



INFORMATION SHEET

Commuted Value Transfer

When might I receive the commuted value of my pension?

If you terminate all SHEPP-eligible employment, you may elect to transfer the commuted value of your vested pension to a Registered Retirement Savings Plan (RRSP), Locked-In Retirement Account (LIRA) or another Canadian Registered Pension Plan (RPP) if on the date of termination you meet the following conditions:

- you have completed two or more years continuous service with your SHEPP participating employer (you are vested);
- you are not eligible to retire with an unreduced pension; and
- you terminate from all employers prior to the month you turn 55.

When do I become eligible for an unreduced pension?

There are two milestones at which you can retire with an unreduced pension.

Normal Retirement (age 65)

You can retire with an unreduced pension on the first of the month coinciding with or immediately following your 65th birthday. For example, if you turn 65 on March 10th, your normal retirement date (with an unreduced pension) would

be April 1st. Technically, you become eligible to retire with an unreduced pension if you terminate employment on any date in the month of March. In this case, you are over age 55 and therefore there is no commuted value transfer option.

If your 65th birthday is March 1st, your normal retirement date (with an unreduced pension) would be March 1st. Technically, you become eligible to retire with an unreduced pension if you terminate employment on any date in the month of February. In this case, you are over age 55 and therefore there is no commuted value transfer option.

Early Retirement (Rule of 80)

You can also retire with an unreduced pension once your age and years of credited service add up to 80. Your Rule of 80 date will always be the first of the month. So, if your Rule of 80 date is March 1st, you become eligible to retire with an unreduced pension if you terminate employment on any date in the month of February. In this case, you would need to be under age 55 and terminate employment with all SHEPP employers by the end of January in order to be eligible to receive a commuted value transfer.

How is the commuted value calculated?

The commuted value of your vested termination pension is the lump-sum value at the date of your termination of the pension payable to you commencing at age 65. In simple terms, it is the amount of money that you would have to invest — starting from the date of termination and based



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Variable	Comment
Your date of termination	The date of your termination determines which interest rates and post-retirement mortality tables are used to calculate the commuted value.
Your age at date of termination	In general, the closer you are to age 65 on date of termination, the greater your commuted value. This is because there is a shorter period of time to invest the money before the pension becomes payable.
Form of pension	The pension is valued on SHEPP's Single Life form of pension where the pension is guaranteed for five years and paid for your lifetime thereafter.
Pension start date	The pension is valued on the basis of payments starting at age 65.
Pension payment basis	The pension is valued on the SHEPP basis of paying pensions monthly at the end of the month.
Pre-retirement mortality	In accordance with the <i>Pension Benefits Act, 1992</i> (Saskatchewan), the pension is valued assuming that you will not die prior to age 65.
Post-retirement mortality	In accordance with the recommendations of the Canadian Institute of Actuaries, vested pensions for member terminations are valued upon the CPM2014 Combined Mortality Table, unadjusted and projected with CPM-B.

upon specific assumed interest rates — to accumulate sufficient funds to purchase a lifetime pension equal to your SHEPP pension payable at age 65.

The commuted value of a SHEPP pension is calculated in accordance with the provisions of the *Pension Benefits Act, 1992* (Saskatchewan) and the methods and assumptions prescribed by the Canadian Institute of Actuaries. The key variables in the calculation of a commuted value are included in the table above.

If the Plan is required to apply transfer deficiency holdbacks, will that affect the commuted value calculation?

SHEPP is not currently required to apply a holdback to termination benefits, including commuted value benefits for vested plan members who terminate employment.

Transfer deficiency holdbacks, when applied, will not affect the commuted value calculation. However, they may impact the timing of the total transfer of your vested pension to a locked-in retirement account or another registered pension plan. Also, some registered pension plans will not accept pension transfers that are subject to a transfer deficiency holdback. If at the time of termination SHEPP is required to hold back a percentage of your termination benefit and you are transferring the commuted value of your vested pension

entitlement to another registered pension plan, you will have to confirm if the receiving plan will accept the transfer.

For more information about transfer deficiency holdbacks, please refer to the Transfer Deficiency Holdback Information Sheet available at www.shepp.ca.

How do changes in the prescribed interest rates affect commuted values?

Among other factors, prescribed interest rates can change monthly and produce the most dramatic fluctuations in the commuted value of your SHEPP pension. All else being equal, an increase in the prescribed interest rates will produce a decrease in the commuted value, while a decrease in the prescribed interest rates will produce an increase in the commuted value. This is because at a higher interest rate, you need a smaller upfront investment to yield your deferred pension amount. Conversely, at a lower rate, you need a larger upfront investment to yield your projected deferred pension amount.

Due to these fluctuations, SHEPP prefers not to provide you or your financial advisor with a statement of your commuted value entitlement or projections of future entitlements unless SHEPP has received written notice from your participating employer that you have terminated employment or if you have extenuating circumstances.

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EXAMPLE

John receives a commuted value estimate of \$141,000.

Scenario 1: Higher interest rates = smaller payment

If John resigns in a month where interest rates are higher, his actual payment would be less.

Commuted value	Short-term rates	Long-term rates	Amount
Estimate	4.1%	4.5%	\$141,000
Actual Payment	4.5%	5%	\$122,000

John's commuted value is smaller because the interest rates in effect at the termination date are higher than they were on the estimate date.

Scenario 2: Lower interest rates = larger payment

If John resigns in a month where interest rates are lower, his actual payment would be more.

Commuted value	Short-term rates	Long-term rates	Amount
Estimate	4.1%	4.5%	\$141,000
Actual Payment	3.4%	3.7%	\$179,000

John's commuted value is larger because the interest rates in effect at the termination date are lower than they were on the estimate date.

If you terminate employment and become entitled to transfer the commuted value of your vested SHEPP pension, SHEPP will automatically provide you with a statement confirming your commuted value entitlement and all other applicable options under the Plan.

What are the tax implications of a commuted value transfer?

Because you are transferring the commuted value of your pension to a RRSP, RPP or LIRA—which are tax-sheltered

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retirement savings accounts—a commuted value transfer will not typically have any tax consequences. However, the *Income Tax Act* (Canada) requires SHEPP to apply a maximum transfer limit on all commuted value transfers paid out of the Plan, which limits the amount of money you can transfer from a pension plan to an RRSP, RPP or LIRA on a tax-sheltered basis. If the commuted value of your benefit exceeds this limit at the time of transfer, SHEPP will only be able to transfer funds up to the limit into your RRSP, RPP or LIRA and any excess amount over the maximum transfer limit will be paid to you as a taxable lump sum cash payment. If applicable, this amount will be detailed in the Termination Statement you receive from SHEPP when you terminate employment.

What happens if I am rehired by my employer or employed by another participating SHEPP employer?

If you have terminated employment and are entitled to a termination benefit you may defer the election of your termination benefit for up to six months following your date of termination.

If you become employed by a SHEPP employer and meet the Plan's eligibility requirements prior to making an election within the above time period, you will no longer be entitled to a termination benefit under the Plan. You will be re-enrolled in the Plan and required to transfer your contributions and service to your new employer. By transferring your contributions and service, you can continue to build your pension despite a change in employers.

In the event that you reach the deadline date without having made a termination benefit election, your termination benefit will be processed with the default option noted in your statement and you will become ineligible to transfer between participating employers. If you enrol with a participating employer in the future and you have a deferred membership with a SHEPP employer, you will have the opportunity to join your deferred and active memberships together.