> Fact Sheets contain in-depth information on select topics for members of the OPSEU Pension Trust

FactSheet

Deferred pension or commuted value transfer?

Your options if you leave the OPSEU Pension Plan

OPTrust members who leave their jobs before retirement often have an important decision to make. Once they receive their *Termination Statement* from OPTrust, many members will have to choose between one of two options:

- leaving their pension credit in the Plan and receiving a deferred pension from OPTrust, or
- transferring the "commuted value" (CV) of their deferred pension into a registered, "locked-in" investment, such as a registered retirement savings plan (RRSP).

These options are available if you are terminating from the Plan and:

- have two or more years of pension credit or continuous membership in the Plan (you are "vested")
- are younger than age 55
- are not leaving the Plan as part of a divestment.

The commuted value decision is not a simple one. There are a number of important factors that you should consider if you are deciding whether to withdraw the value of your OPTrust pension or stay with the OPSEU Pension Plan. In fact, we suggest that you talk to an independent financial advisor before making your decision.

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If you leave your OPTrust employer, are vested and under age 55, you will have two options:

Option 1 – A deferred OPTrust pension

If you decide to take a deferred OPTrust pension, you will receive a lifetime retirement income. Your pension will be based on i) your best five-year average salary and ii) your years of credit in the Plan.

Your deferred OPTrust pension has the following features:

- *Early retirement benefits:* Your deferred pension is payable at the Plan's normal retirement age of 65. You also have the option to collect a reduced lifetime pension as early as age 55 under the Plan's early retirement option. At age 65, your OPTrust pension is reduced for integration with the Canada Pension Plan (CPP).
- *Inflation protection:* Your deferred pension is protected against inflation. Before you start to receive your pension, it will be adjusted for inflation over the deferred period. The annual pension escalation for inflation is based on increases in the Consumer Price Index (CPI),

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to a maximum of 8% per year. Any increase of more than 8% in the CPI will be rolled over to future years when inflation is below 8%. Once you start to receive your pension, your payments will continue to increase annually with the cost of living (subject to the 8% annual maximum) for the rest of your lifetime.

- *Survivor benefits:* Your deferred pension includes survivor benefits. Once you start your pension, should you die before your eligible spouse, he or she will receive a survivor pension equal to 60% of your pension, indexed to inflation, for the rest of his or her life. The pension amount will be integrated for CPP the month following your 65th birthday, even if you die at a younger age. Survivor benefits are also payable if you die before you start your pension, so the value of your OPTrust pension is not forgone if you die before retirement.

Depending on your years of credit in the Plan, your OPTrust pension may qualify you for health, dental and life insurance benefits in retirement provided by the Government of Ontario.

Option 2 – Transferring the commuted value of your pension

Alternatively, you have the option of transferring the commuted value of your pension entitlement to an RRSP or similar registered investment. The amount you can transfer out of the Plan will be listed on your *Termination Statement*. The commuted value of your pension is the lump sum present value of the stream of payments you and your surviving spouse, if applicable, are expected to receive following retirement, based on expected interest, inflation and mortality rates. The CV reflects the value of your early retirement and inflation benefits at the time you end your membership in the Plan.

The CV transfer option may be attractive to members who want greater control over their retirement savings, and who believe that they can realize a higher retirement income by managing their investments themselves. If you choose to move the commuted value of your pension to your own RRSP, your retirement income will be based on the market performance of the investments you choose.

Around age 55, you will have to choose one of several options for converting your locked-in RRSP into retirement income. These include:

1. purchasing an annuity
2. transferring your money to a life income fund (LIF) and drawing regular income from that fund
3. transferring your money to a locked-in retirement income fund, which is similar to a LIF, but with no annuity purchase requirement.

If you purchase an annuity, it will provide you with a monthly retirement income. The amount of each payment will depend on your age, the value of your investments and interest rates at the time of purchase. An annuity that provides inflation protection or survivor benefits will cost more than one that does not include these features.

