that the Corporation would have to stand behind if people were starting to buy back some of that unused pension.

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Ken: Oh, yeah, and it's usually huge numbers when you find out what it's going to cost.

Mark: Yeah, true, which is a good segue into this question that we got from Laura. "I have an opportunity to buy back pension time while I was still an auxiliary employee. How do I know if it is feasible to do so? I recently purchased maternity leave where the employer pays 50 percent. In buying back the auxiliary time, I would be responsible for a hundred percent." Can you comment on that?

Ken: Yeah. What Laura's talking about here is that in the number of the-- I'm not sure about government but certainly in the municipal area, a lot of the jobs you have to work six months before you're eligible to join the pension plan or if you're an auxiliary worker you're not eligible until you become a full-time worker or a regular worker or whatever the term is. And so they do have the option of going back and buying that time. Her question was, is it feasible to do so? Well, basically, if feasible means, "Can I afford it, on the one hand, and if I can't afford it, is it worth doing?" And it's a bit of a tricky conundrum but it's possible to calculate it out. And the same goes for a maternity leave which she has bought. Of course, one of the advantages of maternity leave is the employer pays 50 percent. On all the others, you pay the full shot.

Mark: Okay, so obviously a maternity leave would be a slam dunk.

Ken: Oh, absolutely, no question about that. Someone who pays maternity leave gets-- [inaudible] they improve their pension, they'll get their money back in three years of retirement. I mean--

Mark: Is that right?

Ken: Yeah, it's, as you said, a slam dunk. So what I generally tell people to do and this is a fair bit of work, but-- is contact the Pension Corporation and determine the period in which you had a leave and ask the Pension Corporation to tell you how much it's going to cost. It is possible to work it out yourself but why not let them do it? And so, "What is it going to cost and how much pensionable service and how much contributory service will I get out of this deal?" So then this is how you use My Account. Go into My Account, run, you know, pick a retirement date and run the account to see what your pension's going to be. Then back up a step, add in the pensionable service and the contributory service and run it again. So now you'll have two numbers and you'll be able to see how much your pension improved by making this payment. So then it's just a matter of

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divide that into the total cost. Now that's a lot of work but it gives you the definitive answer. I have a rule of thumb. I have a lot of rule of thumbs. I only have two thumbs but I got a lot of rules.

Mark: They must be sore at times.

Ken: Yeah, and this is basically how it goes. If you're over 45 and thinking about buying time, do it. You're going to get your money back in about, at the most, 15 years of retirement, maybe even less, you know, especially if you get closer to the 90 formula because of it. You're going to get your money back within 15 years. So if you retire at 60, you're 75 years old, you've got your money back. And from there on in, you're laughing. Now the only risk here is you don't get to 75. So-- and you won't be laughing. So basically if you're younger, though, buying back leaves of absence, you know, regular leaves of absence where you got to pay the full shot, probably the further back you go, the younger you are, the less likely it's a good deal because you could take the same money and invest it even in an RSP and you'll end up in probably better shape.

Mark: Okay. Now I have heard cases where some people have actually borrowed money for buying back years. Does that work? Is that a valid strategy?

Ken: Well, it gets you the time back and, again, you'd have to look at, "How much am I going to gain out of this?" and now you have to add in the cost of borrowing or whatever--

Mark: Which is non-tax deductible, would that not be correct?

Ken: It's not tax deductible because it's like borrowing for an RSP. Not allowed.

Mark: So this would take some certainly fancier calculations at the get go.

Ken: It would.

Mark: But rule of thumb--

Ken: The rule of thumb is if you're over 45-- the closer you are to retirement, the better the deal.

Mark: Okay. Even if you have to borrow for it?

Ken: Well, I get hesitant. Fifteen years is, you know, if you're going to-- stretch that out to 20, you're looking at, you know, now you're 80, getting close to the average life expectancy. It's getting a bit [inaudible].

