Teachers' Pension Plan Board
Ontario

RRSP planning for next year • Lifelong learning • Corporate governance

pensionwise

A *new* Newsletter from the Ontario Teachers' Pension Plan • **May 2002 • Issue 2**

NANCY MEGIT-HOLLEFRIEND and her three children, Emily, 4, Rachel, 18 months and Austin, 6. Most buybacks for absences are made by women.

INSIDE THIS ISSUE

BUYBACK *for* ABSENCES

Taking your leave... and buying it back too

Next to calls about how to begin collecting pensions, buying back credit for an absence is the most common reason you call us. One in every 10 calls is about buybacks; last year we received 11,224 purchase-related calls.

Perhaps more telling is that about 80% of the buybacks were by women, many buying back credit for maternity leaves.

"I'm planning on buying the pension credit for my leave when I return," says Marlene Augerman, a teacher and new mother from Kingsville. "Why? I guess it's because I don't want my mat leave to affect when I'll be eligible to retire. I know I have five years to make the payment. I think that's plenty of time."

Buying back credit for an absence is an option that generally makes financial sense for most teachers, but it may not always be your first choice. If you're not sure whether buying credit is your best investment, speak to a financial planner you can trust to give you informed advice.

Nancy Megit-Hollefriend did just that. She's married to a former financial planner. The teacher from Aurora has three children, ages 6, 4 and 18 months. "My decision to purchase credit for my last two maternity leaves hinges on what I plan to do after the youngest child is in school. If I return to teach full time and plan to continue my career, then I'll likely purchase the credit."

WHY BUY CREDIT?

Many see it as a viable investment in their retirement because you maximize the value to your pension. Buying credit provides you with the largest pension you can have and, if the purchase gives you credit in a school year in which you previously had none, can allow you to retire sooner.

Your credit is the actual number of years you have taught, and it's one of two variables that determine the amount of your pension. Missing a year's credit now, for instance, means one less year of credit when calculating your pension. The more credit you accumulate, the greater the pension. Of course, you can lessen the effect of an absence by extending your career.

Example With an average best five years' salary at retirement of $60,000, buying back one year of credit means about $1,200 per year more in pension, guaranteed for life and indexed to inflation (2% pension factor x $60,000 = $1,200). The larger pension also means your survivor's pension will be greater.

BUYBACKS AT A GLANCE

Types of absences	Payment options	For payment after your absence	Purchase cost	How to apply
Employer-approved leaves Pregnancy, adoptive and parental leaves Breaks in service • Compassionate reasons (family circumstances, care for elderly parent) • Resign due to child care • Ill health • Elected office	Pay monthly during your absence, or as a lump sum after the end of the absence	5 years from the end of the absence to make the purchase in one lump sum	What you would have contributed, plus interest	By telephone, e-mail or letter Provide your: • Start/end dates • Contract percentage
X/Y leave (deferred salary)	Done automatically by your employer			

COVER PHOTO: EDEN ROBBINS

IF YOU DECIDE TO BUY, THERE ARE TWO WAYS TO PAY

The Best Plan You pay monthly during your absence. There's no interest charge by doing it this way. As well, by purchasing through your employer for a maternity leave you contribute 7.3% rather than 8.9%. However, the money you save will be offset by the CPP reduction at age 65.

The downside to this plan is that it may be difficult to afford the purchase during a leave of absence.

The Good Plan You can make a lump-sum payment for the contributions, plus interest, after you return to work. You have five years from the end of your absence to make the payment. We're required to charge the standard rate of interest, currently 4.15% per year.

The downside to this plan is that depending on how soon after the end of your absence you make your payment, it may affect your RRSP room. With the one-time reduction to your RRSP room coming in 2003, this may affect your eligibility to purchase credit. ■

Register for e-publications

While you're visiting our Web site at www.otpp.com, you may want to register to receive publications, like *Pensionwise,* electronically. We'll send you an e-mail with a link to our Web site so you can read the latest newsletter, bulletin or notice. Each publication is reproduced in its entirety and presented in colour.

What's the advantage? The electronic version arrives about a week sooner and the pension plan saves the cost of mailing.

