



What is a transfer deficiency holdback?

At least every three years SHEPP is legislatively required to measure the financial health of the Plan through a process called an actuarial valuation. If on the date of measurement the Plan's assets are less than the Plan's liabilities on a solvency basis, SHEPP is required to hold back a percentage of certain member termination payments based on the solvency ratio of the Plan's assets over its liabilities. The percentage that is held back is referred to as the transfer deficiency holdback ("holdback").

The last valuation, performed as at December 31, 2017, determined that the Plan's assets are 72% of the Plan's liabilities on a solvency basis. Therefore, SHEPP is required to apply a holdback of 28% to certain termination benefits.

Who will be affected by transfer deficiency holdbacks?

SHEPP vested Plan members who terminate employment and active Plan membership with a termination benefit greater than a certain amount are subject to a holdback.

Active Plan members and retirees are not affected by transfer deficiency holdbacks.



In 2019, lump sum termination benefits greater than \$11,480 are subject to a transfer deficiency holdback.

Are death benefits subject to holdbacks?

No. An amendment to *The Pension Benefit Regulations, 1993* which came into effect June 26, 2013, eliminated the transfer deficiency holdback which previously applied to certain pre-retirement death benefits. Prior to June 26, 2013, pre-retirement death benefits paid to a member's beneficiary or estate were subject to a transfer deficiency holdback. Any transfer deficiency holdback applied to pre-retirement death benefits prior to June 26, 2013, will be paid to the beneficiary or estate within five years from the initial payment date.

Pre-retirement death benefits payable to a member's spouse were never subject to the holdback.

Note: If the member's spouse had completed a *Spouse's Waiver Of Pre-Retirement Survivor Benefit Pursuant To Clause 33(6)(A) of The Pension Benefits Act, 1992* form, but was still appointed as a beneficiary, a holdback would have been applied to the death benefit. The holdback must be applied in this situation as the spouse received the payment in the capacity as a beneficiary, not as a spouse.

What happens to the funds that are held back?

The holdback amount is carried forward until the Plan is fully funded or the five year period has transpired, whichever comes first. During this time, interest is calculated annually from the date of initial payment to the first of the month in which the holdback payment is made.

Therefore, members who have a holdback applied to their termination benefit will receive two payments from SHEPP, one when their initial election is made and one up to five years later.

What interest rate is applied to the holdback payment?

The interest rate that is applied to the holdback is prescribed by the *Pension Benefit Regulations, 1993* and varies from month to month. Current interest rates range from 2-3%.

How is the holdback payment issued?

The holdback payment will be issued in the same way as the initial transfer unless SHEPP is notified otherwise by the individual entitled to the payment. Therefore, if the initial transfer was sent to a Locked-in Retirement Account (LIRA) with a financial institution, the second payment will be issued to the same LIRA with the same financial institution.



SHEPP will contact members approximately 3 months prior to issuing the holdback payment to confirm payment information.



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What happens if the individual dies before the holdback payment is issued?

Should a member die before the final holdback payment is issued, the payment with applicable interest will be issued to the member's spouse. If the member is not survived by a spouse, then the payment plus applicable interest will be issued to the designated beneficiary or estate.

What happens if SHEPP's funded ratio changes?

If a member makes a benefit election within the first 120 days following their termination, the holdback in effect on the date of their termination will apply regardless of any change in the funded ratio of the Plan. If a benefit election is made after the 120 day period, the termination benefit is subject to whatever holdback is in effect at the time SHEPP receives the member's benefit election.

Should the Plan's funded ratio improve to 100% within five years of the initial benefit payment, the holdback, with interest, will be issued to Plan members prior to the end of the five-year holdback period.