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# Explanatory Notes to Proposed Regulations Relating to Saving for Retirement

December 1989

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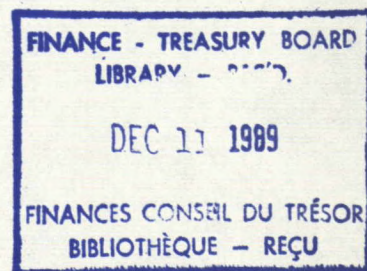
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Canada



# Explanatory Notes to Proposed Regulations Relating to Saving for Retirement

December 1989



Department of Finance  
Canada

Ministère des Finances  
Canada

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### **Clause 1**

ITR  
100(1)

Subsection 100(1) of the Regulations defines the term “remuneration” for the purposes of Part I of the Regulations. This Part provides rules under which tax is required to be withheld from payments of remuneration. Paragraph (i) of the definition of “remuneration” includes in remuneration certain payments made from registered retirement savings plans (RRSPs) but excludes periodic annuity payments and payments received in respect of an excess amount previously paid to the RRSP to the extent that the excess amount is deductible from income under subsection 146(8.2) of the Act. The definition of “remuneration” is amended to remove the exception provided for payments in respect of excess amounts paid to RRSPs. As a consequence, these payments are included in remuneration and are subject to the provisions of section 103 regarding amounts of tax to be withheld. The change is effective with respect to payments made from RRSPs after 1989.

### **Clause 2**

ITR  
103(6)(c)

Subsection 103(6) of the Regulations defines a “lump sum payment” for the purposes of subsection 103(4), which sets out the amount of tax that is required to be withheld from such payments. Paragraph 103(6)(c) includes in the definition certain lump sum payments made from RRSPs, but excludes a payment received in respect of an excess amount previously paid to the RRSP to the extent that the excess amount is deductible from income under subsection 146(8.2) of the Act. The paragraph is amended to remove this exception. As a consequence, all payments (other than periodic annuity payments) made from an RRSP while the original annuitant under the RRSP is alive are subject to withholding. The change is effective with respect to payments made from RRSPs after 1989.

### **Clause 3**

ITR  
214(5) and (7)

Subsection 214(5) of the Regulations requires reporting by issuers and annuitants in respect of transfers made from one RRSP to another RRSP in connection with the division of property on marriage breakdown. Form T2220 must be filed in respect of such transfers. Subsection 214(5) is amended to delete a reference to subparagraph 146(16)(a)(ii) of the Act. This amendment is consequential on an amendment to subsection 146(16).

Subsection 214(5) is also amended to delete a reference to the definition of “annuitant”, since a definition of this term is being added to subsection 214(7).

Subsection 214(7) of the Regulations defines the term “issuer” for the purposes of section 214 of the Regulations. Subsection 214(7) is amended to add definitions of “annuitant” and “spouse”. “Annuitant” is defined to have the meaning assigned by paragraph 146(1)(a) of the Act. This definition is added because the term is used in more than one subsection. “Spouse” is defined to have the meaning assigned by new subsection 146(1.1) of the Act and to include a party to a voidable or void marriage. The inclusion of this definition is consequential on the extension of the transfer rule in subsection 146(16) of the Act to the breakdown of common-law relationships.

The amendments to subsections 214(5) and (7) are applicable with respect to transfers and payments made after 1987.

#### **Clause 4**

ITR  
1501

Section 1501 of the Regulations prescribes, for the purposes of the definition of “deferred profit sharing plan” in subsection 147(1) of the Act, the manner in which an application for registration of a profit sharing plan is to be made. Section 1501 is amended to replace a reference to paragraph 147(1)(a) with a reference to the definition “deferred profit sharing plan”, applicable after 1990. This amendment is consequential on an amendment to subsection 147(1) of the Act.

#### **Clause 5**

ITR  
2700

Existing paragraph 20(1)(q) of the Act permits an employer to deduct current service contributions made to a registered pension plan (RPP), subject to specified limits. Section 2700 of the Regulations prescribes limits for this purpose. Section 2700 is being revoked as a consequence of the introduction of new section 147.2 of the Act, which provides a set of rules regarding the deductibility of contributions to RPPs.

The revocation of section 2700 is applicable to taxation years commencing after 1990. However, since the amendment to paragraph 20(1)(q) of the Act is applicable to the 1991 and subsequent taxation years with respect to contributions made to RPPs after 1990, section 2700 will not apply with respect to contributions made in 1991.

## Clause 6

Numerous arrangements are excluded from the definition of a “retirement compensation arrangement” (RCA) in subsection 248(1) of the Act. Paragraph (n) of the definition excludes prescribed plans or arrangements. New section 6802 of the Regulations prescribes, for this purpose, four specific plans and certain foreign pension plans.

Paragraphs 6802(a) to (c) prescribe the Canada Pension Plan, the Quebec Pension Plan and the plan under the *Unemployment Insurance Act*. Paragraph 6802(d) prescribes a plan that has been established for National Hockey League referees and linesmen.

Foreign pension plans established primarily for the benefit of non-resident employees are excluded from the definition of an RCA by virtue of paragraph (1) of the definition. However, special rules in subsection 207.6(5) of the Act apply where contributions are made to such plans for the benefit of certain employees resident in Canada. Contributions made to such a foreign pension plan in respect of services rendered by a resident of Canada are, except in certain circumstances, treated as contributions under a separate plan or arrangement that is an RCA. Paragraph 6802(e) prescribes, for 1990 and earlier years, such a foreign pension plan that satisfies specified conditions. The result is that the rules in subsection 207.6(5) of the Act do not apply with respect to such a prescribed plan, since it is excluded from the definition of an RCA by virtue of paragraph (n) of that definition. A foreign pension plan (other than a pension plan, the registration of which has been revoked) is prescribed for a particular year before 1991 by new paragraph 6802(e) where the following conditions are met:

- (a) each employer making contributions under the plan in the year is a non-resident corporation throughout the year or a non-profit organization whose assets are situated primarily outside Canada throughout the year,
- (b) where a non-resident corporation makes contributions under the foreign plan, no individual entitled to benefits under the plan is a member of a registered pension plan or a beneficiary under a deferred profit sharing plan to which any contributing employer to the foreign plan (or a person not dealing at arm's length with such an employer) has made, or is required to make, contributions in relation to the year,
- (c) a certificate of exemption with respect to non-resident withholding tax has been issued under subsection 212(14) of the Act in connection with the plan, and
- (d) contributions in the year under the plan for the benefit of individuals resident in Canada are reasonable in relation to contributions under the plan for non-resident individuals. (This condition is intended to prevent the application of the RCA exemption where contributions on

behalf of Canadian residents are determined on a significantly more generous basis than contributions on behalf of non-residents.)

New section 6802 is applicable after October 8, 1986.

## Clause 7

**Pension Adjustments, Past  
Service Pension Adjustments  
and Pension Adjustment  
Reversals**  
ITR  
Part LXXXIII

Part LXXXIII is added to the Regulations to provide rules for calculating pension adjustments (PAs), past service pension adjustments (PSPAs), and pension adjustment reversals (PARs). These amounts enter into the determination of a taxpayer's "RRSP deduction limit" and "unused RRSP deduction room" in new paragraphs 146(1)(g.1) and (l) of the Act. New subsections 147(5.1) and 147.1(8) and (9) of the Act impose limits that must be satisfied by PAs (and related amounts). These limits have the effect of restricting the benefits that can be provided under, and the contributions that can be made to, registered pension plans (RPPs) and deferred profit sharing plans (DPSPs).

Part LXXXIII also sets out, in sections 8306 and 8307, rules that apply in connection with the provision of past service benefits.

Part LXXXIII is applicable after 1988, except as noted below. However, pension credits (and therefore the PAs, PARs and PSPAs that are based on them) are generally defined to be zero for calendar years before 1990.

**Interpretation**  
ITR  
8300

Section 8300 contains several interpretation provisions for the purposes of Part LXXXIII of the Regulations, including the definitions of certain terms used in that Part.

ITR  
8300(1)  
"certifiable past service event"

Subsection 147.1(10) of the Act generally requires that a certification be obtained from the Minister of National Revenue before benefits associated with a past service event may be paid to an individual. However, the requirement for certification does not apply with respect to a past service event where the conditions set out in section 8306 are satisfied. A "certifiable past service event" is a past service event in respect of which the conditions for exemption from certification are not satisfied.

"complete period of reduced  
services"

A "complete period of reduced services" of an individual with respect to an employer is a period of reduced services (as defined in subsection 8300(1)) that is not part of a longer period of reduced services.

"excluded contribution"

An "excluded contribution" paid to an RPP is an amount transferred to the plan directly from another RPP or from an RRSP or DPSP, or an amount transferred to the plan on a tax-free basis pursuant to paragraph 60(j) (transfer of superannuation benefits) or 60(j.1) (transfer of retiring allowances). An excluded contribution is not included in determining the pension credit of an individual under a money purchase provision of an RPP or under a defined benefit provision of a specified multi-employer plan.



**“flat benefit provision”**

A “flat benefit provision” of a pension plan is a type of defined benefit provision under which each member of the plan is promised a fixed dollar amount of annual retirement benefits in respect of each period of service the member has worked or in respect of each unit of output the member has produced. For example, a flat benefit provision may provide a benefit of \$20 per month (\$240 per year) in respect of each year in which a member works a minimum of 1,300 hours. In this example, a member with 30 qualifying years of service at retirement would receive a pension of \$7,200 per year.

**“past service event”**

A “past service event” is any transaction, event or circumstance that occurs after 1990 and that either results in retirement benefits becoming provided to an individual under a defined benefit provision of a pension plan in respect of a period before the transaction, event or circumstance occurs, or alters the method for determining an individual’s past service benefits.

Generally, a past service event will be either an amendment to upgrade benefits under a plan or the crediting of an additional period of pensionable service. An example of the latter type of event is the provision of benefits to a member in respect of a period of service with a prior employer that was pensionable service under another pension plan.

It is important to note that “past service event” is broadly defined. Whenever there is a change in the way in which the past service benefits of a plan member are determined (whether or not a member’s benefits are actually increased), a past service event has occurred. For example:

- (a) where a plan provides that additional benefits are provided to any member designated by an employer, the designation of a specific individual who has past service would be a past service event;
- (b) where a plan provides a benefit of \$25 per month per year of service for terminations before 1991 and \$28 per month for terminations thereafter, a past service event would be considered to occur on January 1, 1991; and
- (c) where a plan provides benefits that are determined on a final average earnings basis with a benefit rate of 1.0 per cent if a member has less than 15 years of service and a rate of 1.3 per cent (for all years of service) if a member has 15 or more years of service, the attainment of 15 years of service by a member would be a past service event.

By virtue of subsection 8308(1), all benefits that become provided under a pension plan before the day as of which the plan is registered are considered to have become provided as a consequence of a past service event occurring on that day. In this regard, new subsections 147.1(2) and (3) of the Act provide rules regarding the time at which a plan becomes an RPP.

**“period of reduced services”**

A “period of reduced services” of an individual with respect to an employer is a period that consists of one or more eligible periods of reduced pay or temporary absence of the individual with respect to the employer. Eligible

periods are defined in subsection 8500(1) of the Regulations. In general terms such periods are periods when an individual's remuneration is less than normal – for example because of an absence from work, reduced working hours or a temporarily reduced rate of pay. For further details, reference may be made to the commentary on the definitions of “eligible period of reduced pay” and “eligible period of temporary absence”.

ITR  
8300(2)

Subsection 147.1(1) of the Act defines “past service event” to have the meaning assigned by regulation. Subsection 8300(2) provides that the definition of “past service event” in subsection 8300(1) applies for this purpose.

ITR  
8300(3)

Subsection 8300(3) provides that the meanings given to terms in sections 147 and 147.1 of the Act and in Part LXXXV of the Regulations also apply for the purposes of Part LXXXIII of the Regulations.

ITR  
8300(4)

Subsection 8300(4) is a special rule of interpretation which ensures that officers are treated in the same manner as employees for the purposes of determining PAs, PSPAs and PARs.

**Pension Adjustment**  
ITR  
8301

Section 8301 provides rules for calculating the PA of an individual for the purposes of the definition of “pension adjustment” in subsection 248(1) of the Act. Subsection 8301(1) defines the PA of an individual for a year in respect of an employer in terms of the individual's pension credits under DPSPs and under benefit provisions of RPPs. Subsections 8301(2) to (6) define the various pension credits of an individual. Further rules applying to special cases are found in section 8308.

**Pension Adjustment in Respect  
of Employer**  
ITR  
8301(1)

Subsection 8301(1) defines, for the purposes of subsection 248(1) of the Act, the “pension adjustment” (PA) of an individual for a calendar year in respect of an employer to be the aggregate of the individual's pension credits for the year in respect of the employer under DPSPs and under benefit provisions of RPPs.

A pension credit of an individual for a year under a DPSP or a benefit provision of an RPP is a measure of the benefits accruing to the individual under that DPSP or provision. It determines the extent to which the individual's RRSP deduction limit for the following year is reduced as a consequence of the accrual of benefits under the DPSP or the RPP benefit provision.

Subsection 8310 provides that pension credits are to be rounded to the nearest dollar.

The aggregation of pension credits to determine an individual's PA is illustrated in the following example.

**Example 1:** An individual is accruing benefits under a flat benefit pension plan with a benefit rate of \$20 per month and in addition will receive benefits under a DPSP to which the individual's employer contributes. Assume that the individual's pension credit under the flat

benefit provision is \$1,560 and that a \$1,000 DPSP contribution is made in the year on the individual's behalf. The individual's PA for the year is \$2,560, calculated as follows:

$$\begin{aligned}\text{PA} &= \text{pension credit (RPP)} + \text{pension credit (DPSP)} \\ &= \$1,560 + \$1,000 = \$2,560.\end{aligned}$$

**Pension Credit – Deferred  
Profit Sharing Plan  
ITR  
8301(2)**

Subsection 8301(2) defines the pension credit of an individual for a year in respect of an employer under a DPSP to be the aggregate of:

- (a) all contributions made to the plan by the employer in the year in respect of the individual; and
- (b) forfeited amounts under the plan, and investment earnings attributable to those amounts, that are reallocated in the year to the individual (and not paid out of the plan to the individual in the year).

For the purpose of this subsection, subsection 8301(8) provides that contributions made to a DPSP on or before the last day of February that relate to the preceding year are considered to have been made at the end of that preceding year. Subsection 8301(9) provides that an amount is not considered to be paid out of a plan to an individual if it is transferred directly to an RPP, RRSP or DPSP.

For 1990, the pension credit excludes any amount allocated to the individual in the year that is attributable to amounts forfeited before 1990 or earnings thereon. However, the pension credit for 1990 includes both deductible and non-deductible employer contributions to a DPSP. (By virtue of amendments to section 147 of the Act, 1990 is the last year in which non-deductible DPSP contributions are permitted.)

**Pension Credit – Money  
Purchase Provision  
ITR  
8301(3)**

Subsection 8301(3) defines the pension credit of an individual for a year in respect of an employer under a money purchase provision of a pension plan as the total of:

- (a) all contributions made under the provision in the year
  - (i) by the individual, and
  - (ii) by the employer in respect of the individual; and
- (b) forfeited amounts (and related investment earnings) and amounts of surplus under the provision that are allocated in the year to the individual (and not paid out of the plan to the individual in the year).

All contributions made in a year by an individual under a money purchase provision of an RPP, whether withheld from remuneration or contributed directly to the plan by the individual, are to be included in the individual's pension credit for the year under the provision. An exception is made for additional voluntary contributions (AVCs) made in 1990 and for excluded

contributions (as defined in subsection 8300(1)). These contributions are not subject to PA reporting.

For the purpose of this subsection, subsection 8301(8) provides that contributions made under a money purchase provision of an RPP by a participating employer on or before the last day of February that relate to the preceding year are considered to have been made at the end of that preceding year. Subsection 8301(9) provides that an amount is not considered to be paid out of a plan to an individual if it is transferred directly to an RPP, RRSP or DPSP.

As defined in subsection 8500(1), a surplus under a money purchase provision is an unallocated amount other than a forfeited amount or certain unallocated investment earnings. Such a surplus can arise when a defined benefit provision is converted to a money purchase provision or a defined benefit plan is wound up and replaced by a money purchase plan. Further rules relating to surpluses under money purchase provisions are described in the commentaries on subsection 147.3(8) of the Act and paragraph 8504(2)(c) of the Regulations.

For 1990, the pension credit excludes any amount allocated to the individual in the year that is attributable to amounts forfeited before 1990 or earnings thereon.

Where an individual is employed in a year by two or more employers who participate under a money purchase provision, the plan administrator is required to determine the portion of the contributions made by, and the amounts allocated to, the individual that is to be included in the individual's pension credit in respect of each employer.

**Pension Credit – Specified  
Multi-Employer Plan**  
ITR  
8301(4)

Subsection 8301(4) defines the pension credit of an individual for a year in respect of an employer under a defined benefit provision of an RPP that is, in the year, a specified multi-employer plan. The definition of a specified multi-employer plan is set out in subsections 8506(1) and (2). In general terms, a specified multi-employer plan is a defined benefit plan in which two or more arm's length employers participate pursuant to a collective bargaining or similar agreement and that is administered by a board of trustees or similar body that is not controlled by representatives of the employers.

The pension credit for a year is the total of all contributions, except for excluded contributions as defined in subsection 8300(1), made under the provision in the year

- (a) by the individual to obtain benefits in respect of current service, and
- (b) by the employer in respect of the individual.

An employee contribution to obtain benefits in respect of current service includes a contribution made in the year in respect of a plan year that ends in the year but commences before the year. However, for 1990, an individual's

pension credit does not include the portion of an employee contribution that is in respect of a period before 1990.

Contributions made by an individual to purchase benefits in respect of prior years of service are not included in determining the individual's pension credit. However, such contributions, to the extent that they are in respect of service after 1989, give rise to a PSPA and are thereby taken into account in determining the individual's available RRSP deduction room. For further discussion of this point, reference may be made to the commentary on subsection 8303(6). As an exception to the general rule, a contribution made by an individual in January of a year (after 1990) in respect of service in the immediately preceding year is included in the pension credit for the year in which the contribution is made; it is not reported as a PSPA or included in the pension credit for the preceding year.

Where an individual is employed in a year by two or more employers who participate under the provision, the plan administrator is expected to determine the portion of the contributions made by the individual that is to be included in the individual's pension credit in respect of each employer. In practice, such a determination will be necessary only where the existence of a supplementary pension or profit sharing arrangement of an employer gives rise to the need to determine a plan member's PA in respect of the employer for purposes of the PA limits in subsections 147(5.1) and 147.1(8) of the Act. Where an individual makes a contribution to a specified multi-employer plan (and the contribution is not remitted by a participating employer), subsection 8401(2) requires the administrator to report the aggregate amount of the pension credits arising from the contribution rather than the individual portions of pension credits in respect of different employers.

Where an employer contributes amounts that are not determined by some measure specific to individual plan members such as hours worked, paragraph 8301(4)(c) requires that such amounts be allocated to plan members in proportion to each member's share of the member-specific contributions made by the employer.

For the purpose of this subsection, subsection 8301(8) provides that contributions made under the defined benefit provision of a specified multi-employer plan that are made by a participating employer on or before the last day of February and that relate to the preceding year are considered to have been made at the end of that preceding year.

**Pension Credit -- Defined  
Benefit Provision  
ITR  
8301(5)**

Subsection 8301(5) defines the pension credit of an individual for a year in respect of an employer under a defined benefit provision of an RPP (other than a specified multi-employer plan) to be the amount, if positive, that is equal to:

$(9 \times \text{benefit entitlement}) - \$600$  (or a portion thereof).



The individual's benefit entitlement under the provision is determined in accordance with the rules set out in section 8302. In general terms, it is the lifetime retirement benefits that accrue under the provision in respect of the year, to the extent that the benefits are attributable to the individual's employment with the employer.

In most situations, the full offset of \$600 applies regardless of whether the individual is credited with a full year or a part year of service under the provision. However, in certain situations where an individual accrues benefits under two or more defined benefit provisions of plans of an employer or of non-arm's length employers, or under a single defined benefit provision in respect of two or more employers, the \$600 offset must be split amongst the various pension credits.

*Example 2:* An individual accrues benefits under a defined benefit plan to which all company employees belong. In addition, the individual accrues benefits under a second defined benefit plan provided only for certain employees. Under these circumstances, either the pension credit in respect of one of the plans should be calculated without reference to the \$600 offset or the offset should be split in some other fashion between the two plans.

Subsection 8301(6) modifies subsection 8301(5) as it applies to benefits under multi-employer plans. Section 8308 contains rules that apply in a number of special circumstances.

**Pension Credit – Defined  
Benefit Provision of a Multi-  
Employer Plan**  
ITR  
8301(6)

Subsection 8301(6) provides special rules for the calculation of the pension credits of an individual for a year under a defined benefit provision of a multi-employer plan that is not a specified multi-employer plan. The rules apply except to the extent that they are waived, in writing, by the Minister of National Revenue. There are four rules.

First, where an individual is employed by more than one participating employer in the year, the pension credit of the individual under the provision in respect of a particular employer is to be determined as if the individual were not employed by any other participating employer.

Second, the \$600 offset provided by paragraph 8301(5)(b) is replaced by an offset of \$600 prorated by the fraction equal to the services rendered by the individual to the employer in the year (or that the individual is treated as having rendered to the employer) expressed as a fraction of full-time equivalent services. The fraction may not exceed one and is to be determined without regard to the individual's employment with any other participating employer in the year.

