



INFORMATION SHEET

Prior Service Purchase

What is prior service?

Prior service is defined as any period of employment you may have with a current SHEPP participating employer (e.g. Saskatchewan Health Authority), or predecessor to a current SHEPP participating employer (e.g. Broadview Union Hospital), that is not presently credited under any Registered Pension Plan (RPP). This includes:

- periods of casual or temporary employment prior to enrolling in SHEPP;
- periods of employment prior to the employer becoming a SHEPP participating employer (a number of special care homes did not join SHEPP until April 1, 1987. SHEPP members employed by these employers may purchase their pre-April 1, 1987 service);
- periods of permanent full-time or permanent part-time employment qualifying for enrolment in SHEPP (prior to April 1, 1991 participating employers were permitted to require permanent employees to serve a one-year qualifying period for SHEPP membership);
- approved unpaid leaves of absence that spanned whole calendar months and occurred while you were a member of SHEPP; and
- periods of prior membership in SHEPP, where on termination you received a refund of contributions, if not vested, or commuted value transfer, if vested, in full discharge of the benefit earned under the Plan.

Prior service does not include a period of service that went uncredited due to an enrolment error or current service contribution deduction error by your participating employer. These are periods of current service contribution arrears and not prior service.

What does it mean to purchase prior service?

It means you pay money into SHEPP to have the prior service recognized as credited service. Credited service counts toward you qualifying for Rule of 80 early retirement with an unreduced pension, and credited service counts to determine how much pension you will receive on retirement. In general, the more credited service you have, the greater the SHEPP pension on retirement and the sooner you will qualify for Rule of 80 retirement.

Who can purchase prior service?

You can apply to purchase prior service at any time while an active SHEPP member.

How much does it cost to purchase prior service?

The cost to purchase prior service is the amount required to fund the additional pension payable to you due to the credit of the prior service plus the amount required to fund the expense of your earlier retirement. All else being equal, the closer you are to qualifying for Rule of 80 or age 65 retirement, whichever will occur first, and/or the higher your earnings, the greater the cost to purchase the service. The cost is calculated by SHEPP using methods and assumptions established by the Plan's actuary.



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Members may perform a prior service cost estimate online through **SHEPPweb**. The **SHEPPweb** estimates are just that: estimates. To purchase service under the Plan, a formal cost quote from SHEPP is required.

Who pays for the prior service?

You are responsible for paying for the full cost of the prior service purchase. You may satisfy the purchase cost by personal cheque or by a direct tax-exempt transfer of funds from your own Registered Retirement Savings Plan (RRSP), or a combination of the two. There is no provision for the purchase of prior service to be made through payroll deduction or by someone else on your behalf.

IMPORTANT

In the event the service being purchased is pre-1990 service where you were a member of a registered pension plan and you were vested on termination and discharged your pension entitlement, you are restricted under the *Income Tax Act* to making the purchase of such service only by way of direct RRSP tax-exempt transfer.

Are my prior service contributions tax deductible?

The tax deduction rules are very complicated. The following is a general summary of the rules, however, you should consult the *Income Tax Act* and *Regulations* and related Canada Revenue Agency publications for official and complete details.

Pre-1990 service while not a contributor to a registered pension plan:

You may deduct \$3,500 times the number of full

and partial calendar years purchased. The maximum deduction you may make in any tax year is \$3,500. Any unused tax deductions may be carried forward to a future year(s). SHEPP will issue a receipt for the amount paid by personal cheque. Please contact an income tax specialist to determine the amount you can claim.

Pre-1990 service while a contributor to a registered pension plan (not vested):

You may deduct the full amount of the purchase cost paid by personal cheque. The maximum deduction you may make in any tax year is \$3,500 less your current service contribution to a registered pension plan. Any unused tax deduction may be carried forward to a future year(s). SHEPP will issue a tax receipt in an amount equal to the contribution paid by personal cheque.

