

PENSION PLAN

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NEWS

Elective Service – before September 30

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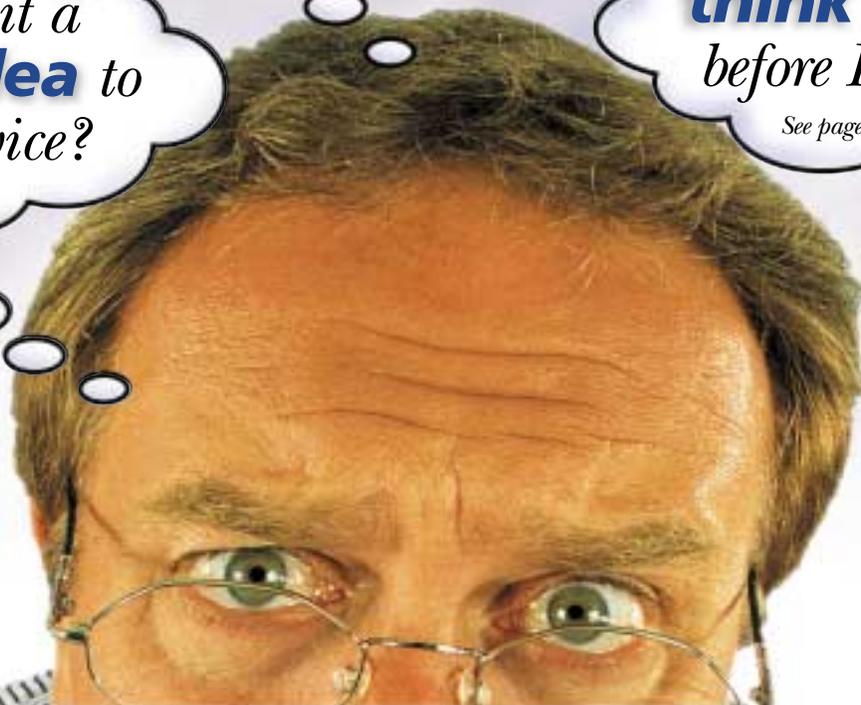
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Introduction

On October 1, 2000 all Canada Post employees who are members of the Public Service Superannuation Act (PSSA) pension plan will become members of the new Canada Post Corporation Registered Pension Plan. When this happens, the whole pension entitlement you've built up in the PSSA will be transferred to the Canada Post pension plan. You won't lose any accrued benefits and contribution rates will stay the same until 2004. For the most part, the transition shouldn't have a big impact on you.

There is one important thing, though, that may affect you. PSSA rules let you add to your pension benefits with something called **elective service**. If you had certain kinds or certain periods of service during your working life before you joined the PSSA (or while you were a member, but were on leave), you could pay the PSSA for that service. This service would then count to increase your pension benefits and maybe let you retire earlier with a higher pension.

Once the new Canada Post pension plan takes effect, you can still buy past service with Canada Post or the Post Office Department. However, if you want to take advantage of the chance to buy elective service with another employer, you must act while you are still under the PSSA. **You have to do all the paperwork and start paying for the elective service before September 30th.**

This deadline, however, **only** applies for service not related to Canada Post or the Post Office Department. As stated above, you can buy service that qualifies with Canada Post or the Post Office Department anytime you want under the Canada Post pension plan after October 1, 2000.

If past service with Canada Post or the Post Office Department is the only kind of service you have that you might want to buy, the deadline doesn't affect you. Also, if you already made a "buy-back" and are paying for your service, nothing will change. You will keep on paying your installments, but after October 1, 2000, they will be made to the Canada Post pension plan instead of to the PSSA.

If you recently requested, in writing, a cost estimate to buy service, you don't need to apply again. Your request will be processed as soon as possible. However, if it's been more than three weeks since you applied and you haven't received confirmation from Benefits Administration, please call the toll-free **Elective Service Help Line**, at **1-877-604-3567**, and they will look into the status of your application.

Why is it a good idea to buy service?

Buying service could have a number of advantages.

- You could retire earlier.
- You may be able to reach 30 years of service and be eligible to retire before age 60.
- Your pension will include this service, even if you haven't finished paying for it.
- If you die while you're paying for the service, the benefits paid to your spouse and children will include the service you're buying, even if it isn't fully paid for. The total cost will be considered paid in full.
- You can reach 35 years of service sooner (the maximum period of service for earnings benefits). You could have more RRSP room then, since your benefits under the Canada Post pension plan won't keep building up after 35 years.
- You may get a tax break if you buy back elective service.

What do I need to think about before I decide?

