

Divesting out of 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 PSPP employer sold, assigned, transferred or disposed of all or a part of its business to a new employer, and
- as a result of the transaction, you become employed by the new employer and a member of its pension plan

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

If, at the time of the transaction, you are in the process of purchasing pension credit in the PSPP, all payments must be completed by the divestment date. If payments are not completed, the pension credit being purchased will be pro-rated (i.e., you will receive only the amount of pension credit you paid for). If you wish to complete your purchase, please contact an OPB Client Care Associate and we will provide you with a single-payment quote.

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 PSPP employer. Accordingly, you will be considered a **divested deferred member** in the PSPP. You will be entitled to a deferred pension based on your PSPP pension credit and your average salary (i.e., your highest annual salary, averaged over 60 consecutive months) at the divestment date.

Your PSPP pension credit accrued before the divestment date will remain in the PSPP. You will be eligible to receive a pension benefit only when you terminate your employment with your new employer, and meet certain eligibility requirements, or you reach age 65.

What happens when I leave my new employer?

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

Under the PSPP

We ask that you please advise OPB when you terminate employment with your new employer. OPB will then send you a **termination package**, which will outline your pension benefit option(s) in the PSPP.

Your option(s) will be determined by the terms of the PSPP in effect when you terminate employment with your new employer. Eligibility for an early, unreduced pension, if applicable, will be based on your age and your combined pension credit and/or membership in the PSPP and your new plan (see *Examples*, page 3).

The dollar amount of your PSPP entitlement under each option will be calculated using your PSPP pension credit and your average salary in the PSPP at the divestment date. Your benefits will also include any cost of living increases applied to your PSPP entitlement between the divestment date and your termination from your new employer.

Please note that you can begin to receive your PSPP pension at age 65 even if you have not terminated your employment with your new employer.

Under the new plan

When you terminate your employment with your new employer, the administrator of your new plan will send you information on your pension option(s) in that plan. Your option(s) will be determined according to the terms of the new plan at the date of termination. If your new plan is registered in Ontario, eligibility for an early unreduced pension, if applicable, will be based on your age and your combined pension credit and/or membership in the PSPP and the new plan (see *Examples*).

The dollar amount of your entitlement in the new plan under each option will be calculated using your pension credit in the new plan and your average salary in the new plan at the date you terminated employment with your new employer.

What if I'm divested out again?

If your new employer becomes involved in a divestment, the same rules will apply. That is, if you are divested to a subsequent employer and join its pension plan, your employment will be deemed not to have terminated for pension purposes. Your PSPP pension credit will remain in the PSPP, as well as in the plan you joined after the PSPP. You will earn pension credit in this third plan from the date of the subsequent divestment until you terminate employment with the subsequent employer.

You will then be entitled to receive a separate benefit from each of the three pension plans. The type of benefit from each plan will be based on your age, if the other plans are registered in Ontario, and combined pension credit and/or membership in all three plans. The dollar amount of your entitlement in each plan will be calculated using your pension credit and average salary in each respective plan.

Please note

- Salary increases or decreases with your new employer do not and will not affect your average salary in the PSPP. This is because you did not contribute to the PSPP based on the salary you earned with your new employer.
- Pension credit related to employment prior to the divestment date that is purchased in the new plan will not count towards eligibility for an early unreduced pension in the PSPP. Only the purchase of pension credit for leaves of absence that occur after the divestment date will be considered for this purpose.
- When you terminate employment with your new 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. When you terminate employment with your new employer, to be eligible for an immediate pension under either or both of the plans, you must meet the requirements set out by the plan(s).

Examples:

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

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

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

From the PSPP, the member will be entitled to receive an unreduced pension under the PSPP's Factor 90 early retirement option, based on 25 years of pension credit and an average salary of \$40,000. Cost of living adjustments since the divestment date will be added to the pension.

From the new plan, the member will be entitled to receive an unreduced pension under the new plan'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 PSPP and the new plan

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 new plan, here's how a divested deferred member could be eligible to receive an immediate unreduced pension from the PSPP.

- On the divestment date, the member is age 52 and has 12 years of PSPP pension credit. The member's average salary in the PSPP is \$40,000.
- The member divests to the new employer and works until age 60, earning 8 years of pension credit in the new plan. The member's average salary in the new plan is \$50,000.
- At age 60, the member has a combined 20 years of pension credit (12 years in the PSPP plus 8 years in the new plan). If the member terminates their employment with the new employer, they will be eligible to receive an immediate unreduced pension from the PSPP.

Because the new plan does not offer a 60/20 early retirement option and the member does not qualify for the new plan's Factor 90 early retirement option, the member would not be eligible for an immediate unreduced pension from the new plan. The member would be entitled to a deferred pension in the new plan, based on 8 years of pension credit and an average salary of \$50,000. Deferred pensions are typically payable at age 65. The member may also be eligible for a reduced immediate pension from the new plan (the type of benefit will depend on the terms of the new plan).

From the PSPP, the member will be entitled to receive an unreduced pension under the 60/20 early retirement option, based on 12 years of pension credit and an average salary of \$40,000. Cost of living adjustments since the divestment date will be added to the pension.

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 new plan, here's how a divested deferred member could be eligible to receive the immediate unreduced pension from the new plan.

- On the divestment date, the member is age 35 and has 12 years of PSPP pension credit. The member's average salary in the PSPP is \$40,000.
- The member divests to the new employer and works until age 54, earning 19 years of pension credit in the new plan. The member's average salary in the new plan is \$50,000.
- At age 54, the member has a combined 31 years of pension credit (12 years in the PSPP plus 19 years in the new plan). If the member terminates their employment with the new employer, they will be eligible to receive an immediate unreduced pension from the new plan under the new plan's Factor 85 early retirement option.

Because the PSPP does not offer a Factor 85 provision and the member does not qualify for Factor 90 or the 60/20 option, the member is entitled to a deferred pension from the PSPP, based on 12 years of pension credit and an average salary of \$40,000 and payable at age 65. Cost of living adjustments since the divestment date will be added to the pension.

Because the member is under age 55, they will also be entitled to take 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 new plan, the member will be entitled to receive an immediate unreduced pension under new plan's Factor 85 option, based on 19 years of pension credit and an average salary of \$50,000.

Important notice

As a divested deferred member of the PSPP, you will not be eligible to receive your PSPP pension benefits until you terminate your employment with the new employer or you reach age 65. You cannot opt out of the divestment or enter an arrangement with your new employer in order to access your PSPP pension benefits.