FAMILY CHOICES

Registered Pension Plans and Retirement Supports for Manitoba's Early Learning and Child Care Workforce

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Manitoba

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The Manitoba government is pleased to provide funding for registered pension plans and retirement supports to child care workers[1]. This initiative is part of the Workforce Stability Strategy under *Family Choices, Manitoba's Five-Year Agenda for Early Learning and Child Care*.

In consultation with members of the child care sector, Manitoba identified three new ways to help workers plan for their retirement.

Three kinds of support will be available:

1. **Registered pension plans:** for full- and part-time child care workers in licensed, non-profit centres and nursery schools

2. **Matching Registered Retirement Savings Plan (RRSP) contributions**: for licensed, home-based family and group child care providers

3. **A long-term service recognition retirement benefit**: for long-term workers in centres and nursery schools **and** for home-based family and group child care providers

Funding will be available for these supports starting December 1, 2010.

[1] In this document, "child care workers" means:

- all employees in **non-profit** corporations and cooperatives that operate licensed child care centres, including front-line early childhood educators and child care assistants, supervisors, directors and support staff
- those who operate licensed family or group child care homes.

For-profit child care centres are not eligible for funding. However, they may choose to provide benefits, such as a pension, to their employees. For-profit centres are not required to provide pension benefits.

Benefits of this program

This program will help employees, employers, parents and children. Here are just a few of the advantages:

Recognizing professionalism in the field – The program acknowledges the important contributions early childhood educators, child care assistants and home-based child care providers make to the well-being of Manitoba's most precious resource: our children. It recognizes that early childhood educators are professionals with special training in child development who have careers with a future in Manitoba.

Retention and stability – This kind of support will help keep more qualified workers in the field. Having access to long-term financial security gives workers more confidence in their futures. Keeping experienced staff means children and parents will get more consistent, quality service.

Recruitment – More people who are thinking about going into this field are likely to do so, if they know there are long-term benefits.

Equity – Manitoba will reimburse pension plan members at the same four-per-cent contribution rate for all centre-based and nursery school workers in licensed, non-profit facilities. The contribution rate for Registered Retirement Savings Plans (RRSPs) for home-based providers will be a similar rate, based on their potential earnings.

Security – Workers will be more secure, knowing they and their employers are contributing to income that is only available after they retire. Home-based child care providers will also be more secure, knowing they will be eligible for a matching contribution to an RRSP.

1. Registered pension plans

for full- and part-time child care workers in licensed, non-profit centres and nursery schools

In pension plans funded through this program, the money employees put in is matched by their employers – greatly increasing their long-term savings. Pension plans help people set and work towards retirement goals. The earlier a person starts in a pension plan, the greater the benefit when they retire.

Q&A

***Q:** What is the cost to the employer?*

A: If the pension plan is for a four-per-cent employer contribution, the government will fund the full amount of the employer contribution. There may be some administrative fees charged by the pension plan provider, depending on the kind of plan the employer chooses. (See options starting on page 6). These costs will be covered by the Manitoba Child Care Program (MCCP). MCCP will also work to streamline administration for centres wherever possible.

***Q:** How is my centre reimbursed for the employer portion of the pension plan?*

A: Details about how to apply for reimbursement will be sent to all centres and nursery schools before December 1st.

Pension plans will ensure equity for child care centre workers in two ways.

First, the government will reimburse employers up to four per cent of each employee's wages to cover the employers' contribution. Employees must also contribute at least four per cent of their wages. This ensures all workers have the same minimum contribution rate. Individual employers can choose a plan that has a higher contribution rate. Employer and employee contribution percentages must be set out in writing in the pension plan text and must also comply with all of Canada Revenue Agency's rules.

Q&A

***Q:** What happens if the centre or nursery school does not have our pension plan provider in place by December 1, 2010?*

A: Funding will be available as of December 1st, with the expectation that licensed centres and nursery schools will be working towards making their plans effective as soon as possible. Once a child care centre's pension plan is effective, employee and employer contributions must be made to the plan, subject to the eligibility criteria outlined on page 5.

