



**PURCHASING PAST SERVICE:
A BUYER'S GUIDE**

Making your service work for you

During your College career, you may have some periods of time when you didn't contribute to the CAAT Pension Plan. If so, you have gaps in your Pensionable Service. How can you fill in these gaps to increase your pension? You can consider buying the service back.

When you buy back an unpaid leave of absence or some previous eligible service, you purchase that period of time to

add it to your Pensionable Service and the length of your CAAT Plan Membership.

More Pensionable Service means an increased pension benefit when the time comes to retire. It could also mean that you could retire on an unreduced pension sooner, or have a smaller reduction if you don't meet the requirements for an unreduced pension.

Is it for you?

Buying back service is not for everybody. You are responsible for deciding if a service purchase is a good idea for you, and if you can afford it. You'll need to know the cost of buying back the service, and how much larger your pension could be with the additional service, in order to make an informed decision.

In many cases, it's worth doing. But each of us has different plans for what we will do in our retirement, and how our finances can support our goals. You are the best judge of what is appropriate for you.

This pamphlet explains the basics of service purchases, and describes situations in which they can occur.

What will it cost?

For some buybacks, the cost is equal to the contributions you would have made if you were working. For others, the cost will be double contributions, reflecting your share and your College's share.

In most cases, usually after a six-month deadline for choosing to buy service has passed, the cost will be the current actuarial cost. This is the cost of the increased pension relating to the additional service – the value needed today to pay the pension in the future.

Generally, as your age, earnings and years of membership increase, so will the cost of the buyback. If you don't meet the original payment deadlines, you may also find that the cost that you've been quoted will be recalculated – this is because your age, earnings and years of membership are increasing all the time. There are some rare cases where the actuarial cost could decrease, depending on government bond interest rates, which are an important part of the calculation.

With a couple of exceptions, you will have to make payment by yourself, with no contribution from your employer. Remember that during your active service, your employer contributes the same amount as you.

In all cases, payment will be in a lump sum with no interest charged. You may have the choice of paying by cash, or by a transfer from your Registered Retirement Savings Plan (there are situations where you could be restricted to one or the other). You can choose to make the purchase up until you retire or leave your job.

The next seven pages provide examples of situations where you might want to consider buying back service. So, think about break periods you've had in your working life in Ontario's College system, and then check the next seven pages to see if they qualify for buyback treatment.

The time is now

There are some new rules for buybacks, effective in 2003. The new rules relate mainly to the cost of the purchase, the length of the payment period, and the elimination of interest charges. They were designed to make the process simpler and encourage Members to buy service as soon as they can. The new rules apply to all leaves of absence or service periods that are purchased after the end of 2002, no matter when the leave of absence occurred.

In some cases, the changes could mean a higher purchase cost – for example, if you wait until the six-month deadline has passed before buying back full time College service before you became a Plan Member.

More Pensionable Service means an increased pension benefit when the time comes to retire.

However, these changes included a phasing-in period for those who were Plan Members before 2002. If you joined the Plan before 2002 and you have not purchased a leave or service period that started before 2003, you can do so using the old rules until December 31, 2004. After that date, the new rules will apply.

So, now is the time to check your situation, and to make sure you take advantage of the old rules if they are more beneficial to you. You can get more information from your College's Human Resources Department.

Do these situations seem familiar to you?**Did you...**

Take pregnancy, parental or adoption leave resulting from the birth or adoption of a child?

Then...

You can buy this service through regular deductions by your employer from Supplementary Unemployment Benefit (SUB) Plan payments you receive during the leave period.

Or, buy it once you return to work, with cash or through RRSP transfer.

If you buy it within 6 months of returning to work, the cost will be regular contributions on your salary when you choose the purchase. Your College will match these contributions.

If six months have passed, you'll pay the whole actuarial cost, with no employer contribution from your College.

Once you sign the purchase form, you'll have 90 days to make full payment at the quoted actuarial cost, after which the amount owing will be recalculated.

Did you...

Take time off from work without pay for any reason, with your employer's approval?

Then...

You can buy this service either with cash or through RRSP transfer. If you make the purchase within six months of the leave's end, you'll pay two times your regular contributions (there is no contribution from your College) based on your salary at the time you choose the purchase.

If you wait until after six months, you'll be paying the whole actuarial cost. Once you sign the purchase form, you will have 90 days to make full payment (in cash or through RRSP transfer) at the quoted cost, after which the amount owing will be recalculated.

Did you...

Leave your employment, have your contributions refunded or the Commuted Value of your pension benefit transferred out of the Plan, and file a grievance or other similar procedure that resulted in you returning to work?

Then...

You can buy back the value of the service by repaying any amounts you received or transferred out when you return to work. The Plan will calculate the cost, which will include interest charges. If this cost is more than the current worth of the amount you received, due to investment fees or losses, you are responsible for the difference.

You will have the choice of paying with cash or through RRSP transfer, unless you are buying back a Commuted Value amount for service before 1992. In this case, payment must come from an RRSP or another Registered Pension Plan. See page 11 for information about PSPAs.

