# The OCFA Update

**Okanagan College Faculty Association Newsletter**

**Issue 3 – 2006/07** **"The Doug Issue"** **March 2007**

### IN THIS ISSUE



### EDITOR'S MESSAGE:

This month's *Update* is a very special issue, comprising a single article, by OCFA Pension Advisory Officer Doug Birtwistle, on the whys and wherefores of purchasing pensionable service.

The next *Update* will be published in early April, in anticipation of the **Annual General Meeting**, to be held in Kelowna on Tuesday, May 1. Your letters and articles will contribute to its success.

### COMMUNICATING WITH THE EXECUTIVE

The OCFA Executive, comprising the President, the 1st and 2nd Vice-Presidents, the Secretary-Treasurer, and the Member-at-Large, meets frequently as part of its role in carrying out the business of the Association. If you would like to bring forward a particular item for consideration please contact President John Pugsley at local 4392 or cell 250-718-6384 or e-mail jpugsley@okanagan.bc.ca.

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### LETTERS TO THE EDITOR

The *Update* encourages members to write letters to the editor, either in response to what you read in the newsletter or about other Faculty Association concerns. Letters to the *Update* do not represent the opinions of the editor nor the OCFA Executive or Council.

Please e-mail letters to *Update* editor Ross Tyner at rhtyner@okanagan.bc.ca. Acceptable formats are MS Word (.doc), .rtf, and plain text.

### OCFA WEB SITE

www.okanagan.bc.ca/ocfa

The web site is one of the primary means by which OCFA communicates with its members. Information on the site is updated as frequently as necessary so you should consider it a reliable source of current information about Association matters.

Information on the site includes:

- Contact information for the Executive, Council and Stewards
- A link to the current collective agreement
- Notices of meetings and other Association news
- Important dates related to a variety of collective agreement rights, benefits and obligations
- Links to OCFA forms and to labour-related organizations
- Current and back issues of the *Update*

Should you notice an error on the web site, or if you have a suggestion for information that should be added to the site, please e-mail web site editor Ross Tyner at rhtyner@okanagan.bc.ca.

## *Purchasing Pensionable Service*

***By Doug Birtwistle, Pension Advisory Officer***

Quoting the "*Purchase of Service*" Overview section found on the College Pension Plan website, "purchase of service means paying for periods of employment that have not been counted as service with the College Pension Plan." An employee might want to purchase such service with the intention of increasing his or her future pension benefit.

***What types of past, previously unclaimed, service are you entitled to purchase?***

1. *Arrears*. Arrears are unpaid amounts that occur when you and your employer do not make contributions to the pension plan when required to do so. In other words, the employer made a mistake. Either the employer did not start deducting pension contributions on the date that you were first eligible to contribute to the plan (such a mistake is called "*enrolment arrears*") or the employer did not resume making pension deductions after deductions were stopped, perhaps due to a leave of absence (such a mistake is called "*payroll arrears*"). In either case, you may be entitled to make retroactive contributions to the pension plan for the arrears period, thus receiving credit for both pensionable service and contributory service.

2. *Leaves of Absence*. If you were approved for a leave of absence with full pay or partial pay, and you did not contribute to the pension plan during that leave, you may be eligible to purchase service. Maternity leaves, parental leaves, adoption leaves or general (any other type of) leaves may qualify. There are some restrictions on purchasing service for the different types of leaves. These restrictions are listed in the "*Purchasing Leaves of Absence*" fact sheet found on the College Pension Plan website. As noted below, the cost of purchasing service due to a maternity, paternal or adoption leave is generally half that of the cost of purchasing service due to a general leave.

3. *Non-contributory Service*. Non-contributory service is a period of time when you worked for a College Pension plan employer but did not make pension contributions. Unlike arrears, the employer did not make a mistake. The employee was not required to contribute to the plan or chose not to contribute. For example, if you did not contribute to the pension plan during probationary periods or "casual" employment, you may be eligible to purchase such service. There are some cases for which an employee cannot purchase non-contributory service. Such cases are listed in the "*Purchasing Non-contributory Service*" fact sheet found on the College Pension Plan website.

