

Topic: Phased Retirement

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The Pensions Policy Unit, Management Board Secretariat, produced this information sheet. It contains Frequently Asked Questions about the terms of the Public Service Pension Plan and the OPSEU Pension Plan. Specific questions about individual circumstances should be directed to local human resources branches.

Program Summary:

- Modified pre-retirement work arrangement under which employees may work less than 100% of the time in a calendar year and continue to earn 100% credit in the pension plan.
 - Pay, benefits and accrual of non-pension credits (e.g. vacation, severance, etc.) are for part-time employment based on regular scheduled hours each year in proportion to 100% hours.
 - Maximum five (5) year period.
 - Deputy Minister approval required.
 - Retirement at the end of the arrangement required.
 - If no retirement occurs, pension credit is reduced to equal actual time worked during the arrangement and excess contributions refunded.
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What is Phased Retirement?

Phased Retirement might be thought of as *semi-retirement* without the retirement. Employees may apply to work part-time hours yet continue to earn pension credit as if working full-time hours, for a period leading up to retirement.

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What are the benefits to employees?

Primarily, employees can enjoy winding down and easing into actual retirement by committing to work part-time hours while still making full-time contributions to and earning full-time credit in the pension plan.

Pension Formula

EXAMPLE (1 year)	Accrual Rate	X	Average Salary Rate	X	Pension Credit	=	Pension Accrued That Year
Full-time Hours	"2%"	X	50,000	X	1 YEAR	=	1,000
50% Part-time Hours	"2%"	X	50,000	X	6 MONTHS	=	500
PHASED RETIREMENT Working 50% hours	"2%"	X	50,000	X	1 YEAR	=	1,000

Pension benefits are based on a formula involving salary rates and pension credit. For example, for 50% part-time work (e.g. 2.5 days per week) for one year in a job that normally pays \$50,000 per year for full-time hours, the pension formula for that year would reflect 2% of \$50,000 times **6 months** (0.5 years).

Under Phased Retirement, employees work part-time hours, contribute for full-time hours and continue to earn pension credit as if they are working full-time hours. Using the same example as above, pension credit in the pension formula would reflect 2% of \$50,000 times **1 year** under Phased Retirement.

How are other benefits treated/affected by Phased Retirement?

CPP AND EI

All contributions to and future benefits from Canada Pension Plan (CPP) and Employment Insurance (EI) will be based on actual earnings each year during Phased Retirement. Full CPP/EI credits and benefits are earned by having employment earnings at or above the maximum earnings values for these two programs, about \$39,000 in 2002.

CPP and EI contributions and future benefits for participating employees would be unaffected if their part-time salary is more than the maximum eligible salaries for these two programs.

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Insured Benefits

All other employee benefits (basic life, supplementary life, supplementary health, vision care, dental, LTIP, compensation option and/or vacation credits, etc.) will be administered per the cost sharing and pro-rating rules already in place for part-time employment. The part-time ratio will be based on the total hours employees work in each calendar year during the arrangement compared the equivalent full-time hours.

Example:

Assume an employee has 24 years of service and his/her normal full-time job has a salary of \$50,000. The employee might want to work part-time equivalent to 80% of full-time for two (2) years. His/her earnings would be \$40,000 minus about \$35 per month for his/her share of insured benefits premiums. Instead of 25 days vacation each year, he/she would get 20.

Termination Payments

In addition, since the employee in our example has less than 26 years of full-time service, calculation of his/her Termination Payments will consider the period of part-time work also. His/her severance pay would be about \$383 less than if he/she worked full-time for the last two years before retiring.

RRSP Contribution Room

Personal RRSP contribution room in future years will decrease. The decrease is because RRSP contribution room is a function of actual earnings that will be relatively lower while employees are working part-time hours.

Using the same example as above, the decrease would be about \$1,800 each year.

What are the eligibility requirements for Phased Retirement?

Both of the OPSEU Pension Plan and the Public Service Pension Plan have Pre-retirement Part-time Employment (Phased Retirement) provisions that must be administered in accordance with *Canada Income Tax Act* (ITA) rules.