1. You need to think about whether it will cost you more to buy the service than the total value of the additional pension benefits you get as a result. You have to ask yourself—will I get back as much as I put in?
2. You can transfer money directly from your RRSP or another pension plan to the PSSA, tax-free, to pay for the service. Sometimes, though, there are tax advantages to using money that's not from your RRSP. You should

talk to a professional financial adviser about the pros and cons of using money from your RRSP.

3. There are other tax questions you'll need to think about, and maybe get advice on as well.

*How do I increase my **pension benefits** by buying service?*

Your pension depends on your highest average earnings and your years of pensionable service, as these terms are defined under the PSSA and the Canada Post pension plan. To build up more pensionable service, it may be a good idea to buy as much service as you can. However, you'll need to carefully consider all the pros and cons before you make any decision.

*What do **the words** mean?*

Earnings means your basic pay and other remuneration received from Canada Post for the performance of your regular duties, including corporate team incentive payments and certain other payments specifically listed in the Canada Post pension plan, but excluding allowances, special pay, individual incentive payments, overtime or gratuities, or any other compensation.

Highest average earnings means the average of your earnings during the five years in a row during which your earnings were the highest.

Pensionable service includes all the full and partial years you have contributed under the PSSA. Generally, this is the time you have worked for Canada Post or another employer who participates in the PSSA.

PSSA is the public service pension plan that employees of the government, government agencies and departments, and certain crown corporations are members of.

***What kind** of service can I buy?*

There are different types of service you might be able to buy.

- You could buy time you worked continuously in the public service before you started work at Canada Post that isn't already part of your pensionable service. This might include part-time service (working at least 12 hours a week) after 1981, or a waiting period before you joined.
- Certain kinds of leave of absence that you didn't buy back when you came back from the leave are also eligible.
- Some kinds of war service may be bought.
- With some restrictions, you may buy service in the Canadian Forces or the Royal Canadian Mounted Police.
- You can buy service with an eligible employer that had a registered pension plan, if you were a member of that plan immediately before you started contributing to the PSSA.

There may be some limits. For example, if you started work for Canada Post more than one year ago, you will have to pass a medical (that you pay for) before the PSSA will approve your buying the service. There are time limits for passing this medical.

*What kind of service can I **not buy**?*

Some types and periods of service cannot be purchased. Service that is not eligible is time you:

- worked part-time before January 1, 1981,
- were assigned to work less than 12 hours a week,
- were on strike, unauthorized leave, or suspension,
- worked for another employer, if it was more than two years before you started working for the public service or Canada Post,
- were on leave of absence before you started contributing to the PSSA, with some exceptions,
- were under age 18, if that happened between January 1, 1966 and September 8, 1993,
- worked for another employer, if you have a pension from that employer.

The PSSA's "most recent service" rule

You can buy:

- service with the government and service in the private sector,
- service while you were working full-time, and service while you were working part-time.

You can choose to buy one type only, because it's cheaper, but the PSSA rules say you have to buy the service that is most recent first. These rules may have an impact on whether you can buy back service at all, because of tax rules. You should speak with a professional financial adviser before making any decision.

How much does it cost?

How much you pay to buy service is affected by a number of things, including:

- your salary when you **last joined the PSSA** if you started work at Canada Post less than one year ago, or
- your salary **when you buy the service** if you started work at Canada Post more than one year ago,
- the interest you will have to pay (because of the years between the service you're buying back and when you choose to buy it), and
- the PSSA and Canada/Québec Pension Plan contribution percentages that applied when the service took place.

You pay **one times** the employee contribution percentage for:

- service with the government before you started contributing to the PSSA,
- service with the government, for which you received a lump-sum termination benefit or return of contributions,
- war service, if you were working for the government immediately before you enlisted, but had not started contributing to the PSSA, and
- service with the Canadian Forces or Royal Canadian Mounted Police eligible under the Canadian Forces Superannuation Act or Royal Canadian Mounted Police Superannuation Act.

You pay **two times** the employee contribution percentage for:

- war service, if you weren't working for the government immediately before you enlisted,
- service with the Canadian Forces or Royal Canadian Mounted Police when you weren't a member of the Canadian Forces Superannuation Act or Royal Canadian Mounted Police Superannuation Act,
- war service as a civilian, and
- service with an eligible employer outside the public service.

How do I pay for the service?

You choose how to pay for the service, with:

- a lump sum, in cash, or by transferring funds from your RRSP,
- monthly payments,
- a combination of lump sum and monthly payments.

If you pay in monthly installments, each payment includes an extra 4% interest (since you're paying over time) and a life insurance charge, so that if you die before you finish paying, the cost is considered paid in full.

