



Understanding indexation changes

We have received some questions about the indexation changes that will take effect as of January 1, 2008. Specifically, Plan Members who are considering retirement within the next few years may be concerned about the implications of “ad hoc” indexation on their pensions if they retire after 2007. A detailed explanation about the Funding Policy and the changes to indexation can be found in the January 2007 Member Newsletter, which was issued earlier this year.

It's important to note that you will not lose indexation that has already been granted on the service you earned prior to 2008. In the same way that you have already earned your pension for these years, you have also already earned the indexation that will apply to it. Whether you retire in 2007, 2008 or beyond, indexation will continue to be granted on this service, as per the indexation rules that have been in place since 1992.*

Only **post-2007 service** - that is, pension you earn after December 31, 2007 - will be subject to ad hoc indexation. Therefore, if you were to retire in 2008, and the Plan is fully funded, you will receive indexation for all service before 2008 and for your service in 2008. If the Plan is not fully funded, and indexation is not granted for that year, the impact to your overall pension would be minimal. The service you earned before 2008 will have indexation applied to it, and will continue to do so annually (subject to the indexation rules currently in place). Only the service you earn in 2008 or later would not receive automatic indexation.

Another factor to consider is that if you work past December 31, 2007, the service you earn in 2008 and onwards will be taken into consideration in the calculation of your pension. This additional service will increase your pension; the more service you acquire, the higher your pension will be.

In other words, if you retire after 2007, your pension should be larger than if you were to retire in 2007, due to the increased service you will earn regardless of the funded status of the Plan. Even if the Plan is less than 100% funded going forward, indexation will continue to apply to most of your pension (subject to the indexation rules currently in place).

*Please refer to page 10 of the January 2007 Member Newsletter for more information about the calculation of indexation on pre-1992 service.



“Baskets of indexation”

Your pension is calculated using your Highest Average Pensionable Earnings* and your years of Pensionable Service**.

For the purposes of indexation, your Pensionable Service is broken down into three periods of time. The pension you earn during each of these three periods is treated differently when it comes to the indexation calculation. It may be helpful to visualize those three periods as “baskets”, each containing the pension earned during that period:

1. Basket #1 contains pension earned up to December 31, 1991.
2. Basket #2 contains pension earned between January 1 1992, and December 31, 2007.
3. Basket #3 contains pension earned from January 1, 2008 onward.

Indexation applies differently to each basket as follows:

1. Basket #1 indexation is funded until January 1, 2014 and may be granted after that time if the Plan can afford it and is amended.
2. Basket #2 will receive indexation indefinitely.
3. Basket #3 will receive indexation only if the Plan can afford it.

***Highest Average Pensionable Earnings:** The sum of the Member's earnings during the 60 consecutive months of Pensionable Service during which the earnings were highest, divided by 60, multiplied by 12.

****Pensionable Service:** The service in the CAAT Pension Plan that is used in calculating a pension benefit, calculated in years and months. If a Member has purchased service or Transferred in Service, that extra service is included in the calculation.





Examples – Elaine retires in 2007 (Scenario 1) or in 2009 (Scenarios 2 and 3)

Elaine has been a Member of the Plan since 1980. For the purposes of this example, her Highest Average Pensionable Earnings are \$50,000. If she retires at the end of 2007, she will have 28 years of service and an annual pension of \$28,000. If she retires at the end of 2009, she will have 30 years of service and an annual pension of \$30,000.00.

In scenario 2 and 3, to calculate the indexation that will apply to her pension in 2010 (her first year of retirement), Elaine's \$30,000 pension is divided into 3 baskets, based on the years she belonged to the Plan. The chart below shows how indexation will apply to Elaine's pension in 2010, depending on whether or not the Plan's funding status is above or below 100%.



Indexation Examples - Chart

		Retirement in 2007 Scenario 1	Retirement in 2009 Scenario 2	Retirement in 2009 Scenario 3
Elaine's "baskets of service"	The pension Elaine earned for these years	Indexation granted on all service	Funding: 100%, indexation granted on all service	Funding: less than 100%, indexation granted on service <i>except post-2007 service</i>
		Indexation rate: 2%	Indexation rate: 2%	Indexation rate: 2%
1980 to 1991 	12 years of service = \$12,000	$\$12,000 + 2\% = \$12,240$	$\$12,000 + 2\% = \$12,240$	$\$12,000 + 2\% = \$12,240$
1992 to 2007 	16 years of service = \$16,000	$\$16,000 + 2\% = \$16,320$	$\$16,000 + 2\% = \$16,320$	$\$16,000 + 2\% = \$16,320$
2008 to 2009 	2 years of service = \$2,000	N/A	$\$2,000 + 2\% = \$2,040$	No indexation applies Pension remains \$2,000
Total 	30 years of service = \$30,000	$\$12,240$ $+\$16,320$ $\\$28,560$	$\$12,240$ $+\$16,320$ $+\$ 2,040$ $\\$30,600$	$\$12,240$ $+\$16,320$ $+\$ 2,000$ $\\$30,560$

Note that the recent changes to indexation **only affect the portion of pension Elaine earned after 2007**. Indexation will apply indefinitely to the portion of pension earned between 1992 and 2007, whether she retires in 2007 or 2009, and indexation will apply to the portion of pension earned between 1980 and 1991 until 2014 (it may be granted after that time, subject to the indexation rules that have been in effect since 1992).