***Q:** I'm an employee. How will this affect me?*

A: Depending on the plan your child care centre chooses, a set amount matching your employer's contribution will be deducted from your paycheque and put in your pension plan account. The account is held by the fund holder. While there is a cost to you now, the plan will provide money at retirement from your contributions, your employer's contributions and any interest earned.

Second, unlike RRSPs, pension plans under this program will need to be immediately vested and locked in.

"Vested" means the employee is entitled to both the employee and employer contributions to the plan. Employers cannot take back their contributions.

"Locked-in" means funds can only be used for retirement income and are not available as a cash refund at any time, even after retirement.

Once the plan starts, employees are entitled to the contributions they made and the contributions their employer made, even if they quit their jobs (vested), but all funds must remain locked-in for retirement purposes.

Q&A

Q: *What happens if I change employers or leave the child care field?*

A: Because your pension is vested, you are immediately entitled to all of the contributions made to your account (both yours and your employer's). Upon changing employers, you can transfer the value of the accumulated benefits to another qualifying pension plan, if permitted, or to a locked-in retirement account (LIRA).

How does it work?

A defined contribution plan pays retirement income based on how much is contributed to a pension account. The pension is based on the value of all the employee and employer contributions, plus investment earnings.

Equal contributions come from the employee and the employer. The employer will pay the pension plan provider directly and then submit a request for reimbursement to the Manitoba Child Care Program (MCCP). The employer portion of the contribution will be funded by the Manitoba government, up to a maximum of four per cent of the employee's gross wages (before income tax and other deductions).

The employee's contribution will be deducted from each paycheque and the centre will submit this to the pension plan provider directly. Contributions are then invested by the pension plan provider. The returns on the investment – either positive or negative – are credited to the individual's account.

It is easy for employees to see how much money is in their pension account because they are entitled to an annual statement.

Q&A

Q: *What is the difference between a "defined contribution plan" and a "defined benefit pension plan"?*

A: A **defined contribution plan** provides retirement income based on how much is in each person's "account". This is based on the value of all the employee's and employer's contributions, plus investment earnings. This is different from a **defined benefit pension plan** where retirement income is determined with a formula based on the employee's wage and years of service. Most private sector plans are defined contribution plans and work in a similar way to RRSPs.

Q: *What happens when I retire? What do I do to ensure monthly income?*

A: When you retire, the savings in your benefit account provides retirement income. You can transfer your funds to a Life Income Fund (LIF) or an annuity. The LIF or annuity ensures a regular payment of income after retirement. The amount of these payments and how long they last depends on the option you choose.

Example

A worker at age 30 starting as an early childhood educator with a wage of $32,000 could expect to build retirement savings of over $200,000 by age 60, assuming modest wage increases and growth of investments. These savings could then be used to purchase a life annuity at retirement, which could provide income of $1,200 per month, in addition to any Canada Pension Plan and Old Age Security income [2].

[2] Old Age Security benefits are usually claimed at age 65 and above.

Who is eligible?

Licensed, non-profit centres and nursery schools must offer their employees an approved pension plan. All employees are eligible to join the pension plan as soon as it is set up.

Full-time employees:

All full-time employees are eligible to join the plan immediately when it is set up. Full-time employees hired after the plan is set up must join within two years of their employment, or sooner based on the employer's plan. Full-time employees who are employed before the plan is set up can always choose whether or not to participate. Full-time employees are those who work 30 or more hours a week.

Q&A

***Q:** Are all employees, including cooks, custodians and other support staff eligible?*

A: Yes. All employees will be eligible.

Part-time employees:

All part-time employees are eligible to join the plan immediately when it is set up. However, some part-time employees may have to join within two years or sooner based on the employer's plan.

A pension plan must set out when their part-time employees are required to join, based on their hours worked or earnings. This is determined by the centre or nursery school, together with the plan provider, and must meet standards in pension legislation.

Part-time employees who are already working for a centre or nursery school before their pension plan is set up are not required to join. Part-time employees who are employed before the plan is set up can always choose whether or not to participate.

