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## Introduction

If you take a leave of absence, you may be able to buy back credit in the Ontario Teachers' Pension Plan for the time that you were away. Buying back credit usually leads to a bigger pension and can help you qualify for retirement sooner.

While buying back credit is almost always a good financial choice, it's important to understand the tax implications of your purchase. This fact sheet is designed to help you do just that, so you can make informed decisions about the feasibility and timing of your purchase.

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## Tax deductibility

Your ability to deduct the full cost of your buyback will depend on your taxable income in the year you buy the credit *and* your available RRSP contribution room. You cannot carry forward non-deducted amounts to the next tax year.

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## Buy back affects allowable RRSP contributions

Tax rules limit how much you can save for retirement each year on a tax-sheltered basis. The limit applies to any RRSP contributions you make, as well as any pension benefits you earn.

In an effort to create a level playing field for tax-sheltered retirement savings, the Canada Revenue Agency (CRA) places a dollar value on the pension benefits you earn in a year. This assessed value of your pension, referred to as your pension adjustment (PA) or past service pension adjustment (PSPA), is high due to the excellent features provided by your Teachers' pension.

Whether a PA or PSPA is triggered by your purchase of credit will depend on when you pay for that purchase. In any case, your RRSP contribution room will be reduced by the amount of your PA or PSPA.

If you don't have enough RRSP contribution room to accommodate your PSPA, you must withdraw RRSP funds to make room. That said, you can reduce the size of a PSPA (but not a PA) by paying for some or all of your credit with funds transferred from an RRSP. There is, however, no tax deduction for credit purchased with RRSP funds.

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## Monthly payments during your absence

Instead of buying back credit *after* a leave of absence, you can continue to make pension contributions *during* each month of your leave as contributions come due. By doing so, you avoid interest charges. Contributing during a leave will result in a PA, which will reduce the amount you can contribute to your RRSP in the following tax year. You will receive a tax receipt for your contributions.

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**Lump-sum payment  
by April 30<sup>th</sup>**

You also will receive a PA if, instead of making monthly payments during your leave, you buy back credit in a lump sum *by* April 30<sup>th</sup> of the year following the end of your leave.

If your leave spanned more than one calendar year (for example, September 1, 2006, to June 30, 2007), you'll also receive PAs for each of the previous tax years of your leave. Keep in mind that:

- Your RRSP contribution room for the affected years will be adjusted to reflect your PAs.
- The Teachers' pension plan will send you a T4A, showing your PA, for each of the affected years. You must file a form, called the T1 Adjustment Request (T1-ADJ), with CRA for each year covered by a T4A. The form is available in the forms and publications section of the CRA website at [www.cra.gc.ca](http://www.cra.gc.ca).
- If any PA for a previous tax year exceeds your available RRSP contribution room at that point in time, you must withdraw RRSP funds to stay within the limits. Over-contributions may be subject to a penalty tax, and any money you withdraw from your RRSP will be taxed as income in the year it is withdrawn.
- Transferring funds from an RRSP to pay for your credit will not reduce your PA.

**Example:**

In April 2007, Martin makes a lump-sum payment to buy back a leave he took from September 1, 2004, to June 30, 2006. He receives a PA for each of 2004, 2005 and 2006. (The PAs are reported on T4As Martin receives from the Teachers' pension plan.) The Teachers' pension plan will also provide a tax receipt in February 2008 for Martin's 2007 tax return.

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A revised PA for:	Will affect RRSP contribution room for:
2004	2005
2005	2006
2006	2007

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Martin needs to file a T1 Adjustment Request form for each of the 2004, 2005 and 2006 tax years, using the T4As supplied.

**Heads up!**

There are limits on how much credit you can buy. The limits vary depending on the type of leave you take. For example, you can buy and receive a PA for up to five years of credit for any eligible leave of absence, plus three more years for pregnancy and parental leaves.

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**Lump-sum payment  
after April 30<sup>th</sup>**

If you pay for your leave of absence *after* April 30 of the year following the end of your leave, you will receive a PSPA. A PSPA must be approved by the CRA.

If you have enough RRSP room to accommodate your PSPA, CRA will certify your PSPA and the purchase will be approved. (Remember, paying for some or all of your purchase with funds transferred from an RRSP will reduce the size of your PSPA.)

The Teachers' pension plan will provide a tax receipt in February following the calendar year in which you make payment.

**If your contribution room becomes negative**

A PSPA may cause your RRSP contribution room to become negative. This is because a purchase of credit can trigger a significant PSPA. For example, purchasing one-year of credit in the Teachers' pension plan will – for the typical teacher earning \$65,000 a year – result in a PSPA of more than \$11,000. Remember, a PA or PSPA is CRA's assessment of the value of benefits you have earned. Its value is not the same as the cost of your buyback.

If, after your PSPA has been deducted from your available RRSP room, your:

- RRSP contribution room is still positive – No further action is required. Your PSPA will be certified by CRA and your purchase of credit will be considered complete.
- RRSP contribution room is negative – Your PSPA will still be certified and your purchase will be approved, provided your RRSP room is not negative by more than \$8,000.
- RRSP contribution room is negative by more than \$8,000 – CRA will inform you in writing. You will be required to withdraw funds from your RRSP within 30 days, so that the negative balance does not exceed \$8,000. If you do not withdraw the necessary funds, your PSPA will be denied.

**If your PSPA is denied**

If your PSPA is denied by CRA, the Teachers' pension plan will contact you to determine whether you want to:

- buy back as much credit as CRA will approve based on your available RRSP room; or
- buy back no credit.

In either case, we will refund any payment you've made for credit you are not able to purchase. You will not be able to buy back this credit at a later date.

**Heads up!**

If your RRSP contribution room is negative by up to \$8,000, you will not be able to contribute to your RRSP again until you generate enough new room to eliminate the negative balance. Because the Teachers' pension plan is a valuable plan, it produces a high PA. The typical teacher earning \$65,000 a year generates only about \$1,600 in new RRSP contribution room each year. That means it may be several years before you can make RRSP contributions again.

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**Lump-sum payment  
after April 30<sup>th</sup>  
(cont.'d)**

If you think your PSPA will exceed your available RRSP room, you may want to pay for some or all of your purchase with funds transferred from an RRSP. To transfer RRSP funds, complete a T2033 form, which is available in the publications section of our website at [www.otpp.com](http://www.otpp.com). Using RRSP funds will result in a corresponding reduction in your PSPA. Remember: buying one year of credit results in a PSPA of about \$11,000 for a typical teacher earning \$65,000 a year.

**Transferring credit may trigger PSPA**

If you transfer credit from another pension plan, you are effectively buying credit in the Teachers' pension plan. Because the Teachers' plan provides above-average benefits, there's a good chance the value of your benefit in the Teachers' plan will be higher than under your old plan. If so, the transfer will trigger a PSPA.

**Remember**

- Any money you withdraw from your RRSP will be taxed as income in the year it is withdrawn.
- A purchase of credit is not complete until CRA certifies your PSPA.

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**Questions?**

If you have questions about your buyback, contact us at 416- 226-2700 or 1-800-668-0105. For questions relating to your specific tax situation, we suggest you consult a personal tax advisor.