Third, where the year includes a period of reduced services of the individual with respect to an employer (as defined in subsection 8300(1)) or a period of disability of the individual (as defined in subsection 8500(1)), the

individual's pension credit for the year under the provision in respect of the employer is to be determined by aggregating:

- the pension credit computed without regard to benefits provided in respect of the period of reduced services or disability, except to the extent that the benefits are attributable to services rendered during the period of reduced services, and
- the pension credit computed with regard only to benefits provided in respect of the period of reduced services or disability, except for those benefits attributable to services rendered during the period of reduced services.

Fourth, the special transition rule in subsection 8301(7) for plans with money purchase offsets does not apply.

These rules permit an employer in a multi-employer plan to determine pension credits without regard to the earnings of plan members from other participating employers. Consequently, the need for employers and the plan administrator to exchange information is minimized.

Similarly, where additional benefits are provided in respect of a period of reduced services or a period of disability, the rules permit the portion of the individual's pension credits relating to such additional benefits to be determined independently of the portion of the individual's pension credits relating to benefits provided as a consequence of services rendered by the individual. Subsection 8401(4) permits, with the approval of the Minister of National Revenue, the pension credits attributable to these special periods to be reported by the plan administrator.

The application of these rules is illustrated in example 12 that follows the commentary on subsection 8302(7).

**Transition Rule: Money  
Purchase Offsets**  
ITR  
8301(7)

Subsection 8301(7) provides a special adjustment to the pension credit of an individual under a defined benefit provision of an RPP where benefits under the provision are offset by benefits that can be purchased at retirement from the individual's account under a money purchase provision and where certain other conditions are met. The adjustment applies for a transition period ending with 1999. The normal rule for determining the pension credit takes into account benefits under the money purchase provision arising from contributions made in the current year, but not benefits arising from earlier contributions. However, the money purchase account of a long-service member may be large enough that no benefits, or a minimal level of benefits, accrue under the defined benefit provision. In this case, the pension credit would be excessive relative to the actual defined benefits that accrue to the member. The transition rule adjusts the pension credit in these circumstances.

The transition rule will apply where:

- the amount of lifetime retirement benefits under a defined benefit provision of an RPP (other than a specified multi-employer plan) depends on the amount of lifetime retirement benefits under a money purchase provision of the plan or another plan;
- benefits have been so determined under the defined benefit provision since January 1, 1981 or earlier;
- the benefit formula under the defined benefit provision has not been substantially changed since the end of 1989; and
- employer contributions under the money purchase provision on behalf of each member have, for each year before 1990, not exceeded \$3,500.

Where the above conditions are met, the pension credit of a member under the defined benefit provision for any year before 2000 is reduced by the lesser of:

- (a) \$2,500, and
- (b) the amount determined by the formula

$$\frac{1}{10} \times (A - (B \times C))$$

where

- A is the balance in the member's account under the money purchase provision at December 31, 1989,
- B is the member's pensionable service under the defined benefit provision to the end of 1989, and
- C is the amount that would be the member's pension credit under the defined benefit provision for 1989 if the pension credit for 1989 were not deemed, by subsection 8301(5), to be nil. (By virtue of the rules in section 8302 and the fact that subsection 8301(3) deems money purchase pension credits to be nil before 1990, the defined benefit pension credit is to be determined as if these were no money purchase offset. Also, no benefit accrual cap or earnings-related benefit exclusion applies in determining the pension credit since these are not defined for 1989.)

Timing of Contributions  
ITR  
8301(8)

For the purpose of determining pension credits, subsection 8301(8) provides a timing rule for employer contributions to DPSPs and RPPs. The rule applies to employer contributions made to DPSPs, under money purchase provisions of RPPs, and under defined benefit provisions of specified multi-employer plans. Under this rule, such contributions made on or before the last day of February that can reasonably be considered to relate to the

preceding year are deemed to have been made in the preceding year and, as a result, are included in the pension credits for the preceding year.

**Transferred Amounts**  
ITR  
8301(9)

Paragraphs 8301(2)(b) and (3)(b) provide that certain amounts allocated to an individual under a DPSP or under a money purchase provision of an RPP are included in the individual's pension credit. However, subparagraphs 8301(2)(b)(ii) and (3)(b)(iv) exclude amounts paid to the individual in the year in which they are so allocated. Subsection 8301(9) provides a special rule for this purpose: an amount is not considered to be paid to an individual if it is transferred from the plan directly to an RPP, an RRSP or a DPSP. Consequently, such amounts are included in an individual's pension credit.

**Subsequent Events**  
ITR  
8301(10)

Subsection 8301(10) provides that the pension credits of an individual for a year are to be calculated without regard for anything that happens after the end of the year (unless otherwise expressly provided). As a consequence, pension credits, and thus PAs, are fixed amounts each year and are not affected by past service events. Exceptions to this rule are set out in subsections 8308(3) and (4), which provide for the redetermination of PA where retroactive benefits are credited under a defined benefit provision or retroactive contributions are made under a money purchase provision in respect of a period of reduced pay or temporary absence.

**Benefit Entitlement**  
ITR  
8302

Section 8302 provides the principal rules for the calculation of the benefit entitlement of an individual under a defined benefit provision of an RPP. The benefit entitlement is used in subsection 8301(5) to calculate the individual's pension credit under the provision. The rules include transition provisions applicable in the years 1990 to 1993. Additional rules for special cases are provided in section 8308. In any case where the rules are incomplete or the application of the rules would give an inappropriate result, section 8309 enables the Minister of National Revenue to permit or require the use of a particular method of calculation.

**Benefit Entitlement with  
Respect to Employer**  
ITR  
8302(1)

Subsection 8302(1) defines an individual's benefit entitlement under a defined benefit provision of an RPP in respect of a year and an employer to be the portion of the individual's benefit accrual in respect of the year that is attributable to the individual's employment with the employer. The benefit accrual of an individual is defined in subsection 8302(2). Section 8305 contains rules relating to the association of benefits with employers. The full amount of an individual's benefit accrual must be associated with one or more employers. In the vast majority of cases, an individual will accrue benefits under a provision in a year as a consequence of employment with only one employer. In these cases, the individual's benefit entitlement and benefit accrual are the same amount.

**Benefit Accrual for Year**  
ITR  
8302(2)

Subsection 8302(2) sets out rules for determining an individual's benefit accrual under a defined benefit provision of an RPP in respect of a calendar year for the purpose of subsection 8302(1). The rules are subject to rules for certain special cases in subsections 8302(5) and (6).

In general terms, the benefit accrual of an individual under a defined benefit provision of an RPP in respect of a calendar year is the additional benefit that accrues under the provision to the individual in respect of his or her service in the year. It does not include additional accruals in respect of prior years where, for example, past benefits increase as a result of an increase in earnings. More specifically, the benefit accrual of an individual for a year is equal to the amount computed as follows:

- (a) determine the portion of the individual's normalized pension under the provision at the end of the year that can reasonably be considered to have accrued in respect of the year;
- (b) where the year is one of the years 1990 to 1993, determine the lesser of the above amount and the following benefit accrual ceilings

Year	Benefit accrual ceiling
	(dollars)
1990	1,277.78
1991	1,388.89
1992	1,500.00
1993	1,611.11

- (c) where benefits under the provision are offset by benefits under a DPSP or a money purchase provision of an RPP, reduce the amount determined under (a) or (b) by 1/9th of the individual's pension credit for the year under the DPSP or money purchase provision.

The normalized pension of an individual under a defined benefit provision is defined in subsection 8302(3) and, in general terms, is the amount of lifetime retirement benefits determined on the basis of a number of assumptions. The individual's benefit accrual for a year (subject to the ceilings and money purchase offsets) is the portion of the normalized pension that can reasonably be considered to have accrued in respect of the year. Generally, this can be determined by taking the difference between the current year's normalized pension and the normalized pension computed on the basis of service to the end of the preceding year but using the current year's level of remuneration (and, where applicable, the current year's YMPE). In the great majority of cases where benefits are determined as a percentage of earnings, the benefit accrual will simply be the product of the benefit rate or rates under the provision and the individual's pensionable earnings in the year. These points are illustrated in examples 3 and 8 that follow the commentary on subsection 8302(7).

The effect of the benefit accrual ceiling in paragraph 8302(2)(b) is to ensure that at least \$600 of deduction room is available for supplementary money



purchase contributions to an RRSP, RPP or DPSP by or on behalf of each defined benefit plan member.

The adjustment in paragraph 8302(2)(c) applies where retirement benefits under the defined benefit provision are offset by benefits under a DPSP or under a money purchase provision of the same plan or another plan. An example is a plan that provides for employer and employee money purchase contributions and also includes a guarantee of a certain level of retirement benefits. By virtue of paragraph 8302(3)(k), the money purchase offset is not taken into account in determining the normalized pension under the defined benefit provision. Instead, it enters into the calculation of the benefit accrual by virtue of paragraph 8302(2)(c). Example 10 illustrates the application of paragraph 8302(2)(c).

Normalized Pension  
ITR  
8302(3)

Subsection 8302(3) contains rules for determining, for the purpose of paragraph 8302(2)(a), the normalized pension of an individual under a defined benefit provision of an RPP at the end of a particular calendar year.

In general terms, the normalized pension is the amount of lifetime retirement benefits determined at the end of the year on the basis of a number of assumptions. For plans other than flat benefit plans, the key assumption is that the individual's remuneration (expressed on a full-time basis) in other years is identical to that in the current year.

Specifically, the normalized pension of an individual under a defined benefit provision of an RPP at the end of a calendar year is the annual amount of lifetime retirement benefits that would be payable under the provision to the individual immediately after the end of the year if:

- (a) where lifetime retirement benefits have not commenced to be paid to the individual under the provision, they commenced to be paid immediately after the end of the year;
- (b) where the individual had not attained age 65 before the time of pension commencement (or deemed commencement under paragraph (a)), the individual attained age 65 at that time;
- (c) the plan provided for the immediate vesting of benefits under the provision;
- (d) the individual's retirement benefits were not subject to any reduction on account of early retirement;
- (e) the individual's remuneration in other years were identical to the individual's remuneration in the year, or, if the individual was not remunerated on a full-time basis in the year or another year, the individual's rate of remuneration were the same in other years as in the year;
- (f) where all or part of the individual's remuneration in the year is treated under the provision as if it were received in a preceding year for

services rendered in that preceding year, such remuneration were instead received for services rendered in the year;

(g) where the year is one of the years 1990 to 1993, benefits in respect of the following range of annual remuneration were excluded:

Year	Range of remuneration
	(dollars)
1990	63,889 – 86,111
1991	69,444 – 86,111
1992	75,000 – 86,111
1993	80,556 – 86,111

(h) the Year's Maximum Pensionable Earnings (YMPE) were the same in other years as in the year;

(i) where the individual's lifetime retirement benefits depend on the actual amount of benefits payable under the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP), the annual amount of CPP/QPP benefits payable to the individual were equal to

(i) 25 per cent of the YMPE for the year or, if less, 25 per cent of the individual's remuneration for the year from participating employers (or, in the case of an individual who does not work on a full-time basis throughout the year, a reasonable estimate of the remuneration the individual would have received had he or she worked on a full-time basis throughout the year), or

(ii) at the option of the plan administrator, an amount similar to that in (i), determined in a reasonable manner;

(j) where the individual's lifetime retirement benefits depend on the level of benefits payable under the Old Age Security (OAS) program, the individual's annual OAS benefits were equal to the total of the maximum OAS benefits payable for each month in the year;

(k) where the individual's lifetime retirement benefits depend on the level of benefits (other than public pension benefits of Canada or another country) provided under another benefit provision of a pension plan or under a DPSP, the level of the other benefits were such as to maximize the individual's lifetime retirement benefits;

(l) where the individual's lifetime retirement benefits would otherwise include benefits determined in accordance with a designated provision of the law of Canada or a province (as defined in section 8509), such benefits were not included;

(m) where the individual's lifetime retirement benefits would otherwise be subject to an adjustment (not more favourable than an actuarial adjustment) to reflect their postponement from age 65 to a later age, no such adjustment were made;

(n) where the level of the individual's lifetime retirement benefits depends on the level of survivor benefits or other ancillary benefits provided under the provision, or on circumstances (such as marital status) relevant in determining the form of the individual's benefits, the level of the ancillary benefits and the circumstances were such as to maximize the amount of lifetime retirement benefits (except that, where the normal form of death benefit is a guarantee for ten years or less and the individual is entitled to additional benefits in lieu of all or part of the guarantee, the additional benefits may be ignored);

(o) where the level of lifetime retirement benefits depends on whether the individual is totally and permanently disabled at the time of pension commencement, the individual were not so disabled; and

(p) where retirement benefits have commenced to be paid before the end of the year, any benefits provided as cost-of-living adjustments (as described in paragraph 8303(5)(k)) were excluded.

The assumption in paragraph 8302(3)(a) fixes the time of pension commencement where the pension has not commenced to be paid before the end of the year for which the normalized pension is being calculated.

The assumption in paragraph (b) ensures that any increase in benefits associated with an increased age of retirement (up to age 65) is taken into account.

Assumption (c) makes it clear that the normalized pension includes benefits whether or not they are vested.

Assumption (d) ensures that the normalized pension and benefit accrual will not be reduced on account of early retirement. Given the assumption as to age in paragraph 8302(3)(b) and the fact that very few plans apply a reduction to pensions commencing at age 65, assumption (d) will generally not have any effect.

Assumption (e) is relevant where benefits depend on an average of earnings over a period of years. It provides, in effect, that the average of pensionable earnings for the period is equal to the amount of pensionable earnings in the particular year for which the normalized pension is being determined. Thus, it permits the normalized pension (and the PA of an individual) to be determined on the basis of the individual's pensionable earnings (or annualized pensionable earnings) in the year although pension benefits will actually be determined on the basis of average earnings. If a portion of earnings is not pensionable (for example, a bonus), this would be taken into account in applying the assumption.

Where an individual does not work on a full-time, full-year basis in the particular year or in another year, assumption (e) requires that the earnings in the prior year be recalculated based on the annual rate of pay in the particular year. For example, if an individual who works on a full-time basis earned \$40,000 for a full-year's employment in a prior year but earned \$22,000 for half a year's employment in the particular year, the recalculated earnings for the prior year under assumption (e) would be \$44,000. As another example, if an individual who works on a full-time basis earned \$44,000 for a full year's employment in the particular year but earned \$20,000 for half a year's employment in a prior year, the recalculated earnings for the prior year under assumption (e) would be \$22,000. In a case where an individual renders no services in the particular year, because of disability or temporary absence, the prior year's remuneration would be recalculated based on a reasonable estimate of the annual rate of remuneration that would have been paid in the particular year had the individual rendered services. In cases involving less than full-time, full-year service, paragraph 8302(3)(e) permits the use of a reasonable estimate of remuneration in other years where the estimate is determined in a manner acceptable to the Minister of National Revenue.

Assumption (f) generally applies where back-pay or bonuses paid in a year are treated under an RPP as if they had been paid in a preceding year. It requires that a bonus paid in 1990, for example, be reflected in the normalized pension for 1990 even if the bonus is treated under the plan as earnings for 1989. Similarly, a bonus earned in 1990 but not paid until 1991 would be reflected in the 1991 normalized pension. Subsection 8308(2) provides special rules that ensure that back-pay or a bonus paid to an individual in a year in which he or she accrues no further retirement benefits under a defined benefit provision will result in a pension credit.

Assumption (g) provides an adjustment to be made in the calculation of normalized pensions for the transition years 1990 to 1993. The purpose of the adjustment is to ensure that pension credits under defined benefit provisions bear an appropriate relationship to the money purchase limits that apply in the transition years. If it were not for this adjustment, a number of existing pension arrangements would give rise to PAs during the phase-in period that violate the limits in subsection 147.1(8) of the Act even though the PAs would be within the limits in 1994. Example 6 provides an illustration of the benefit exclusion. The exclusion depends on annualized earnings. Thus, this rule will apply where, for example, a part-time or part-year employee has actual 1990 earnings below the threshold of \$63,889 but annualized earnings in excess of that amount. An anti-avoidance rule in subsection 8302(7) precludes the application of this paragraph in certain circumstances.

Where benefits depend on the YMPE for a year other than the current year (for example, where the integration of benefits with CPP or QPP benefits is based on a three-year average of YMPEs), assumption (h) provides that the

current year's YMPE is to be used for the purpose of computing the normalized pension.

Assumption (i) applies only in certain cases where benefits are reduced by the actual amount of CPP or QPP benefits payable to the individual. The assumption does not apply where pension benefits are indirectly integrated with CPP/QPP benefits, through the use of a lower benefit rate on earnings up to the YMPE, for example, or where the plan defines a CPP/QPP offset based on an approximation to CPP/QPP benefits.

The terms of a plan that relate a CPP/QPP offset to years of service under the plan should be followed in applying assumption (i). For instance, if a plan provides that retirement benefits are offset by 1/20th of actual CPP/QPP benefits for each year of service up to 20 years, 19/20th of the amount determined in accordance with assumption (i) would be deducted in calculating the normalized pension for an individual's 19th year of service (assuming that service years and calendar years coincide). Since the individual's benefit accrual for the 19th year of service is generally determined as the difference between the individual's normalized pension as of the end of the 19th and 18th years (based on 19th year remuneration and YMPE levels), the impact of the CPP/QPP offset on the benefit accrual for the 19th year would be 1/20th ( $= 19/20 - 18/20$ ) of CPP/QPP benefits. The benefit accruals determined for the individual's 21st and subsequent years of service would not reflect any offset for CPP/QPP benefits.

Assumption (i) permits the use of an alternate method of determining CPP/QPP benefits as long as the method is reasonable and produces results substantially similar to those produced by the method set out in the assumption. For example, where retirement benefits are offset by 1/35th of actual CPP/QPP benefits for each of the first 35 years of service, the offset could be calculated as 0.007 times the YMPE (or 0.007 times the individual's annualized remuneration where this amount is less than the YMPE). Example 9 illustrates the application of this paragraph.

Assumption (j) applies where retirement benefits depend directly on the level of OAS benefits, but does not apply where OAS benefits are taken into account indirectly through a step-rate benefit formula. If OAS benefits in a year are \$4,130, for example, and retirement benefits are to be reduced by 1/35th of OAS benefits per year of service (to a maximum of 35 years), then for an individual with 10 years of service who accrues a full year of service in the year, the offset taken into account in computing the individual's normalized pension would be 10/35th of \$4,130. The effect of the OAS offset on the benefit accrual for an individual with no more than 35 years of service would be 1/35 of \$4,130 or \$118.

Assumption (k) provides that, where an individual's retirement benefits under a particular provision depend on benefits under another provision of a pension plan or under a DPSP, the other benefits are assumed to be such that



the individual's benefits under the particular provision are maximized. Normally, this means that the other benefits are assumed to be nil. Where benefits under the particular provision are offset by benefits under a money purchase provision or under a DPSP, the offset is taken into account pursuant to special rules in paragraph 8302(2)(c). Defined benefit offsets are taken into account according to rules set out in subsection 8302(5). Paragraph 8302(3)(k) permits the Minister of National Revenue to modify the way in which the paragraph applies. For example, where money purchase benefits are not simply deducted in determining defined benefits but enter into the formula in a more complex way, and therefore the rule in paragraph 8302(2)(c) does not apply, the Minister may permit the money purchase benefits to be taken into account in an appropriate way for the purpose of determining the normalized pension.

Assumption (l) permits lifetime retirement benefits to be ignored in computing an individual's normalized pension to the extent that they are provided by reason of a "designated provision of a law of Canada or a province". Section 8509 provides that subsection 21(2) of the *Pension Benefits Standards Act, 1985* (PBSA) and any similar provision of the law of a province are designated provisions. Subsection 21(2) of the PBSA provides that on retirement, termination or death, a plan member's pension under a defined benefit plan must be increased by a certain amount where, for years after 1986, the member's contributions plus interest are greater than half of the value of the pension that would otherwise be paid. Assumption (l) also applies with respect to benefits that a plan is not required to provide but would be required to provide if the designated provisions were applicable to the plan in respect of all its members. For example, if a plan that has members in both British Columbia and Ontario applies the cost-sharing rule required by Ontario to its British Columbia members, any additional benefits arising by virtue of this rule will be ignored in determining the normalized pension of both British Columbia and Ontario members.

Assumption (m) permits a pension commencing after a plan member attains age 65 to be increased to reflect its delayed commencement without affecting the member's normalized pension. However, the paragraph excludes such benefit increases only to the extent that they do not exceed increases that would be made on an actuarially equivalent basis. To the extent that an increase exceeds this amount, the member's normalized pension, and hence the portion of that pension attributable to the year for which the member's pension credit is being calculated, will be correspondingly larger. (In addition, the adjustment to prior years' benefits will be a past service event and will give rise to a PSPA if the increase is greater than an actuarial increase.)

Assumption (n) requires that, regardless of the normal and alternative forms of benefits specified in the plan and the benefit option actually chosen by a plan member, the normalized pension be determined using the highest level of lifetime retirement benefits that might be payable to a member. For example, where a lower pension is paid to members with spouses (at the

time of pension commencement) than to those without spouses, the normalized pension for all members must be based on the level of retirement benefits payable to members without spouses. Assumption (n) applies, in particular, where the level of lifetime retirement benefits depends on the level of survivor benefits, bridging benefits, inflation adjustments or benefit guarantees. However, an exception to this rule applies where plan members are entitled to elect higher pensions in lieu of guarantee periods of ten years or less. To the extent that such pension increases do not exceed actuarially equivalent amounts, they may be excluded in computing the normalized pensions of plan members.

