
PEPP *Talk* . . .

on Reciprocal Transfer Agreements

This issue of PEPP *Talk* provides members of the Public Employees Pension Plan (PEPP) with information about reciprocal transfer agreements.

Reciprocal transfer agreements define the terms and conditions under which a member may transfer pensionable service and/or monies from one registered pension plan to another. When individuals move from one employer to another, they can take their pension with them if both the new and old employer pension plans have a reciprocal transfer agreement.

Each transfer is unique to the two pension plans involved. Your transfer from one registered pension plan to another may have an affect on your retirement income. A member will want to carefully read the transfer documentation to ensure understanding all of the terms and conditions.

Types of Pension Plans

Before you transfer you will want to gain an understanding of the type of pension plan to which you are transferring. The majority of pension plans fall into two categories: defined contribution or defined benefit.

Defined Contribution

Under a defined contribution (DC) plan - also known as "money purchase" - your contributions, your employer contributions and any voluntary contributions you have made are accumulated with return on investment to provide you with an account balance. At retirement, your account balance is used for a retirement income option, such as a variable pension benefit, life annuity, or prescribed Registered Retirement Income Fund (pRRIF). PEPP is a DC pension plan.

Because your pension under a DC plan is based on your account balance, a reciprocal transfer agreement transfers your account balance to the pension plan of your new employer.

Defined Benefit

Under a defined benefit (DB) pension plan, a formula based on your service and salary history is used to determine your pension benefit. Often, your highest average salary, your pensionable service, and an accrual rate are multiplied together to determine your pension benefit.

Because your pension benefit under a DB plan is based on a formula that includes your service and salary history, a reciprocal transfer agreement transfers the value of your accrued pension.

Points to Consider

You will want to investigate and compare the provisions of both plans to determine the financial impact of making a transfer. Ask the following questions when comparing the provisions of both plans. Be certain you understand the answers.

① How are my retirement benefits determined under the plan?

If you are transferring your account balance from a DC plan to another DC plan, you should be credited with an equivalent account balance under the new plan. Your account balance will grow with additional contributions and return on investment. At retirement, your account balance will be used to provide you with retirement income.

If you are transferring from a DC plan to a DB plan, all or a portion of your account balance, will be used to purchase pensionable service under the new plan. The pensionable service you purchase will be used in the formula to determine your pension benefit.

Determine how the potential pension benefit from the new plan compares to the potential pension benefit from your existing pension plan.

When comparing potential pension benefits, there are three other factors to consider.

- **What are your plans for retirement?** Review the early or age 65 retirement provisions of the plan to which you are considering transferring. The adjustments for early or age 65 retirement are unique to each plan.
- **What are the death benefits associated with the plan?** The formula for some pension plans assume that your pension will continue to your spouse for his or her lifetime in the event of your death. Other plans assume that your pension will cease at the time of your death. If you elect to take a survivor form of pension, the pension amount is adjusted.
- **Is there an indexing feature?** An indexing feature increases your pension payments to keep pace with inflation. Some defined benefit pension plans include automatic indexing or have a history of granting ad hoc increases to their retirees. Generally, you can expect to live 20 to 30 years after your retire, indexing may be an important feature to consider.

② What happens if I transfer and then I terminate employment with my new employer before I retire?

On termination of employment, the treatment of the monies transferred into a pension plan as a result of a reciprocal agreement varies from plan to plan. This treatment may affect the amount of your termination benefit. For example, the amount of your termination benefit may be less than the amount you transferred. Therefore, inquire about your termination benefit in relation to the monies you transfer.

The options available to you upon termination of employment are important. You may want to investigate whether a deferred pension must be taken; what the transfer policies to a Variable Benefit, a Locked-in Retirement Account (LIRA), or a prescribed Registered Retirement Income Fund (pRRIF) are; and what reciprocal agreements are in place, or will be established with your new employer.

3 What happens in the event of my death prior to my retirement?

The provisions of the pension plan to which you are transferring, determine the amount your spouse or beneficiary receive in the event of your death. The amount of the benefit may depend on how long you worked for your new employer and your age. It could be smaller than the amount payable under the pension plan you transferred from. You may want to get answers to these questions:

- Must your spouse take the benefit as a pension?
- Is the pension immediate or deferred?
- Can your spouse transfer the benefit to a Variable Benefit, a Locked-in Retirement Account (LIRA), or a prescribed Registered Retirement Income Fund (pRRIF)?
- Would your spouse be entitled to any other special benefits?

