November 2005

Buy back the year of your 24th birthday in the Desjardins Group Pension Plan (DGPP)

(Update of the 1998 press release)

Who can benefit from this buy-back?

The buy-back is not intended for all participants. You must meet all the following conditions to be eligible:

- Date of hire at Desjardins before the age of 25
- the year or years of service took place before January 1, 1990
- worked a period as regular employee (full or part time) between the ages of 24 and 25
- be an active participant in the DG Pension Plan as of October 14, 1998 (if the participant was not active on October 14, 1998, he or she can carry out the buy-back, but will not benefit from the plan's grants)
- be an active participant in the DG Pension Plan at the time of the buy-back
- the year being bought back was spent with a Desjardins employer that today is a participating DGPP employer.

General rule:

If you have continuous service recognized by the DGPP before age 25 (please refer to your personal benefits statement) which took place prior to January 1, 1990, you can buy back past services. If you do buy back past service, the plan will subsidize 30% of the cost (up to a maximum of $2,000).

General information on the buy-back

1. What period can be bought back?

The buy-back period is a maximum of one year, but you can also buy back a fraction of that time period. It ranges from your 24th and 25th birthday. If, at the time, you worked part time, the period that can be bought back today must be based on the salary you were earning at the time. For example, if you worked 20 hours a week between the ages of 24 and 25, you can buy a maximum of 20/35 year, thus 0.57 year; if you were hired only 3 months before your 25th birthday as a full-time regular employee, you can only buy back 0.25 year.

2. When can I carry out the buy-back?

You can buy back the period immediately or later on. In fact, the deadline is the date of your retirement. However, it is important to familiarize yourself with the fiscal terms of the buy-back of past service; this information could determine when you decide to proceed with the buy-back.

3. What is the plan's subsidy?

The plan subsidizes 30% of the total cost (maximum $2,000) for a full year. The $2,000 maximum is for a full year spent working full-time. If only a fraction of year is purchased, the maximum amount of $2,000 will be adjusted accordingly. If you buy an entire year and the amount is equal to or higher than $4,666, you will benefit from the plan's maximum subsidy of $2,000.

As noted in the first page, if you were not active as of October 14, 1998, the plan's subsidy is not applicable.

4. What costs will I have to assume?

The buy-back cost of past services is based on annuity purchase factors, which take into consideration the interest rates and characteristics of the DG Pension Plan; in other words, a pension contribution throughout your life, and in case of death a 60% survivorship to your spouse or a 15-year guarantee if you do not have a spouse. Upon retirement, your pension is adjusted according to the Consumer Price Index (CPI), to a maximum of 3%. The purchase cost also takes in account your regular annual salary, your age at the time of the buy-back and your gender, amongst others. The cost does not take into account contributions that could have been made during the time of your 24th year or of the salary you earned at that time.

Seeing as how the pension that could be paid by the DGPP at the time of retirement is limited due to tax regulations (we are referring to the maximum pension allowed by the Canada Revenue Agency (CRA), the cost for certain employees will also be limited.

The payment of the buy-back price for past services must be made in one single payment, either by cheque, RRSP transfer or a combination of the two.

In the event of a termination or of death before the age of 55, the amounts paid for the buy-back of past services are not directly refundable but are guaranteed with interest. This buy-back will earn you an additional year (or a fraction of a year), which will be taken into account in the calculations of your entitlements upon termination or death.

5. What is the tax impact if I carry out the buy-back?

For there to be a tax impact, the payment of the buy-back must be made with "new money", meaning that the money cannot originate from an RRSP. In that case, there is no tax impact seeing as how the tax benefits were already obtained upon your RRSP contribution. You can buy back at any time prior to your retirement.

The tax impact may be major; as such, it is advisable to be well informed. We recommend you read attentively all the terms outlined in appendix 1.

The amount paid for the buy-back may be considered as a deductible or non-deductible contribution, depending on many factors. As a general rule, if you decide to buy back past services and that:

▪ Your contributions are deductible	→	Consider using personal (non-RRSP) savings	→	Tax impact
▪ Your contributions are not deductible	→	Consider using money accumulated in your RRSPs	→	No tax impact

If you buy back past service, it will not impact your pension adjustment (PA) on your RRSP contributions for the year or your unused contributions, as it concerns calendar years prior to 1990.

6. What is the impact on my pension plan if I buy back?

If you carry out the buy-back of past service, the period that will be bought back will be added to the years already recognized in the calculation of your pension plan (on your annual personal benefits statement, we refer to recognized years at 2% of the salary of your best five years (salary 5)).