Two examples will illustrate the general rule. First, consider a plan which provides a benefit of 2 per cent per year of service but applies a reduction of 10 per cent of the pension for married plan members who opt at retirement for a pension with a 60 per cent survivor benefit. In this case, the normalized pensions of all members must be determined without the 10-per-cent reduction. Second, consider a plan that provides a 1.5-per-cent benefit accrual and includes a 60-per-cent survivor benefit in its normal form. Plan members are permitted to opt at retirement for an actuarially increased pension in exchange for giving up the survivor benefit. Assumption (n) requires that the normalized pension of any plan member to whom the option is available be based on the actuarially increased pension. For this purpose, it is not necessary to calculate the precise amount of the actuarial increase; a reasonable estimate may be made. For example, a uniform percentage increase could be applied to all pensions.

Assumption (o) provides that any adjustment to retirement benefits that applies because a plan member is totally and permanently disabled at the time of pension commencement be disregarded in computing normalized pensions. For example, any reduction in benefits under the pension plan to reflect disability benefits provided under another plan would be disregarded. Since most disability benefits cease by age 65 (as is the case for CPP disability benefits, for instance), the assumption in paragraph 8302(3)(b) that the individual has attained age 65 means that assumption (o) will generally not have any effect.

Assumption (p) provides that inflation adjustments to a pension already in pay by the end of the year be ignored in computing the normalized pension of the recipient.

Subsection 8302(4) provides, for greater certainty, that subsection 8302(3) applies to determine a normalized pension of an individual under a defined benefit provision of an RPP even where the individual ceases in the year to accrue benefits under the provision. Consequently, a pension credit must be calculated for such individuals. Also, the actual pension payable to a member who retires or terminates with a deferred vested pension in a year is to be disregarded and the normalized pension used in its place to determine the member's pension credit. Although subsection 8302(4) also applies where an

Terminated, Deceased or  
Retired Member  
ITR  
8302(4)

individual dies in a year, it is not necessary to calculate and report a PA for that year, by virtue of subsection 8401(5).

**Defined Benefit Offset**  
**ITR**  
**8302(5)**

Subsection 8302(5) provides a rule for determining the benefit accrual of an individual under a particular defined benefit provision of an RPP where benefits under the provision depend on benefits provided under one or more other defined benefit provisions of RPPs. In general terms, the benefit accrual is equal to the additional benefits provided under the particular provision. More precisely, the benefit accrual of the individual under the particular provision is the amount, if any, by which

- (a) the benefit accrual of the individual under the provision, determined as if the other provisions were part of the particular provision,

exceeds

- (b) the benefit accrual of the individual under the other provisions, determined as if they were a single provision.

The benefit accruals referred to in paragraphs (a) and (b) are determined by applying subsection 8302(2). This rule would apply, for example, where the defined benefits provided to an individual under a multi-employer plan (plan A) in which an employer participates are deducted in determining the individual's retirement benefits under a defined benefit provision of a single-employer plan (plan B) in which the employer participates. In such a case, paragraph 8302(5) specifies that the benefit accrual under the defined benefit provision of plan B be determined by subtracting the individual's benefit accrual under plan A from a benefit accrual determined in respect of the total defined benefit provided to the individual under plans A and B. Example 11 illustrates the calculation of PA in a case where retirement benefits are provided under two, inter-dependent defined benefit provisions in separate RPPs.

**Transition Rule: Career**  
**Average Benefits**  
**ITR**  
**8302(6)**

Subsection 8302(6) contains a transition rule applicable prior to 1992. It provides that in certain cases where retirement benefits under a defined benefit provision are the greater of benefits determined under a career average formula and those determined under a final or best average earnings formula, the benefits under the career average formula may be disregarded in calculating benefit accruals. This transition rule applies, at the option of the plan administrator, for 1990 and 1991, and only where:

- the defined benefit provision existed on March 27, 1988 and has not been amended since then, and
- it is reasonable to expect (on January 1, 1990) that the final or best average earnings formula will provide greater benefits than the career average formula for at least 75 per cent of the active members of the plan.

Paragraph 8302(3)(g) provides that, for transitional years 1990 to 1993, benefits in respect of certain ranges of annual remuneration are excluded in determining pension credits under defined benefit provisions of RPPs. Subsection 8302(7) provides that paragraph 8302(3)(g) does not apply where the terms of a provision can reasonably be considered to have been established or modified in order to have that paragraph apply to reduce the benefit accrual under the provision and thus the individual's PA. For example, amending a plan to increase a benefit rate which applies only on earnings above \$60,000 could result in the application of this provision.

### Examples

The rules in section 8302 for determining benefit accruals are illustrated in the following examples. In some cases, the calculation of PA is also illustrated.

As a general rule, the benefit accrual of an individual under a defined benefit provision for a calendar year is the portion of the individual's normalized pension under the provision at the end of the year that can reasonably be considered to have accrued in respect of the year. This portion can usually be determined as the difference between the normalized pension at the end of the year and the normalized pension at the start of the year where both normalized pensions are based on the individual's pensionable remuneration in the year and, where applicable, the current year's YMPE.

As illustrated in Example 3, this will generally produce a benefit accrual that is simply equal to the benefit rate or rates under the provision multiplied by the individual's pensionable earnings in the year. Accordingly, in most of the examples which follow, the benefit accrual is computed directly from the benefit formula and the individual's pensionable earnings; the step of computing the normalized pension is omitted.

**Example 3:** Under the terms of a defined benefit provision, retirement benefits are 1.5 per cent of the average of the best five years of pensionable earnings per year of service. An individual's pensionable earnings are \$30,000 in the year (for a full year of service under the plan) but were lower in prior years. As of the end of the year, the individual has 7.5 years of service under the provision.

**Result:** In accordance with assumption (e), the individual's best average earnings are \$30,000 for the purpose of computing the normalized pension. Thus the normalized pension at the end of the year is:

$$7.5 \times .015 \times \$30,000 = \$3,375.$$

To determine the portion of this normalized pension that is in respect of the year, the normalized pension at the start of the year (based on the same earnings) is subtracted. It is:

$$6.5 \times .015 \times \$30,000 = \$2,925.$$

The difference, \$450, is the benefit accrual in respect of the year and is more simply computed as 1.5 per cent of \$30,000.

The next example illustrates the common case of a step-rate plan where benefits are integrated with CPP/QPP benefits.

**Example 4:** Benefits in respect of each year are 0.8 per cent of the best five years of pensionable earnings up to a three-year average of the YMPE and 1.5 per cent of best average earnings above the average YMPE. An individual's pensionable earnings in the year are \$30,000 and the YMPE in the year is \$28,900.

**Result:** The individual's benefit accrual is \$247.70, calculated as follows:

$$(.008 \times \$28,900) + (.015 \times \$1,100) = \$247.70.$$

The most common variation from the above examples will occur where employees with part-time employment or a part year of plan membership are credited with a part year of service under the plan at an annualized level of earnings. Example 5 illustrates the determination of benefit accruals for such a case.

**Example 5:** Retirement benefits under an RPP for each year of credited service are 1.3 per cent of final average earnings up to the YMPE and 2.0 per cent of earnings above the YMPE. The YMPE is \$28,900. In the case of a plan member who works on a part-time basis or who works for only a portion of a year, actual earnings are annualized under the terms of the plan for the purpose of applying the benefit formula, and credited service is determined as the fraction of full-time services rendered. Assume that an individual who belongs to the plan is paid a salary at an annual rate of \$40,000 but earns \$20,000 in a particular year because he or she works for only six months of the year. The individual's benefit accrual under the RPP is \$298.85, determined as follows:

$$((.013 \times \$28,900) + (.02 \times \$11,100)) \times 1/2 = \$298.85.$$

The application of the earnings-related benefit exclusion for transition years 1990 to 1993 is illustrated in the next example.

**Example 6:** Under an RPP, benefits per year of service are 1.5 per cent of earnings in the year. For an individual whose earnings are \$100,000, the benefit accrual in 1990 is \$1,166.67, calculated as follows:

$$(.015 \times \$100,000) - (.015 \times (\$86,111 - \$63,889)) = \$1,166.67.$$

As noted earlier, the earnings-related benefit exclusion applies on the basis of annual earnings. Thus, it can apply in the case of a part-time or part-year plan member whose actual earnings in 1990 are less than \$63,889 but whose annualized earnings exceed that amount.

The following two examples illustrate situations where the benefit accrual is affected by career limits on pensionable service or retirement benefits.

**Example 7:** Benefits are 2 per cent of the average of the final five years of earnings for each year of service to a maximum of 35 years. An individual earns \$55,000 in his or her 36th year of service (which coincides with the calendar year), an increase from \$52,500 in the preceding year.

**Result:** The individual's benefit accrual under this provision is zero because there is no pensionable service in the year. (Where there is no pensionable service in a year, the individual's normalized pension at the end of the year is no greater than at the start of the year.) An increase in retirement benefits in respect of prior years of service arising as a result of an increase in average earnings does not affect the benefit accrual.

If, instead, the individual had attained 35 years of service at the end of September, the benefit accrual would have been \$825, calculated as follows:

$$.02 \times \$55,000 \times 9/12 = \$825.00.$$

**Example 8:** Benefits are 1.3 per cent of average earnings up to the YMPE and 2 per cent of average earnings above the YMPE for each year of service, where the average is an average of the best five years of earnings. However, benefits are also subject to a "career limit" of the lesser of 2 per cent of the average of the best three years of earnings per year of service (to a maximum of 35 years) and \$1,715 per year of service (maximum \$60,025). An individual's earnings are \$55,000 in his or her 37th year of service (which coincides with a calendar year), and the year's YMPE is \$28,900.

**Result:** The individual's normalized pension of the **end** of the year is \$33,214.90, determined as the least of:

$$(a) 37 \times ((.013 \times \$28,900) + (.02 \times \$26,100)) = \$33,214.90;$$

$$(b) 35 \times .02 \times \$55,000 = \$38,500;$$

$$(c) 35 \times \$1,715 = \$60,025.$$

The individual's normalized pension at the **start** of the year, similarly determined except for the length of service in (a), is \$32,317.20. The individual's benefit accrual is the difference between these normalized pensions, which is \$897.70. Because neither of the career limits applies,



this can be more simply computed as the product of the benefit rates and the relevant ranges of pensionable earnings in the year as follows:

$$(.013 \times \$28,900) + (.02 \times \$26,100) = \$897.70.$$

However, if the career limit in (b) were replaced by a limit of 2 per cent of best average earnings per year of service to a maximum of 30 years of service, then that limit would enter into the determination of the benefit accrual for the year. In that case, the normalized pension at the end of the year would be:

$$30 \times .02 \times \$55,000 = \$33,000.$$

The corresponding benefit accrual would be:

$$\$33,000 - \$32,317.20 = \$682.80.$$

In effect, the individual would be considered to accrue benefits under the step-rate provision for only a part of the year because of the operation of the career limit.

The following three examples illustrate the application of various benefit offsets, including an offset for CPP/QPP benefits and offsets for benefits under money purchase and defined benefit provisions of registered plans.

**Example 9:** Assuming that retirement benefits of 1.7 per cent of final average earnings are reduced by 1/35th of actual CPP or QPP benefits for each year of service (to a maximum of 35 years) and that the YMPE for the year is \$28,900, the benefit accrual of an individual earning \$40,000 would be:

$$(.017 \times \$40,000) - (.25 \times \$28,900 \times 1/35) = \$473.57.$$

This result assumes that the individual's total service at the end of the year does not exceed 35 years. For an individual with 35 years of service or more before the start of the year, no adjustment would be made to the benefit accrual in respect of CPP or QPP.

**Example 10:** An individual's retirement benefits are the sum of (A) benefits under a money purchase provision and (B) benefits under a defined benefit provision to the extent that they exceed the money purchase benefits. The individual's pension credit for the year under the money purchase provision is \$3,600, the amount of employer plus employee contributions made in the year under the provision. The defined benefit guarantee is 1 per cent of final average earnings up to the YMPE and 1.6 per cent of final average earnings in excess of the YMPE.

Assuming that the individual has earnings of \$45,000 in the year and that the year's YMPE is \$28,900, the individual's benefit accrual for the

year under the defined benefit provision is \$146.60, determined as follows:

$$(.01 \times \$28,900) + (.016 \times \$16,100) - (\$3,600 \div 9) = \$146.60.$$

The individual's pension credit for the year under the provision is:

$$\text{Pension credit (B)} = (9 \times \$146.60) - \$600 = \$719.$$

Finally, the individual's PA for the year in respect of the participating employer is:

$$\begin{aligned} \text{PA} &= \text{pension credit (A)} + \text{pension credit (B)} \\ &= \$3,600 + \$719 = \$4,319. \end{aligned}$$

**Example 11:** An individual is entitled to retirement benefits under two plans of the same employer. Plan A provides a flat benefit of \$25 per month (\$300 per year) for each year of service. Plan B provides benefits of 0.8 per cent of final average earnings up to the YMPE and 1.5 per cent of final average earnings in excess of the YMPE for each year of service, but these benefits are offset by benefits under plan A. If the individual earns \$45,000 in a year and the year's YMPE is \$28,900, then the individual's PA for the year in respect of the employer would be determined as follows:

The benefit accrual under plan A is \$300.

The benefit accrual under plan B is \$172.70, determined as:

$$\begin{aligned} &(\text{a) the benefit accrual in respect of the total benefits provided} \\ &\text{under plans A and B, that is, } \$300 + ((.008 \times \$28,900) \\ &+ (.015 \times \$16,100) - \$300) = \$472.70 \end{aligned}$$

minus

$$(\text{b) the benefit accrual under plan A, that is, } \$300.$$

(The benefit accrual under plan B could simply be determined as  $(.008 \times \$28,900) + (.015 \times \$16,100) - \$300 = \$172.70$ . However, it has been worked out in full to illustrate the application of subsection 8302(5).)

Assuming the full \$600 offset is taken into account in determining the individual's pension credit under plan A, no part of it may be used to reduce the pension credit under plan B.

$$\text{Pension credit (A)} = (9 \times \$300) - \$600 = \$2,100.$$

$$\text{Pension credit (B)} = 9 \times \$172.70 = \$1,554.$$

$$\text{PA} = \text{pension credit (A)} + \text{pension credit (B)} = \$3,654.$$

Had the individual earned less than \$33,486 in the year, the pension credit for the year under plan B would have been zero, and the individual's PA would have been \$2,100.

The final example illustrates the special rules applicable to the determination of PAs for members of multi-employer RPPs that are not specified multi-employer plans.

**Example 12:** An individual works, either concurrently or sequentially, for two employers who participate in the same multi-employer plan. The individual has pensionable earnings of \$20,000 for half a year of credited service with employer A and has pensionable earnings of \$15,000 for one-third of a year of credited service with employer B. The individual's annualized levels of earnings are \$40,000 and \$45,000 with A and B respectively. The multi-employer plan provides benefits of 1.3 per cent of final average earnings up to the YMPE and 2 per cent of final average earnings in excess of the YMPE. The YMPE is \$28,900.

**Result:** The individual's benefit entitlements in respect of employers A and B are \$298.85 and \$232.57, determined as follows:

Benefit entitlement (A):

$$((.013 \times \$28,900) + (.02 \times \$11,100)) \times 1/2 = \$298.85$$

Benefit entitlement (B):

$$((.013 \times \$28,900) + (.02 \times \$16,100)) \times 1/3 = \$232.57.$$

The individual's PAs in respect of employers A and B are \$2,390 and \$1,893, determined as follows:

$$PA(A) = (9 \times \$298.85) - (\$600 \times 1/2) = \$2,390,$$

$$PA(B) = (9 \times \$232.57) - (\$600 \times 1/3) = \$1,893.$$

In this example, the individual's pensionable service totals 5/6th of a year so the individual's PAs reflect an offset of \$500 rather than \$600. In the unusual case where an individual's credited service periods with participating employers total more than a full year, the PAs can reflect a total offset in excess of \$600 (notwithstanding the fact that the individual's total credited service under the plan is limited to one year).

As an alternative case, the individual, instead of working for two employers in the year, works for half a year with employer A and is credited with an additional one-third of a year of service in respect of a period of temporary absence with employer A in the year. In this case, unless application of the special rule in paragraph 8301(6)(c) is waived by the Minister of National Revenue, the individual's pension credit (and PA) in respect of employer A is the sum of the separately determined portions of the pension credit attributable to the period of active employment and to the period of temporary absence.

Section 8303 provides rules for determining the “past service pension adjustment” (PSPA) of an individual for a year in respect of an employer.

A PSPA arises in connection with a “past service event”. As defined in subsection 8300(1), a past service event is a transaction, event or circumstance that results in retirement benefits becoming provided to an individual under a defined benefit provision of an RPP in respect of a period before the transaction, event or circumstance occurs, or that alters the method for determining the individual’s past service benefits. “Past service event” is broadly defined to include any change in the way in which the past service benefits of a plan member are determined, whether or not the member’s benefits are actually increased. Usually, however, a past service event will be either an upgrade in benefits under a plan or the crediting of an additional period of pensionable service under a plan.

A provisional PSPA is associated with each past service event. In general terms, the provisional PSPA is the sum of the additional pension credits that would have been determined for prior years if the RPP had provided for the upgraded benefits or additional period of pensionable service at the time each pension credit was first required to be determined.

Where the provisional PSPA of an individual associated with a past service event is greater than zero, new subsection 147.1(10) of the Act requires, except where certain conditions (described below) are satisfied, that a certification of the Minister of National Revenue be obtained before benefits that are provided as a consequence of the past service event may be paid to the individual. The condition set out in subsection 8307(2) must be satisfied before the certification will be issued. In general terms, this condition requires that the individual have sufficient RRSP deduction room to accommodate the provisional PSPA.

Subsections 8306(1) and (2) provide an exemption from the requirement for certification where the following conditions are met (or are substantially met and the requirement for certification is waived by the Minister):

- the benefit improvement must apply to substantially all of the active members of the pension plan;
- the plan must have ten or more members, no more than 25 per cent of whom either have earnings over twice the YMPE or are connected to employers who participate in the plan;
- the benefit improvement must not provide disproportionately greater benefits to highly-paid or connected plan members; and
- the benefit improvement must not provide more advantageous benefits to retired or deferred vested plan members than to active members of the plan.

Once a certification has been obtained (or in the case where no certification is required, when benefits become provided), the provisional PSPA associated with the event is included in the individual's accumulated PSPA. The PSPA of an individual for a year is the individual's accumulated PSPA for the year determined at the end of the year.

**PSPA in Respect of Employer**  
**ITR**  
**8303(1)**

Subsection 8303(1) defines, for the purposes of subsection 248(1) of the Act, the "past service pension adjustment" of an individual for a year in respect of an employer to be the accumulated PSPA of the individual for the year in respect of the employer, determined as of the end of the year. Where an individual has been credited with additional past service benefits in respect of service with two or more employers, the individual will have a PSPA in respect of each employer.

**Accumulated PSPA for Year**  
**ITR**  
**8303(2)**

Subsection 8303(2) defines, for the purposes of Part LXXXIII, the accumulated PSPA of an individual for a year in respect of an employer, determined as of a specific time in the year, to be the aggregate of certain provisional PSPAs of the individual in respect of the employer. To be included in the aggregate, a provisional PSPA must be associated with

- (a) a past service event that has occurred in the year and before the specific time and in respect of which a certification of the Minister is not required, or
- (b) a certifiable past service event in respect of which the Minister has issued a certification in the year and before the specific time.

Normally, there will be at most one provisional PSPA for an individual in any year. In this case, the individual's accumulated PSPA for the year will be zero until the provisional PSPA is required to be taken into account and will then equal that provisional PSPA for the balance of the year.

The accumulated PSPA of an individual is also defined for the purposes of new subsection 204.2(1.3) of the Act. It enters into the determination of the cumulative excess amount of the individual in respect of RRSPs, which forms the base for the excess contributions tax imposed by Part X.1 of the Act.

**Provisional PSPA**  
**ITR**  
**8303(3)**

Subsection 8303(3) defines an individual's provisional PSPA in respect of an employer associated with a past service event. In general terms, the provisional PSPA of an individual associated with a particular past service event is the amount, if any, by which the aggregate of the individual's defined benefit pension credits, recalculated to reflect the particular past service event and any prior past service events, exceeds the aggregate of the defined benefit pension credits recalculated to reflect the prior past service events, if any, but not the particular past service event.

More specifically, the provisional PSPA of an individual in respect of an employer associated with a past service event that occurs at a particular time in a year is the amount, if any, by which

(a) the aggregate of all amounts, in respect of years after 1989 and before the year in which the past service event occurs, each of which is the amount that would have been the individual's pension credit for a year in respect of the employer under a defined benefit provision of an RPP had his or her benefit entitlement under the defined benefit provision been equal to his or her redetermined benefit entitlement under the provision, determined in accordance with subsection 8303(4) and as of the particular time that the past service event occurred

exceeds

(b) the aggregate that would be determined under (a) if the benefit entitlements were redetermined as of the time immediately before the occurrence of the past service event.

This definition does not apply in the case of employee contributions to specified multiemployer plans to obtain past service benefits. The provisional PSPA in that case is determined in accordance with subsection 8303(6). The definition is also subject to the rules in section 8308 that modify the determination of provisional PSPA in special cases.