Mark: I guess one alternative is if you are prepared to borrow to buy back your pension, but the interest costs were not tax deductible, why don't you just borrow for investment purposes where now the interest carrying costs are tax deductible?

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Ken: That's right, and then spend the money when you want to.

Mark: Right, well, that seems like a perfect solution to that one, then.

Ken: And one of the other sort of comments that I've said to people is the question you've got to ask yourself is, "Do I want flexibility or do I want security? If I put the money into my pension plan, I've got the security. Pension's going to be paid as long as I live, going to be indexed, the whole bit. But if I keep the money in my RSP or my account or wherever, I have the flexibility to use it when I want."

Mark: Yeah, good point.

Ken: So a big opportunity comes in to go on a trip around the world and a cheap boat or something then, you know, you can jump at it. So you have to look at that, too. The flexibility versus the security.

Mark: And that basically varies person to person. It's a personal choice.

Ken: Everything's personal.

Mark: Yeah, true. Brenda had written a question to us and she's asking would it be worth her while to pay her portion and the board's portion of the pension, "If I were to take a leave of absence in my final year?"

Ken: Yeah. Well, my first question is why don't you just quit and take your pension?

Mark: I'm sure she'll be happy to hear that.

Ken: Well, yeah, I mean, I don't know what she wants to do when she's on this leave of absence but unless she's got another good, well-paying job, she's going to have to fund living for that year. So let's take the cost of that now and add that on to the cost of buying back the leave and you're looking at, like, 105 before you recover your money. So, I mean, unless she really wants out of the job and maybe her last year is, like, from 54 to 55, other than that, I'd say hang in there.

Mark: Okay. Well, she'll be happy to hear that, I'm sure.

Ken: Probably not.

Mark: Maternity and parental leave. Have we covered that off or should we--

Ken: Well, a maternity-- we did touch on the maternity a little bit. Maternity is basically I've really gotten rusty on the rules here but it's a very limited period of time that you can buy-- oh, I know, I was thinking of something else, that you can buy and you only pay your share and the employer pays its share. Parental leave which can be either the father or the mother, the mother or the father, follows on the maternity leave and

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basically-- don't tell me, that one just went whipping right out of my head.

Mark: I'll come back to that.

Ken: I think you pay double on that. I think you pay both shares. It strikes me that that's wrong but I can come back to that.

Mark: Not a problem.

Ken: The other is something that is called "child rearing credit."

Mark: Haven't heard of that one.

Ken: Okay. Now child rearing credit is really useful if you want to retire before you're 60. What it does is it says if you dropped out of the workforce, you don't even have to take a leave of absence. If you were working in a government pension plan, B.C. Government Pension Plan, and you quit, left your money there because if you take your money out, that record disappears so there's no record of you having been, in theory, working before you took the maternity. So you quit, and you stay out for seven years and come back to work after seven years, you can apply to get five years of contributory service credit, not pensionable, there's no pensionable time here, but what it is is contributory time and that might help get you to the 90. So first of all, they'd have to look what their record is. See how much contributory time they will have by the time they hit 55, add on the five years if five is the maximum and see if it helps. There's no cost. All you have to do is apply to the Pension Corporation, give them a copy of the birth certificates and swear on a stack of bibles that you were home being a good parent.

Mark: And how would people know even to do this or where would they find this information? Is it on their pension statement just as a note, "Oh, by the by"?

Ken: No, because nobody-- the Pension Corporation, they don't know why you dropped out of the workforce. It could have been just to wander around the world for four years or five years. If you go into any one of the pension plan sites there is an area of publications and if you scroll through the publications you'll find one that's called *Claiming Credit for Child Rearing* and there's probably one for the drop-out credit. I don't see it off hand here but that's because my book's not up to date.

Mark: So as a pension plan member, you really have to kind of do your own due diligence just to find out what you may be missing.

Ken: That's right. You have to know the rules and you have to go after your benefits.

Mark: And are the rules, you know, written in layman's terms or in,

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you know, pension speak, as it were.