You can cancel this electronic service at any time and resume receiving our publications in the mail. ■

INVESTMENT NEWS

Crusade for better corporate governance continues

Since the collapse of Enron, there has been a renewed interest from investors, legislators, regulators and the news media about the way companies are directed, controlled and evaluated.

Corporate governance practices should affect every area of management of a corporation. The Teachers' pension plan has long been speaking out against inadequate financial reporting, stock option plans that dilute shareholder value and boards whose directors are not doing their jobs.

Speaking out is what Claude Lamoureux did again during his speech to the Canadian Club in March. He described the Enron collapse as "perhaps the most disgraceful example of board negligence."

He also criticized Nortel Networks Corp. and JDS Uniphase Corp., two companies that incurred the greatest financial losses in Canadian history. "What did the directors of these corporations know that we didn't? As it turned out, not much. Perhaps they were mesmerized by the management magic of their CEOs.

"... Every shareholder should question the performance and ethical commitment of corporate leaders, as well as the best governance efforts of regulators, institutional investors, accountants and corporate lawyers."

You can read the entire speech entitled, "Corporate Governance: Time to Get Serious" on our Web site, www.otpp.com.

Be sure to vote your proxies for the shares you own. Visit our Web site. Under the Investments section, you'll find an explanation of our approach to corporate governance and details on our voting policies and practices. We also document our voting on shareholder proposals. Knowing the background on specific proposals may help you decide how to vote your own proxies.

Did we lose money in the Enron debacle? We sold our stake in Enron at the beginning of 2001, before the scandal broke, because we felt the shares were fully valued. We earned a net profit of $400 million. ■

Claude Lamoureux: "If shareholders do not exert their right to force change, the capital market system we take for granted will be in jeopardy." Read the entire speech at www.otpp.com.

You'll need to plan RRSP contributions prudently next year

If you haven't already heard the news, there will be a one-time reduction to your RRSP contribution room next year. This is because your pension benefits improved beginning last January. The reduction to your RRSP room is how Canada Customs and Revenue Agency (formerly Revenue Canada) helps to ensure that every Canadian is entitled to the same limits for retirement savings.

EXAMPLE 1: We introduced Jane's case in our previous issue of *Pensionwise*. Jane has taught full time since 1990 and during that time made maximum annual contributions to her RRSP.

RRSP room generated for 2003	$2,100	Based on an annual salary of $60,000, teaching full time
Unused RRSP room	0	Jane has made maximum annual contributions to her RRSP since 1990
One-time reduction to RRSP	($5,100)	In 2003 only
RRSP room available	0	$2,100 minus $5,100 means negative $3,000 is carried forward to next year

EXAMPLE 2: Jack has also taught full time since 1990, but unlike Jane did not make the maximum annual contributions to his RRSP each year.

RRSP room generated for 2003	$2,100	Based on an annual salary of $60,000, teaching full time
Unused RRSP room	$7,900	Although he contributed each year since 1990, Jack chose not to make the maximum contribution allowable
One-time reduction to RRSP	($5,100)	In 2003 only
RRSP room available	$4,900	[($2,100 + $7,900) = $10,000] minus $5,100 means Jack still has $4,900 of unused RRSP room available in 2003

Shrinking RRSP room means you'll need to plan to avoid overcontributing to your retirement savings. Your first step is to determine how much RRSP room you can expect to have available in 2003. You'll know the precise amount after you file your 2002 tax return and the CCRA sends you your Notice of Assessment.

WHO'S MOST AFFECTED?

If you've made maximum annual contributions to your RRSP, you'll likely have negative RRSP room in 2003, and it may be a year or more before you'll have enough room to begin contributing again.

Jane's plan (see example 1)
Beginning in 2003, Jane will not contribute to an RRSP. If she continues to work full time, she will not have RRSP room again until 2005 because the negative $3,000 she carries forward will still give her $900 of negative room in 2004.

Jack's plan (see example 2)
He contributes $100 per month to his RRSP for a total annual contribution

ILLUSTRATION: KATHRYN ADAMS

of $1,200 per year. Jack can continue to contribute as before or increase his contribution to $4,900 in 2003.