Three examples of the application of the determination of provisional PSPAs follow:

**Example 13:** An employer has established two defined benefit plans. All employees participate in plan A but only certain employees receive supplementary pension benefits under plan B. Assume that, as of the end of 1992, an individual has three years of post-1989 service credited under plan A and that the total of the pension credits for those years is \$12,000. Also assume that the individual was not a member of plan B throughout those years, and that had he or she been a member the total of the pension credits under both plans would have been \$15,000. If the individual becomes a member of plan B in 1993 and on so doing is credited with three years of past service under that plan (conditional on PSPA certification), then the provisional PSPA would be \$3,000 ( $= \$15,000 - \$12,000$ ). The originally reported pension credits are deducted in determining the provisional PSPA because they represent the individual's entitlement to benefits immediately prior to the past service event.

**Example 14:** An employer maintains two plans for different groups of employees. Assume that, pursuant to a change in position within the company, an individual moves from plan A to plan B during 1992 and is entitled to exchange benefits under plan A for more generous benefits under plan B. Again assume that the individual has three years of past service under plan A with pension credits totalling \$12,000. Also assume that the pension credits determined under plan B for the three past years would be \$15,000. Again the provisional PSPA is \$3,000, as paragraph 8303(3)(a) takes into account only the benefits to which the individual is

entitled after giving effect to the past service event while paragraph 8303(3)(b) takes into account only the benefits to which the individual was entitled immediately before the past service event.

**Example 15:** An individual quits a pension plan, transferring the termination benefit to an RRSP and retaining no right to any further benefits under the plan. Later the individual rejoins the plan and seeks to re-establish pension benefits in respect of the years of prior service. Assume that the individual's pension credits for the prior years totalled \$12,000. In this case, the provisional PSPA of the individual associated with the re-establishment of the benefits would be \$12,000 (= \$12,000 – \$0). Since the individual retained no pension rights in respect of prior service, the benefit entitlement redetermined as of the time immediately before the past service event is zero.

**Redetermined Benefit  
Entitlement  
ITR  
8303(4)**

Subsection 8303(4) provides rules that define, for the purposes of paragraph 8303(3)(a), the “redetermined benefit entitlement” of an individual under a defined benefit provision in respect of a given year of service and an employer and determined as of a particular time. In general terms, the redetermined benefit entitlement for a year under a provision determined as of a particular time is the benefit entitlement that would have been determined if the retirement benefits had included the benefits provided as a consequence of all past service events occurring at or before the particular time.

More specifically, the redetermined benefit entitlement of an individual under a defined benefit provision in respect of a given year of service and an employer, determined as of a particular time, is the benefit entitlement under the provision in respect of the year and the employer that would be determined under section 8302 if the computation were based on the individual's normalized pension determined in accordance with subsection 8303(5) rather than subsection 8302(3). Essentially, subsection 8303(5) provides that, in redetermining the normalized pension for the given year of past service, all past service events occurring at or before the particular time are to be taken into account while certain benefit increases (such as an upgrade of career average benefits to reflect increases in salaries and wages) are to be ignored.

**Normalized Pension  
ITR  
8303(5)**

Subsection 8303(5) defines, for the purposes of subsection 8303(4), the normalized pension of an individual under a defined benefit provision of an RPP at a particular time and with reference to a year (the “pension credit year”) as the annual amount of lifetime retirement benefits that would be payable to the individual under the provision immediately after the particular time if the benefits were determined in accordance with the assumptions in paragraphs 8303(5)(a) to (e) and if certain benefits (“excluded benefits”) described in paragraphs 8303(5)(f) to (k) were excluded. The assumptions are:

- (a) where lifetime retirement benefits have not commenced to be paid to the individual under the provision before the particular time, they commenced to be paid immediately after that time;

(b) where the individual had not attained age 65 before the time of pension commencement (or deemed commencement under paragraph (a)), the individual attained age 65 at the time of pension commencement;

(c) the amount of the individual's lifetime retirement benefits were determined with regard to all past service events occurring at or before the particular time and without regard to past service events occurring after the particular time;

(d) the rules in paragraphs 8302(3)(c) to (o) were applied to determine the individual's lifetime retirement benefits (except that paragraph 8302(3)(g) does not apply if the anti-avoidance rule in 8302(7) is applicable); and

(e) where benefits are provided under the provision to the individual in respect of a period of employment in the pension credit year with a former employer who has not participated under the provision and benefits under the provision depend on the individual's remuneration, the individual's remuneration for that period from the former employer were remuneration from an employer who has participated under the provision.

The excluded benefits are:

(f) where retirement benefits are based on earnings levels in past years (as in the case of career average and final or best average earnings plans), benefits that result from adjustments made on account of wage or price increases to the extent that the adjustments do not exceed the benefit increases that would result if retirement benefits were based on past years' earnings adjusted to reflect the increase in the average wage from the relevant earnings years to the year in which the redetermined benefit entitlement is calculated (or the year of pension commencement, if earlier);

(g) benefits that become provided as a consequence of an increase, after the pension credit year, in the defined benefit limit of \$1,722.22 per year of service (indexed after 1994) that applies by virtue of subsection 8503(4);

(h) in the case of a flat benefit provision, where the benefit increase results from an increase in the existing flat benefit rate and the increase occurs prior to the commencement of the individual's pension (or is the first such increase following the commencement of the pension), the portion of the benefit increase that does not exceed the increase that would result were the existing flat benefit rate increased in proportion to the increase in the average wage over the period since the existing flat benefit rate first became applicable (or over the preceding four years where the existing rate has been in effect for more than four years);



(i) in the case of a flat benefit provision, benefits resulting from an increase in the flat benefit rate pursuant to an agreement made before March 28, 1988 where the proportionate increase in the flat benefit rate could reasonably be expected not to exceed the proportionate increase in the average wage since the last increase in the benefit rate;

(j) in the case of a flat benefit provision under which retirement benefits vary according to a member's job category or earnings in such a manner that the ratio of benefits to earnings does not significantly increase as earnings increase, benefits resulting from a change in the individual's job category or rate of pay; and

(k) benefits resulting from cost-of-living adjustments made after the pension has commenced to be paid to the individual, to the extent that the adjustments are warranted by increases in the Consumer Price Index (CPI) or are permissible alternatives to CPI indexing as described in subparagraph 8503(2)(a)(ii).

The assumptions in paragraphs 8303(5)(a) and (b) replace those in paragraphs 8302(3)(a) and (b). Paragraph (a) fixes the time of pension commencement where the pension has not commenced to be paid before the particular time at which the past service event occurs. Paragraph (b) ensures that any increase in benefits associated with an increased age of retirement (up to age 65) is taken into account.

Paragraph 8303(5)(c) provides that in the redetermination of the normalized pension for a pension credit year, all past service events occurring after the pension credit year and up to and including the time as of which the determination is being made are to be taken into account. Consider, for example, a flat benefit accrual that was \$240 (\$20 per month) in the year it was earned, that has subsequently been upgraded to \$312 and that is now being adjusted to \$336. By virtue of paragraph 8303(5)(c), the normalized pension, as of the time of the most recent past service event, is based on a benefit rate of \$336 while the normalized pension, as of the time immediately before the most recent past service event, is based on a benefit rate of \$312 (rather than the original benefit rate of \$240). It should be noted, however, that in this example all or part of the increased benefits will be excluded from the normalized pension by virtue of the rule in paragraph 8303(5)(h).

Paragraph 8303(5)(d) provides that the rules in paragraphs 8302(3)(c) to (o) apply in the redetermination of a normalized pension with reference to a previous year as if an original determination were being made in respect of that year. For example, the rule in paragraph 8302(3)(e) applies with the result that an individual's earnings in other years are assumed to be identical to his or her earnings in the previous year. Thus, if an individual's earnings were \$35,000 in the previous year and \$45,000 at the time of a later past service event, any normalized pension determined with reference to that previous year would be based on the assumption that earnings in all years were \$35,000. Similarly, the rules in paragraphs 8302(3)(h), (i) and (j) apply

based on the YMPE, CPP/QPP benefit levels and OAS benefit levels in the previous year. For further description of the rules in paragraphs 8302(3)(c) to (o), reference may be made to the commentary on subsection 8302(3).

Paragraph 8303(5)(e) provides for remuneration with a former employer to be taken into account where benefits under a defined benefit provision of an RPP are provided in respect of a period that was a period of employment with the former employer. The remuneration is taken into account as if it were remuneration from an employer who participates under the defined benefit provision.

The calculation, in simple cases, of redetermined benefit entitlements, pension credits and provisional PSPAs is illustrated in examples 16, 17 and 18 that follow the commentary on subsection 8303(7).

Paragraphs 8303(5)(f) to (k) exclude various benefit increases from the normalized pension, and hence from the redetermined benefit entitlement of an individual. The paragraphs apply equally to automatic benefit adjustments, such as the indexing of deferred annuities or pensions-in-pay, and to ad hoc benefit increases whether before or after retirement. As a result of these rules, the provisional PSPA associated with many adjustments to past service benefits will be nil, and thus the benefits will be exempted from the certification requirement in new subsection 147.1(10) of the Act.

The exclusion in paragraph 8303(5)(f) applies, for example, where career average benefits are adjusted to reflect the increase in the average wage, as defined in new subsection 147.1(1) of the Act, from the time the benefits accrued to a subsequent date. The exclusion also applies where deferred vested benefits under any type of defined benefit provision are adjusted in a similar manner. The exclusion in paragraph 8303(5)(f) does not apply to adjustments reflecting increases in the cost of living or in salaries or wages after retirement benefits have commenced to be paid under the provision. (Adjustments reflecting increases in the cost of living after pension commencement are excluded by paragraph 8303(5)(k).) The application of this paragraph is illustrated in examples 19 and 20.

Paragraph 8303(5)(g) is intended to avoid an inappropriate provisional PSPA where benefits increase solely because of an increase in the maximum pension limit after 1994. Paragraph 8303(5)(g) applies where it is reasonable to consider that benefits have increased by virtue of an increase in the defined benefit limit. The connection between an increase in benefits and an increase in the defined benefit limit will be indirect, and will be effective through the maximum pension limit incorporated in the plan terms.

Paragraph 8303(5)(h) applies in the case of certain upgrades to benefits under a flat benefit provision of an RPP. Subsection 8300(1) defines a "flat benefit provision" to be a benefit provision under which lifetime retirement benefits provided to a member are based on the aggregate of amounts each of which is the product of a fixed amount and either the duration of a period of

service or the number of units of output of the member. The exclusion applies to upgrades to an individual's benefits, up to and including the first upgrade after retirement benefits have commenced to be paid to the individual. (Post-retirement upgrades reflecting increases in the cost of living are excluded by paragraph 8303(5)(k).) Paragraph 8303(5)(h) excludes from the benefit entitlement, redetermined as of the time of the past service event, benefit increases that are warranted by the increase in the average wage over the period since the benefit rate first became applicable (or over the preceding four years where the benefit rate has been in effect for more than four years). The application of paragraph 8303(5)(h) is illustrated in examples 21 and 22.

Paragraph 8303(5)(i) is a transitional rule that excludes benefits resulting from certain flat benefit upgrades that, although effective in 1991 and subsequent years, were agreed to before March 28, 1988 and could reasonably be expected, at the time the agreement was made, to approximately match increases in the average wage (as defined in subsection 147.1(1) of the Act). As a consequence, such increases are exempt from PSPA reporting.

Paragraph 8303(5)(j) provides an exclusion for benefits arising when a member of a flat benefit plan changes jobs or earnings levels. The exclusion applies to plans where benefits vary by job category or earnings range in such a manner that the ratio of benefits to earnings does not increase significantly as earnings increase. The paragraph would apply, for example, where benefits under a plan were \$27.50 per month for those earning between \$25,000 and \$30,000 per year and \$32.50 per month for those earning between \$30,000 and \$35,000 per year. If it were not for this exclusion, an individual moving from the lower to the higher of the two earnings ranges could have a PSPA as a result of the benefit increase.

Paragraph 8303(5)(k) applies where retirement benefits are increased after they have commenced to be paid to a member, whether the increase is a result of automatic indexing or ad hoc increases to reflect increases in the Consumer Price Index (CPI). It ensures that inflation-justified adjustments will not give rise to a PSPA. The rule applies on a cumulative basis to such adjustments. For example, benefits may be adjusted by more than the CPI increase in one year if adjustments in previous years have not kept pace with CPI growth, as long as the total increase in benefits from the time they commenced to be paid is warranted by the increase in the CPI over this period. Paragraph 8303(5)(k) also excludes benefits arising from other forms of indexing, such as the excess earnings method, but only if the indexing is of a form permitted by subparagraph 8503(2)(a)(ii) of the registration rules.

Specified Multi-Employer Plan  
ITR  
8303(6)

Since specified multi-employer plans are treated as money purchase plans for the purpose of determining PAs, the rules regarding redetermined benefit entitlements have no relevance to any benefit upgrades under these plans. Employer contributions made to fund any benefit upgrades are reflected in the annually reported PA amounts.

A provisional PSPA may result, though, where a plan member makes a contribution in respect of past service benefits provided to him or her in respect of pensionable service under the plan after 1989. Subsection 8303(6) provides that the provisional PSPA associated with such a past service contribution is the amount of the contribution. A certification must be obtained from the Minister of National Revenue, as required by new subsection 147.1(10) of the Act, before the benefits in respect of which the contribution is made may be paid by the plan. For the purpose of subsection 8303(6), past service contributions do not include contributions made in a year in respect of a plan year commencing in the preceding year and ending in the year. Nor do they include contributions made in January of a year in respect of service in the immediately preceding year. Such contributions are, by virtue of paragraph 8301(4)(a), included in PA in the year in which they are made.

Subsection 8303(6) also provides that the plan administrator is responsible for determining the allocation of a member's past service contribution among participating employers, in order to determine the PSPA in respect of each employer. (However, in practice, apportionment of such a contribution will generally not be necessary for purposes of seeking a certification in respect of past service benefits.)

**Conditional Contributions**  
**ITR**  
**8303(7)**

Subsection 8303(7) provides that amounts paid to a plan by a member conditional on the Minister's certification in respect of the associated benefits are to be considered as contributions for the purpose of subsection 8303(6).

## **Examples**

The rules in section 8303 for determining provisional PSPAs are illustrated in the following examples.

**Example 16:** An RPP provides for a two-year waiting period before an employee may join the plan and permits employees to elect to purchase the two years of service upon joining the plan. The benefits are 1 per cent of final average earnings for each year of service. Assume that an employee (hired on January 1 of a year) earns \$28,000 in the first year of employment and \$30,000 in the second year, and that the employee elects to purchase the two years of service upon completing the waiting period. This election to purchase is a past service event. The associated redetermined benefit entitlements, pension credits and provisional PSPA are calculated as follows:

(a) Redetermined pension credits as of the time of the past service event:

First year

- benefit entitlement =  $.01 \times \$28,000 = \$280.00$
- pension credit =  $(9 \times \$280) - \$600 = \$1,920$

Second year

- benefit entitlement =  $.01 \times \$30,000 = \$300.00$
- pension credit =  $(9 \times \$300) - \$600 = \$2,100$

Total redetermined pension credits as of the time of the past service event (paragraph 8303(3)(a) amount) \$4,020

(b) Total redetermined pension credits immediately before the past service event (paragraph 8303(3)(b) amount) \$0

Provisional PSPA = (a) - (b) \$4,020

The above example illustrates the point that, in redetermining the employee's pension credits, the redetermined benefit entitlement for a pension credit year is based on remuneration in the pension credit year rather than remuneration at the later time of the past service event. (This results from the fact that the assumption in paragraph 8302(3)(e) is maintained in the redetermination of the normalized pension for purposes of calculating a PSPA.)

Where an RPP provides a waiting period before an employee "joins" the plan, but automatically provides benefits in respect of the waiting period once the employee does join the plan, benefits may be considered to become provided to the individual during the waiting period. The situation is the same, in substance, as where a plan provides for immediate entry into the plan but no vesting of benefits until after a specified period. Therefore, it would be appropriate to determine and report PAs throughout such a waiting period, rather than, as in the above example, treating the "entry" into the plan as a past service event with the benefits in respect of the waiting period subject to certification by the Minister. The regulations do not specifically deal with this point. It is intended to permit the use of whichever approach is administratively more convenient. However, where PAs are reported during a waiting period, a PAR would subsequently be reportable if the employee failed to remain in employment until the end of the waiting period.

**Example 17:** In 1992, the benefit rate under a plan is increased retroactively from 1 per cent to 1.5 per cent (unintegrated with CPP/QPP or OAS). For a particular plan member, the change applies in respect of service beginning in 1983. Assume that the member's earnings were \$20,000 in each of 1990 and 1991. Then the member's redetermined benefit entitlements and provisional PSPA would be calculated as follows:

(a) Redetermined pension credits as of the time of the past service event:

- benefit entitlements for each of 1990 and 1991:

$$.015 \times \$20,000 = \$300.00$$

- total redetermined pension credits (paragraph 8303(3)(a) amount):

$$2 \text{ years} \times ((9 \times \$300.00) - \$600) = \$4,200$$

(b) Redetermined pension credits as of the time immediately before the past service event:

- benefit entitlements for each of 1990 and 1991:

$$.01 \times \$20,000 = \$200.00$$

- total redetermined pension credits (paragraph 8303(3)(b) amount):

$$2 \text{ years} \times ((9 \times \$200.00) - \$600) = \$2,400$$

$$\text{Provisional PSPA} = (a) - (b) = \$1,800$$

Note that, in the above example, the recalculated pension credits are determined only for 1990 and 1991. Additional benefits in respect of pre-1990 service are not subject to the certification process and thus are not reflected in the provisional PSPA.

**Example 18:** In 1995, earnings in a career average plan are replaced, for years prior to 1995, by average earnings in the 1992-1994 period for purposes of determining benefits. Result: such a change results in a provisional PSPA of nil so a certification of the Minister of National Revenue is not required before benefits may be paid under the plan as amended. The definition of normalized pension in subsection 8303(5) maintains the assumption in paragraph 8302(3)(e) that earnings for all years of service are the same as earnings for the year in respect of which a pension credit is being determined. Consequently, a change in the years of earnings upon which benefits are based results in a redetermined benefit entitlement that is the same as the original benefit entitlement.

The following two examples illustrate the application of paragraph 8303(5)(f).

**Example 19:** An individual's benefit entitlement under a plan for the year 1990 is \$250 based on a career average benefit of 1 per cent of 1990 earnings of \$25,000. In a subsequent year, benefits in respect of 1990 service are increased by 30 per cent, raising the individual's benefit entitlement to \$325. If the average wage (as defined in subsection 147.1(1) of the Act) grew by 30 per cent or more from 1990 to the year of the upgrade, the full \$75 increase would be excluded from the benefit entitlement redetermined as of the time of the past service event. Consequently, that redetermined benefit entitlement would equal \$250, the benefit entitlement redetermined as of the time immediately before

the upgrade. The provisional PSPA associated with the change in benefits would be nil. If, instead, the average wage had grown by 20 per cent, then \$50 (= 20 per cent of \$250) could be excluded, by virtue of paragraph 8303(5)(f), from the benefit entitlement, redetermined as of the time of the past service event. The redetermined benefit entitlement reflecting the upgrade would thus equal \$275. The additional \$25 of benefits would be reflected in a provisional PSPA of the individual.

**Example 20:** An individual terminates from a final average plan and becomes entitled to a deferred annuity. The deferred annuity is automatically adjusted each year before it commences to be paid in proportion to all or some part of the annual increase in the average wage. Paragraph 8303(5)(f) permits these increases to be excluded in determining the individual's benefit entitlements as of the time of each upgrade. Consequently, the provisional PSPA associated with each adjustment will be nil, and a certification from the Minister of National Revenue will not be required before the increases may be paid. This would also be the result if, instead of being adjusted automatically, the deferred annuity were subject to ad hoc increases none of which increased retirement benefits beyond an amount justified by the increase in the average wage from the year of the employee's termination to the year of the increase in benefits.

The following two examples illustrate the application of paragraph 8303(5)(h).

**Example 21:** The benefit rate under a flat benefit plan is increased in 1991 from \$240 per year (\$20 per month) to \$260 per year. The previous upgrade occurred in 1989. Assume that the average wage for 1991 is 10 per cent higher than that for 1989.

**Result:** for a member who accrued benefits in respect of 1990 (the only year that is relevant for PSPA purposes), the benefit entitlement in respect of that year, redetermined as of the time of the upgrade in 1991, is calculated excluding the lesser of the upgrade of \$20 and \$24 (= 10 per cent of the base benefit of \$240). Thus, the redetermined benefit entitlement does not include any portion of the increase in 1991, and the member's provisional PSPA is zero.

**Example 22:** The benefit rate under a flat benefit plan is increased in 1992 from \$240 per year to \$300 per year. The previous upgrade occurred in 1987. Assume that the average wage for 1992 is 20 per cent higher than that for 1988, the fourth year preceding the upgrade.

**Result:** for each of the years 1990 and 1991, the benefit entitlement of a plan member who accrued benefits in those years, redetermined as of the time of the upgrade in 1992, is calculated excluding \$48 (= 20 per cent of \$240). This produces a redetermined benefit entitlement of \$252 (= \$300 - \$48). A plan member's provisional PSPA associated with the upgrade is \$216, calculated as follows:

- (a) Total redetermined pension credits as of the time of the past service event (paragraph 8303(3)(a) amount)

$$2 \text{ years} \times ((9 \times \$252.00) - \$600) = \$3,336$$

- (b) Total redetermined pension credits as of the time immediately before the past service event (paragraph 8303(3)(b) amount)

$$2 \text{ years} \times ((9 \times \$240.00) - \$600) = \$3,120$$

$$\text{Provisional PSPA} = (a) - (b) \quad \$216$$

**Pension Adjustment Reversal  
ITR  
8304**

Section 8304 provides rules for the calculation of the total pension adjustment reversal (PAR) of an individual for a year in respect of an employer. PAR arises in connection with the termination of an individual's membership in the RPPs and DPSPs of an employer before retirement benefits have been received. In general terms, PAR is a measure of the extent to which an individual's RRSP deduction room has been reduced in respect of RPP and DPSP benefits which will not be paid to the individual.

