

PENSION REPORT November 2023

Explanation on Joint & Survivor 100% Option on an actuarially equivalent basis

If two benefits are considered “actuarially equivalent”, it means they provide the same value as each other. With regards to the Joint & Survivor 100% payment form added to the plan as an actuarial equivalent option to the Joint & Survivor 66.67% payment form, the monthly pension payable to retiring members who elect the Joint & Survivor 100% option would be reduced so that the expected value of all future payments the retiree and their spouse would receive is the same as the expected value of the payments they would have received under the Joint & Survivor 66.67% option. The expected values take into account how long the retiree and their spouse are expected to survive, and the impact of future interest.

For example, for an employee who retires at age 65 with an accrued pension of \$2,000 per month:

- If the retiree elects a Joint & Survivor 66.67% payment form, the pension would be reduced by 5% (assuming the spouse is no more than five years older or ten years younger than the member) to \$1,900 per month, and in the future if the retiree dies before the spouse, the spouse would receive 2/3rds of this amount, i.e., \$1,266.67 per month, for their lifetime.
- The actuarial expected value of all future payments would depend on the mortality and interest assumptions used, but for the purpose of this example, we will assume the expected value is \$340,000.
- The Joint & Survivor 100% pension shown on the employee’s retirement option form would then be calculated so that the expected value of all future pension payments under this option is \$340,000 (same as under the Joint & Survivor 66.67% option)
- Under the particular assumptions used for this example, the resulting monthly pension would be \$1,810.00.

The monthly pension payable to the retiree is lower than under the Joint & Survivor 66.67% option, but the amount payable to the spouse if the retiree dies first is higher (i.e., the spouse would receive the same pension the retiree was receiving, or \$1,810.00 per month), so the total expected value is the same.

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