Ken: Probably somewhere in the middle. And the rules-- the actual rules are also available on the website if you can pound your way through them because they're written like legislation. But then there are all these other publications that explain sort of how the rules work.

Mark: Okay, like the Coles Notes version or something.

Ken: Yeah. It's called Pension Facts or-- that's one of them and--

Mark: And are these publications-- do they reside on the pension websites or--

Ken: On the pension websites. Anybody can access them, even Mark Huber.

Mark: Oh, good. Well, I know what I'll be doing later on tonight.

Ken: There you go.

Mark: A little light reading before bedtime.

Ken: That'll put you to sleep.

Mark: I'm sure very quickly. Well, I'm sure it puts a lot of members to sleep and that's why they're kind of not up on their pension plans and options. Speaking of which, pension options, I've got a question from Nick regarding pension splitting where two spouses are about to retire within a year or two. How do you decide which of the possible options to choose, i.e., single or joint or a percentage? One partner has close to a full pension and the other has about 22 years of pension plus an RSP portfolio.

Ken: Well, this is one of the biggest and hardest questions to deal with because it's so specific to the individuals. And it requires-- if you want to do it right, I think it requires a fair bit of hard work on the part of the plan member.

Mark: Do you not have software that helps the person with this--

Ken: This is what I've done, yeah. I've actually done two things, Mark. I've produced a little booklet called *How to Choose the Right Option* and then I looked at that and I said, "Oh, yeah, there's a lot of reading in here and maybe we could simplify this down," so I also produced a CD Excel spreadsheet CD that allows you to punch in the numbers and out of this whole process will come the most efficient option that a person could choose. And this programme is still a little bit-- I was looking at it this afternoon and discovered something that didn't look right, so it's still in the quote unquote beta version. The book has been out now for about six years and it's in its fifth printing.

Mark: I remember it; it's a good book. I have it as a resource here.

Ken: Good. And that can be gotten for \$15 just be sending me an

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email or mailing me a cheque.

Mark: And could you give out your email address, I'm sure people would love to contact you.

Ken: My email address is k-j-smith-- all one word. Now there's a bunch of us around, so it's kjsmith3@telus.net.

Mark: So kjsmith3@telus.net.

Ken: Or you could just mail it to me at 5120 Ewart, that's spelled E-w-a-r-t, Street in Burnaby. And it's V5J 2W2.

Mark: Okay, and we'll make sure that we repeat this information as the call progresses because this is important stuff for people to have.

Ken: Just to give people a flavour of the approach here, basically, and we're talking here now about couples, single people have it a lot easier when it comes to options because they don't normally have anyone else that needs their pension. But if you've got a partner and you die, your partner may well need some or all of your pension. And so this process, the book and the CD are basically for that purpose, although a single person could use the CD to see what their pension's going to look like and whether or not they can afford to retire.

Mark: Well, that certainly sounds very helpful because that's always been one of the bugaboos for me with-- sitting down with clients.

Ken: Yeah, well, here's where the hard work is. What I ask people to do first thing is tell me how much it costs you to live, today. Now--

Mark: Does anybody know?

Ken: The pat answer is "Well, I know what my paycheque is and I know at the end of the month there's nothing left over, so I guess that's how much it costs me to live." But what I want is details. How much do you pay for the cat and the dog and the budgie and the car and, you know, the food and the golf fees and I want you to list them all out because what I want you to do is take a look at that list and say, "Okay, when I retire, here's what the list will look like. It won't necessarily be the same. The expenses for golfing maybe go up but eating lunch at work, those costs might go down." I mean, there's going to be some trade offs. Then the next-- the third column says this, "Okay, now that's for the two of you. What if there's only one of you?" And now go down the list and tell me what will the food bill be, hopefully, should be a little less. What'll the Hydro bill be? Probably the same. What'll the telephone bill be? Who knows. What'll the entertainment bill be? Probably it will skyrocket. But

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you go down the list so that you know how much money you have to provide for your partner. That's what it's all about. "How much money does my partner need if I drop dead?" And then you sit down, the rest of the programme says, "Okay, what monies will the partner have?" Partner might have their own pension, they may have Canada Pension, Old Age Security, investments, et cetera. And all of that contributes and the bottom line is, "Okay, there's still not enough money, how much of my pension do I have to put into the pot?" That is the joint life, last survivor part.