If you choose a deferred pension (Option 1) when you end your membership, you have the option of taking a CV transfer at any point in the future, provided you are under age 55. Your CV will then be recalculated according to your age and interest rates in effect at the time of your election.

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Considering the risks and benefits

In making their decisions, some members will opt for the security of a deferred OPTrust pension, with its guaranteed lifetime retirement income based on their salaries and pension credit. The Plan's survivor benefits and access to insured benefits for those who qualify may also be factors in their decisions.

Other members may choose to transfer the commuted value of their pensions in anticipation of earning a higher retirement income by investing their money themselves. In making this choice, these members assume individual responsibility for their investment decisions. While they may achieve a higher retirement income, this is not guaranteed. Managing your retirement investments yourself involves financial risks associated with the particular investments you choose.

If you are leaving the Plan and are wondering whether to take a deferred pension or a CV transfer, you should consider carefully which option best suits your individual needs and circumstances.

How is your commuted value calculated?

The commuted value of your pension is the lump sum present value of your expected future pension plus related benefits. In calculating the CV, OPTrust uses a number of assumptions concerning mortality, interest and inflation rates. These assumptions are prescribed by the *Canadian Institute of Actuaries Standard of Practice for Determining Pension Commuted Values (CIA Commuted Value Basis)*.

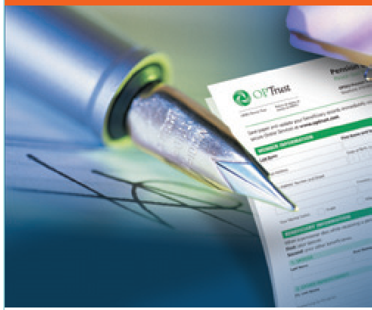
You should discuss your investment options with an independent financial advisor. It may be possible to achieve a rate of return on your CV that will give you a retirement income greater than what you would have received had you left your money in the Plan. However, investments that have a potential for higher returns usually also carry a higher risk. While market indexes such as the S&P Composite Index reflect overall trends, each individual investment is subject to its own risks.

Also, you will incur certain investment costs[1] on your RRSP investments called management expense ratios (MERs), which vary considerably by investment type.

If you are thinking about withdrawing the commuted value of your pension and investing it, you may want to get a quotation from the individual annuity market to help you decide. If you do so, you should ensure that the insurance company preparing your quotation has all the facts about your OPTrust pension, including:

- your OPTrust pension is protected against inflation, before and after retirement
- your pre- and post-retirement survivor benefits
- the Plan's early retirement options
- your personal pension data, including your age, the age and sex of your spouse, if applicable, and your accrued pension.

The market for a deferred annuity with all these features is very limited. You may find that either you will be unable to purchase the same amount of retirement income with an annuity, or you will not be able to purchase an annuity with comparable features to the OPSEU Pension Plan, such as inflation protection.



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[1] In the mutual fund industry, these costs are referred to as management expense ratios (MERs). Direct investment in stocks and bonds incur trading costs.

Insured benefits

Currently, many members who retire with an OPTrust pension have access to dental, supplementary health and hospital, and basic life insurance. If you qualify, these benefits may cover some or most of the costs related to vision care and hearing aids, hospital stays, dental care, certain medications and other paramedical services for you and your dependants.

Once you become eligible, these benefits will continue and will be available for your surviving spouse and dependants, if applicable. These benefits are provided by the Government of Ontario. To check whether you are eligible, contact your employer.

If you choose to leave the OPSEU Pension Plan, you will have to pay for these services directly or purchase insurance coverage on your own (unless you have access to these benefits under your spouse's plan).

Currently, many members who retire with an OPTrust pension have access to continuing health and dental benefits provided by their former employer.

When to retire

In calculating the commuted value of your pension when you terminate from the Plan, OPTrust assumes that your pension payments will start at the age that gives you the maximum value of the Plan's early retirement benefits. For many members this would mean starting to collect a pension at approximately age 60.