The pension legislation states that some employees can opt out of their centre's pension plan:

- an employee who is already working for the centre or nursery school before the plan is set up
- an employee who is a student on a full-time basis
- an employee who is a member of a religious group that states members of the group are not allowed to join pension plans
- an employee who retires and receives a regular pension, but then returns to work for the same employer or another employer covered by the same pension plan

Q&A

***Q:** Does my centre's group RRSP qualify for funding under this program?*

A: Group RRSPs do not qualify for funding. This is because they are not vested or locked-in. This means employers who have group RRSPs have three choices. They can:

- work with their current group RRSP provider to see if their existing plan can be rolled into a registered pension plan
- end their existing group RRSP and switch to a registered pension plan (employees would still be entitled to the group RRSP that they had paid in to up to that point)
- continue the group RRSP plan and also provide a new registered pension plan

Plan Options

Licensed child care centres and nursery schools are able to choose the pension plan administration option that they think is best for them.

Option A: Simplified Money Purchase Pension Plan

A simple option is a Simplified Money Purchase Pension Plan (SMPPP). These are registered pension plans managed by selected financial institutions. The financial institution is the plan administrator. SMPPPs are only for employers with fewer than 250 employees.

SMPPPs are simpler than an employer sponsored pension plan. When deciding on an SMPPP, employers can contact any financial institution offering SMPPPs for registration and more information. There are currently three institutions in Manitoba that can offer SMPPPs:

CUMIS Life – Retirement Services
Phone: 1-800-263-9120

Great-West Life – Group Retirement Services
Phone: 1-800-668-4161

Standard Life – Group Solutions
Phone: 1-800-242-1704

Industrial Alliance – Group Pensions
Phone: 1-888-532-1505 ext 249

The financial institution must provide employers and employees with the registration form, annual member statements and statements upon retirement, termination or death. It also must provide information to new employees about SMPPPs. An employer/employee pension committee is not required for these plans.

Plan Text

A **plan text** is a document that includes all of the important details of the pension plan that must be included in SMPPPs. It is prepared and submitted by the financial institution. Here are some of the items to be included in the plan text:

- the SMPPP will be provided by the financial institution that issues the plan
- eligible employees must work in Manitoba
- the tax year for the plan is from January 1 to December 31
- plan member's benefits are fully vested and locked-in, immediately
- the amount the employer contributes must be stated
- the amount the employee contributes must be stated

More information about SMPPPs is available at:
www.gov.mb.ca/labour/pension/brochure/smpp.html

and

www.gov.mb.ca/labour/pension/penbasics/smppnotes.html

Option B: Employer Sponsored Pension Plan

Employers can also choose to sponsor a pension plan themselves. They must meet the basic requirements of setting up a pension plan, under *The Pension Benefits Act*, Pension Benefits Regulation 39/2010. The Office of the Superintendant – Pension Commission can provide employers with details on setting up a pension plan.

If an employer with 50 or more eligible employees chooses an employer sponsored pension plan, a pension committee must be formed. The employer will also need to file official plan documents that include the plan text and funding contract. An employee booklet outlining the plan's terms and conditions must be written in plain language and given to employees.

The pension plan must be funded through either an insurance or investment contract. The contract must be issued by an insurance company that is licensed to do business in Canada, or by a trust governed by corporate or individual trustees. The employer must contact a service provider to help prepare and file the required legal documents.

The pension plan must be registered within 60 days of its establishment, and the employer must produce and file the required documents with the Manitoba Pension Commission – the investment contract, plan document, employee booklet, registration form – and pay the filing fee.

Several financial institutions offer defined contribution pension plans and provide assistance with the registration and administration of a new plan. Centres may wish to contact a financial institution to determine if they offer a plan and services that meet their needs.

Pension plans must be registered under the federal *Income Tax Act.* For details, see Income Tax Information Circular #72-13R8, available at: www.cra-arc.gc.ca/E/pub/tp/ic72-13r8/ic72-13r8-e.html

For details on Manitoba's *The Pension Benefits Act*, go to: www.gov.mb.ca/labour/pension/penbasics/setupplan.html

Option C: Existing pension

Centres that currently have vested and locked-in registered pension plans in place can continue with that plan, even if the employer contribution amount is higher. (If the amount is lower, the pension plan must be revised to include a contribution of at least four per cent for both the employer and employee.) The government will fund existing plans to a maximum of four per cent of the employee's salary, starting December 1, 2010.