Mark: So that would answer it right then and there?

Ken: Yes.

Mark: Wow.

Ken: It doesn't take rocket science. It just takes a lot of work.

Mark: Yeah. Now are you available for consulting or, although, you're retired, how does that all work?

Ken: I did that for six years and I think I've burned myself out on that.

Mark: So that's why you developed the software?

Ken: That's why I've done the software, that's right.

Mark: Great, now we should just tell people on the line, they can get some screen shots of the software at howtobesetforlife.com/Pension, capital "p" Pension.html. And if they go there, there's a picture of your smiling face and if they click the link that says "click here" that will take them to the different screen shot and they see exactly what you've been describing.

Ken: And I've put some numbers in; I just made them up. They don't belong to anybody in particular, and if you follow them through-- the only thing it doesn't show is that the hard work thing is figuring how much money you need. And that's a two pager and you only show one page but I think it'll give people a flavour of how-- what detail this goes into and how at the end it shows what your income would be after tax. I actually have an after-tax column in here and if you die at different ages what your spouse's after-tax income would be.

Mark: And I should mention, too, we can refine this and give a more robust screen shot of the different modules of the programme, you know, we pulled this together pretty quick today. On that same topic, I have another question here and they're asking regarding the firefighters and there seems to be some changes going on with--

Ken: Okay, before you get to that, there was a question from John,

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who's also a firefighter. And he's planning to retire at 52 next year and generally speaking, he says, "What are the pros and cons of taking the temporary annuity option which would be about \$260 a month until I reach age 65?" Here's another good use for that My Account business is John should go in there, calculate his pension for whatever month it is next year he wants to retire, and see what the numbers look like. And then he should go back in and-- because one of the options you can select is a thing called a temporary annuity. I'll come back to what it is in a moment. And then he could put that in and that'll give him more money, not \$260 it just-- you think it's going to be \$260 but there's a cost involved here. But it'll give him \$260 a month or maybe he's already done the work, yeah, it should be about \$450 a month gross more pension between 52 and 65. But when he hits 65, it stops. And his pension will be lower than it would have been so what he now has to look at is, "Okay, how much money did I collect for the last 13 years and how much am I going to lose-- or how long will it take me to collect that or to spend that, in this case, how long will it take me to spend that after age 65 before I've burned it up." And normally it's usually before you hit age 80. But you have, you know, you have to do the calculation. What the temporary annuity is, it's basically the pension plan says at 65 you're going to get another pension, it's called Old Age Security. So what we will do is we'll take and shave off maybe a hundred dollars a month of your pension for the rest of your life and we'll pay you that hundred dollars a month more, well, actually we'll pay you-- for 13 years we'll take that hundred dollars a month for the rest of your life and we'll pay it to you between 52 and 65. So it's your money, paid to you early.

Mark: So this is the bridging element?

Ken: It's a bridging element, exactly. So it's a bridging element for Old Age Security. Now the pension plan also has and I'm glad you raised that, a bridging element for Canada Pension. And it's built in. It's automatic. So when you get your pension between, say, 52 and 65, there's this thing called the CPP bridge and that stops at 65 because theoretically you replace it with a Canada Pension at 65. Now having returned at 52, John would be smart to take his pension, his Canada Pension at 60. So now he's probably is not going to have anything at age 65 to replace it because he's getting it already. But he will have, for five years, from 60 to 65, he will have the bridge benefit and he will have the actual Canada Pension. What normally-- what you need to

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look at is when the bridge benefit ends at 65 there is something to replace it: Old Age Security. But if you've taken the other temporary annuity, no.