An actuarial adjustment in the case of early retirement depends on your age and your years of continuous service (working for a Desjardins employer); as such, the buy-back has no influence on the adjustment percentage seeing as how the year between your 24th and 25th birthday is already recognized in the DGPP as continuous service.

This buy-back does not give you the opportunity to retire earlier; the usual age of retirement remains at 65, but you can retire as early as of 55, whether you take the buy-back or not.

7. How can I calculate approximately the tax deductions I am entitled to?

For many participants, the buy-back of past service will affect two calendar years. For tax purposes, the deductions are different depending on whether the buy-back concerns the years for which pension plan contributions were made.

If you wish to have additional information to help you calculate approximately the tax deductions you are entitled to, please refer to Appendix 1 “Tax Treatment for a Buy-back of Past Service” and fill out the “Tax Deduction Calculation Grid”.

Appendix 1

Tax Treatment **for Buy-back of Past Service**

There are specific tax laws to determine the deduction amount of a buy-back of past service. All deductible amounts have the same effect as an RRSP contribution when calculating an employee's taxable income. The tax savings are thus directly linked to the tax rate of the year of the buy-back, which varies according to the taxable income. Furthermore, this buy-back of past services does not affect your pension adjustment or your RRSP contributions for the year.

First of all, we must specify:

- the amount paid to buy back service for a calendar year for a calendar year in which the employee made no contributions; and
- the amount paid to buy back past service for a calendar year in which the employee made partial contributions.

A buy-back of past service will be recognized for a non-contributory year **if the amounts paid are for services rendered for a calendar year during which the employee did not contribute to a pension plan; otherwise, a buy-back will be made for a year in which some contributions were made**. In most cases, the non-contributory calendar year corresponds to the calendar year that includes the 24th birthday; therefore, the calendar year that includes the 25th birthday (start date of contributions to the DGPP) corresponds to a contributory calendar year.

The current buy-back involves the employee's year of service between the 24th and 25th birthday; if the hiring occurred past the age of 24, the buy-back period begins at the hiring date. As such, depending on the start date, there are generally two calendar years affected by the buy-back. The total cost must be distributed based on the period included in each of these calendar years, as show in this table:

DISTRIBUTION OF THE BUY-BACK PERIOD

(Presumptions of a hiring prior to the 25th birthday)

Table 1

Non-contributory calendar year — generally that of the 24th birthday — (to fill out if the hiring date precedes the calendar year of the 25th birthday)		**Calendar year for which some contributions were made** — usually the year of the 25th birthday —	
Indicate the hiring date or the date of the 24th birthday, the latest of the two (A)	________	Indicate the 1st of January of the calendar year in question or the hiring date, the latest of the two (D)	________
Number of days between the date indicated in (A) and December 31[2] (B)	________	Number of days between the date indicated in (D) and the 25th birthday[2] (E)	________
Fraction of year bought back for non-contributory year (C) = (B) /365	________	Fraction of year bought back for a year in which some contributions were made (F) = (E) /365	________

[1] *If you participated in a pension plan during the calendar year of your 24th birthday, the buy-back is chargeable to a contributory year.*
[2] *You can consult the Desjardins calendar for the current year to know the accumulation of the days.*

The fractions of year (C) and (F) so calculated allow to distribute the total cost of the buy-back between each calendar year as well as determine the amount of the annuity required for each of these years. In fact, the amount to take into account for each of these calendar years is obtained by applying the fractions calculated above to the total cost.

After that, the amount so paid for each of these parts of year will help to establish the maximum tax-deductible amount. In some cases, if the amount paid is not deductible in the year of the payment, it could be deductible in a subsequent year under certain conditions.

Given the distribution of these costs, as well as deduction tax limits, a participant could choose to make a partial buy-back. In such cases, it would be best for the participant to designate this buy-back for the calendar year of the 24th birthday, which is a year that was never contributed into; it can be advantageous tax-wise due to the fact that the deductible amount is not influenced by the year's contributions for current services. If the amount of the buy-back exceeds the share attributed to the bought-back part of year, the excess will be charged to the calendar year in which contributions were already made. The designation of the bought-back portion can be made on the "Buy-back of Past Service" form. If you buy back, the tax-deductible maximums are as follows:

TAX-DEDUCTIBLE MAXIMUM DURING YEAR OF PAYMENT
– Past service contributions prior to 1990 –