Examples

The following examples are for illustration only and show the kind of investment return two members would need to earn on their CV transfer amounts to generate a retirement income comparable to that provided by the OPSEU Pension Plan today. The actuarial assumptions used are outlined in detail on page 6.

Both examples use the following assumptions:

- rate of inflation is assumed to be 1.30% per year, for the first 10 years and 2.5% thereafter.
- the commuted value of the member's pension is based on a rate of inflation of 1.30% per year, for the first 10 years and 1.60% thereafter.

When the above inflation rate is added, this is equivalent to a nominal rate of return of 2.60% per year for the first 10 years and 4.10% per year thereafter. (These are the CIA counted value discount rates that apply for terminations occurring in December 2011.)

- To determine annuity purchase rates at retirement we have assumed a "real rate of return" of 0.50% per year. This is a more conservative basis than that used to determine the member's commuted value, and reflects current realities of the annuity market for fully indexed pensions.
- The examples do not reflect the investment costs that may be payable. Each individual's investments would have to generate additional income to cover these costs.

Example 1

Sanjay, 30, is a Systems Analyst with five years of credit in the Plan and an average annual salary of $54,000. Sanjay was laid off when his branch was restructured. Since his skills are in demand, he has decided to move to the private sector. There is a lot of mobility in his line of work and he doesn't expect to stay with his next employer until he retires.

Sanjay's OPTrust pension

If Sanjay keeps his money in the OPSEU Pension Plan and starts receiving his OPTrust pension at age 65, he will receive an annual pension of $8,008, including adjustments for inflation and integration with CPP. If he starts his pension at age 60, he will receive a reduced annual pension of $7,367. At age 65, after five years of increases for inflation and the reduction in his pension for CPP integration, he will receive $6,006 per year.

If he withdraws from the fund

What happens if Sanjay decides to withdraw the commuted value of his pension and invest it in a RRSP? In this case, assuming he retires at age 60, he would need to earn 4.02% per year (plus the extra returns required to cover the investment costs on his RRSP) to be able to purchase an annuity that would provide the same income as his OPTrust pension.

Let's suppose that Sanjay decides not to retire until age 65. If Sanjay continues to earn 4.02% per year on his funds (net of the MER), he can purchase an annual pension at age 65 in the amount of $8,008.

Post-retirement health, dental and life insurance

Since Sanjay has only five years of service in the OPSEU Pension Plan, he is not eligible for insured benefits in retirement provided by the Government of Ontario.

After consulting an independent financial advisor, Sanjay is tempted to take the commuted value transfer option. Before he makes his decision however, he needs to think carefully about the downside risk and whether he could bear the financial consequences of disappointing investment returns on his commuted value.

These examples are for illustration only and show the kind of investment return two members would need to earn on their CV transfer amounts to generate a retirement income comparable to that provided by the OPSEU Pension Plan today.

Example 2

Isabelle is an Information Officer for the Ministry of the Environment, where she has worked for 10 years. At age 45, Isabelle has decided to go back to school to pursue a degree in environmental studies. Isabelle's average annual salary is $54,000 per year.

Isabelle has a number of things to consider. She will be without an income during the four-year program; she will not be contributing to a pension plan and her initial salary at her new job may be lower than her current income. She is married and has one child. Her husband works for a company that does not provide health, dental and life insurance benefits coverage compared to the coverage OPS retirees may qualify for in retirement. Isabelle hopes to retire at age 60, as her husband will be 65.

Isabelle's OPTrust pension

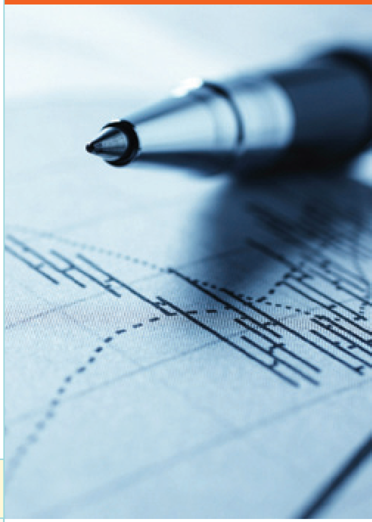
If Isabelle keeps her money in the OPSEU Pension Plan and starts her OPTrust pension at age 65, she will receive an annual pension of $10,249, including adjustments for inflation and integration with CPP.