Mark: Oh, it just drops off.

Ken: It just drops off. So your income after 65 is going to be lower. So-- but really you do have to go through that-- John will have to go through that work. "What'll my pension be if I take it? What'll it be if I don't take it? How long will I have to wait to burn up all that, you know, how long will it take me to burn up that gain?"

Mark: Some fair complexities.

Ken: Oh, there's nothing simple about defined benefit plan pensions.

Mark: Yeah, is that why most companies and corporations are moving away from them?

Ken: No. The complexity is actually what the plan member has to face. But the reason that I think a lot of corporations are moving away from them is because there's a lot more regulations around defined benefit plans. They've got to fund them properly, whereas with a, what's called a defined contribution plan which is just a glorified RRSP, you put money in, the employer puts money in, the employee may or may not put money in, it's invested and if the investments do well, then you get a good pension and if the investments do poorly, you don't get such a good pension.

Mark: So if I understand you correctly, defined benefit, the onus is on the corporation or government and defined contribution the onus is on the plan member.

Ken: Yeah.

Mark: Okay. I have a question off the website from Harry, he's looking for the best retirement date. Well, if that were me, it would be tomorrow. That's a no-brainer.

Ken: I don't think that's quite what he meant.

Mark: No. Is this something that if he had his numbers organized that your software would be able to help him out with?

Ken: Well, I think it's really a question of lifestyle more than money. What Harry has to do is, you know, is the best retirement date is when I want to get out. And if I'm enjoying my job and I like the money coming in, why would I leave? I mean, until you hit 65 you can keep on improving your pension. And let me just explain that for a minute, something just popped into my mind. Harry may have hit 35 years when he was 62 years old. By the time he's 65 he'll have 38 years but only 35 years counts. But the salary he was earning in that period of time will count

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towards his highest average salary. So his pension doesn't [inaudible] he won't have any more service but he will be able to, you know, add on to his average salary a little bit. But, no, the real question is-- the question I usually get is, "Can I afford to retire?" And that's where you go back to the book and say, "Okay, what'll-- how much money will I need and how much money will I have? And if I don't have enough, can I cut out some of the expenses or can I go get another part-time job?" or whatever.

Mark: Yeah, work at Walmart.

Ken: Don't mention that. McDonald's is hiring.

Mark: Yeah, right. Back to the firefighters for a moment, from Steve he asks, "How many different ways can I take my pension, the ramifications of each and does the Firefighters Special Pension change anything other than the amount of my pension?"

Ken: Okay.

Mark: So what are the options that--

Ken: How many options can I-- well, they're unlimited. There is the joint life-- if he has a spouse or partner, he has-- there's the joint life and last survivor. And in all of the pension plans except the college plan, you can have any amount of joint life and last survivor from zero percent all the way up to 100 percent.

Mark: Even though it's not articulated on their pension statement?

Ken: Even though that's not on the statement and also not on documentation they will get when they retire. And this is one of the bones I have to pick with the Pension Corporation. On the websites, if you pick up "What Are My Options?" you'll get the impression that there's only zero or a hundred or sixty. Where in fact, any number you want in between is available but you have to ask for it. And, again, this is a-- one of those where you've got to know that you can do that.

Mark: Oh, I didn't know that.

Ken: So that gives you-- if you use round numbers that gives you a hundred options. And then there is the five, ten and fifteen-year guarantee portions which are-- whereas joint life is guaranteed for the life of the partner, the guarantees are only guaranteed for five or ten or fifteen years which makes them less expensive to set up.

Mark: And if the pension member lives past that guaranteed period, the pension still rolls?

Ken: They still get the pension. It just means that if they die, their beneficiary wouldn't get anything. And on top of that we have this thing called the temporary annuity that we talked about. So

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the number of combinations are huge. So my advice to Steve is, "Buy my book."