WHAT YOU NEED TO DO

1. Estimate how much RRSP room you'll have available in 2003. If you've contributed the maximum annual amount in the past and plan to do the same again this year, you'll likely have little or no RRSP room available in 2003. You'll find out exactly how much room after you file your 2002 tax return and receive your Notice of Assessment.
2. If you think you won't have room available in 2003, don't begin contributing in 2003 until you receive your Notice of Assessment next year.

TIP FOR BUYBACKS FOR ABSENCES

Because your RRSP room will shrink beginning in 2003, you may want to complete your buyback of pension credit as early in 2002 as possible. If you wait until the one-time reduction to your RRSP room takes effect, you may not have the contribution room to make the purchase. If you're making a purchase, you may want to contact a pension benefit specialist.

WHAT'S THE BENEFIT OF A LOWER CPP REDUCTION FACTOR IF YOU FORFEIT RRSP ROOM?

It's important to remember that you'll have more in pension after age 65 and that this benefit comes at no cost to you.

What about the lost RRSP room? In addition to the one-time reduction, most teachers will experience a permanent reduction of $500, beginning in the 2002 tax year. To use the $500 in RRSP room, you would have had to make an RRSP contribution. The trade-off is that for less available RRSP room you get a larger pension without having to pay for it, plus about $500 a year more in disposable income to invest or spend. ■

Lifelong learner courts new career

Bob Weiler taught business, accounting and computer studies in Kitchener to secondary school students until he retired at age 55 with an unreduced pension. He entered law school two years later and was called to the bar in January. Mr. Weiler is now 62.

As trite as it may sound, Mr. Weiler has always believed in the ideals of lifelong learning. He earned his Bachelor of Arts degree and a Masters of Business Administration part-time during his 30-year teaching career.

His motto: "If you have a dream, go for it."

With his first career behind him, Mr. Weiler is now building a private practice in Kitchener specializing in estate, estate administration, tax and criminal law.

"I've always been interested in law. My son is an international trade lawyer. So I actively pursued admission to law school."

Asked if the skills he developed as a teacher are applicable to the practice of law, Weiler replies, "Teaching helps you understand people. This is useful in the practice of law because you need to size people up." ■

Bob Weiler: Barrister, solicitor, lifelong learner

PHOTO: EDEN ROBBINS

Put yourself on course to retire

Gather your documents and choose your survivor pension, even if you're years from retirement

Once you're eligible, you can retire at the end of any month throughout the year. However, as you might expect, most teachers choose to retire at the end of the school year. This year we anticipate 6,200 teachers will retire, 4,500 of whom will collect their first pension payment in July.

If you're approaching retirement, even if you're years away, you can begin collecting documents and making some decisions now that will make the retirement process even smoother.

GATHER YOUR DOCUMENTS

When you apply for a pension, you'll need to provide us with a copy of the following documents. Gather them in advance and send them to us. In this way, you'll avoid delays:

- Your birth certificate and your spouse's birth certificate (or death certificate).

Can't find your birth certificate? If you were born in Ontario and don't have a copy of your birth certificate, contact the Registrar General, 189 Red River Road, P.O. Box 4600, Thunder Bay, Ontario P7A 6L8. Telephone: (416) 325-8305.

If you cannot obtain an official record of your birth, we can accept:

- A copy of your baptismal certificate
- An affidavit regarding the entry of your date of birth in the family bible
- An affidavit by a parent or older sibling stating your date of birth
- Notice from an insurance company verifying your date of birth
- A copy of your Canadian passport issued after January 22, 1969, or
- Proof of Canadian citizenship.

If applicable, we'll also need:

- Marriage certificate or official declaration of a common-law relationship
- Certificate of divorce or decree absolute, or separation agreement.

EXERCISE YOUR SURVIVOR PENSION OPTIONS

Your spouse is automatically entitled to receive a 60% survivor pension. That is, after retirement if you predecease your spouse, he or she will receive 60% of your pension, minus the CPP reduction.

You can increase the survivor benefit option to 75% or reduce it to 50%.

