

# Fact Sheet

## Open Option Buyback

**OPTrust introduces a new option for members to buy back past service credit outside the Plan's normal 24-month application window.**

The OPSEU Pension Plan's sponsor – OPSEU and the Government of Ontario – have approved a new “open option” buyback provision for Plan members. This change to the Plan's rules allows eligible members to buy back credit after the Plan's normal 24-month application deadline has expired.

Effective **February 1, 2010**, you can apply to buy back credit for eligible past service, even after the 24-month application deadline. Under the new option, you can also apply for a previous buyback that you did not complete within the 10-year, three month payment window.

Completing your buyback will increase the amount of your OPTrust pension and may help you retire sooner.

### **How does an open option buyback work?**

An open option buyback gives members who did not apply within the normal 24-month window the flexibility to complete a buyback. OPTrust now accepts applications from active members:

- for leaves of absences that ended more than 24 months before the application date
- who did not apply within 24 months of their most recent plan membership date to purchase contract service (non-contributory periods) or previously refunded service
- for service with other public sector pension plans.

The open option buyback is a permanent plan change and not a time limited option.

**Important:** The new open option buyback gives members an opportunity to secure a pension benefit that was previously out of reach. Buying the additional credit may bring you closer to one of the Plan's early retirement options and you would likely see an increase to your pension at retirement.

However, the cost for this option may be significantly higher. That's why OPTrust encourages members who want to buy back service to apply within the Plan's normal 24-month application window because it is less expensive.

### **Who qualifies?**

The new rule applies to active OPTrust members who want to purchase:

- service with an employer who contributed to the OPSEU Pension Plan, the Public Service Pension Plan, or its predecessor
- unpaid leaves of absence from a participating employer
- service with another Canadian registered pension plan (Non-Ontario Public Service buyback and transfer top ups)
- a previous buyback not completed within the 10-year and three month payment window.

Divested and deferred members are not eligible to buy back past service credit under the new provision.



An open option buyback gives members, who did not meet the normal 24-month window, the flexibility to complete a buyback.



### How much will it cost?

The cost for an open option buyback is calculated on an “actuarial” basis. As a result, your cost may be considerable higher than if you applied within the Plan’s normal 24-month window.

To calculate the actuarial cost, OPTrust uses a number of factors – such as your age and current salary rate, current interest rates, and the amount of service you are purchasing – to determine the current cost of the additional pension you will receive if you complete your purchase.

The full cost of the buyback is paid by you.

### How to apply

If you are interested in the open option buyback, you will need to complete OPTrust’s *Application for Past Service Credit* form, available online and return it to our office. OPTrust will then provide you with a formal cost quote. Due to the high volume of applications it may take several weeks before you receive a quote.

#### Example 1

Garcia became a full-time OPS employee and joined the Plan in 2005. In 2008, Garcia made an application to apply to buy back his three years of unclassified service. However, Garcia was informed that he missed the Plan’s 24-month window. Under the new rules, he now has the option to open the application and purchase his previous service.

#### Example 2

When Jean joined the Plan in 1998 and he had four years of contract service to buy back. Jean made an application and paid for a portion of his past service credit. However, Jean did not complete his buyback payments within the Plan’s 10 year and three month time limit.

With the new open option buyback, Jean can now finish paying for his years of contract service and boost his income at retirement.

### Your payment options

There are a number of payment options available:

**Lump sum payment** – you can pay for your buyback in a lump sum, either by cheque or money order. Lump sum payments can also be made through a direct transfer from a tax-sheltered source such as an RRSP.

**Financing option (payroll deduction)** – you have the option of paying through a series of biweekly payroll deductions. If you choose the financing option, your total cost will include the Plan’s 6.75% interest rate. The interest rate is higher than if you applied within the Plan’s normal 24-month application window.

**Combined lump sum/financing option** – regular full-time and part-time employees may also opt to pay for through a combination of lump sum payments and payroll deductions.

Once we provide you with your cost quote, you have up to 10 years and three months to complete your buyback payments. This period starts three months after the date OPTrust presents you with your online cost or the date we mail you your original agreement form.



**Note:** Previous buyback applications will be accepted. If you want to re-open an application that was previously denied due to the Plan’s normal 24-month application time limit, you do not need to re-send your records to OPTrust since we have this information on file. Simply contact OPTrust and we will re-open your initial application.





### Example 3

Mary is age 60 with 18 years of service credit. When Mary first joined the Plan, she had two years of contract service but did not submit a buyback application. At age 60, Mary does not meet any of the Plan's early retirement options.

If Mary retired today, her OPTrust pension would be reduced by 25% or 5% for every year that she is under age 65, the Plan's normal retirement date. **Mary's pension is calculated as:**

$$\begin{aligned} 2\% \times \$54,000 \times 18 \text{ years} &= \$19,440 \\ \$19,440 - 25\% &= \mathbf{\$14,580} \\ &\text{annual pension} \end{aligned}$$

Let's say Mary decides to buy back her contract service under the new open option buyback:

$$\begin{aligned} 2\% \times \$54,000 \times 20 \text{ years} &= \mathbf{\$21,600} \\ &\text{annual pension} \end{aligned}$$

Mary receives a bigger OPTrust pension without a reduction and she can retire sooner.

### Why buying back credit matters

Buying back credit can be an important way to increase your pension when you retire plus increase your credit so that you can retire earlier. It may even help you to qualify sooner for OPTrust's early retirement options such as Factor 90 or 60/20.

It's always a good idea to apply to purchase credit within the Plan's 24-month application window. That way the cost will be significantly less than if you missed the window and you will have more payment options available to you.

### Should I buy back credit?

Depending on your age and years of service, the cost to buy back credit outside the Plan's 24-month application window may be expensive. However, a buyback will help you reach retirement sooner or increase the amount of your pension at retirement. You may want to discuss this option with a financial advisor.



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### For more information please contact OPTrust

This **Fact Sheet** is intended as a summary description of the OPSEU Pension Plan. The Plan text contains numerous provisions not described here that may apply to you. In the event of any conflict between this Fact Sheet and the OPSEU Pension Plan text, the Plan text will govern.

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