Mark: Good.

Ken: And another question, he says, "Does the Firefighter Special Pension change anything other than the amount of my pension?" He's right. All that special arrangement does is add money to his pension. Doesn't add any time. Doesn't add average salary.

Mark: So that's a good thing.

Ken: So it's like taking an RSP or a defined contribution portion, converting it into a pension and then adding it on to his basic pension. But it's indexed so that's good.

Mark: Yeah. Wayne writes, "Do you have an idea how the 2.33 calculation will roll out? Will it end up being similar to the pay-out now for the base pension?" I imagine he's a firefighter.

Ken: Yeah, he is.

Mark: "And special agreement piece we have added together and if so, when might this happen?"

Ken: There's been a lot of problems with their special agreement and Revenue Canada. But it seems to have been resolved. Basically Revenue Canada says, "We're going to turn a blind eye to what you've been doing but in future you've got to do it differently." The 2.33 calculation he's talking about, as I understand it, is for the future. Like, it kicks in now so if Wayne's thinking of retiring in the next couple of years, it's not going to do much for him. But, again, I'm not totally up on that and I think I'm trying to interpret his question correctly. Right now, the extra money that both he and the employer are putting in is just-- it's invested and then converted into what's called an annuity added on to his regular pension.

Mark: And this annuity would run for how long?

Ken: Well, it would be part of his pension. So it would be part of the joint life, last survivor, the guarantees, whatever.

Mark: I see, okay. Excellent. Okay, in your estimation, what is the single biggest mistake people make with their pension?

Ken: Oh, options. Choosing the right options.

Mark: Choosing the right option, okay. And this I would imagine is, again, where your software could be helpful to people to see the different options they have and to play with the numbers?

Ken: I hope so, yeah.

Mark: Okay. Should we give that URL out again so people can look at the screen shot?

Ken: Sure. Where was it-- oh--

Mark: [Howtobesetforlife.com/Pension](http://HowToBeSetForLife.com/Pension) with a capital "p."

Ken: And no "s."

Mark: Right. Pension singular, capital "p" dot html.

Ken: And then my handsome face comes up.

Mark: It does.

Ken: And down the page a little ways it says--

Mark: Click here.

Ken: And you'll see a sample of it. But I guess what we've got to get onto that page is my email address.

Mark: Yeah, well, I wasn't sure how-- in retirement or out of retirement you were so I was a little hesitant to--

Ken: No, I'm prepared to answer questions by email because I can do that when I feel like it before or after my golf game or weeding the garden or whatever.

Mark: What was the email address again just for everybody on the call and then I'll get it on the website tomorrow.

Ken: It's kjsmith3@telus.net.

Mark: Well, I would imagine we've got some keen people waiting to ask us, well, you I should say, some questions. So why don't we open up the lines for some live questions?

Ken: Sure.

Operator: All right, thank you. To ask a question, please go to your handset and press "zero one." If you wish to withdraw your question, please press the pound sign. If you have any questions, please press "zero one" now. And currently, there are no questions in the queue.

Ken: Oh, we put them all to sleep.

Mark: Either that or you just answered everything brilliantly, Ken. I must say it was very helpful to have the questions ahead of time that we were able to ponder and prescreen.

Ken: That was good, yeah.

Mark: Okay, so just before we wrap things up--

Operator: We've got one question from a Sandy Harney. One moment. Thank you, go ahead, please, Sandy.

Sandy: Hi, thanks for doing this, it's been valuable for me. I'm sorry, I missed a little bit about the bridging element when you talked about when you get to 65 and the Old Age Security kicks in, so if you're at 60 with the CPP offset, you get that until you're 65, do you?

Ken: Correct.

Sandy: With the Municipal Pension Plan. But you can also apply for CPP at age 60, as well, can you?

Ken: Yeah, you can double up.

Sandy: Okay, but that means at age 65 your CPP will be reduced

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by the 30 percent?