To be eligible for Phased Retirement, an employee must:

- Be a full-time Civil Servant for the last three (3) years. ("Full-time" in respect of an employee means an employee who is in a position that requires full-time hours of work.)
 - Already be qualified to retire, or be qualified to retire within five (5) years.
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What is maximum period of pre-retirement part-time employment?

The pension plans permit up to five (5) years of pre-retirement part-time employment from the date the arrangement commences to the date employment ceases.

The maximum pension credit (the difference between actual time worked and full-time work for the same period) that may apply to individual applicants under Phased Retirement is **five (5) years MINUS** any pension credit in the plan for leaves-of-absence-without-pay occurring in 1991 and later. *Leaves of Absence* do not include pension credit while totally disabled (e.g. while on LTIP). Unpaid parenting (pregnancy/adoption) leave has its own three (3) year credit limit.

What are the employees' responsibilities under Phased Retirement?

Individual employees must give written notice to their Deputy Minister requesting a Phased Retirement Arrangement.

The NOTICE letter must state:

- The intent to retire within five (5) years of the date your Notice.
- The request to be employed on a part-time basis until retirement.
- The commitment to making pension contributions on the basis of full-time hours and earnings during your Phased Retirement arrangement.

To maintain their Phased Retirement eligibility, approved applicants must:

- Work hours totaling **at least** one third (1/3) of the full-time equivalent hours for their jobs each year (632 - 697 hours, depending on the normal work schedule).
 - Not be employed as full-time employees or the equivalent of full-time employees at any time prior to retirement. ("Equivalent to full-time " is determined from the combined earnings an employee receives each year from all of the employers participating in the same pension plan.)
 - actually cease employment at the end of the arrangement and actually retire.
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What are the Employer's obligations during Phased Retirement?

The employing ministry will make pension contributions on the basis of full-time hours and earnings during the pre-retirement period.

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Deputy Ministers will consider operational effectiveness when making their decisions about requests.

Deputy Ministers are not required to:

- approve requests
 - create any new part-time positions, or
 - maintain an applicant's employment in the same position, classification or salary rate as the member's full-time job that immediately precedes pre-retirement part-time employment.
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What if Phased Retirement arrangements are not operationally effective in an employee's work unit?

Employees are not limited to seeking arrangements only in their current jobs. It is hoped that senior managers will communicate individual employee interest to the ministry's Human Resources Branch and to other branches and divisions. At the same time, employees are free to research and pursue opportunities they uncover on the own initiative.

What happens if approved applicants return to full-time during or at the end of Phased Retirement arrangement?

Their pension credit will be restated for just the hours they did work and any excess pension contributions will be refunded to them. Eligibility for retirement on an unreduced pension may be delayed and their pension benefits will lower because of the part-time pension credit.

Who should employees talk to about Phased Retirement?

Generally, interested employees should start with their immediate supervisors and together contact their ministry human resources consultant. It is important that managers and employees work together since phased retirement work arrangements should be both operationally effective and a good fit for managers and participants.

Questions from the Field:

Q1. Should employees apply directly to their Deputy Ministers?

A1. Technically all applicants apply to their Deputy Ministers but those applications need a team effort before they are presented for approval.

The team effort involves the employees, the employees' supervisors, ministries' Human Resources branches, the Share Services Bureau and the Ontario Pension Board/OPSEU Pension Trust.

The groundwork should be done before a Deputy Minister is presented with an application, just like any other business decision needing Deputy Minister approval.

Q2. Who should take the lead for any one request for Phased Retirement?

A2. Experience to date varies from Ministry to Ministry and circumstance to circumstance. It appears that either of the manager offering a Phased Retirement work arrangement and/or the ministry Human Resources branch are the most common leads.

Q3. How long will it normally take for a Phased Retirement request to be approved?

A3. The time investment is in doing the groundwork and that may take months or years. The groundwork involves finding the right fit, job searching where necessary, arranging for secondment agreements where necessary and, where a Deputy Minister requires them, preparing appropriate business cases demonstrating the reasonableness of the case and the impact operational effectiveness.