4 What happens to my pensionable service if I transfer?

Under a defined contribution plan, your service determines your right to the employer's contributions (vesting) and may determine your right to certain other benefits such as early retirement incentives, death benefits and additional vacation time. It is important to know if you will be credited with your full amount of service if you transfer to a new plan.

Under a defined benefit plan, service is used to determine your eligibility for a pension. Service is also a factor in the formula that determines the amount of your pension. Service should be a primary consideration in making your decision to transfer.

If your account balance does not purchase all of the service you had, you might wish to inquire if you can purchase additional service in the new plan and the cost involved. There may be time limits and tax implications on this type of purchase.

Regardless of the type of plan to which you are transferring, inquire about all of the circumstances in which service might affect your benefits.

5 What about my voluntary contributions?

If you have voluntary contributions, you will want to know if they can be transferred to the new plan. How are investment earnings credited to voluntary contributions? What options are available on termination or retirement? Can you take them in cash or must they be used for retirement income? Can they be used to purchase additional service under the new plan?

6 What about tax?

A transfer of monies between registered plans in accordance with a reciprocal agreement is not subject to income tax, however, benefits you receive in cash from pension plans are taxable.

A transfer may increase or decrease your RRSP room and a cash refund would affect your income for the year. The possible effects cannot be determined until the specifics of the transfer are known. If you have questions, consult a tax expert for advice based on your individual situation.

7 **Should I seek advice?**

Before you transfer to another pension plan, you must decide if the transfer is satisfactory to you. You might want to discuss a potential transfer with your current employer, your new employer, the administrators of both pension plans, and your financial planner or a tax expert before making your decision.

8 **How do I initiate a transfer?**

Frequently, there are time limits associated with transferring service and/or monies from one pension plan to another. If you are interested in initiating a transfer from one pension plan to another in which there is a reciprocal agreement in place, please contact your plan administrator as soon as possible.

Other PEPP Talks that may interest you:

- ***Fund Fact Sheets***
provides information on the individual funds, investment philosophies, fund performance objectives, and investment risks associated with each fund within PEPP.
- ***Transferring Money into PEPP***
provides members with information on making voluntary transfers into their PEPP account.
- ***Voluntary Contributions***
provides information on making contributions to PEPP over and above your regular contributions.
- ***Termination Options***
provides information in the various options PEPP members have at termination.
- ***Retirement Income Options Booklet***
provides information on the various options PEPP members have at retirement.

PEPP Talks are available on our website at www.peba.gov.sk.ca.

Questions

For further information about reciprocal transfer agreements, contact:

Public Employees Pension Plan (PEPP)
c/o Public Employees Benefits Agency (PEBA)
1000 - 1801 Hamilton Street.
REGINA SK S4P 4W3

Phone: 306-787-5442, in Regina
or toll free at 1-877-275-7377 (from outside the Regina calling area)

Fax: 306-787-0244
Email: pepp@peba.gov.sk.ca

The information contained in this issue of PEPP *Talk* does not replace or supersede *The Public Employees Pension Plan Act* or *The Pension Benefits Act, 1992* or related regulations. In the event of any misunderstanding or conflict, the Acts and Regulations will prevail. Please contact PEPP if you are or were working outside Saskatchewan. Your pension may be subject to the legislation of another province.

The Public Employees Pension Plan produces issues of PEPP *Talk* as a service to its members. These documents provide information on specific provisions of the Plan. Plan information is available in a variety of other forms including: issues of PEPP *Talk* on other topics; our newsletter, "Pension Perspectives"; PEPP Member Booklet; and the PEPP home page www.peba.gov.sk.ca/pensions/pepp/home.html

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Appendix 1

The Public Employees Pension Plan has reciprocal agreements with these employers/plans:

- City of Moose Jaw
- DirectWEST Publishers Ltd.
- Investment Corporation of Saskatchewan
- Province of Newfoundland
- Saskatchewan Indian Agriculture Program
- Saskatchewan Teachers' Superannuation Commission
- Saskatchewan Teachers' Federation