Centres that already have a pension plan, including a defined benefit pension plan, can still apply for funding under this program. Child care centres may also choose to join a defined benefit pension plan in the future. The Manitoba government will reimburse the child care provider for the actual employer contribution, up to four per cent of staff wages. The centre must show that the defined benefit pension plan meets the minimum requirements of pension plan vesting, locking-in and contribution amounts explained above.

2. Matching Registered Retirement Savings Plan (RRSP) contributions

for licensed, home-based family and group child care providers

This program gives financial support to home-based child care providers. The Manitoba government will match Registered Retirement Savings Plan (RRSP) contributions to help family and group child care providers save for retirement.

Q&A

Q: *Do I have to buy an RRSP before I can get the matching contribution?*

A: Yes. You will be reimbursed for half the cost, up to specified maximums.

Who is eligible?

Licensed child care providers in family or group child care homes are eligible. **Participation is voluntary.**

This benefit is also available to staff who are paid by the provider to care for children with additional support needs under the Inclusion Support Program. This is because these workers cannot get pension benefits that would normally be available to centre-based workers. Participation is also voluntary for those under the Inclusion Support Program.

How does it work?

Licensed family and group child care providers who buy RRSPs are eligible for a 50 per cent reimbursement of the costs from the government.

The maximum amounts are:

Family child care provider	$1,500 per year
Family child care provider, with ECE II or ECE III classification	$1,700 per year
Group child care provider	$1,100 per year (for **each** provider)
Inclusion support worker at a family or group child care home	Up to four per cent of annual gross income, as an inclusion support worker

Example

If a family child care home provider buys a $3,000 RRSP, the Manitoba government will reimburse one-half the amount, or $1,500. Providers are encouraged to buy what they are able to comfortably afford.

Q&A

Q: *I provide child care in my home, but do not have my ECE II. Why are they able to claim more than I can?*

A: The amount is based on what the provider can earn. Family child care providers with an ECE II or ECE III are able to charge higher fees.

For 2010, family child care home providers will be eligible for a full-year benefit if they purchase an RRSP prior to the RRSP deadline of February 28, 2011. Providers must then apply for reimbursement by March 15, 2011.

3. Long-term service recognition retirement benefit

for centre and nursery school workers ***and*** *home-based family and group child care providers*

This benefit supports long-term employees and providers who will soon retire and haven't been able to join a pension plan early enough to build retirement savings.

Who is eligible?

To be eligible, the individual must be an employee of a licensed, non-profit child care centre or nursery school, or a home-based family and group child care provider who:

- retires at or after age 65
- retires at or after age 55, but before 65, and whose age plus years of service equals 80 or more

Q&A

Q: *I'm retiring soon. How can I access the long-term benefit?*

A: Details about how to apply for reimbursement will be sent to all centres, nursery schools and home-based providers before December 1, 2010.

Q: *Are employees who retired before December 1, 2010 eligible?*

A: No. The retirement date must be on or after December 1, 2010.

How does it work?

The benefit provides the equivalent of four paid days for every year of service, to a maximum of 10 years, a total of up to 40 paid days (320 hours).

Centres and nursery schools will pay the employee this benefit through their regular payroll processes. The benefit is taxable income. Home-based family and group child care providers will apply to the Manitoba Child Care Program and will be paid directly.

Q&A

Q: *How much will my benefit be?*

A: It depends on your income and years of service. It is calculated based on four days of pay for each year of service, to a maximum of 10 years.

Example 1:
An ECE earning $19.00 per hour retiring at age 60 with 25 years of service would receive a retirement benefit of $6,080.

Example 2:
A CCA earning $13.50 per hour retiring at age 65 with 5 years of service would receive a retirement benefit of $2,160.