4. *Reinstating a Refund*. If, at some time in the past, you withdrew your pension contributions from the College, Municipal, Public Service or Teachers' pension plans, you may be eligible to reinstate or (in the case of the Municipal, Public Service or Teachers' pension plans) transfer that service to the College Pension Plan. I was laid off by School District #57 in 1984, and withdrew my pension contributions, thinking I would likely not teach again. I now have the option of reinstating that service. As noted below, the calculation of the cost of reinstating a refund is much different than the calculation of the cost of purchasing the other three types of service.

The deadline to apply to purchase service that occurred before March 01, 2002 is March 31, 2007. For periods of service after March 01, 2002, a five-year "rolling window of opportunity" to purchase service applies. The one major exception to this rule is for the reinstatement of a refund. The deadline to reinstate a refund from the Municipal, Public Service or Teachers' pension plans of B.C. is March 31, 2007. After that date, an employee's option to reinstate in those plans will be gone forever. You may or may not be able to reinstate a refund from the College Pension after March 31, 2007.

***What is the approximate cost of purchasing service?***

There is a "*Purchase Cost Estimator*" on the College Pension Plan website.

For arrears, maternity leave, parental leave and adoption leave, the cost of purchasing service is based on your **current** full-time equivalent salary multiplied by the length of the service (in years) that you are eligible for multiplied by the **current** employee contribution rate. Presently, the employee contribution rate is 7.95% of $43,700 (the current "Y.M.P.E.") plus 8.70% of the amount of your annual salary above $43,700. For example, if your current salary is $74,722 (Step 2 of the salary scale), the cost would be: [(0.0795)(43700)+(0.0870)(74722 – 43700)] = $6,173.00 per one year of eligible service.

For general leaves and non-contributory service, the cost per year is generally **twice** that above, because you are required to multiply by the current combined employee **and** employer contribution rates.

For reinstatement of a refund, the calculation of cost is very different. You must repay the amount of your withdrawn contributions (in my case, $3,429, withdrawn in 1984) plus interest charged from the date of the refund up to the end of the month prior to repayment (in my case, $6,800, for a total of $10,229). The interest is charged at the "net earned rate of the pension fund." In my case, the interest charged amounts to an effective, annual compound rate of just under 5%. The repayment will allow me to purchase 19.50 months of pensionable service, equivalent to a cost of about $6,295 per year's service, certainly a better deal for me than it would be to purchase non-contributory service or service due to a general leave.

***What options do you have to pay?***

In general, you can pay by cash, direct transfer from an existing R.R.S.P. in your name, a combination of cash and R.R.S.P. transfer, or, if you are purchasing service "at retirement", a transfer from a retiring allowance, such as unused sick leave benefits (subject to article 26.1.4 in the Faculty Collective Agreement). There are possible tax implications of purchasing service, of which I do not have the expertise to comment on. In my case, it appears that if I pay for my reinstatement of a refund by a direct R.R.S.P. transfer, there are no tax implications.

***Is it worth purchasing service? Some Mathematics!***

Most people I have talked to say yes, though there are far too many factors to give a definitive answer. Most people say that the offer to purchase or reinstate service is fair. Very few say it is a "great" deal.

The two most important factors are (1) how much you will need to pay to purchase or reinstate service and (2) how many months of pensionable service you will be credited with. After you apply to purchase or reinstate service, the College Pension Plan people will send you a "statement of cost" quoting the exact amount owing, the payment due date, the number of months of pensionable and contributory service that will be credited your account if payment is made, and payment options. The statement does not at all mean that you are obliged to follow through with the purchase.