Beginning later this year, we'll be sending teachers who are approaching their retirement date a survivor benefit brochure and package. When your copy arrives, review the material and exercise the option that works best for you.

Tip: Thinking of increasing your survivor's pension but don't know which option is right for you? If you're more than two years from retirement, you can increase your survivor's pension up to 75% and avoid a medical exam. As you get closer to retirement, decide which option is best for you and your family. You can revoke the increase anytime before your pension begins.

CREDIT FOR MID-YEAR RETIREMENT

Generally speaking, you earn one qualifying year of service for every school year in which you teach more than 10 days. However, there are exceptions to this rule.

If you plan to retire and start your pension during the school year, your qualifying year of service for the final year only counts up to the month your pension begins. For example, if you retire at the end of January and immediately begin your pension — about halfway through the school year — you'll accumulate half a qualifying year of service in your final year even though you taught more than 10 days.

CALL US WHEN YOU'RE READY

When it's time for you to retire, simply give us a call. We can process uncomplicated pension applications quickly, especially if the documents we need are already on file, but we recommend giving us about three months to deal with the unexpected. ■

SUMMARY OF POST-RETIREMENT SURVIVOR PENSION OPTIONS

Options	What you need to do	Cost
Automatic 60%	Nothing	Reduction to your pension is typically 2%, but depends on your age and your spouse's age
Reduce to 50%	You and your spouse must sign a *Spousal Waiver* form and send it to us no sooner than 12 months before your pension begins	No reduction to your pension
Increase up to 75%	Sign the form *Direction for a Survivor Pension* at least two years before your pension begins. With less than two years, you may still be eligible with a medical examination	Reduction depends on the percentage you choose, your age and your spouse's age

What's yours, what's mine

Pensions and marriage breakdown

When a marriage ends, the question that's ultimately asked is 'who gets what?' In Ontario, the goal is to divide the assets accumulated throughout the marriage between the spouses. Pensions, like other household assets, are considered property and the value must be taken into account when determining who gets what. There are, however, special rules that apply to dividing pensions.

Myth
In matters of marriage breakdown, the Teachers' pension plan determines the value of your pension.
Fact
For the purpose of calculating net family property, you'll need to hire an actuary. Teachers' does not determine the value of your pension.

Although most teachers settle at the time of divorce with other assets, some agree to assign a portion of their pension payments to their former spouse.

Myth
Your former spouse begins to receive pension payments when the divorce is final.
Fact
We cannot divide pension payments between you and your former spouse until your pension begins and only if directed to do so by a separation agreement or court order.

Myth
When you split your pension, more than half can be assigned to your spouse.
Fact
Although you are free to assign more than 50% of your pension in a separation agreement, Teachers' can't pay more than 50% of the pension that accrued during the marriage to your former spouse. If you assign more than 50%, you'll be responsible for paying the excess amount.

Myth
When you split your pension, your spouse receives his or her portion for life.
Fact
If you die before your former spouse, the spouse's portion of your pension ends with your death.

Similarly, unless the agreement or court order expressly states that the pension payments to your former spouse are to revert to you when your former spouse dies, we'll continue to make payments assigned to the former spouse's estate until your death.

SURVIVOR BENEFITS

Under the current rules of the pension plan, if you die before receiving your first pension payment, your spouse is entitled to pre-retirement death benefits as long as you are living together at the time of your death. Separation before the date of death will disentitle a spouse from receiving pre-retirement spousal death benefits under the plan.

The rules are different after retirement. Separation before your first pension payment date will disentitle your spouse from receiving a survivor pension under the plan; however, separation or divorce after the first pension payment date does not. If you separate after receiving your first pension payment, your former spouse remains entitled to a survivor pension, even if you subsequently remarry.

LEGAL SERVICES WE PROVIDE

We can't give legal advice or write an agreement, but we'll review draft separation agreements to determine if we can administer the terms.

We'll calculate the 50% limit under the *Pension Benefits Act.*

Confidentiality, as always, is assured. We will not disclose information to anyone other than you without your express written permission. ■

ILLUSTRATION: KATHRYN ADAMS

Part timers can reduce pensions by supply teaching

If you're close to retirement and teaching part time, supplementing your income with an occasional supply-teaching job may reduce your pension. In some instances, this can result in hundreds of dollars less in pension per year.