PAR is not determined until an individual has completely ceased to have rights to benefits under all of the registered plans of an employer. In particular, it is not determined until any lump sum payments to be made on behalf of the individual have been made.

Separate treatment is provided for multi-employer plans (that are not specified multi-employer plans) since it is recognized that an individual may sever connection with the (single-employer) plans of an employer but remain a member of a multi-employer plan. A separate PAR is determined in respect of a multi-employer plan when an individual ceases to be a member of it. Such PARs are included in the total PAR of the individual.

No PAR is determined in connection with an individual's termination from a specified multi-employer plan. This exception is consistent with other special rules applying to specified multi-employer plans. Pension credits are determined in respect of such plans as if they were money purchase plans, yet the plans are not required to comply with the registration requirements for money purchase plans. In particular, when an individual forfeits benefits on termination from a plan, the plan funds supporting those forfeited benefits do not have to be returned to employers or used to offset future contributions but may be used to augment the benefits of other plan members. The exemption also reflects the practical difficulties in determining PARs in plans where active membership can often be episodic.

**Total PAR in Respect of  
Employer  
ITR  
8304(1)**

Subsection 8304(1) defines the total PAR of an individual for a year in respect of an employer to be the sum of:

- (a) the individual's PAR for the year in respect of registered plans (other than multi-employer plans) in respect of the employer, and



(b) the individual's PARs for the year in respect of multi-employer plans and in respect of the employer.

These PARs are determined in accordance with rules in subsections 8304(2) and (3).

PAR – Registered  
Plans (Other Than Multi-  
Employer Plans)  
ITR  
8304(2)

Subsection 8304(2) defines, for the purposes Parts LXXXIII and LXXXIV of the Regulations, the PAR of an individual for a calendar year in respect of registered plans (other than multi-employer plans) in respect of an employer. This PAR is nil except where two conditions are met. First, the year must be the particular year that includes the membership termination date of the individual. An individual's membership termination date with respect to an employer is the date, determined under subsection 8304(6), on which the individual ceases to have any further rights under RPPs (other than multi-employer plans) and DPSPs in which the employer participated for the individual's benefit. Second, the individual must not have been paid any retirement benefits under plans of the employer (except for benefits derived from money purchase contributions made before 1990 or defined benefits in respect of periods before 1990).

Where these two conditions are met, PAR is equal to

$$A + B + C$$

where

A is the amount, if positive, by which

(a) the sum of all the individual's pension credits and PSPAs for the year and preceding years in respect of the employer under defined benefit provisions of RPPs (other than multi-employer plans)

exceeds

(b) the sum of all defined benefit distributions, as defined in subsection 8304(4), made or to be made from an RPP (other than a multi-employer plan) in respect of the individual and attributable to the employer,

B is the sum of all contributions made by the employer and other amounts allocated to the individual under money purchase provisions of RPPs (other than multi-employer plans) that have not vested in the individual but have been, or will be, included in determining the individual's pension credits under the provisions in respect of the employer, and

C is the sum of all contributions made by the employer and other amounts allocated to the individual under DPSPs that have not

vested in the individual but have been, or will be, included in determining the individual's pension credits under the plans in respect of the employer.

Where an individual belongs to two or more plans of an employer (other than multi-employer plans), PAR is defined with respect to all plans together. This ensures that a PAR is not determined in a situation where benefits that are lost under one plan are replaced by benefits under another.

It is important to note that in the definition of A the sum of an individual's pension credits and PSPAs includes pension credits and PSPAs determined for the year that includes the date of termination (even though these pension credits may not be reported until after the PAR is reported). For this purpose, subsection 8304(5) provides that the pension credits and PSPAs of an individual in the year of termination are to be determined on the assumption that the year ended immediately before the membership termination date.

Where all or any portion of a PSPA can reasonably be considered to be in respect of benefits provided under a multi-employer plan, only that portion that does not relate to the multi-employer plan is included in A.

In general terms, a defined benefit distribution, as defined in subsection 8304(4), is that portion of a lump sum payment under a defined benefit provision of an RPP that is in respect of service after 1989. However, it does not include any amount paid directly to another RPP to fund defined benefits (with certain exceptions applicable in special cases). The description of A refers to defined benefit distributions to be made as well as defined benefit distributions already made. This is to provide for the unusual case where all benefits to which the individual is entitled have been paid but a payment remains to be made to a spouse or former spouse of the individual to which that spouse is entitled pursuant to a breakdown of the individual's marriage.

In the definitions of B and C, unvested employer contributions and other unvested amounts allocated to an individual are included only where they have been included in determining a pension credit of the individual for a year. Thus, unvested employer contributions made before 1990, for example, are not included in PAR. It should be noted that, by virtue of subsection 8304(5), contributions and other amounts allocated in the year of termination are to be taken into account.

The definitions of B and C refer to amounts other than contributions allocated to an individual. Such amounts would include forfeited amounts and, in the case of money purchase RPPs, amounts of surplus (which would normally arise from the conversion of a defined benefit plan to a money purchase plan).

The vested portion of a contribution or amount includes any amount that has vested in an individual's spouse or former spouse after the breakdown of their

marriage or other conjugal relationship. (At present, it would be unusual for there to be such amounts.)

**PAR – Multi-Employer Plan  
ITR  
8304(3)**

Subsection 8304(3) defines, for the purposes of Parts LXXXIII and LXXXIV of the Regulations, the PAR of an individual for a calendar year in respect of a multi-employer RPP and in respect of an employer. The PAR is nil except where three conditions are met. First, as explained in the introductory comments on section 8304, the plan must not be a specified multi-employer plan. Second, the year must be the particular year that includes the membership termination date of the individual with respect to the plan (as determined under subsection 8304(7)). Third, the individual must not have received retirement benefits under the plan (except for benefits derived from money purchase contributions made before 1990 or defined benefits in respect of periods before 1990).

Where these three conditions are met, PAR is equal to

$$A + B$$

where

A is the amount, if positive, by which

(a) the sum of the individual's pension credits and PSPAs for the year and preceding years in respect of the employer under a defined benefit provision of the plan

exceeds

(b) the sum of all defined benefit distributions, as defined in subsection 8304(4), made or to be made from the plan in respect of the individual and attributable to the employer, and

B is the sum of all employer contributions and other amounts allocated to the individual under a money purchase provision of the plan that have not vested in the individual but have been included in determining the individual's pension credits under the provision in respect of the employer.

Other than the fact that the PAR under this subsection is determined in respect of a single RPP which is a multi-employer plan, the PAR is analogous to the PAR determined under subsection 8304(2). For a discussion of a number of points relating to the determination of PAR, reference may be made to the commentary on that subsection.

**Defined Benefit Distribution  
ITR  
8304(4)**

Subsection 8304(4) defines, for the purposes of subsections 8304(2) and (3), a defined benefit distribution made from an RPP in respect of an individual and attributable to an employer. Such a distribution is a single amount paid under a defined benefit provision that may reasonably be considered to be a

payment of benefits attributable to employment after 1989. However, it does not include any portion of a single amount that is paid directly to another RPP to fund defined benefits unless the other RPP is a specified multi-employer plan or unless either plan is a multi-employer plan and the employer participates in the recipient plan.

It will be noted that a defined benefit distribution, which reduces PAR, includes amounts transferred from an RPP to a money purchase provision of an RPP or to an RRSP but generally excludes amounts transferred to fund defined benefits under an RPP. Although dissimilar, the treatment of the two types of transfer is consistent because the unreduced PAR in the case of the transfer to fund defined benefits is offset by a PSPA. No PSPA is involved when amounts are transferred to a money purchase RPP or an RRSP.

A "single amount" is defined in new subsection 147.1(1) of the Act to be an amount that is not one of a series of periodic payments. Two or more single amounts might be paid, for example, where a plan solvency test under pension benefits legislation prevents a full termination benefit from being paid in a single instalment. A single amount includes an amount paid to a spouse or former spouse as a result of the splitting of an individual's pension entitlement on marriage breakdown.

Where a single amount relates partly to pensionable service before 1990 and partly to service in 1990 and subsequent years, only the portion of the payment which can reasonably be considered to relate to service after 1989 is deducted in determining PAR. For this purpose, a simple proration of the payment, based on the post-1989 proportion of the total period of service will normally be acceptable. However, where the rate of benefit accrual under a defined benefit provision has not been uniform, or reasonably uniform, for all years of service, this should be recognized in determining the post-1989 portion of the payment.

By virtue of paragraph 8304(4)(c), the following single amounts are not considered to be defined benefit distributions:

- a payment out of an actuarial surplus, and
- a refund of employee contributions or interest thereon, where benefits are not reduced as a consequence of the refund and the refund is made in conjunction with a reduction or elimination of the requirement for future employee contributions.

Paragraph 8304(4)(d) contains a special rule that applies, for example, where a defined benefit plan is converted to a money purchase plan. In this case, the amount credited to the money purchase account of an individual pursuant to the conversion is considered to be an amount paid under the defined benefit provision, even though there has not been a physical transfer of the plan assets.

**Final Year's PA and PSPA**  
**ITR**  
**8304(5)**

Subsection 8304(5) provides that for the purpose of determining the PARs of an individual in respect of an employer, the individual's pension credits and PSPAs in respect of the employer for the final year of membership in the employer's plans are to be determined on the assumption that the year ended immediately before the membership termination date (determined under subsection 8304(6) or (7) as the case may be). This rule is necessary because a PAR may be determined at any time in a year.

**Membership Termination Date**  
**– Registered Plans (Other than**  
**Multi-Employer Plans)**  
**ITR**  
**8304(6)**

Subsection 8304(6) provides that the membership termination date of an individual in respect of an employer is the date on which the individual ceases, otherwise than by reason of death, to be a member of all RPPs (except multi-employer plans) and DPSPs in which the employer participates for the individual's benefit. By virtue of the definition of "member" in subsection 147.1(1) of the Act, an individual does not cease to be a member of an RPP or DPSP until all amounts that are, or may become, payable to him or her have been paid. In particular, an individual continues to be considered a member of a plan until all lump sum termination benefits to which he or she is entitled have been paid.

Subsection 8304(6) defines the membership termination date for two purposes. First, the membership termination date is used in subsection 8304(2) to establish the year for which a PAR is determined. Second, subsection 8402(1) requires a PAR to be reported within 60 days of an individual's membership termination date. In addition, the date is referred to in subsection 8307(3), which contains a PAR-related rule for the purposes of the condition that must be satisfied before the Minister can issue a certification in respect of past service benefits.

**Membership Termination Date**  
**– Multi-Employer Plan**  
**ITR**  
**8304(7)**

Subsection 8304(7) provides a separate determination of membership termination dates relating to multi-employer plans. The membership termination date of an individual in respect of an employer and an RPP that is a multi-employer plan is the date on which the individual ceases, otherwise than by reason of death, to be a member of the plan. This membership termination date is used in subsection 8304(3) to establish the year for which a PAR in respect of a multi-employer plan is determined. Under subsection 8402(2), the PAR must be reported within 60 days of the membership termination date of the individual. The date is also referred to in subsection 8307(4) (provisional PAR for purposes of a certification in respect of past service benefits).

**Annuity Contract**  
**ITR**  
**8304(8)**

Subsection 8304(8) provides that where an individual receives an interest in an annuity contract on the termination of membership in an RPP, the individual shall be deemed to continue as a member of the plan until his or her death. This rule applies for the purpose of determining membership termination dates under subsections 8304(6) and (7). As a consequence, where a plan member receives benefits under a purchased annuity in lieu of retirement benefits paid directly out of the plan, a PAR will not be determined.

## Examples

Two examples of the calculation of a PAR follow.

**Example 23:** An individual terminates from a defined benefit plan on June 30, 1992 after 5 years of membership and transfers to an RRSP a termination payment of \$6,000 in full satisfaction of his or her rights to any benefits. The plan benefit rate was the same for all years of service. Assume that the sum of the individual's pension credits in respect of an employer for the 2 ½ year period including 1990, 1991 and half of 1992 is \$7,000.

**Result:** The individual's PAR for 1992 in respect of the employer is \$4,000, calculated as the sum of the pension credits less the post-1989 portion of the termination payment.

$$\text{PAR} = \$7,000 - (\$6,000 \times 2.5/5.0) = \$4,000.$$

**Example 24:** Upon leaving employment with an employer, a member of a money purchase RPP receives a single amount of \$2,500 representing a return of employee contributions plus interest. The individual forfeits rights to employer contributions of \$3,000, a \$500 share of forfeited amounts that were reallocated to the member, and interest on the employer contributions and reallocated forfeitures. The portions of the employer contributions and reallocated forfeitures that were included in determining the individual's pension credits in the year and in prior years are \$2,400 and \$200 respectively.

**Result:** The individual's PAR is \$2,600, the amount of employer contributions and reallocated forfeitures that were included in the individual's pension credits in respect of the employer.

Association of Benefits with  
Employers  
ITR  
8305(1)

Subsection 8305(1) provides that, where it is necessary for the purposes of determining pension credits, PSPAs or PARs, to determine the portion of an amount of benefits provided in respect of a member of an RPP under a defined benefit provision of the plan that is attributable to employment with a particular employer:

- the determination is to be made by the plan administrator;
- benefits provided as a consequence of services rendered to an employer who participates in the plan are to be attributed to employment with that employer without regard to whether the benefits become provided at the time the services were rendered or at a subsequent time; and
- the determination is to be made in a manner that is reasonable, is not inconsistent with prior determinations, and results in the full amount of benefits being attributed to participating employers.

The rules in subsection 8305(1) apply, in particular, for the purposes of the association of benefit accruals with employers, as is required by subsection 8302(1), and the determination of the portion of a benefit payment that is attributable to employment with a particular employer, as is required by subsection 8304(4). The purpose of these rules is to ensure that all retirement benefits provided to a plan member are taken into account in determining the pension credits, PSPAs and PARs of the member. These amounts are all defined with reference to specific employers.

ITR  
8305(2)

Subsection 8305(2) provides that where the administrator of an RPP does not comply with the requirements of subsection 8305(1), the RPP becomes a revocable plan (and hence its registration may be revoked) and the Minister of National Revenue becomes responsible for making any determinations that were not made in accordance with subsection 8305(1).

**Exemption from Certification**  
ITR  
8306(1)

Subsection 147.1(10) of the Act prohibits the payment of additional past service benefits under a defined benefit provision of an RPP in respect of pensionable service after 1989 until a certification of the Minister of National Revenue has been obtained in respect of the benefits. In addition, contributions may not be made to the plan to fund the additional benefits until the application for certification has been made. However, certain benefits may be funded and paid without obtaining a certification, as permitted by regulation.

Subsection 8306(1) provides that a certification is not required in respect of the benefits provided to a particular plan member as a consequence of a past service event where:

- (a) each provisional PSPA of the member associated with the past service event is nil;
- (b) the conditions in subsection 8306(2) are satisfied; or
- (c) the conditions in subsection 8306(2) are substantially satisfied and the Minister of National Revenue waives in writing the requirement for certification.

Provisional PSPAs will generally be nil where benefits are upgraded in line with increases in wages or prices.

**Conditions for Exemption from Certification**  
ITR  
8306(2)

Subsection 8306(2) sets out the conditions with respect to a defined benefit provision of an RPP and a past service event which, if satisfied, result in an exemption from the requirement for certification in respect of benefits provided to plan members as a consequence of the event. In general terms, the exemption applies to upgrades of benefits in larger defined benefit plans (ten or more members) where no more than 25 per cent of active plan members are "specified active members" (that is, high-income employees or persons connected with a participating employer) and where disproportionate benefit increases are not given to specified active plan members. More specifically, the conditions are as follows:

- (a) there are more than nine active members of the plan (an active member is a member who accrues benefits under the provision in respect of a period that includes the time at which the past service event occurs);
- (b) no more than 25 per cent of the active members of the plan are specified active members (that is, members who are connected with participating employers at the time of the past service event or who are expected to have levels of total remuneration from participating employers for the calendar year of the event that exceed two times the YMPE for the year);
- (c) benefits are increased for all or substantially all of the active members of the plan as a result of the past service event;
- (d) where there is a specified active member of the plan, the average percentage increase in benefits provided to specified active members does not exceed the average percentage increase in benefits provided to other active members; and
- (e) benefits provided as a result of the past service event to inactive members (including retired members and those with rights to deferred vested benefits) are not more advantageous than those provided to active members.

This exemption from the requirement for certification of past service benefits is designed to make the provision of past service benefits somewhat simpler than it otherwise would be in cases where broad-based upgrades are provided under larger plans. Paragraph 8306(1)(c) provides the Minister of National Revenue with the authority to waive the requirement for certification in other cases where the conditions set out above are substantially met.

The exemption from the requirement for certification does not eliminate the requirement for the calculation and reporting of PSPAs in respect of the benefits provided as a consequence of the past service event. Thus, the pension benefit increases will be reflected in reductions in the unused RRSP room of affected plan members. More precisely, subsection 8303(2) provides that, when a past service event occurs for which a certification is not required, the provisional PSPA of an individual associated with the past service event is included in the individual's accumulated PSPA for the year.

A consequence of the exemption of certain past service benefits from the requirement for certification is that the unused RRSP deduction room, as defined in new paragraph 146(1)(l) of the Act, of some plan members could become negative. This would not result in the imposition of the penalty tax under Part X.1 of the Act on RRSP over-contributions. However, it would mean that the RRSP deduction limit of such a plan member would remain at zero until such time as the member had sufficient earned income to offset the negative balance in his or her unused RRSP deduction room.



**Certification in Respect of  
Past Service Events**  
ITR  
8307

Section 147.1(10) of the Act prohibits the payment of additional past service benefits under a defined benefit provision of an RPP in respect of pensionable service after 1989 until the Minister of National Revenue has certified that prescribed conditions are satisfied (unless one of the exceptions set out in section 8306 is applicable). Section 8307 prescribes the only condition that applies for this purpose. It also defines certain amounts, such as PSPA transfers and PSPA withdrawals, that enter into the definition of "net PSPA" in paragraph 146(1)(d.1) and subsection 204.2(1.3) of the Act, and prescribes certain amounts for the purposes of the RRSP rules in Section 146 of the Act and the rules in new subsection 147.2(4) of the Act regarding the deductibility of employee contributions to RPPs.

**Application for Certification**  
ITR  
8307(1)

Subsection 8307(1) provides that application for a certification of the Minister for the purposes of subsection 147.1(10) of the Act is to be made in prescribed form by the administrator of the RPP to which the certification relates.

**Prescribed Condition**  
ITR  
8307(2)

Subsection 8307(2) prescribes the condition that must be satisfied before the Minister can issue a certification for the purposes of subsection 147.1(10) of the Act in respect of benefits provided to a particular member of an RPP as a consequence of a past service event. The prescribed condition is that, at the time of the certification, the sum of all provisional PSPAs of the member in respect of employers associated with the past service event does not exceed the amount, if any, by which

(a) the aggregate of

(i) \$8,000,

(ii) the member's unused RRSP deduction room at the end of the year immediately preceding the year of the certification,

(iii) any PARs of the member reported in the year of the certification and before the time of the certification,

(iv) any provisional PARs of the member determined for the purpose of the certification (as determined under subsections 8307(3) and (4)),

(v) certain transfers from other registered plans made for the purpose of the certification or prior certifications in the year (referred to as qualifying transfers and PSPA transfers, and determined under subsections 8307(5) and (7)), and

(vi) certain withdrawals from RRSPs made for the purpose of the certification or prior certifications in the year (referred to as qualifying withdrawals and PSPA withdrawals, and determined under subsections 8307(8) and (10) respectively),

exceeds

(b) the total of the member's accumulated PSPAs, as defined in subsection 8303(2), for the year in respect of employers, determined as of the time of the certification.

In the simplest case, the condition for certification in subsection 8307(2) is satisfied if the provisional PSPA of an individual, associated with a past service event, does not exceed the individual's unused RRSP deduction room at the end of the previous year by more than \$8,000. The allowance for a shortfall of RRSP room of \$8,000 reflects the fact that the individual's RRSP deduction limit for the year of the certification is not fully taken into account. In other cases, PARs, amounts transferred from RRSPs, DPSPs or money purchase provisions of RPPs, and amounts withdrawn from RRSPs will be added to the unused RRSP deduction room and the \$8,000 allowance, and the member's accumulated PSPAs for the year will be taken into consideration, in determining whether a PSPA satisfies the condition for certification. Examples of the application of the condition in subsection 8307(2) are provided following the commentary on subsection 8307(14).

Subsection 8303(2) provides that, when a certification is issued by the Minister of National Revenue in respect of benefits provided to an RPP member as a consequence of a past service event, the provisional PSPA of the member associated with the past service event is included in the member's accumulated PSPA for the year.

**Provisional PAR – Registered  
Plans (Other than Multi-  
Employer Plans)  
ITR  
8307(3)**

Subsection 8307(3) defines the provisional PAR of an individual in respect of registered plans (other than multi-employer plans) and in respect of an employer, determined as of a particular time for the purposes of a certification. In general terms, a provisional PAR would arise where final payment cannot be made from an RPP on behalf of an individual until it is known whether benefits in respect of the individual under another RPP will be certified. The provisional PAR is an estimate of the actual PAR that will be determined once the final payment has been made.

