

INFORMATION SHEET

Purchasing Prior Service

This Information Sheet is designed to provide general information on the purchase of prior service under the Universities Academic Pension Plan (UAPP).

Prior service refers to a period of service with your current or previous employer for which you wish to establish pension credits in UAPP. It does not include approved periods of leaves during which you did not contribute to the Plan. Leave periods are covered under a separate Information Sheet *Establishing Pension Credits for Leave Periods*.

Prior service is sometimes also called optional service because the purchase of eligible prior service is done solely at your discretion. However, the Income Tax Act imposes many restrictions and conditions on the purchase of prior service. The following is a brief summary of the main provisions.

ELIGIBLE PRIOR SERVICE

Whether a period of prior service is eligible for purchase or not depends on where and when the service was rendered. There are two main categories:

■ PREVIOUS SERVICE WITH AN EMPLOYER WHO PARTICIPATES IN UAPP

Service after 1989

If you did not contribute on post-1989 service, then the service is eligible for purchase. However, the purchase is subject to Prior Service Pension Adjustment (PSPA) rules as explained later in this Information Sheet.

If you want to re-purchase post-1989 contributory service on which you took a refund, then the service is eligible for purchase. However, the purchase is subject to PSPA rules as explained later in this Information Sheet.

Service before 1990

If you did not contribute on this service, then the service is eligible but the benefit for each year of service purchased is limited to 2/3 of the maximum benefit limit for the year in which you began to receive a benefit.

If you want to re-purchase previous contributory service on which you took a refund, then the service is eligible provided you pay by transfer of funds from Registered Retirement Savings Plans (RRSPs) or a Locked-In Retirement Account (LIRA). There is no special limit on the benefit payable.

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■ *PREVIOUS SERVICE WITH AN EMPLOYER WHO DOES NOT PARTICIPATE IN UAPP*

If you did not participate in your previous employer's pension plan, service is ineligible for purchase.

If you did participate in your previous employer's pension plan, then the post-1991 portion of the service is eligible. The pre-1992 portion of the service is also eligible but only if you still have funds on deposit with your previous employer. You cannot be eligible for benefits from both plans for the same period. You must transfer funds from your previous plan, if any, to the UAPP as part of the purchase. Also, the purchase of service for years after 1989 is subject to PSPA rules.

PRIOR SERVICE PENSION ADJUSTMENT (PSPA)

The federal government made major changes to the tax regime surrounding RRSPs and Registered Pension Plans (RPPs) in 1990. Since then, contributions to RRSPs and RPPs, like UAPP, have been subject to overall limits and controls. These rules require your employer to calculate and report your Pension Adjustment (PA) each year. The PA for a year is based on the total pension credit you accrued under the pension plan and is used in determining your RRSP contribution room for the following year.

A PSPA arises when past service is credited to a member. A PSPA is the sum of additional credits that would have been included in your PA if the additional service that you wish to purchase had been credited to you. Where you are purchasing a period of prior service with a previous plan, a PSPA arises when the pension credits (PAs) for that service under UAPP are greater than those under the previous plan.

When you apply to purchase a period of post-1989 eligible service, income tax rules require UAPP to calculate the relevant PSPA. To pay for eligible service, you must transfer funds directly to UAPP from an existing RRSP account at least equal to the value of the PSPA. This is in addition to the funds that you may be required to transfer from the previous plan or an RRSP where you took a refund from the previous plan. Otherwise, UAPP is required to apply to the Canada Revenue Agency (CRA) for certification showing that you have RRSP contribution room at least equal to the PSPA before service can be purchased.

PRIOR SERVICE PENSION APPLICATION

■ *TIMELINES*

- Employees joining UAPP have two years from the date of commencement of continuous employment to purchase prior service. You cannot purchase prior service after you have ceased employment with a participating employer.
- Therefore, it is important that members wishing to purchase prior service finalize the purchase before the expiry of the two-year timeline.

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■ APPLICATION FORM

- A member wishing to purchase prior service is required to provide details of previous service, including the specific start and end dates of each period of service, whether the service was pensionable, whether the funds are still on deposit with the previous plan, and the PA associated with each period of service.
- Only after this essential information is submitted in a correctly completed *UAPP Request for Former Member's Service Record* form can the eligibility of prior service be determined. The form is available from the Human Resources Departments of participating employers and can be found on the UAPP website at uapp.ca/forms.

■ COSTS OF PRIOR SERVICE

- UAPP calculates prior service purchase costs after the eligibility of the service has been determined. The costs for purchasing the prior service are based on the estimated actuarial liability of the additional benefits and are not tied to the PSPA, which is a calculation done for income tax purposes only.

CONSIDERATIONS PRIOR TO DECISION

Given that UAPP charges the full actuarial cost for purchasing prior service, you should carefully weigh the benefits of purchasing prior service. Some of the considerations in this regard are:

1. Purchasing prior service would help increase and consolidate your pension credits in UAPP and may allow you to qualify for an unreduced pension earlier.
2. A portion of the extra cost of purchasing prior service may be tax deductible. For detailed information, refer to the General Income Tax and Benefit Guide for the year of the tax return. The Guide is available from the federal district taxation office and the Canada Revenue Agency's website.
3. The purchase in many cases would require the use of existing or potential future RRSP contributions as well as the transfer of the funds from your previous pension plan.
4. Transferring RRSP funds into UAPP would limit your options to those available under UAPP. In comparison, the current RRSP rules provide an account-holder considerable latitude in the timing and the amounts of withdrawal from those accounts.
5. Some members may prefer to have UAPP-type benefits for all their service. Others may not like the notion of "putting all pension eggs in one basket".

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IMPORTANT NOTE TO THE READER:

This Information Sheet is designed as a quick summary of the subject. Should anything in this Information Sheet conflict with the UAPP Sponsorship and Trust Agreement, or any applicable provincial or federal legislation, the Agreement and/or the legislation shall apply.

NEED MORE INFORMATION?

Call UAPP at 1.888.339.1546 (toll-free within North America) or 1.780.612.4259 (collect, outside North America) if you have further questions. Information Sheets on other pension topics are available on the UAPP's website at www.uapp.ca (under Publications).