If she starts her pension at age 60, she will receive a reduced annual pension of $9,264. At age 65, after five years worth of increases for inflation and the reduction in her pension for CPP integration, she will receive $7,552 per year.

If she withdraws from the fund

What happens if Isabelle decides to withdraw the commuted value of her pension and invest it in a RRSP? In this case, she would need to earn 3.78% per year (plus investment costs) to be able to purchase an annuity that would provide the same income as her OPTrust pension at a retirement age of 60.

Given her situation and the cost of the health and dental benefits, Isabelle may decide that taking a deferred OPTrust pension makes more sense for her than the CV transfer option. She thinks it would be hard to achieve the rates of return necessary to earn a higher pension than she would receive under the Plan, especially since she would like to retire at age 60. Although she knows that there is no guarantee for insured benefits coverage, they could still be available when she retires.



Actuarial assumptions used in the CV examples

The following are the actuarial assumptions used in the examples. Any changes to these assumptions will impact the results of the examples.

1. Inflation:

Rate of inflation	› 1.30% per year for the first 10 years, 2.5% per year thereafter

2. Assumptions used to determine the commuted value of a member's pension on termination:

Real rate of return	› 1.30% per year for the first 10 years › 1.60% per year thereafter
Mortality after retirement	› UP-94 with full generational mortality improvements using Scale AA › Blended mortality rates › 40% male / 60% female
Mortality before retirement	› None
Age of member's spouse	› A member's spouse is assumed to be the same age as the member
Age at retirement	› Age 60

3. Assumptions used to determine annuity factors at retirement

Real rate of return	› 0.5% per year
Mortality after retirement	› UP-94 with full generational mortality improvements using Scale AA › Blended mortality rates, 40% male / 60% female
Mortality before retirement	› None
Age of member's spouse	› A member's spouse is assumed to be the same age as the member

Checklist for your commuted value decision

Leaving your job is a big step that involves a number of important decisions. Whether you stay in the OPSEU Pension Plan or transfer your pension value to an RRSP, your choice will affect you for many years to come. Make sure you've looked at all the facts before you make your decision.

If you are deciding whether or not to withdraw the commuted value of your pension consider the following steps:

- ○ Get independent advice from a financial service professional. Be cautious about accepting financial advice from someone who hopes to sell you a product or ongoing service.
- ○ Consider comparing your deferred OPTrust pension to a retirement income annuity purchased with the investment earnings from the commuted value of your pension. Be sure that you take into account some of the Plan's key features:
  - early retirement options
  - inflation protection features
  - pre- and post-retirement survivor benefits
  - qualifying for insured benefits coverage in retirement provided by the Government of Ontario.
- ○ Consider the potential value of these benefits and what you might miss if you choose a CV transfer instead of a deferred pension.
- ○ Remember, your investments will need to generate a higher income at retirement to cover the cost of these insured benefits.
  - Make sure that the annuity income generated from a CV transfer will be enough to offset health inflation, which is running higher than general inflation, and is expected to continue at a higher rate.
  - Make sure that you can get adequate post-retirement insurance coverage in the individual insurance market. Remember that you or your spouse may be required to undergo a medical exam before coverage is granted.

Remember that if you take a CV transfer, your rate of return will be subject to market conditions. You should be comfortable that the level of risk you are assuming does not outweigh the potential benefits.

Take the time to consider your options carefully and perhaps discuss them with your family. This is an important decision – and one that will have long-term consequences for you and your family.

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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OPSEU Pension Trust | Fiducie du régime de retraite du SEFPO

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