More specifically, a provisional PAR of an individual is determined under subsection 8307(3) where:

- one or more single amounts remain to be paid from a defined benefit provision of an RPP on behalf of the individual;
- all or part of such amounts will be transferred, in accordance with subsection 147.3(3), to fund defined benefits in respect of which a certification is requested;
- all the single amounts will be paid or transferred within 60 days after the certification is received by the applicant; and
- the membership termination date of the individual with respect to the employer, as determined under subsection 8304(6), will be the date on which the last of the single amounts is paid.

When the above conditions are met, subsection 8307(3) defines the provisional PAR to be the amount that could reasonably be expected to be the individual's PAR, in respect of registered plans (other than multi-employer plans) and in respect of the employer, if all the single amounts referred to above were paid or transferred immediately after the certification. In determining this amount, a reasonable assumption may be made as to the date of certification in order to take into account any interest included in the single amounts to be paid.

**Provisional PAR – Multi-  
Employer Plan**  
ITR  
8307(4)

Subsection 8307(4) defines the provisional PAR of an individual in respect of a multi-employer plan and in respect of an employer, determined as of a particular time for the purposes of a certification. The definition is parallel to that set out in subsection 8307(3) for plans other than multi-employer plans, with modifications reflecting the fact that the plan involved is a multi-employer plan. Reference may be made to the commentary on subsection 8307(3).

**Qualifying Transfers**  
ITR  
8307(5)

Subsection 8307(5) defines, for the purposes of the condition in subsection 8307(2), the amount of an individual's qualifying transfers. In general terms, this is the additional room which is created for a provisional PSPA by the transfer of amounts between registered plans. Such transfers represent, in effect, a shift from plan to plan of amounts which are already tax-sheltered, and so it is appropriate to apply them to offset the provisional PSPA associated with the crediting of past service benefits.

The amount of an individual's qualifying transfers is equal to the sum of amounts transferred to fund benefits in respect of which a certification is sought, where the amounts are transferred in accordance with subsections 146(16) (transfers from RRSPs), 147(19) (transfers from DPSPs), 147.3(2) (transfers from money purchase to defined benefit provisions of RPPs), and 147.3(5) and (7) (transfers between registered plans pursuant to marriage breakdown or the death of a plan member) of the Act, or are transferred from a specified multi-employer plan in accordance with subsection 147.3(3) of the Act. In addition, a contribution made to fund benefits in respect of which the certification is sought is included as a qualifying transfer where the contribution constitutes the rollover of a retiring allowance (within the limits imposed by paragraph 60(j.1) of the Act) and is designated by the individual by filing a prescribed form with the Minister of National Revenue. The above amounts are included as qualifying transfers only to the extent that they do not exceed, in aggregate, the provisional PSPA for the purposes of the certification. This limit prevents transfers which are relevant for one certification from creating room for the purposes of another certification in the same year.

Except in the case of transfers from specified multi-employer plans, transfers from a defined benefit provision of one RPP to a defined benefit provision of another plan in accordance with subsection 147.3(3) of the Act are not included as qualifying transfers. This is consistent with the omission of such

transfers from the amounts which are deducted in calculating PAR. Thus, where an individual transfers from one defined benefit plan to another, the certification of past service benefits credited to him or her under the new plan does not depend on the amounts transferred between the plans in connection with the transfer.

Deemed Transfer  
ITR  
8307(6)

Subsection 8307(6) deems an amount to have been transferred to an RPP where an individual has given an irrevocable direction that the amount be transferred once the Minister has issued a certification, and the amount will be transferred within 60 days of the certification. This rule applies for the purpose of subsection 8307(5), and enables an amount to be counted as a qualifying transfer for the purpose of the prescribed condition for certification in subsection 8307(2) even though the physical transfer will not occur until a certification has been issued.

PSPA Transfers  
ITR  
8307(7)

Subsection 8307(7) defines, for the purposes of subsection 8307(2) and the definition of "net PSPA" in paragraph 146(1)(d.1) and subsection 204.2(1.3) of the Act, the amount of an individual's PSPA transfers, determined as of a particular time in a year. This amount is simply the sum of the qualifying transfers for the purposes of certifications made in the year and before the particular time. Where no certification has been made in respect of the individual in a year, the amount of PSPA transfers is nil.

Qualifying Withdrawals  
ITR  
8307(8)

Subsection 8307(8) defines, for the purposes of the condition in subsection 8307(2), the amount of an individual's qualifying withdrawals. In general terms, this is the additional room which is created for a provisional PSPA of the individual by the withdrawal of amounts from RRSPs. In effect, an individual is permitted, under the PA system, to exchange RRSP funds for defined benefit pension credits.

To be considered a qualifying withdrawal, an RRSP withdrawal must be designated by the individual. A withdrawal can be designated for the purposes of a certification where the conditions set out in subsection 8307(9) are satisfied. A designation is made by filing a prescribed form with the Minister of National Revenue.

The amount of an individual's qualifying withdrawals for the purposes of a certification is equal to the lesser of

- the total withdrawals from RRSPs designated for purposes of the certification, and
- the smallest amount of withdrawals necessary to obtain the certification if the additional \$8,000 of room were not included in subsection 8307(2).

Conditions Applicable to  
Designation  
ITR  
8307(9)

Subsection 8307(9) imposes a number of conditions restricting the amounts withdrawn by an individual from an RRSP that may be designated for the purposes of the condition in subsection 8307(2). An amount may not be

designated if it was withdrawn more than 24 months before the day on which the designation is filed with the Minister or if it was withdrawn in circumstances giving rise to a possible deduction under paragraph 60(1) of the Act. (Paragraph 60(1) of the Act provides, in part, for a deduction in respect of certain amounts received from an RRSP which are contributed or transferred to another RRSP or a registered retirement income fund or used to purchase a qualifying annuity.) In addition, a withdrawal is not eligible to be designated to the extent that the individual has already designated it for the purposes of any other certification, or to the extent that the individual has claimed a deduction in respect of the withdrawal in computing his or her income – for example, under section 60.2 (withdrawal of additional voluntary contributions transferred to an RRSP) or subsection 146(8.2) (withdrawal of excess RRSP contributions) of the Act. Furthermore, a withdrawal is eligible for designation only to the extent that it exceeds the amount of the individual's undeducted RRSP premiums immediately before the withdrawal – that is, premiums that the individual has paid to RRSPs but has not yet deducted. These restrictions are designed to ensure that the individual making a withdrawal is actually taking previously tax-sheltered funds into income in exchange for the additional defined benefits being provided as a result of the past service event.

**PSPA Withdrawals**  
**ITR**  
**8307(10)**

Subsection 8307(10) defines, for the purposes of subsection 8307(2) and the definition of “net PSPA” in paragraph 146(1)(d.1) and subsection 204.2(1.3) of the Act, the amount of an individual's PSPA withdrawals, determined as of a particular time in a year. This amount is the sum of the qualifying withdrawals for the purposes of certifications made in the year and before the particular time. Where no certifications have been made in respect of the individual in a year, the amount of PSPA withdrawals is nil.

**Prescribed Withdrawal**  
**ITR**  
**8307(11)**

Subsection 146(8.2) of the Act provides a deduction in certain circumstances where an overcontribution to an RRSP is subsequently paid out. As an exception, the deduction is not available in the case of prescribed withdrawals. Subsection 8307(11) prescribes, for the purposes of subsection 146(8.2) of the Act, an amount withdrawn by a taxpayer from an RRSP and designated for the purposes of a certification issued by the Minister of National Revenue relating to the condition in subsection 8307(2). The combined result of subsections 8307(9) and (11) and subsection 146(8.2) of the Act is that an RRSP withdrawal may either be deducted in computing income (where subsection 146(8.2) applies) or designated for the purposes of a certification, but not both.

**Prescribed Amount**  
**ITR**  
**8307(12)**

Subsection 8307(12) provides that, for the purposes of determining an individual's RRSP deduction limit, under paragraph 146(1)(g.1) of the Act, and cumulative excess amount in respect of RRSPs, under paragraph 204.2(1.1)(b) of the Act, a provisional PAR (as determined under subsection 8307(3) or (4)) is a prescribed amount except where the corresponding PAR is determined for the year.

**Prescribed Premium  
ITR  
8307(13)**

Where a certificate for the purpose of subsection 147.1(10) of the Act is issued late in a year, any transfers or payments from a former plan may not be completed until the following year. Thus, PAR will not be reported until that following year whereas the PSPA associated with the certification will be reported in the earlier year. The prescribed amount is intended to deal with this mismatch in timing, and ensures, in effect, that the PAR is taken into account in the same year as the PSPA.

New subsection 146(6.1) of the Act provides a deduction for prescribed premiums paid to an RRSP, to the extent that the premiums are not deducted under any of the rollover positions in paragraphs 60(j), (j.1) and (l) of the Act. This subsection is intended to allow the recontribution to an RRSP of an amount withdrawn for the purpose of obtaining a certification in respect of past service benefits, where it is later determined that all or part of the amount was withdrawn in error.

Subsection 8307(13) prescribes premiums for the purpose of new subsection 146(6.1) of the Act. A premium is prescribed for a particular taxation year if:

- the taxpayer withdrew an amount in the year from an RRSP and designated the amount in accordance with subparagraph 8307(8)(a)(ii) for the purposes of a certification in respect of past service benefits;
- it is later determined that the taxpayer withdrew too large an amount because of a reasonable error, or did not need to withdraw any amount because the Minister has refused to register the pension plan under which the benefits are provided;
- the premium is paid by the taxpayer within 12 months after it is determined that the taxpayer withdrew too large an amount;
- the premium does not exceed the portion of the RRSP withdrawal that was withdrawn in error or was withdrawn unnecessarily;
- the taxpayer files with the Minister of National Revenue, on or before the taxpayer's tax-filing deadline for the year in which the premium was paid (generally April 30th of the following year), a prescribed form on which the amount is designated as a recontribution of the withdrawn amount; and
- no other amount has been designated as a recontribution of the withdrawal.

The combined effect of subsection 146(6.1) of the Act and subsection 8307(13) is to allow a deduction of the recontributed amount in computing the taxpayer's income for the year in which the RRSP withdrawal was made (rather than for the year in which the amount was recontributed). Subsection 152(6) of the Act is being amended to require the Minister to reassess the taxpayer's return to take into account the deduction.

New subsection 147.2(4) of the Act provides for the deduction of employee contributions to an RPP, other than prescribed contributions and certain other contributions. Subsection 8307(14) prescribes, for this purpose, a contribution that constitutes the rollover of a retiring allowance, where the contribution is designated for the purpose of obtaining a certification in respect of past service benefits and hence is included, under subsection 8307(5), as a qualifying transfer.

The combined effect of subsection 147.2(4) of the Act and subsection 8307(14) is to ensure that such a contribution is deducted under subsection 60(j.1) of the Act rather than subsection 147.2(4) of the Act. In the absence of these rules, the contribution would be deductible under subsection 147.1(4) as a past service employee contribution. Hence, the individual would also be able to claim a deduction under paragraph 60(j.1) if he or she were to make a RRSP contribution.

### Examples

Several examples of the application of the PSPA certification condition follow.

**Example 25:** An individual becomes eligible for past service benefits under a supplementary defined benefit RPP of his or her employer in 1993. The provisional PSPA for the benefits is \$3,000. Assuming that the individual's unused RRSP deduction room at the end of 1992 is nil, that the individual has no PARs, provisional PARs, qualifying transfers or qualifying withdrawals and that the individual's accumulated PSPA for 1993 at the time of the certification is zero, the provisional PSPA will be certified because it is less than the \$8,000 allowance in subparagraph 8307(2)(a)(i). As a result of the certification, the provisional PSPA is included in the individual's accumulated PSPA for 1993 and hence the individual's PSPA for 1993, and is deducted in determining both the individual's RRSP deduction limit for 1993 and the individual's unused RRSP deduction room at the end of 1993.

**Example 26:** An individual quits a defined benefit RPP and transfers the termination benefit to an RRSP. Later the individual rejoins the plan and seeks to re-establish pension benefits in respect of the earlier years of post-1989 service. Assume that the provisional PSPA in respect of the benefits is \$12,000 and that the employer requires the taxpayer to contribute \$13,000 to the plan to re-establish the service credits.

As provided in subsection 8307(5), the individual can designate as a qualifying transfer up to \$12,000 (the amount of the provisional PSPA) of an amount transferred from an RRSP to fund the benefits associated with the provisional PSPA. (The qualifying transfer could also be a transfer from a DPSP or money purchase RPP.) Such a transfer enters

into the amount in subsection 8307(2) against which the provisional PSPA is compared. Assume that the individual transfers \$10,000 from an RRSP as part of the required contribution to the plan. Assume also that the individual's unused RRSP deduction room is nil and that he or she has no PARs, provisional PARs, qualifying withdrawals or accumulated PSPA. The condition in subsection 8307(2) will then be met since the amount under subsection 8307(2), which is \$18,000 ( $= \$8,000 + \$10,000$ ), exceeds the provisional PSPA of \$12,000.

As a result of the certification, the provisional PSPA becomes the individual's accumulated PSPA. If no other past service benefits are provided to the individual in the year, the accumulated PSPA becomes the individual's PSPA for the year. The individual's qualifying transfer becomes the amount of the individual's PSPA transfers for the year, as defined in subsection 8307(7). For purposes of the RRSP deduction limit for the year, the individual's "net PSPA" for the year as defined in paragraph 146(1)(d.1) of the Act is \$2,000, the difference between the PSPA for the year and the PSPA transfers for the year. The individual is also required to make an additional contribution to the plan of \$3,000 ( $= \$13,000 - \text{the transfer of } \$10,000$ ). This amount is deductible in the year it is made under new paragraph 147.2(4)(a) of the Act.

**Example 27:** In 1999, a plan providing defined benefits of 1 per cent of final average earnings per year of service is upgraded retroactively (for service after 1989) to provide benefits at a rate of 1.5 per cent of final average earnings per year of service. For a particular individual, the resulting provisional PSPA is \$27,000. Assume that the individual has unused RRSP deduction room of \$12,000 as of the end of the previous year and no PARs, provisional PARs, qualifying transfers or accumulated PSPA. Also assume that the upgrade does not qualify, under section 8306, for exemption from the certification requirement.

As the provisional PSPA of \$27,000 exceeds the sum of \$8,000 plus the individual's unused RRSP deduction room of \$12,000, the past service benefits cannot be certified unless the individual makes a qualifying RRSP withdrawal of at least \$7,000. (The maximum amount which the individual could designate as a qualifying withdrawal would be \$15,000, the additional amount of room necessary for the certification condition to be met if the \$8,000 allowance were disregarded.)

Assume that the \$7,000 withdrawal is made and the benefits are certified. Also assume that no other past service benefits are provided to the individual in the year. Then the provisional PSPA of \$27,000 becomes the individual's accumulated PSPA and the individual's PSPA for the year, the qualifying withdrawal of \$7,000 becomes the individual's PSPA withdrawals for the year, as defined in subsection 8307(10), and the resulting "net PSPA" for the year is \$20,000 ( $= \$27,000 - \$7,000$ ).

**Example 28:** On changing employment, an individual seeks to exchange pension benefits under one defined benefit plan (plan A) for benefits



under another defined benefit plan (plan B). Plan A provides benefits of 1.8 per cent of final average earnings per year of service, integrated with CPP/QPP, while plan B provides benefits of 2.0 per cent of final average earnings per year of service, also integrated with CPP/QPP. The individual has eight years of post-1989 service under plan A and wishes to obtain credits for the same service under plan B. Assume that the sum of pension credits for the eight years of service under plan A is \$44,000 and that the provisional PSPA for the same service under plan B is \$54,000. Assume that the individual is entitled to a termination benefit of \$30,000 from plan A and is required to contribute \$38,000 to obtain the desired pension benefits under plan B. Finally, assume that the individual has unused RRSP deduction room of \$6,000 at the end of the previous year and no PARs (since a PAR will not arise in connection with the termination from plan A until the \$30,000 termination benefit is paid) or accumulated PSPA.

If it is arranged that, after a certification is issued in respect of the past service benefits, the individual will transfer the \$30,000 termination benefit to plan B, the provisional PAR from plan A, as defined in subsection 8307(3), will be \$44,000 (since transfers between defined benefit provisions of RPPs are not deducted in determining PAR). The condition for a certification in respect of the benefits will be met since the provisional PSPA of \$54,000 is exceeded by the subsection 8307(2) amount, which is \$58,000 (= \$8,000 allowance + \$6,000 of unused RRSP deduction room + \$44,000 of provisional PAR).

Following the certification in respect of the benefits and the transfer of the termination benefit from plan A to plan B, the provisional PSPA becomes the accumulated PSPA and a PAR (which corresponds to the provisional PAR) is generated. Assuming that the termination benefit is transferred by year-end, the net result is to decrease the individual's unused RRSP deduction room at the end of the year of the certification by \$10,000 (= PAR of \$44,000 – PSPA of \$54,000). This drop of \$10,000 reflects the gain in the value of benefits as measured by the difference in pension credits under plan A and plan B.

The additional contribution of \$8,000 that the individual is required to make to plan B (over and above the transfer of \$30,000) is deductible in the year it is made, under new paragraph 147.2(4)(a) of the Act.

**Example 29:** In this example, the facts are the same as in example 28 except that the individual moves from plan B to plan A. In this case, the provisional PSPA is \$44,000 and the termination benefit from plan B is \$38,000. The required employee contributions to buy the past service under plan A total \$30,000. The individual arranges to transfer this portion of the termination benefit to plan A (after the certification of plan A benefits) and the \$8,000 balance to an RRSP. Again, the individual has unused RRSP deduction room of \$6,000 at the end of the previous year.

Under these circumstances, the provisional PAR of the individual is \$46,000 (= \$54,000 – the \$8,000 transfer to an RRSP). The past service benefits can be certified since the provisional PSPA of \$44,000 is exceeded by the subsection 8306(2) amount of \$60,000 (= \$8,000 + \$6,000 + \$46,000). The difference between the provisional PAR of \$46,000 and the certified PSPA of \$44,000 represents a net increase in unused RRSP room of \$2,000. This gain plus the RRSP transfer of \$8,000 matches the \$10,000 decline in the PA value of the past service benefits.

**Special Rules**  
ITR  
8308

Section 8308 contains rules relating to the determination of pension credits, PAs and PSPAs in special situations, as well as certain other special rules.

**Application for Registration**  
ITR  
8308(1)

Where benefits under a defined benefit provision of a pension plan become provided before the effective date of the registration of the plan, subsection 8308(1) deems the benefits to have become provided as a consequence of an event occurring on that date. This ensures that the rules requiring the certification of past service benefits cannot be avoided by delaying the registration of a plan.

**Remuneration for Prior Years**  
ITR  
8308(2)

Subsection 8308(2) sets out special rules that apply where an individual (i) receives remuneration in a particular year (a bonus or back pay, for example) that is treated for the purpose of determining retirement benefits under a defined benefit provision of an RPP as if it were received in a prior year, and (ii) accrues no benefits in respect of the particular year. The effect of the rules is to ensure that the remuneration is reflected in a pension credit, to the extent that it would have been so reflected had it been received in the prior year. Subsection 8308(2) does not apply where such remuneration is received in a year in respect of which benefits accrue to the individual since in that case the remuneration is required, by paragraph 8302(3)(f), to be treated for PA purposes as if it were remuneration for services rendered in the year. Subsection 8308(2) provides that:

- (a) the remuneration that is received in the particular year but treated under the RPP as received in a prior year is deemed to have been received in that prior year for the purpose of determining, as of the time the remuneration is received and any subsequent time, a redetermined benefit entitlement of the individual;
- (b) the pension credit of the individual for the particular year under the provision in respect of an employer is the aggregate of (i) the amount that would otherwise be the individual's pension credit, and (ii) the provisional PSPA of the individual in respect of the employer associated with the payment of the remuneration determined as if the payment of the remuneration were a past service event, where this is not otherwise the case; and
- (c) where the payment of the remuneration is a past service event, the associated provisional PSPA is nil (except for the purpose of (b)).

Generally, the determination of a pension credit pursuant to subsection 8308(2) will be relatively straightforward. However, where this is not so, the Minister of National Revenue may permit a reasonable estimate to be made.

In some cases, the payment of the remuneration may not result in a pension credit. For example, the individual might have had sufficient pensionable earnings before taking the remuneration into account to have accrued the maximum pension in the prior year. Alternatively, the individual might have attained, before the prior year, the maximum period of service upon which benefits are provided under the RPP. However, there are also cases where the payment of the remuneration results in a pension credit even though no additional benefits are provided and there is no past service event. For example, even where the payment of the remuneration does not alter the level of the best average earnings in a best average earnings plan, it will generally result in a provisional PSPA (determined as if there were a past service event) that is greater than zero.

**Example 30:** At the end of a calendar year, an individual retires and commences to receive a pension from an RPP which has a benefit formula of 1.3 per cent of final average earnings up to the YMPE and 2 per cent of final average earnings in excess of the YMPE per year of service. The individual earned \$50,000 in the year before retirement and receives a bonus amount of \$4,000 after retirement which is treated under the plan as pensionable earnings in the prior year. Result: under subsection 8308(2), the individual has a pension credit in the year of receipt of the bonus that is equal to the provisional PSPA associated with the payment of the additional remuneration. This amount is determined as the difference between a pension credit based on remuneration of \$54,000 and one based on remuneration of \$50,000. Thus, the pension credit is:

$$.02 \times \$4,000 \times 9 = \$720.$$

Period of Reduced Services –  
Retroactive Benefits  
ITR  
8308(3)

Subsection 8308(3) sets out rules for the redetermination of PAs and the determination of PSPAs where benefits (referred to as “retroactive benefits”) are provided on a retroactive basis in respect of a period of reduced services of an individual under a defined benefit provision of an RPP. (A “period of reduced services” is defined in subsection 8300(1) of the Regulations and is an eligible period of reduced pay or temporary absence. These eligible periods are defined in subsection 8500(1). For more information, reference may be made to the commentary on those definitions.)