Example 3:
A family child care home provider with an earning potential based on their licensed spaces of $30,000 annually retiring at age 60 with 25 years of service would receive a retirement benefit of $4,615.

For employees in licensed, non-profit centres and nursery schools, the employer will be responsible for applying for the benefit on their behalf. Home providers will apply for the benefit themselves. The application for this benefit must be made prior to retirement.

Glossary

Annuity – Regular payments of retirement income, purchased with retirement savings from a financial provider.

Defined benefit plan – A type of pension plan where retirement income is determined with a formula based on wage and years of service.

Defined contribution plan –A type of pension plan that provides retirement income based on how much is contributed to each person's "account" while they worked and contributed to the plan. The pension is purchased based on the value of all the employee's and employer's contributions, plus investment earnings.

Full-time employee – An employee who works 30 hours or more per week in the child care sector.

Locked-in – Employer and employee contributions to the plan cannot be taken out as cash in a lump sum but must be paid only as retirement income.

Part-time employee – An employee who works less than 30 hours per week in the child care sector.

Plan text – A document that has all the written details of a pension plan. Plan text is required for both SMPPPs and employer sponsored pension plans.

Registered pension plan – A formal, self-administered or SMPPP plan, registered with Canada Revenue, that pays you an income when you retire (both employer and employee usually contribute) and is not taxed until you take it out in retirement.

Registered Retirement Savings Plan (RRSP) – A retirement savings account that lets you save for retirement while lowering your income taxes. All interest made on investments through this account is tax free until you take it out in retirement.

Simplified Money Purchase Pension Plan (SMPPP) - A defined contribution plan based on employer contributions that is administered by a financial institution (ex: bank, credit union).

Vested – Employees have immediate ownership of their own and their employers' contributions into a pension plan. Employers cannot take their contributions back for any reason.

Quick Facts

Registered Pension plans

Who: All employees of licensed, non-profit centres and nursery schools.

What: Employers and employees contribute (at least four per cent of employee wage) to a plan administered either by the employer or a financial institution.

Why: So employees have retirement income.

How:

1. Centres and nursery schools can choose how they want to run their plans – either through Simplified Money Purchase Pension Plans (SMPPPs) or by self-administration.
2. Centres and nursery schools will set up their plans according to *The Pension Benefit Act*, and implement them as soon as possible after December 1, 2010.
3. Employees that choose to participate and employers both make contributions as soon as the plan is effective.
4. Contributions from employees are taken off their paycheques.
5. Contributions from employers will be paid into the plan and refunded through the Manitoba Child Care Program (MCCP) with an application (up to four per cent of wages).
6. When employees retire, they can buy an annuity or a Life Investment Fund (LIF) to arrange for regular retirement income payments.

RRSP matching

Who: All licensed home-based family and group child care providers. (Participation is voluntary.)

What: Up to 50 per cent reimbursement of an RRSP purchase (to a maximum).

Why: So licensed home-based family and group child care providers can have retirement income.

How:

1. Individual home-based family and group child care providers can buy RRSPs, based on what they can afford.
2. They send a form to the Manitoba Child Care Program (MCCP) that shows proof of the purchase and the amount.
3. MCCP will reimburse individual providers up to 50 per cent of the amount, to a set maximum.

Long-term service benefit

Who: Employees in licensed, non-profit centres and nursery schools, as well as licensed home-based family and group child care providers, who meet eligibility requirements.

What: A one-time benefit of four paid days for every year of service, to a maximum of 10 years, a total of 40 paid days (320 hours).

Why: So long-term child care providers have a supplement to retirement income.

How:

1. Centres and nursery schools submit a request to the Manitoba Child Care Program (MCCP) for a benefit equal to four paid days for every year of service, to a maximum of 40 paid days for the staff about to retire.
2. MCCP makes payment to the centre or nursery school, for the long-term service benefit.
3. When the payment is received, centres or nursery schools transfer the funds to the retiring employee through their regular payroll, or transfer directly to an RRSP at the employee's request.
4. Home-based family and group providers apply directly to MCCP on their own behalf based on the same formula.

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