You start paying for the service you want to buy right away—with a lump sum or monthly payments or both. Once the Canada Post pension plan starts, you can put off paying the balance until later, even until you retire. This option is being offered to everyone who has chosen or chooses to buy service other than service with Canada Post or the Post Office Department after September 15, 1999 (the date that Bill C-78, the federal public sector pension reform bill, became law). If you do put it off, however, the cost will be recalculated when you start paying for it again. At retirement, you will continue paying for the service (by pre-authorized chequing, for example), but you'll receive the additional pension right away.

If you delay paying, though, the amount you pay for the service will be higher than if you start paying now. Your payments starting later will be based on your salary at that time, and there will be more interest to pay.

Check out the examples (at the end of this bulletin) of how much it would cost you to buy service—starting now or starting when you retire.

How long *do I have to pay it off?*

If you pay monthly, and are 45 years old or older, you have 20 years to pay for the service. If you're younger than 45, the payments can be stretched out to age 65. Of course, you always have the option of paying it off in less time.

If you want to start paying when you retire, you have 20 years to pay for the service.

If you put off paying for the service until retirement, you will have to pass another medical exam at that time, at your own expense. If you don't pass the medical, you will have to pay for the service in a lump sum.

Something to consider

Once you start paying installments for the service you want to buy, if you die, the benefits the Canada Post pension plan pays to your spouse and children will include the service you were buying, even if you hadn't paid for it in full before your death.

If you stop paying your installments, though, deciding to put off paying until retirement and then died, your spouse and children would just get a refund of the payments you made, with interest. The service you wanted to buy won't be included to calculate their benefits.

Will the payments be **tax-deductible?**

Canada Customs and Revenue Agency sets limits on how much Canadians can save for retirement on a tax-deductible basis. Their rules are different for service before 1990 and service after 1990, and are quite complicated. You should consult with a professional tax counsellor about these issues.

What do I do now?

If you think there is service outside of Canada Post or the Post Office Department that you may want to buy, fill out the *Elective Service Estimate Request* form attached to this bulletin and send it to the Benefits Administration office for your area as soon as possible. The benefits specialist will use the dates and specifics you provide to give you an estimate of the cost of buying the service you are interested in. Once the estimate is done, the benefits specialist will send it to you along with the documentation you will need to complete and return to make a formal election and start your payments.

If you have any questions on how to fill out the estimate request form, or about whether the service you want to buy is eligible, please call the toll-free **Elective Service Help Line**, at **1-877-604-3567**

Once you have the estimate, you should see a professional financial adviser to look at tax questions and whether buying the service makes sense for you.

Please act quickly if you think you would like to take advantage of this opportunity, because the entire process could take several weeks to finalize. The sooner you make your decision, the sooner we can make your election official, so your elective service counts when you later receive a pension. **Except for service with Canada Post or the Post Office Department, you must fill out the documentation and start paying for the service by September 30, 2000. There won't be any extension to this date.**

Do you still have Questions?

Feel free to ask questions and make your views known to us. Write to Benefits Administration at the following address:

**HO PENSION DIVISION
2701 RIVERSIDE DRIVE SUITE B320
OTTAWA ON K1A 0B1**

You can also send e-mail to HO, Pension-Division: pension.division@canadapost.ca

Examples

Suppose you have two years of elective service you want to buy. Your current salary is \$38,000. Buying this service would give you an extra pension of about \$1,520 a year (integrated with the CPP at age 65) in today's dollars. The type of service (what contribution percentage you pay), when the service took place, and your age all affect how much you pay. The amount of extra pension you get, though, stays the same.

If you're buying service while you worked for the government, you generally pay **one times** the employee contribution percentage.

If you're buying most other kinds of service, you pay **two times** the employee contribution percentage, which will double your cost.

Keep in mind that these numbers are approximate only; they aren't intended to reflect your personal situation. In giving amounts owing if you put off paying until retirement, the examples assume that you will receive a 3% a year salary increase until retirement

COST EXAMPLES

If the service you're buying was	And you are 40 years old...			
	You will pay ...			
	Now		Put off until retirement	
	By lump sum	Monthly installments	By lump sum	Monthly installments
1 or 2 years ago	\$3,700	\$21	\$15,000	\$123
5 years ago	\$5,300	\$31	\$18,100	\$148
10 years ago	\$6,900	\$40	\$21,100	\$172

If the service you're buying was	And you are 50 years old...			
	You will pay ...			
	Now		Put off until retirement	
	By lump sum	Monthly installments	By lump sum	Monthly installments
1 or 2 years ago	\$3,700	\$25	\$7,900	\$65
5 years ago	\$5,300	\$36	\$10,200	\$83
10 years ago	\$6,900	\$48	\$12,400	\$102