Table 2

Deductible portion for a calendar year in which no contributions were made	**Deductible portion for a calendar year in which some contributions were made**
The lowest of: a) the portion of the buy-back cost for the eligible year to the calendar year in which no contributions were made; b) \$3,500 (\$5,500 in Québec) *; c) \$3,500 (\$5,500 in Québec) X number of calendar years in which no contributions were made covered by the buy-back*.	The lowest of: a) the portion of the buy-back cost for the eligible year to the calendar year in which some contributions were made; b) \$3,500 (\$5,500 in Québec) Minus: Deducted contributions during the year of the buy-back ▪ for past service while the employee did not contribute (left-hand side of the table); ▪ for current services; ▪ for past service since 1990.
If the cost of the buy-back is higher than the result of c), this means: <u>This excess will never be deductible.</u> As such, an employee with such an excess and who has amounts accumulated in an RRSP must consider the possibility of carrying out the buy-back by transferring the non-deductible amount from an RRSP to the DGPP.	If there is an excess of the amount paid on the deductible amount: This excess could be deductible according to the same limits over subsequent years, without exceeding annually the difference between \$3,500 (\$5,000 in Québec) and the contributions for the current year for current and past services.

** These two results are usually identical, except in rare cases where the employee did not contribute in either the year of the 24th and 25th birthday (i.e. date of birth in the last days of December).*

To customize your calculation, please refer to the "Tax Deduction Calculation Grid" below.

TAX DEDUCTION CALCULATION GRID
– Buy-back of past service prior to 1990 –

Table 3

<table>
<tr><th colspan="2">Deductible portion for a calendar year in which no contributions were made</th><th colspan="2">Deductible portion for a calendar year in which some contributions were made</th></tr>
<tr><td colspan="2">(A) $ ____________
Buy-back portion for calendar years
in which no contributions were made</td><td colspan="2">(E) $____________
Buy-back portion for calendar years
in which some contributions were made</td></tr>
<tr><td colspan="2"><u>Tax-deductible maximum</u></td><td colspan="2"><u>Tax-deductible maximum</u>
(contributions to consider are those paid into the DGPP during the year of the buy-back of past service)</td></tr>
<tr><td>Federal</td><td>Québec</td><td>Federal</td><td>Québec</td></tr>
<tr><td>The lowest of:
(A) $_________
OR
(B) $3,500
OR
$3,500
X _______
[number of calendar years (complete or partial) prior to 1990 in which no contributions were made]
____
Minus: (________)
(claimed deductions for these same services in previous years)
(B.1) $________</td><td>The lowest of:
(A) $_________
OR
(B) $5,500
OR
$5,500
X _______
[number of calendar years (complete or partial) prior to 1990 in which no contributions were made]
____
Minus: (________)
(claimed deductions for these same services in previous years)
(B.2) $________</td><td>The lowest of:
(E) $_________
OR
$3,500
Minus: _________
(Amount (C) on the left-hand side for the year)
Minus: _________
(Contributions for the year to the DGPP)
Minus: _________
(Contributions paid over the year for past service since 1990)
(F) $_________</td><td>The lowest of:
(E) $_________
OR
$5,500
Minus: _________
(Amount (D) on the left-hand side for the year)
Minus: _________
(Contributions of the year to the DGPP)
Minus: _________
(Contributions paid over the year for past service since 1990)
(I) $_________</td></tr>
<tr><td>The lowest of (A), (B) and (B.1):
(C) $_________
Deductible amount</td><td>The lowest of (A), (B) and (B.2):
(D) $_________
Deductible amount</td><td rowspan="3">The lowest of (E) and of (F):
(G) $_________
Amount deferred in the future:
(H) $_________
(E) - (G)</td><td rowspan="3">The lowest of (E) and of (I):
(J) $_________
Amount deferred in the future:
(K) $_________
(E) - (J)</td></tr>
<tr><td>Amount non-deferrable in the future
(C.1) $_________
(A) - (B.1)</td><td>Amount non-deferrable in the future
(D.1) $_________
(A) - (B.2)</td></tr>
<tr><td>Amount deferrable in the future
(C.2) $_________
(A) - (C) - (C.1)</td><td>Amount deferrable in the future
(D.2) $_________
(A) - (D) - (D.1)</td></tr>
<tr><td colspan="4">Total tax deductible for the year of the buy-back:
Federal: (C) + (G) = $__________
Provincial: (D) + (J) = $__________</td></tr>
<tr><td colspan="2">Amounts (C) and (D) are tax-deductible in the buy-back year at the federal and provincial levels respectively. However, the excess of amount (A) over amount (B.1.) or (A) over amount (B.2), if applicable, are not deductible. There is a possibility of transferring money accumulated in an RRSP to pay for part of the buy-back that will not be deductible at the federal and provincial levels.</td><td colspan="2">Amounts (G) and (J) represent the amounts deductible in the year at the federal and provincial levels respectively.

Amounts (H) and (K) represent the amounts that could be deducted in future years. However, on an annual basis, the allowable deductions are limited to the result of calculations (F) and (I).</td></tr>
</table>