Ken: No, your CPP is reduced at 60 if you start at--

Sandy: Oh, that's right. And then it will continue and when you hit 65 it will still be the same will it?

Ken: Correct.

Sandy: Or will it change?

Ken: No, it'll be the same, well, it'll be indexed but forgetting about indexing, it'll be the same.

Sandy: It will be the same. Okay, so you determine-- you would find out how much that benefit would be by contacting them, I presume?

Ken: You can. There's also a website for Canada Pension. You also get a statement from Canada Pension, I'm not sure how often.

Sandy: Not that often.

Ken: Not that often.

Mark: I think it's every four years.

Sandy: Yeah, I'm probably due for one. So that-- and then the Old Age Pension, so actually what you were saying was about the annuity. It sort of sounded like you were saying that it could be a good thing to take? I was thinking "no" but--

Ken: Generally speaking, I'm not too keen on it.

Sandy: No? That was my thought initially but I wasn't sure from the--

Ken: You do need to crunch numbers and the question was asked by someone who can take it for a lot longer period of time. He was retiring at 52, he's a firefighter.

Sandy: Right, my husband will probably-- he's--

Ken: Where most of us are stuck with 55 and on.

Sandy: So at 55 and on it's probably not that beneficial?

Ken: Most of the calculations I've done in the past have not been that beneficial. The burn time was about age 73 which tells me that the numbers they're using and the tables they're using to calculate the amount of the annuity were out of date.

Sandy: Okay.

Ken: But that could well have changed so, you know, basically do the calculation, use My Account and do the two pension calculations, see how much you're going to get and see how much it's going to cost you.

Sandy: Okay. Yeah, that's great. I'll be-- I'm asking you for your book for sure.

Ken: Okay, Sandy.

Sandy: Thank you.

Mark: Great, thanks, Sandy. That was a great question and a good

answer, Ken. Appreciate that. Anyone else out there?

Operator: No, there are no other questions currently in the queue.

Mark: Well, I guess people are getting ready to do other things, put the kids to bed. They're probably all running over to the website to look at the screen shots of your calculator, going over to Pensionsbc.ca to get their numbers rocking and rolling. All sorts of good things. Ken, it's been a pleasure to have you on the call.

Ken: My pleasure, too.

Mark: And I just want to remind everyone that tonight's call is being taped and we will be notifying you via email in the next day or so as to how to get your copy of the audio and transcript of the call. So watch out for an email from us. And, again, I want to thank you, you Ken, for your time and energy and certainly all-- to the listeners. I trust that you have all found the time well spent and of value. Just before I let you go, Ken, can you just give up your email address one more time for everyone listening?

Ken: Sure. It was kjsmith3@telus.net.

Mark: Okay, great. And they can contact you at that email address for the software-- enquiring on the software programme that you have, your brand new software and also the choosing the right options book.

Ken: Yeah, actually I sort of encourage people to get the book and if they think they want to get the CD, I mean, the-- all the work that's on the CD is also on the book but you have to do it. The computer doesn't do it for you. But it does-- the book does explain things a lot more than the CD. The CD just basically has spreadsheet tables on it.

Mark: Okay, so for people that are very comfortable doing things with pen and paper, they should order the book.

Ken: For sure.

Mark: And those that are more comfortable on a technology-based platform--

Ken: The CD will do the trick.

Mark: Do the CD, okay. Excellent. So, again, I just want to say thank you to all of you and, again, all the information in the world won't do you a bit of good unless you take some action. So contact myself or Ken to get the ball rolling and give yourself the piece of mind that you deserve. My name is Mark Huber and until next time, all the very best to you and yours as you continue your quest to create wealth and financial peace of mind. Good night, all.

Ken: Night, night.

**Mark Huber, CFP is also author of - "The UnCanadian Way"
series of reports, Ebooks, audios and videos...**

Check out the full library of resources here at:

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Visit: <http://HowToBeSetForLife.com/resources>

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-The End-