Did you...

Work for a College full time on a contract basis before you became a Plan member?

Then...

You have to be a full time employee to buy this service.

If you do, your College will pay the employer's share of contributions. Your current College will make the payment, based on current earnings, regardless of which College you were at when you acquired the service.

You can make your payment either with cash or through RRSP transfer. If you buy the service within 6 months of joining the Plan full time, you'll pay regular contributions based on your salary at the time you choose the purchase. If six months have passed, you'll be paying 50% of the actuarial cost, with your College paying an equal amount. See page 11 for information about PSPAs.

Once you sign the purchase form, you'll have 90 days to make full payment at the quoted actuarial cost, after which the amount owing will be recalculated.

Did you...

Work for a College, terminate before two years had gone by, take a refund of your contributions, and then get rehired, either by the same College or a different one?

Then...

If you buy this service within six months of rejoining the Plan, you'll pay regular contributions based on your salary at the time you choose the purchase, with no employer contribution.

If you wait until six months pass, you'll be paying the whole actuarial cost. See page 11 for information about PSPAs.

Once you sign the purchase form, you will have 90 days to make full payment (with cash or through RRSP transfer) at the quoted actuarial cost, after which the amount owing will be recalculated.

Did you...

Work for a College and transfer the Commuted Value of your pension benefit out of the Plan when you left?

Then...

If you return to work at a College, you can choose to buy this service after you rejoin the Plan. The cost to you is the whole actuarial cost, and there is no employer contribution.

Once you sign the purchase form, you will have 90 days to make full payment at the quoted cost, after which the amount owing will be recalculated.

If you are buying a Commuted Value amount relating to service before 1992, payment for it must come from a transfer from an RRSP or Deferred Profit Sharing Plan. If the amount relates to service after 1991, payment can be with cash or through RRSP transfer.

The new rules make the process simpler and encourage Members to buy service as soon as they can.

Did you...

Have a period of time when you were laid off with recall rights, you have now been recalled, and you have not had your contributions refunded or had the Commuted Value of your pension benefit transferred out of the Plan?

Then...

You can buy this service as an unpaid leave of absence when you return to work. You can use either cash or an RRSP transfer.

If you make the purchase within six months of the end of the layoff period, you'll pay two times your regular contributions based on your salary at the time you choose the purchase. If you wait until after six months, you'll be paying the whole actuarial cost. See the next page for information about PSPAs.

Once you sign the purchase form, you will have 90 days to make full payment at the quoted actuarial cost, after which the amount owing will be recalculated.

Did you...

Have a work stoppage relating to collective bargaining?

Then...

To buy this service, you would pay two times your regular contributions based on the salary you had at the beginning of the work stoppage. You can choose to make this purchase in a lump sum, with cash or through RRSP transfer, any time up until you retire or leave your job.

Tax considerations

In the same way your regular CAAT Plan contributions are tax deductible, a buyback purchase will be deductible if you pay in cash and have RRSP contribution room. This "room" for the current year is determined by your Pension Adjustment (PA) amount – that is, the deemed value, calculated by your employer, of the pension benefit you earned in the previous year. You can also carry forward additional unused RRSP contribution room from previous years.

At the same time, keep in mind that a buyback may affect your PA amount. If you pay for a leave of absence before April 30 of the year after the year the leave ends, it will be included in the PA reported for the period.

If you choose to buy the leave after April 30 of the following year, we will have to calculate a Past Service Pension Adjustment (PSPA) and report it for approval to the Canada Customs and Revenue Agency before the purchase can be completed.

A PSPA is the deemed value of the additional benefit created by the purchase – it reduces your RRSP

contribution room. To create room for the purchase within your RRSP, you may need to withdraw some funds from it, which will be considered taxable income in the year they are withdrawn, or you may need to transfer funds from your RRSP to purchase the leave. It is to your advantage to have a PA reported instead of a PSPA.

Note that Pension Adjustments have been used since 1990. These calculations are not required for service periods before that year. However, there are some other tax issues, such as the pre-1990 deductibility limit of \$3,500, which you would need to consider.

Federal law places a maximum on the amount of post-1990 unpaid leaves of absence you can purchase. The total amount is 5 years, plus up to 12 months for each pregnancy or parental leave to a maximum of 3 additional years.

Your decision to purchase service will be affected by the issues of tax deductibility, PAs and the possibility of PSPAs. You'll need to consult with your College and perhaps your financial advisor.

It's up to you

Should you purchase your service?

*In many cases, it's an effective way to enhance your ultimate pension benefit. But only you can decide. **Now** is the time to determine if you have such service, and what the costs and benefits of buying it would be.*

Have a look inside to see if you're eligible for a service purchase.

To begin making a purchase, you and your College have to complete the appropriate forms and you must be prepared to make the required payment. Your Human Resources Department can get you started.

For more information about service purchases, contact your Human Resources Department. For information about the CAAT Plan, you can contact us at the address below, or check our website at www.caatpension.on.ca



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May 2003