Pre-1990 service while a contributor to a registered pension plan (vested):

This service is available for purchase only by way of a direct tax-exempt transfer of funds from your own RRSP. Accordingly, there are no contribution tax deductions provided for this service.

Post-1989 service:

A Past Service Pension Adjustment (PSPA) may arise in respect of your purchase of post-1989 service. A PSPA is the deemed value of the pension produced by the purchased service, less the amount of the purchase cost satisfied by way of a direct tax-exempt RRSP transfer. The PSPA serves only to reduce your available RRSP contribution room. In the event you do not have adequate RRSP contribution room (your most recent Canada Revenue Agency notice of assessment reports your available RRSP contribution room), SHEPP cannot proceed with your purchase.

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In the event you have adequate RRSP contribution room, the portion of your purchase satisfied by personal cheque is tax deductible in the year of contribution. SHEPP will issue a tax receipt for the full amount paid by you by personal cheque upon certification of the PSPA by the Canada Revenue Agency.

No receipt is issued for the portion of the purchase satisfied by way of a direct RRSP transfer. Such a transfer is done on a tax-exempt basis, which means that the transfer amount is not reported as income or as a deduction.

In general, pre-1990 service is purchased without effect upon your available RRSP contribution room. Post-1989 service may only be purchased to the extent that you have adequate RRSP contribution room. Only SHEPP can determine whether or not a PSPA arises in respect of the purchase of post-1989 service.

What happens to my prior service purchase contribution if I die before retirement?

The amount you pay into the Plan to purchase prior service will be recorded separately as a prior service purchase contribution and will accrue interest. In the event of your death prior to retirement, the accumulated contribution, plus interest, will be paid to your surviving spouse. If you are not survived by a spouse or your surviving spouse has waived entitlement to the pre-retirement death benefit, it will be paid to your designated beneficiary or estate.

How exactly is my Rule of 80 date affected by the purchase of prior service?

In general, for every year of service you purchase, your Rule of 80 date moves six months closer. Consider the following example:

EXAMPLE

A member has four years of service available for purchase. Without those four years of credited service, this member's Rule of 80 date will occur at the age of 62 with 18 years of service. If the member purchases those four years of service, their Rule of 80 date becomes age 60, at which time they will have 20 years of credited service.

	No Transfer	With Transfer
Age	62	60
Credited Service from SHEPP enrolment to retirement	18	16
Transferred in	0	4
Total age plus credited service	80	80

Can I cancel my prior service purchase and receive my money back?

You may cancel the purchase only if and when you terminate employment and Plan membership prior to qualifying for an immediate pension (that is, prior to reaching the Rule of 80, age 65 or age 55 with at least 2 years of service, whichever comes first), at which time your purchase contributions plus interest will be refunded to you and the service purchase will be cancelled.

If I delay purchasing service, for say one year, what happens to the cost?

In general, you should expect the cost to purchase prior service to increase if you delay your purchase by a year. At a minimum, you are one year closer to retirement and



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the Plan has one less year to invest the contributions to cover the cost of the increase in your pension. However, there are a number of other factors that affect the cost. These include, but are not limited to:

- the rate at which your highest average contributory earnings are changing;
- the rate at which the Canada Pension Plan (CPP) Year's Maximum Pensionable Earnings (YMPE) are changing;
- changes to mortality rates; and
- changes to current interest rates used to calculate the present value of future liabilities.

If, in the time period that you wait to make your purchase, things go in a way that dramatically improves the amount or value of your pension (mortality rates improve, you enjoyed better than expected increases in earnings, the YMPE did not increase as much as expected, interest rates declined, etc.) the cost increase will likely be quite significant. If things move in a different direction (your salary increases were smaller than expected, the YMPE increased faster than expected, mortality rates declined, interest rates increased, etc.) the increase in cost will be less. Whether it is relatively better to purchase earlier or later cannot be determined in advance.