Assuming the groundwork is done and the documentation is satisfactory to a Deputy Minister, the actual approval will likely take a few minutes.

Q4. Are employees' personal needs / compassionate reasons considerations for approving Phased Retirement work requests.

A4. There are many personal factors that may make Phased Retirement work arrangements attractive or unattractive to employees . . . but mostly they are just that, personal. At the same time, there are many operational factors that make Phased Retirement work arrangements attractive or unattractive to managers and Deputy Ministers.

Ideally, approved arrangements are good fits for the parties involved without significant negative impact on operational effectiveness.

Q5. *What are acceptable schedules of work for Phased Retirement work arrangements?*

A5. Phased Retirement hours of work are whatever the parties agree the hours are to be. The only requirement is employees must work at least one third of a 'full-time' year each calendar year.

Some approved arrangements are similar to 'seasonal' employment. Others are set part-time hours of work. Others are made up of sets of deliverable assignments / projects with hours tailored for each deliverable. Others simply commit the parties to 'at least XX per cent of full-time hours', with the specifics documented as assignments and circumstances require.

Q6. *How should Phased Retirement work arrangements be profiled in the payroll system?*

A6. Work arrangements should be profiled like part-time employment with the part-time ratio to be based on the hours to be worked compared to full-time. The pay cheque continues, full-time pension contributions are deducted from every pay cheque and the employee's share of insured benefits costs are deducted each month. Please inform the Ontario Pension Board/OPSEU Pension Trust, as applicable, of the terms of any approved arrangements.

For assignment-based, project assignments or where hours are changed, the part-time ratio should reflect the actual hours to be worked for the period. Ratios should be validated at least annually at the end of December.

Q7. *Are employees able to 'top up' for full benefits coverage?*

A7. Insured benefits and other non-pension credit accruals cannot be topped up. During the arrangement, sharing of health/dental insured benefits costs, coverage levels for life insurance, sick leave and LTIP; and the accrual of other credits (severance pay, vacation, etc.) are based on the rules for part-time employment.

Q8. *At retirement, will a participant's pensioner insured benefits be prorated?*

A8. No. At retirement, eligible Phased Retirement participants will receive the same insured benefits as other eligible retirees.

Q9. *What is the status of the position i.e. is it still a full time position or does it become a part time position, once an employee has been approved for phased retirement?*

A9. It is important to remember that the profile of a 'job' on the org chart is not necessarily the profile of the person doing the work.

Participants retain their *Classified* appointment status through out the arrangements including while assigned to jobs that funded on an *Unclassified* basis. In addition, there are likely only two possibilities:

- The employee is a PART-TIME employee in a job that is on the org chart funded for FULL-TIME hours.
- The employee is a PART-TIME employee in a job that is on the org chart funded for PART-TIME hours.

Q10. What are the implications of the following for Phased Retirement participants?

- surplus activity
- displacement activity
- employee rights and entitlements if made surplus while on phased retirement.

A10. Generally, from a participant perspective, each of these is dependent upon the *home* position of a phased retirement participant. Surplus rights, if any, originate from the home position and are defined by the employment transition policy or collective agreement provisions associated with that home job.

From an organizational perspective, is there an existing, funded job for which phased retirement is a good fit? Is that job to be the participant's home position? Is the ministry creating new jobs for projects, etc.?

All of these are likely considerations for the groundwork to be done before a Deputy Minister is presented with a phased retirement request.

Q11. How does phased retirement fit with job sharing programs? Could two employees approved for 50% phased retirement be considered to be in 1 job under the terms of Job Sharing?

A11. See question 19 above. Please contact the HR Strategies Branch for those details about job sharing.

Q12. May managers back fill the gap between a participant's phased retirement hours and full time hours?

A12. There are no restrictions preventing filling in a gap, assuming doing so fits the concept of effective service delivery . . . another item for consideration in making a business case for a request.

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Q13. *Must the percentage of annual hours approved be worked in each calendar year?*

A13. As indicated in Q5, there is a minimum work requirement each year / part year during the arrangement. Participants cannot take a whole calendar year off.