How? The rate of pay for occasional or supply teaching can be significantly less than the rate for part-time teaching. If the rates are blended and used to determine your annual salary, this may reduce your average best-five years' salary and result in a smaller pension.

Our best advice is if you're close to retirement, be cautious. Call us before you decide to accept that occasional teaching job.

Pensionwise is published for members of the Ontario Teachers' Pension Plan.

We appreciate your comments about anything you read in *Pensionwise*. Please contact John Cappelletti at (416) 730-5351 or 1-877-812-7989, or e-mail: john_cappelletti@otpp.com

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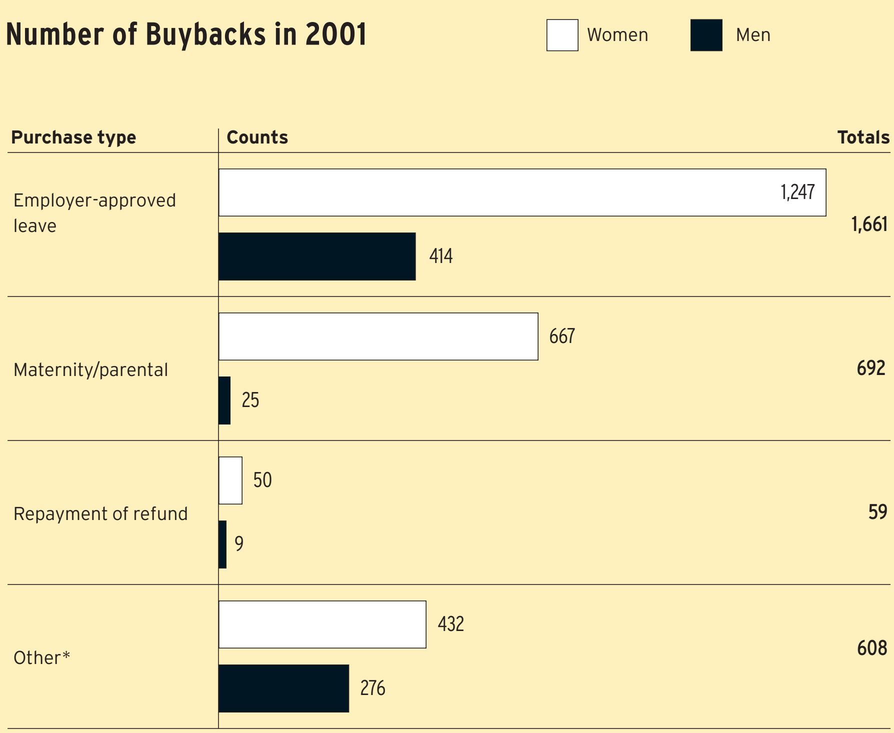
Teachers' Pension Plan Board
Ontario

ISSN: 1180-3355

STATS! STATS! STATS!

Number of Buybacks in 2001



* Includes the time-limited buyback for pre '84 summer school, night school service.

Buybacks by Average Length of Absence in 2001

Purchase type	Average credit (years)
Employer-approved leave	**0.80**
Maternity/parental	**0.62**
Repayment of refund	**4.06**
Other	**0.62**
Total	**0.79**

Taught in B.C.?

A recent agreement with the B.C. Teachers' Pension Board means that if you taught in British Columbia, you can now combine your pension credit.

The B.C. teachers' pension plan will be added to a reciprocal transfer agreement, which took effect last year. The agreement now includes teachers' plans from every province except Newfoundland and Labrador and those employed by the federal government.

The agreement stipulates the rules for transferring credit from one plan to another. The agreement makes it relatively easy for teachers who have taught in one or more of the participating provinces to consolidate their pension assets in a single plan, which may allow them to retire sooner and with a larger single pension.

The transfer of pension credit can occur anytime before you retire. If you're retiring this year, you'll need to contact us now to transfer your pension assets.