In the absence of the rules in subsection 8308(3), the provision of such retroactive benefits would be a past service event giving rise to a PSPA. The effect of the rules is to provide for increased PAs, rather than a PSPA, in respect of retroactive benefits. Providing for higher PAs rather than a PSPA means that the retroactive benefits are subject to the indirect limits imposed by virtue of the PA limits in new subsections 147.1(8) and (9) of the Act, rather than the limit imposed by the need to have sufficient unused RRSP

deduction room in order to have past service benefits certified. Thus, the benefits may be provided even though the plan member has received little or no remuneration during the period of reduced services and, as a result, has generated little if any RRSP room. In this regard, the PA limits are based on an individual's "compensation", which is defined (in new subsection 147.1(1) of the Act) to include prescribed amounts. Section 8510 of the Regulations prescribes amounts in respect of periods of reduced services, and limits the amounts that may be prescribed. For further discussion of prescribed compensation, reference may be made to the commentary on section 8510.

The redetermination of PAs under subsection 8308(3) applies only where retroactive benefits become provided on or before the last day of April of the year immediately following the calendar year in which the complete period of reduced services ends. (As defined in subsection 8300(1), a complete period of reduced services is a period of reduced services that is not part of a longer period of reduced services.) Thus, where a period of reduced services spans two or more years, the decision as to whether to provide benefits in respect of all or any portion of the period can be deferred until after the end of the period.

In the simplest case where a complete period of reduced services falls entirely within a particular calendar year, there are three possibilities:

- where benefits in respect of the period become provided during the particular year, they are reflected in the individual's PA for the year without the application of subsection 8308(3);
- where the benefits become provided after the end of the particular year but on or before April 30th of the following year, subsection 8308(3) applies to redetermine the individual's PA for the particular year and ensure that the retroactive benefits do not result in a provisional PSPA; and
- where the benefits become provided after April 30th of the following year, they result in a provisional PSPA which is subject to the normal certification process.

Where subsection 8308(3) applies, the redetermined PA of the individual in respect of the employer for each year before the particular year in which the retroactive benefits become provided is deemed to be the sum of

- (i) the amount that would otherwise be the individual's PA for the year, and
- (ii) the portion of the provisional PSPA of the individual in respect of the employer associated with the retroactive benefits that is attributable to the retroactive benefits provided in respect of the year.

Also, the provisional PSPA of the individual in respect of the employer associated with the retroactive benefits is deemed (except for the purpose of subsection 8308(3)) to be the portion, if any, of the PSPA that does not relate to the provision of those retroactive benefits. In the normal case where the only past service benefits which become provided are the retroactive benefits, the provisional PSPA will be nil.

The rules of subsection 8308(3) do not apply to specified multi-employer plans.

**Example 31:** An individual who participates in a 1.2 per cent final average RPP and has a full-time earnings level of \$36,000 takes four months of leave in a year. After the year, but before the end of April of the following year, it is decided to provide the individual with benefits in respect of the period of leave.

**Result:** The individual's PA for the year, as initially determined, is:

$$PA = (9 \times .012 \times \$36,000 \times 2/3) - \$600 = \$1,992.$$

Subsection 8308(3) requires that this PA be redetermined, as a result of the provision of retroactive benefits, to be the sum of the above PA plus the provisional PSPA that would be associated with the provision of benefits in respect of the four months of leave. The total of these two amounts is the same as the PA that would be determined based on a full year of service. Thus, the redetermined PA is computed as follows:

$$\text{Redetermined PA} = (9 \times .012 \times \$36,000) - \$600 = \$3,288.$$

This same PA would have been determined had the four month period of leave been credited during the year and thus taken into account in computing the PA reported in respect of the year.

Subsection 8401(7) requires that, when a PA is redetermined as in the above example, the redetermined PA is to be reported to the Minister of National Revenue within 60 days of the date that the retroactive benefits become provided.

**Period of Reduced Services –  
Retroactive Contributions  
ITR  
8308(4)**

Subsection 8308(4) sets out rules for the redetermination of PAs where contributions (referred to as “retroactive contributions”) are made after the end of a particular year under a money purchase provision of an RPP in respect of a period of reduced services in the particular year. (A period of reduced services is defined in subsection 8300(1) and is an eligible period of reduced pay or temporary absence. These eligible periods are defined in subsection 8500(1). For more information, reference may be made to the commentary on those definitions.)

In the absence of the rules in subsection 8308(4), such retroactive contributions would be included in the PA for the year in which they are paid (except

where the contributions are paid by the end of February of the year immediately following the particular year). The effect of the rules is to increase the PA for the particular year in which the period of reduced services occurs and to correspondingly reduce the PA for the subsequent year in which the contribution is made. The retroactive contributions are subject to the indirect limits imposed by virtue of the PA limits in subsections 147.1(8) and (9). In this regard, the PA limits are based on an individual's "compensation", which is defined (in new subsection 147.1(1) of the Act) to include prescribed amounts. Section 8510 of the Regulations prescribes amounts in respect of periods of reduced services, and limits the amounts that may be prescribed. For further discussion of prescribed compensation, reference may be made to the commentary on section 8510.

Subsection 8308(4) applies to a retroactive money purchase contribution only where the contribution is made on or before the last day of April of the year immediately following the calendar year in which the complete period of reduced services ends. (As defined in subsection 8300(1), a complete period of reduced services is a period of reduced services that is not part of a longer period of reduced services.)

Where subsection 8308(4) applies, the redetermined PA of an individual for each particular year that includes a period of reduced services in respect of which retroactive contributions are made is deemed to be the amount that would have been the individual's PA had the retroactive contributions been made at the end of the particular year. Also, for the purpose of determining the individual's PA for the year in which the contributions are made, the contributions are deemed not to have been made in that year.

**Example 32:** Under the terms of a money purchase plan, an individual, upon return from a leave of absence for two calendar years, is entitled to employer contributions of \$3,000 per year if the individual agrees to make contributions of equal amounts. Where the contributions are made by the end of April following the second year of leave, PA determination is as follows:

- a redetermined PA of \$6,000 is calculated for each of the two years of leave (assuming the initial PAs were nil), and
- the retroactive contribution of \$12,000 is excluded from the PA determined for the year in which the contribution is made.

Subsection 8401(7) requires that the redetermined PAs reflecting a retroactive contribution be reported to the Minister of National Revenue within 60 days of the date of the retroactive contribution.

For a retroactive contribution to meet the requirements of paragraph 8502(b) regarding permissible contributions under a money purchase provision of an RPP, the terms of the plan must provide for such contributions to be made.

**Former Member Rejoining  
Plan  
ITR  
8308(5)**

Subsection 8308(5) provides that where an individual ceases to belong to an RPP or DPSP with the result that a PAR is determined, and the individual subsequently rejoins the plan, Part LXXXIII of the Regulations applies with respect to the individual's subsequent participation in the plan as if he or she were another person.

This rule ensures that the pension credits or employer contributions related to the individual's first period of service under the plan are not inappropriately taken into account in the determination of a second PAR at a subsequent date.

Where the individual seeks to re-establish credits under the plan for the first period of service, the rule also affects the determination of PA and PSPA in accordance with the special rules under subsection 8308(6). Further details are provided in the commentary on that subsection.

**Past Service Benefits in Year  
Individual Becomes Plan  
Member  
ITR  
8308(6)**

Subsection 8308(6) contains special rules for the determination of pension credits and PSPAs that apply where defined benefits become provided under an RPP to an individual in respect of a period that is in the year in which the individual becomes a member of the plan and is before the time at which he or she becomes a member. These rules apply only where such benefits become provided in the same year in which the individual joins the plan. Where the benefits do not become provided until after the end of the year in which the individual becomes a member of the plan, they are taken into account in the determination of a provisional PSPA of the individual in accordance with section 8303.

The main effect of these rules is that the individual's pension credit under the provision for the year is determined only with respect to benefits that are provided in respect of service after the individual becomes a member, while benefits provided in respect of the earlier period in the year are treated as past service benefits and are subject to PSPA certification. Thus, PA and PSPA are determined in the same way as they would be if the past service benefits had not become provided until after the year. Consequently, the benefits are treated in the same way as past service benefits in respect of earlier years.

There are three general cases where the rules may apply. One case is where an individual changes employers during a year and obtains credits under the plan of the second employer for service with the first employer. In this case, subsection 8308(6) will have the effect of increasing the provisional PSPA that would otherwise be determined in respect of prior years' service to take into account the service in the year with the first employer that is credited under the plan of the second employer.

A second case is where benefits are provided under an RPP in respect of a waiting period before the individual becomes a member of the plan, and the waiting period ends during the year. If benefits are considered to become provided to the individual only after the waiting period ends, then subsection

8308(6) applies in the determination of the individual's PA for the year and the provisional PSPA in respect of the benefits provided for service during the waiting period. However, subsection 8308(6) would not apply if the individual is considered to become a plan member (as defined in new subsection 147.1(1) of the Act) at the beginning of the waiting period (even though the plan may provide that the individual does not "join" the plan until after the waiting period). Under these circumstances, PAs would be reported in respect of benefits provided to the individual throughout the waiting period and no PSPA would be determined in respect of those benefits. It is intended to permit the use of whichever approach is administratively more convenient. Example 16 and the subsequent commentary, which follows the commentary on subsection 8303(7), provides more information on the treatment of waiting periods.

The third case is a rare one in which an individual quits an RPP at a particular time in a year, a PAR of the individual for the year is determined, and the individual rejoins the plan later in the same year and is credited with his or her previous pensionable service under the plan. By virtue of subsection 8308(5), the individual is to be treated as another person with regard to the determination of pension credits, PARs and PSPAs in respect of his or her subsequent participation in the plan. The result is that separate pension credits must be determined in respect of the two periods of service in the year, and, because a PAR was determined that reflects the pension credit for the first period of service, a provisional PSPA must also be determined in respect of the first period of service.

The provisional PSPA which subsection 8308(6) requires be determined in respect of a period in the year that an individual becomes a member of an RPP may depend on information (such as salary information) which will not be known until after the time at which the provisional PSPA is computed. Accordingly, paragraph 8308(6)(f) permits reasonable assumptions to be made with respect to such information.

Paragraph 8308(6)(g) provides that benefits in respect of which subsection 8308(6) is applicable are considered, for the purpose of new subsection 147.1(10) of the Act, to be benefits in respect of a period after 1989 and before the year in which they become provided. This means that the benefits cannot be paid to the individual before a certification in respect of the benefits is issued by the Minister of National Revenue.

The rules of subsection 8308(6) for determining PAs and PSPAs do not apply until after 1990. This ensures that there will be no requirement for the determination or reporting of a provisional PSPA for benefits that become provided in 1990.

Subsection 8308(6) permits the Minister of National Revenue to waive the application of the PA and PSPA determination rules in that subsection. The



Minister may be expected to waive application of the rules where it is reasonable to expect that PAs will be suitably determined for the purpose of the PA limits and the consequences for the determination of RRSP room will not be inappropriate.

**Loaned Employee  
ITR  
8308(7)**

Subsection 8308(7) contains special rules that apply where service is credited under the RPP of one employer (the “lending employer”) to an employee who is on loan to another employer (the “borrowing employer”) from whom the employee receives remuneration. The effect of the rules is to treat the borrowing employer as an employer who participates in the plan. A PA of the employee must be determined in respect of the borrowing employer and the limits that apply to this PA are based on remuneration from the borrowing employer. Such remuneration is also taken into account for the purpose of the maximum pension rule.

In the absence of the special rules set out in subsection 8308(7), all defined benefit accruals and money purchase contributions during the loan period would be reflected in the employee’s PA in respect of the lending employer, and the limits applicable to the PA would be based on “compensation” (as defined in new subsection 147.1(1) of the Act) from that employer. The rules in section 8510 of the Regulations – prescribed compensation in respect of periods of temporary absence – would be applicable with the consequence that the employee would be using up the “five-year” limit imposed by that section.

Subsection 8308(7) applies where: (a) an employee is on loan to an employer who does not participate in the plan of the lending employer but who pays remuneration to the employee, and (b) the employee accrues benefits during the period of the loan under the plan of the lending employer (or the employee’s money purchase account in the plan is credited with contributions made by the lending employer). Under these circumstances, the subsection provides that the employee’s pension credits under the plan are to be determined as if the borrowing employer participated in the plan. Specifically, paragraph 8308(7)(c) provides that the borrowing employer is a prescribed employer for the purpose of the definition “participating employer” in new subsection 147.1(1) of the Act; paragraph 8308(7)(d) provides that the employee’s benefit accrual in respect of a year under a defined benefit provision of the plan is to be attributed to employment with the lending and borrowing employers in proportion to the remuneration received by the employee in the year from each employer; and paragraph 8308(7)(e) provides that money purchase contributions made to the plan by the lending employer, to the extent that they may reasonably be considered to be in respect of remuneration from the borrowing employer, are to be considered as contributions made by the borrowing employer. The effect of these provisions is that an amount that would otherwise be a pension credit of the employee in respect of the lending employer becomes, in whole or in part, a pension credit in respect of the borrowing employer.

Where these rules apply, an employee will have a PA in respect of the borrowing employer. Pursuant to rules in section 8401, this amount will have to be reported by the borrowing employer. Co-ordination between the lending and borrowing employers will be needed to establish the PA to be reported by each employer. The PA in respect of the borrowing employer will be subject to the PA limits in new subsections 147.1(8) and (9) of the Act, which will be based on the employee's compensation from the borrowing employer.

Determining a PA in respect of the borrowing employer (rather than a larger PA in respect of the lending employer) has the effect of avoiding the application of the rules in section 8510. These rules prescribe additional amounts to be included in "compensation" so that the PA limits are satisfied when benefits are provided in respect of periods of reduced pay or temporary absence. Avoiding these rules is an advantage since it means that periods of loan to another employer are not subject to, and do not use up, the limit (of five years of full-time equivalent compensation) on the cumulative amount of compensation that can be prescribed by section 8510.

Consider the example of an employee who becomes a paid union official part way through a year, and who therefore takes an unpaid leave of absence from regular employment. The employee's remuneration for the year is \$10,000 from the lending employer and \$30,000 from the union. The employee accrues benefits under a defined benefit provision of an RPP of the lending employer, and the benefit accrual of the employee under the provision in respect of the year is \$480.

In the absence of subsection 8308(7), the individual's PA in respect of the lending employer would be \$3,720 ( $= 9 \times \$480 - \$600$ ), which exceeds 18 per cent of the employee's remuneration from the lending employer. In this case, section 8510 would prescribe an additional amount of compensation so that the PA limit of 18 per cent of compensation is satisfied.

However, subsection 8308(7) provides for the union to be considered as an employer that participates in the plan and for the benefit accrual to be attributed to employment with the two employers based on the employee's remuneration from each of them. Thus, the employee has benefit entitlements of \$120 ( $= \$480 \times (\$10,000 \div \$40,000)$ ) in respect of the lending employer and \$360 ( $= \$480 \times (\$30,000 \div \$40,000)$ ) in respect of the union. Assuming a parallel proration of the \$600 offset, the employee's PAs are \$930 ( $= \$120 \times 9 - (\$10,000 \div \$40,000 \times \$600)$ ) and \$2,790 ( $= \$360 \times 9 - (\$30,000 \div \$40,000 \times \$600)$ ) in respect of the two employers. The corresponding PA limits are \$1,800 ( $= .18 \times \$10,000$ ) and \$5,400 ( $= .18 \times \$30,000$ ) respectively, and are therefore satisfied.

Successor Plan  
ITR  
8308(8)

Subsection 8308(8) sets out a special rule that applies where defined benefits in respect of an individual under an RPP of one employer (the "former employer") are replaced by identical benefits under an RPP of another employer (the "successor employer"). Under this rule, the individual's PAs

for the year in respect of the two employers, PARs in respect of the two employers, and provisional PSPAs in respect of the successor employer are deemed to be the amounts that they would be if all the benefits in respect of the individual under the plan of the former employer had been attributable to employment with the successor employer rather than the former employer. The result is the same as if the individual had always been employed by the successor employer.

This rule applies only where the Minister of National Revenue consents, in writing, to its application. Its effect is to avoid any requirement for the reporting of PARs and PSPAs where benefits under one plan are replaced by identical benefits under the plan of a successor employer.

Statutory Plans  
ITR  
8308(9)

Subsection 8308(9) contains special rules that apply with respect to two pension plans which are not currently registered: the plans established by the *Judges Act* and the *Lieutenant Governors Superannuation Act*. Under this subsection,

(a) the pension plans established by those Acts are deemed, for the purposes of Part LXXXIII of the Regulations, to be RPPs, and

(b) the pension credit of an individual for a year under the relevant plan is the amount by which 18 per cent of the individual's salary for the year as a judge or lieutenant governor (or, if less, the money purchase limit for the year, as defined in subsection 147.1(1) of the Act) exceeds \$600.

Minister's Powers  
ITR  
8309

Section 8309 gives the Minister of National Revenue certain powers with respect to the determination of amounts under Part LXXXIII of the Regulations.

ITR  
8309(1)

Subsection 8309(1) provides that, where more than one method of determination of an amount under Part LXXXIII complies with the rules in the Part, a method acceptable to the Minister is to be used. This rule is included in recognition of the fact that it is not possible to set out rules for determining PAs, PSPAs and PARs that cover every possible circumstance.

ITR  
8309(2)

Subsection 8309(2) provides that, should the rules in Part LXXXIII require the determination of an amount in a manner that is not appropriate having regard to the provisions of the Part read as a whole and the purposes for which the amount is determined, the Minister may permit or require the amount to be determined in a manner that, in the Minister's view, is appropriate. This rule recognizes that there may be special circumstances where the rules set out in Part LXXXIII lead to an inappropriate calculation of amounts.

ITR  
8309(3)

Subsection 8309(3) provides that where, pursuant to subsection 8309(2), the Minister gives permission or imposes a requirement, the permission or requirement must be in writing to be effective.

**Rounding of Amounts**  
ITR  
8310

Section 8310 provides that pension credits, provisional PSPAs, PARs and provisional PARs are to be rounded to the nearest dollar.

**Registered Plans – Reporting  
and Provision of Information**  
ITR  
PART LXXXIV

Part LXXXIV of the Regulations requires the filing of information returns that report pension adjustments (PAs), provisional past service pension adjustments (PSPAs) and pension adjustment reversals (PARs) and the filing of annual information returns and actuarial valuations in respect of registered pension plans (RPPs). It also requires the exchange of information between plan administrators and participating employers for the purposes of completing information returns and calculating provisional PSPAs, and requires the reporting of PAs, PSPAs and PARs to employees. Generally, the first date for the filing of information returns is February 28, 1991.

**Definitions**  
ITR  
8400

Subsection 8400(1) provides that all words and expressions used in Part LXXXIV that are defined in subsection 8300(1) or 8500(1) or in subsection 147.1(1) of the Act have the meanings assigned therein.

Subsection 8400(2) provides that, where the administrator of a pension plan is not a person, the administrator shall, for the purposes of Part LXXXIV, be considered to be a person. This rule is necessary since a number of provisions of Part LXXXIV make reference to a person.

**Pension Adjustment**  
ITR  
8401(1)

Where an individual's PA for a year in respect of an employer is greater than nil, subsection 8401(1) requires the employer to file with the Minister of National Revenue an information return in respect of the individual, reporting the PA. The PA of an individual for a year in respect of an employer will be greater than zero if defined benefits accrue to the individual, or money purchase contributions are made by or on behalf of the individual, under an RPP in respect of the year and employment with the employer or if contributions are made on behalf of the individual to a DPSP in respect of the year and employment with the employer. The PA will also be non-zero where forfeitures are reallocated to the individual under a money purchase RPP or a DPSP, where a portion of a money purchase surplus is allocated to the individual or where the employer makes contributions to an RPP that is a specified multi-employer plan (as defined in section 8506 of the Regulations) based on hours worked by the individual. PAs for years before 1990 are defined to be nil. For a detailed discussion of the determination of PA, reference may be made to the commentary on Part LXXXIII of the Regulations.

This reporting requirement does not apply to any portion of a PA required by subsection 8401(2) or (3) to be reported by the administrator of a multi-employer RPP.

Subsection 8401(1) requires an information return reporting a PA for a year to be filed by the end of February of the following year. As PAs are defined to be nil for years before 1990, the first information returns under subsection 8401(1) must be filed by employers on or before February 28, 1991 in respect of PAs for 1990.

ITR  
8401(2)

Subsection 8401(2) provides an exception to the requirement in subsection 8401(1) that PAs be reported by employers. Subsection 8401(2) requires the administrator of a specified multi-employer RPP to file with the Minister of National Revenue an information return in respect of each member of the plan who makes contributions to the plan in a year where the contributions are not remitted to the plan by a participating employer. The return in respect of such a member is to contain the total of the member's PAs for the year in respect of all participating employers of the plan, to the extent that the PAs arise as a result of such member contributions. The return reporting PAs for a year must be filed by the end of February of the following year. This subsection would apply, for example, where an individual makes contributions directly to the administrator of a multi-employer plan in order to acquire additional benefits.

