

Divesting into the Public Service Pension Plan

Your pension rights under a divestment

From time to time the Ontario Government changes the way in which services in the province are delivered. Organizations are merged, new organizations are created, and services are transferred between the provincial and municipal governments and to the private sector. Any of these restructuring situations may result in what is referred to, for pension purposes, as a divestment.

If your pension plan membership changes due to a divestment, your pension benefits are governed and protected by the *Pension Benefits Act*, Ontario (the PBA).

This brochure provides general and summary information on divestments and your rights as a member of the Public Service Pension Plan (the PSPP).

What is a divestment?

You are part of a divestment into the PSPP if:

- your former employer sold, assigned, transferred or disposed of all or a part of its business to a PSPP employer, and
- as a result of the transaction, you become employed by the PSPP employer and a member of the PSPP

As a divested member, **you end your active membership in your former plan** and become a member of the PSPP as of the divestment date. From that date forward, you contribute to and earn pension credit only in the PSPP.

What happens to my pension credit in my former plan?

Under the rules on divestments in section 80 of the PBA, you are deemed to have not terminated employment with your former employer. Accordingly, your pension credit will remain in your former plan and when you terminate from your PSPP employer you will be entitled to a benefit from your former plan.

What happens when I leave my new employer?

When you terminate employment with your new employer, the following will happen.

Under your former plan

The administrator of your former plan will send you information on your pension benefit option(s) in that plan. Your option(s) will be determined according to the terms of your former plan in effect when you terminate employment with your PSPP employer. If your former plan is also registered in Ontario, eligibility for an immediate unreduced pension, if applicable, will be based on your age and your combined pension credit and/or membership in your former plan and the PSPP (see *Examples* on page 2).

The dollar amount of your entitlement in your former plan under each option will be calculated using your pension credit in your former plan and your average salary in that plan at the divestment date.

Under the PSPP

When you terminate your employment with your PSPP employer, OPB will send you a **termination package**, which will outline your pension benefit option(s) in the PSPP.

Your option(s) will be determined according to the terms of the PSPP at the date of termination. Eligibility for an immediate unreduced pension, if applicable, will be based on your age and your **combined** pension credit and/or membership in your former plan and the PSPP (see *Examples*).

The dollar amount of your entitlement under each option will be calculated using your PSPP pension credit and your average salary (i.e., your highest annual salary, averaged over 60 consecutive months) at the date of termination. Your average salary in the PSPP is based on the salary you earned when you worked for your PSPP employer.

Please note

- **Salary increases or decreases** with your PSPP employer do not and will not affect your **average salary** under your former plan. This is because you did not contribute to your former plan based on the salary you earned with your PSPP employer.
- When you terminate employment with your PSPP employer, you may be eligible to receive post-retirement medical and dental benefits from the Government of Ontario, if you fulfill certain eligibility criteria.
- Each plan will likely have different eligibility requirements for their respective pension benefits. To be eligible for an immediate pension under either or both plans when you terminate employment with your PSPP employer, you must meet the requirements set out by the plan(s).

Examples:

1. Where the same early retirement options are available from the former plan and the PSPP

The PSPP provides a **Factor 90** early retirement option (age and pension credit total at least 90) to eligible members. If the former plan also provides such an option, here's how a divested member could be eligible to receive an immediate unreduced pension when they terminate from their PSPP employer.

- On the divestment date, the member is age 55 and has 25 years of pension credit in their former plan. The member's average salary in their former plan is \$40,000.
- The member divests to their PSPP employer and works until age 60, earning 5 years of pension credit in the PSPP. The member's average salary in the PSPP is \$50,000.
- At age 60, the member has a combined 30 years of pension credit (25 years in their former plan, plus 5 years in the PSPP). If the member terminates their employment with their PSPP employer, they will be eligible to receive an immediate unreduced pension from both their former plan and the PSPP.

From their former plan, the member will be entitled to receive an unreduced pension under the former plan's Factor 90 early retirement option, based on 25 years of pension credit and an average salary of \$40,000.

From the PSPP, the member will be entitled to receive an unreduced pension under the PSPP's Factor 90 early retirement option, based on 5 years of pension credit and an average salary of \$50,000.

2. Where different early retirement options are available from the former plan and the PSPP

The PSPP provides a **60/20** early retirement option (age 60 or over with 20 or more years of pension credit) to eligible members. If only a **Factor 90** early retirement option is available from the former plan, here's how a divested member could be eligible to receive an immediate unreduced pension from the PSPP when they terminate their employment with their PSPP employer.

- On the divestment date, the member is age 52 and has 12 years of pension credit in their former plan. The member's average salary in their former plan is \$40,000.
- The member divests to their PSPP employer and works until age 60, earning 8 years of pension credit in the PSPP. The member's average salary in the PSPP is \$50,000.

- At age 60, the member has a combined 20 years of pension credit (12 years in their former plan, plus 8 years in the PSPP). If the member terminates their employment with their PSPP employer, they will be eligible to receive an unreduced pension from the PSPP under the 60/20 early retirement option.

Because the former plan does not offer a 60/20 early retirement option and the member does not qualify for the former plan's Factor 90 early retirement option, the member would not be eligible for an immediate unreduced pension from the former plan. The member would be entitled to a **deferred** pension in their former plan, based on 12 years of pension credit and an average salary of \$40,000. Deferred pensions are typically payable at age 65. The member may also be eligible for a **reduced** immediate pension from the former plan (the type of benefit will depend on the terms of the former plan).

From the PSPP, the member will be entitled to receive an unreduced pension under the 60/20 early retirement option, based on 8 years of pension credit and an average salary of \$50,000.

OR - if a Factor 85 option is available

As previously noted, the PSPP provides a **Factor 90** early retirement option to eligible members. If a **Factor 85** early retirement option (age plus pension credit equals 85) is available from the former plan, here's how a divested deferred member could be eligible to receive an immediate unreduced pension from their former plan when they terminate their employment with their PSPP employer.

- On the divestment date, the member is age 45 and has 22 years of pension credit in their former plan. The member's average salary in their former plan is \$40,000.
- The member divests to their PSPP employer and works until age 54, earning 9 years of pension credit in the PSPP. The member's average salary in the PSPP is \$50,000.

- At age 54, the member has a combined 31 years of pension credit (22 years in their former plan, plus 9 years in the PSPP). If the member terminates their employment with their PSPP employer, they will be eligible to receive an unreduced pension from their former plan under its Factor 85 early retirement option.

Because the PSPP does not have a Factor 85 provision and the member does not qualify for the Factor 90 early retirement option (from the PSPP) the member is eligible for a deferred pension; based on 9 years of pension credit and an average salary of \$50,000 and payable at age 65. Because the member is under age 55, they are also entitled to the commuted value of their deferred pension. The commuted value is an estimate of the amount of money the PSPP requires today in order to pay the pension in retirement. The commuted value can be transferred to a locked-in retirement account, or to another registered pension plan, or can be used to purchase a deferred life annuity with an insurance company.

From the former plan, the member is entitled to receive an unreduced pension under the Factor 85 early retirement option, based on 22 years of pension credit and an average salary of \$40,000.

Important notice

As a divested member you will not be eligible to receive your pension benefits from your former plan until you **terminate your employment with your PSPP employer**. You cannot **opt out** of the divestment or enter an arrangement with your PSPP employer in order to access your pension benefits in your former plan.