There are many other possible factors, among them (1) whether you have a spouse, (2) when you plan to retire (the earlier you retire, the more beneficial the purchase of pensionable service should be, unless, perhaps, you are to receive a reduced pension), (3) your projected five-year Highest Average Salary upon retirement, (4) your health, (5) whether you are going to borrow to purchase service, or pay cash, or make a direct transfer from your R.R.S.P., (6) your total years of pensionable service upon retirement, (7) your current salary, (8) periods of part-time work, (9) the type of pension option you decide to purchase when retiring, and (10) expected rates of return on investments, now and in the future.

The *Purchase Cost Estimator* provides an "Estimated Payback", a very simplistic estimate of the number of months of pension that it would take for you to realize the benefit of purchasing service. For a better estimate, you need to do some Mathematics, preferably with the use of a financial calculator. An example:

Let's say that the "statement of cost" quotes a payment of $10,500, due on 30 April, 2007. The payment will purchase 20 months of pensionable service. You plan on retiring at the age of 60 on 30 June, 2019 with an unreduced pension You are married (and plan on still being married upon retirement) and plan on opting for a JLG 10 (Joint Life Guaranteed 10 years) pension. You plan on a direct transfer of the $10,500 from your R.R.S.P. You expect to be at the top of the salary scale for at least the immediate 5 years prior to retirement.

1. If you did not purchase the pensionable service, instead opting to leave the $10,500 in your R.R.S.P., it would, of course, earn interest between 30 April, 2007 and 30 June, 2019. Let's say that it could earn an effective annually compounding interest rate of 5.00%. That $10,500 would grow to about $19,000 at the date of your retirement.

2. Let's estimate your 5-year Highest Average Salary (HAS) upon retirement as $93,000 (this assumes that the top of the salary scale will increase by about 2% per year).

3. When you retire at age 60, your gross monthly pension payments will increase by 2% multiplied by your (HAS)/12 multiplied by the number of pensionable months purchased/12. For this example, (0.02)(93000/12)(20/12) = $258. This amount is for a SLG 10 ("Single Life Guaranteed 10 years) pension. Purchasing a JLG 10 pension reduces the $258 to about $228. When you turn 65, the "bridge benefit" disappears, and the 2% in the above formula would be replaced by an estimated 1.8 %. This percentage must be estimated because the bridge benefit depends on the prevailing Y.M.P.E. Thus, starting at age 65, your gross monthly pension payments will increase by (0.018)(93000/12)(20/12) = $232 due to your purchase of service, reduced to about $200 due to the purchase of a JLG 10 pension.

4. Now, the more challenging part. If you did not purchase the service, you would have that $19,000 R.R.S.P. at age 60. The question is, if you could begin withdrawing money from that $19,000 at age 60, how long would it take for that $19,000 to disappear (assuming the 5.00% annual rate of return continues) if it must provide $228/month for the next 5 years, then $200/month thereafter? Using the BAII Plus Financial calculator, the answer, in this case, is about 8 years and 6 months. In other words, in very rough terms, if you live to be 68.5 years of age or older, and/or, your spouse lives at least 8.5 years after you retire, the purchase of service was a financially good deal. The longer one or both of you live, the better. With the 10 year guarantee on the pension option, your "estate" cannot lose, in this case.

Every employee's situation will be different. I am willing to attempt to "crunch" the numbers for any individual. Please email me with any questions, comments or concerns or if you have noticed any errors in my logic.

***More Stuff***

You should have received a recent email about the annual retirement seminar to be held at the Prestige Inn in Kelowna from 4:00 – 6:30 p.m. on Friday, March 30. If interested, you must register. The registration form is available on the College Pension Plan website.

To counteract the slight joy in the announcement of income tax cuts in the Provincial budget, a quote from the College Pension Plan's 2006 report to members: "Every three years, an independent actuary assesses the financial health of the plan's basic account and determines whether contribution rates are adequate for funding the plan. The next actuarial valuation report will be received … in late spring 2007. Preliminary analysis of the valuation data indicates that a contribution rate increase will likely be required, but it is expected to be smaller than the 2004 rate increase."