A "specified multi-employer plan" is defined in subsections 8506(1) and (2) of the Regulations. In general terms, a specified multi-employer plan is a defined benefit plan in which two or more employers participate pursuant to a collective bargaining or similar agreement and the administrator of which is a board of trustees or similar body that is not controlled by representatives of the employers.

Administrators must file the first information returns under subsection 8401(2) on or before February 28, 1991 with respect to member contributions to specified multi-employer plans in 1990.

ITR  
8401(3)

Subsection 8401(3) provides that where, under subsection (4), a portion of a pension credit of an individual for a calendar year is reportable by the administrator of an RPP, the administrator must report the amount on or before the last day of February in the following calendar year. The amount is to be reported by filing with the Minister of National Revenue a return in prescribed form.

Administrators must file the first information returns under subsection 8401(3) on or before February 28, 1991 with respect to pension credits for 1990.

ITR  
8401(4)

Subsection 8401(4) sets out further circumstances in which the responsibility for PA reporting is placed on the administrator of an RPP rather than on participating employers. The subsection applies with respect to the reporting of such portion of a pension credit of a member of a multi-employer plan as is attributable to defined benefits provided in respect of a period of reduced services or a period of disability of the member. The application of the subsection is limited to cases where the plan administrator has applied for such a reporting arrangement and the Minister has, in writing, consented to it. Subsection 8401(4) does not apply with respect to multi-employer plans that are specified multi-employer plans.

A multi-employer plan, as defined in subsection 8500(1) of the Regulations, is a plan in which no more than 95 per cent of the active members are

employed by one employer or a group of non-arm's length employers. A period of reduced services, as defined in subsection 8300(1), is either an eligible period of reduced pay or an eligible period of temporary absence. Eligible periods, as well as "period of disability", are defined in subsection 8500(1).

This provision for administrator reporting recognizes that, in some multi-employer RPPs, members deal directly with the plan administrator with respect to their benefits in respect of periods of reduced services or disability.

ITR  
8401(5)

Subsection 8401(5) removes any requirement for the reporting of a PA of an individual for the year in which the individual dies.

ITR  
8401(6)

Subsection 8401(6) eliminates the requirement for the reporting of an individual's PA and PAR for a year where the PA and the PAR are equal and neither is reported. This subsection would apply, for example, where an individual joins an RPP in a year and terminates in the same year without any vested benefits.

ITR  
8401(7)

In certain circumstances where defined benefits become provided to a pension plan member, or money purchase contributions are made by or on behalf of a member, after the end of a year but in respect of a period of reduced services in the year, paragraph 8308(3)(c) or (4)(c) of the Regulations (whichever applies) requires that the member's PA be redetermined to reflect the additional benefits or contributions. Further details are provided in the commentary on subsections 8308(3) and (4).

Where a PA is redetermined in such circumstances, subsection 8401(7) requires that the person responsible for reporting the PA report the redetermined PA to the Minister in prescribed form within 60 days after the day that the defined benefits become provided or the money purchase contributions are made.

For example, where a plan member takes a leave of absence in a year and a decision is not made until April 30th of the following year to provide the member with benefits in respect of the period of leave, the redetermined PA must be reported by June 29th of that following year. (On the other hand, if it were known at the end of the year that the benefits were to be provided, they would be included in determining the PA which is reportable by the end of the following February.)

**Pension Adjustment Reversal**  
ITR  
8402(1)

A PAR is determined in respect of an individual who terminates membership in all DPSPs and RPPs (other than multi-employer plans) of an employer before beginning to receive periodic payments from the RPPs. The PAR restores RRSP deduction room when the individual's termination benefits under a defined benefit provision are not as great as the total of the pension credits and PSPAs previously reported in respect of those benefits and when employer contributions to a DPSP or to a money purchase RPP have not fully vested in the individual. For a detailed discussion of the determination

of PAR, reference may be made to the commentary on section 8304 of the Regulations.

Where an individual's PAR for a year in respect of registered plans (other than multi-employer plans) and in respect of an employer is greater than nil, subsection 8402(1) requires that the employer report the PAR to the Minister of National Revenue, in prescribed form, within 60 days of the individual's membership termination date. Subsection 8304(6) of the Regulations defines an individual's membership termination date with respect to an employer to be the date on which the individual ceases (except by reason of death) to be entitled to any benefits under the RPPs and DPSPs of the employer. In this regard, an individual who is entitled to a termination payment does not cease to be entitled to benefits until the payment is made.

The first year for which such a PAR might arise is 1990. Although a return in respect of a PAR is generally required to be filed within 60 days of the membership termination date, returns in respect of PARs for 1990 are not required to be filed until February 28, 1991.

ITR  
8402(2)

Subsection 8402(2) imposes a similar reporting requirement for PARs in respect of multi-employer plans as that imposed by subsection 8402(1) for PARs in respect of registered plans (other than multi-employer plans). Where an individual terminates membership in a multi-employer RPP before receiving any periodic payments from the plan and has a PAR greater than nil, subsection 8402(2) requires the administrator of the plan to file with the Minister of National Revenue, within 60 days after the individual's membership termination date, an information return containing the PAR. Under subsection 8304(7) of the Regulations, the membership termination date of an individual is the date on which the individual ceases to be entitled to any benefits under the plan.

The first year for which such a PAR might arise is 1990. Although a return in respect of a PAR is generally required to be filed within 60 days of the membership termination date, returns in respect of PARs for 1990 are not required to be filed until February 28, 1991.

Past Service Pension  
Adjustment  
ITR  
8403

Where an individual is credited with benefits under an RPP on a past service basis in respect of post-1989 service, a PSPA may arise. A PSPA is, in general terms, the additional PAs that would have been determined for the prior years if the plan had provided for the additional benefits at the time each PA was first determined. The determination of PSPA is described in detail in the commentary on section 8303 of the Regulations.

Before such past service benefits can be paid to an individual, subsection 147.1(10) of the Act may require that a certification from the Minister of National Revenue be obtained in respect thereof. Certifications are discussed in the commentary on sections 8306 and 8307 of the Regulations. When applying for such a certification, the plan administrator must submit to the Minister a provisional PSPA in respect of the proposed benefits.

Section 8306 provides an exemption from the certification requirement where certain conditions are satisfied. Where an individual's provisional PSPA in respect of an employer is greater than nil and the exemption applies, section 8403 requires the employer to report the PSPA to the Minister in prescribed form within 60 days after the day on which the past service event as a consequence of which the benefits are provided occurs.

As the first year in which benefits can be provided on a past service basis in respect of post-1989 service is 1991, no returns are required to be filed under section 8403 until 1991.

**Reporting to Individuals**  
**ITR**  
**8404(1)**

Subsection 8404(1) provides that, where a person is required to file with the Minister of National Revenue an information return relating to a PA, PAR or PSPA of an individual, the person filing the return must, by the date the return is required to be filed with the Minister, forward to the individual two copies of the portion of the return relating to the individual.

**ITR**  
**8404(2)**

Subsection 8404(2) provides that, where a certification is obtained from the Minister of National Revenue with respect to a past service event, the person obtaining the certification is required to forward to the individual to whom the certification relates two copies of an information return (in prescribed form) reporting the individual's provisional PSPA associated with the past service event and any provisional PARs determined for the purposes of the certification. (Provisional PARs are described in the commentary on subsections 8307(3) and (4) of the Regulations.) The return must be forwarded to the individual within 60 days of receipt of the certification from the Minister.

**ITR**  
**8404(3)**

Subsection 8404(3) provides that a return (or copy of a return) required to be forwarded to an individual under subsections 8504(1) or (2) must be sent to the individual at his or her last known address or be delivered to the individual in person.

Where section 8404 would otherwise require a return (or a copy of a return) to be forwarded before February 28, 1991, it need not be forwarded until that date.

**Discontinuance of Business**  
**ITR**  
**8405**

Section 8405 provides that subsection 205(2) and section 206 of the Regulations are applicable, with such modifications as the circumstances require, in respect of returns required to be filed under this Part. Subsection 205(2) requires that returns be filed within 30 days of the discontinuance of a business. Subsection 206(1) requires the legal representative of a person who has died to file required returns within 90 days of the date of death. Subsection 206(2) places responsibility for filing returns on all receivers, trustees in bankruptcy and others who control the property of a person who has not filed a return as required.

The earliest date that returns are required to be filed by section 8405 is February 28, 1991.



**Provision of Information**  
ITR  
8406(1)

Where a person required to report a PA or a PAR needs information from a second person in order to determine the amount to be reported, subsection 8406(1) requires the second person to provide the information on receipt of a written request from the first person. Most often this subsection will require an administrator of an RPP to provide information to an employer, or an employer to provide information to a plan administrator. Where the information is required for the purposes of a PA report to be filed in the year in which the request is received, or for the purposes of a PAR report, it must be provided within 30 days after receipt of the request. Otherwise, it need not be provided until January 31 of the following year.

ITR  
8406(2)

Where the administrator of an RPP requires information from a person (generally an employer or former employer) in order to calculate a provisional PSPA of an individual, subsection 8406(2) requires the person to provide the information within 30 days after receiving a written request from the administrator.

ITR  
8406(3)

Where the administrator of an RPP requires information from another person relating to a provisional PAR of an individual in respect of whom the administrator is seeking a certification for the purposes of subsection 147.1(10) of the Act, and the administrator requests the information from that person in writing, subsection 8406(3) requires that person to provide the information to the administrator within 30 days after receiving the written request. An administrator might require such information where an individual who changes employers is provided with pension benefits in the new employer's RPP in respect of a period that was pensionable service under the RPP of the former employer, and an amount is to be transferred between the plans in respect of such benefits. In this case, the actual PAR arising from the termination of membership in the former plan would normally not be determined until after the certification.

By virtue of subsection 221(2) of the Act, subsections 8406(1), (2) and (3) are applicable from the date that they are published in the *Canada Gazette*.

**Requirement to Provide  
Information to Minister**  
ITR  
8407(1)

Subsection 8407(1) gives authority to the Minister of National Revenue to require, by notice served personally or by registered or certified mail, that any person provide to the Minister information:

- relating to the determination of PAs, PARs, PSPAs and other amounts under Part LXXXIV of the Regulations;
- relevant to a claim that past service benefits are exempt from the requirement for certification imposed by subsection 147.1(10) of the Act; or
- that enables the Minister to determine whether the registration of an RPP may be revoked.

The information must be provided within whatever reasonable time is specified in the notice.

ITR  
8407(2)

Subsection 8407(2) provides that where a person fails to give information to the Minister pursuant to a requirement under subsection 8407(1), each RPP and DPSP to which the information relates becomes a revocable plan as of the date on or before which the information was required to be provided.

By virtue of subsection 221(2) of the Act, subsections 8407(1) and (2) are applicable from the date that they are published in the *Canada Gazette*.

Annual Information Return  
ITR  
8408(1)

Subsection 8408(1) requires the administrator of an RPP to file with the Minister of National Revenue, by April 30th of each year, a general information return in respect of the plan. It is expected that this return will include information such as the method used to determine PAs and whether or not any plan members are connected with participating employers. The return will also include a certification that the plan complies with, and is being administered in accordance with, the registration requirements.

The first return required to be filed under subsection 8408(1) is with respect to the 1990 calendar year and must be filed by April 30, 1991.

ITR  
8408(2)

Where an RPP has been terminated and a final distribution made of property held in connection with the plan, subsection 8408(2) requires the administrator of the plan to file with the Minister an information return in prescribed form and containing prescribed information. This return must be filed within 60 days of the final distribution. (Until the final distribution, the administrator must continue to file the information return required by subsection 8408(1).)

Subsection 8408(2) is applicable with respect to final distributions made after 1989 except that a return that would otherwise be required to be filed before February 28, 1991 need not be filed until that date.

Actuarial Reports  
ITR  
8409

Subsection 8409 requires the administrator of an RPP that contains a defined benefit provision to file an actuarial report with the Minister of National Revenue after receiving a demand therefor from the Minister. The Minister's demand must be served personally or by registered or certified mail and must specify a reasonable deadline for receipt of the report. The report must be prepared by an actuary on the basis of reasonable assumptions and in accordance with generally accepted actuarial principles. Furthermore, it must contain such information as is required by the Minister with respect to the defined benefit provisions of the plan.

It should be noted that subsection 147.2(3) of the Act requires that an actuarial report be filed with the Minister whenever the Minister's approval is sought in connection with employer contributions to be made to an RPP. Subsection 8409 permits the Minister to require actuarial reports to be prepared at other times as determined by the Minister.

Section 8409 is applicable after 1988.

Registered Pension Plans  
ITR  
Part LXXXV

New Part LXXXV of the Regulations, which is applicable after 1988, contains many of the new rules relating to registered pension plans (RPPs). These rules apply mainly for the purposes of new subsections 147.1 to 147.3 of the Act. The rules include prescribed conditions for the registration of a pension plan and additional conditions that must be satisfied by an RPP. As well, Part LXXXV:

- sets out the procedure for applying for the registration of a pension plan (section 8508),
- requires the filing of amendments to RPPs and sets out the procedure for filing amendments (section 8508),
- prescribes amounts as compensation for the purposes of the definition of “compensation” in new subsection 147.1(1) of the Act (section 8510),
- contains transition rules providing that certain employer contributions to defined benefit provisions of RPPs are eligible contributions for the purposes of new subsection 147.2(2) of the Act (section 8514), and
- sets out the limits that apply, for the purposes of new subsection 147.3(4) of the Act, with respect to the transfer of amounts from defined benefit plans to money purchase plans or RRSPs (section 8515).

Interpretation  
ITR  
8500

Section 8500 contains several interpretive provisions for the purposes of Part LXXXV of the Regulations, including the definitions of certain terms used in that Part.

ITR  
8500(1)  
“active member”

An “active member” of a pension plan in a calendar year is a member to whom benefits accrue under a defined benefit provision of the plan in respect of a period in the year or who makes contributions, or on whose behalf contributions are made, in relation to the year under a money purchase provision of the plan. For example, if a pension plan provides retirement benefits in respect of each year of service up to a maximum of 35 years, an individual will not be considered to be an active member of the plan after the end of the year in which he or she completes 35 years of service (even if accrued retirement benefits continue to increase by virtue of benefit upgrades, indexation or increases in the level of remuneration). This definition is relevant for the purposes of determining whether a pension plan is a multi-employer plan or a specified multi-employer plan.

“average Consumer Price Index”

The “average Consumer Price Index” for a calendar year is defined as 1/12th of the aggregate of the Consumer Price Indexes for each month in the 12-month period ending September 30th of the immediately preceding calendar year. This amount is relevant for the purposes of several rules limiting the amount of retirement benefits which can be paid under a defined benefit provision of an RPP in years subsequent to the year in which the benefits commence to be paid.

"beneficiary"	A "beneficiary" of an individual is a person (including the legal representative of the individual) who is entitled to receive benefits payable by a pension plan after the death of the individual by virtue of the participation of the individual in the plan.
"benefit provision"	A "benefit provision" of a pension plan means either a money purchase or a defined benefit provision of the plan.
"bridging benefits"	"Bridging benefits" provided to a member of a pension plan are retirement benefits payable for a temporary period ending no later than a fixed date determinable at the time the benefits commence to be paid. Bridging benefits are generally provided to a member during the period before the member commences to receive benefits under the Old Age Security program or the Canada Pension Plan or Quebec Pension Plan.
"Consumer Price Index"	The "Consumer Price Index" for a month is the Consumer Price Index for the month as published by Statistics Canada.
"defined benefit limit"	The "defined benefit limit" for a calendar year is \$1,722.22 for years before 1995 and, for years after 1994, 1/9 of the money purchase limit for the year. The latter amount is equivalent to \$1,722.22 indexed after 1994 to reflect increases in the average wage (as defined by subsection 147.1(1) of the Act). This definition is relevant for determining maximum lifetime retirement benefits under subsection 8503(4).
"dependant"	<p>A "dependant" of an individual is defined for the purposes of the survivor benefit provisions in paragraphs 8503(2)(d) and (e). Those provisions permit an RPP containing a defined benefit provision to provide a pension to a member's spouse or dependant after the member's death. A dependant of a member at the date of the member's death is a parent, grandparent, brother, sister, child or grandchild of the member who was dependent on the member for support at that date. (The listed relationships are given extended meanings by section 252 of the Act.) Furthermore, to qualify as a dependant the related individual must be:</p> <ul style="list-style-type: none"> <li>• under 19 years of age throughout the calendar year that includes the date of death,</li> <li>• a full-time student at the date of death, or</li> <li>• dependent by reason of mental or physical infirmity at the date of death.</li> </ul> <p>A survivor pension can be provided to a related individual throughout his or her "eligible survivor benefit period", defined below.</p>
"disabled"	An individual is "disabled" where the individual suffers from a physical or mental impairment that prevents the individual from performing the duties of employment in which the individual was engaged before the commencement of the impairment.

**“eligible period of reduced pay”**

An “eligible period of reduced pay” of an employee, as defined with respect to an employer, is a period of employment with the employer in respect of which certain conditions are met. These conditions are that:

- (a) the employee is not at any time that is during the period and after 1990 a person connected with the employer in the manner set out in subsection 8500(3);
- (b) the employee has been employed by the employer (or predecessor employers to the employer) for at least 36 months before the period; and
- (c) throughout the period, the remuneration received by the employee from the employer is less than the remuneration that it is reasonable to expect the employee would have received from the employer had the employee rendered services throughout the period on a regular basis for a rate of pay commensurate with the rate of pay of the employee before the period.

The “regular basis” on which an employee renders services is determined having regard to services rendered by the employee to the employer before the period. For example, the expected remuneration of an employee who normally worked on a full-time basis would be based on the full-time rate of pay of the employee.

Special rules apply with respect to eligible periods of reduced pay. By virtue of the rules in section 8510 and subject to the limits in that section, the compensation (as defined in subsection 147.1(1) of the Act) may include all or a portion of the additional remuneration the employee would have received had the period been a regular period of employment at a normal rate of pay. This enables benefits to be provided under, and contributions to be made to, an RPP in respect of such periods as if they were periods of regular employment at a normal rate of pay, without violating the pension adjustment (PA) limits in subsections 147.1(8) and (9) of the Act. In addition, this enables the maximum pension rule to be satisfied. Special rules also apply to employees in salary deferral leave plans, as described in the commentary on section 8511.

The special treatment for eligible periods of reduced pay provides an opportunity for pension accruals or contributions to be maintained despite low-pay years. Rules in subsections 8308(3) and (4) enable the decision as to whether benefits will be provided under a defined benefit provision of an RPP (or contributions to be made under a money purchase provision) in respect of an eligible period of reduced pay to be made after the period, without having the benefits subject to the rules relating to past service benefits. Employee contributions in respect of such a period may exceed the otherwise applicable limits by virtue of the special rule in subparagraph 8503(10)(a)(ii). For further details, reference may be made to the commentary on those rules. Typical situations of reduced pay which will be accommodated include job sharing, phased retirement and temporary pay cuts under austerity programs.

An eligible period of reduced pay does not include any portion of a period of disability, since different rules are applicable with respect to such periods.

**“eligible period of temporary absence”**

An “eligible period of temporary absence” of an individual with respect to an employer is a period throughout which the individual does not render services to the employer by reason of leave of absence, layoff, strike, lock-out or any other circumstance acceptable to the Minister. However, such a period does not include any time after 1990 during which the individual is connected with the employer in the manner set out in subsection 8500(3). It also does not include any portion of a period of disability.

Special rules apply with respect to eligible periods of temporary absence. Subparagraph 8503(3)(a)(iii) permits benefits to be provided under a defined benefit provision of an RPP in respect of an eligible period of temporary absence as if it were a period of employment. In addition, rules similar to those described in the commentary under the definition of “eligible period of reduced pay” are applicable.

**“eligible survivor benefit period”**

The “eligible survivor benefit period” of a person who is a dependant of another individual (at the time of the other individual’s death) is a period commencing on the day of the other individual’s death and ending at the end of the year in which the dependant attains age 18, or, if later, the time at which the dependant ceases to be a full-time student. However, in the case of a person dependent by virtue of physical or mental infirmity, the period extends throughout the period of physical or mental infirmity.

The definition of “eligible survivor benefit period” is relevant to the limits on survivor benefits under paragraphs 8503(2)(d) and (e).

**“existing plan”**

An “existing plan” is defined for the purposes of the definition of “grandfathered plan” in subsection 8500(1) and the grandfathering rule in subsection 8505(7) applicable to money purchase plans. An existing plan is a pension plan that was a registered pension plan on March 27, 1988 or a plan in respect of which an application for registration was made to the Minister before March 28, 1988. The expression also includes a pension plan (such as the one for federally appointed judges) established before March 28, 1988 pursuant to an Act of the Parliament of Canada that declares member contributions to be contributions to a registered pension plan.

**“forfeited amount”**

A “forfeited amount” under a money purchase provision of a pension plan is an amount to which a member of the plan has ceased to have any rights, other than the portion of that amount that is payable to another person as a consequence of the member’s death or the breakdown of the member’s marriage or common-law relationship. A forfeited amount would normally arise where a plan member terminates his or her employment before the member’s entitlement to employer contributions has fully vested. This definition is relevant for the purpose of subsection 8301(3), which includes in an individual’s pension adjustment forfeited amounts that are reallocated to the individual, and for the purposes of the special rules in paragraph 8504(2)(f)

and subsection 8504(3) requiring the distribution or reallocation of forfeited amounts.

**“grandfathered plan”**

A “grandfathered plan” is defined for the purposes of section 8505, which contains special rules applicable to such plans, and paragraph 8507(1)(b), which restricts the amendments that may be made to bridging benefits under grandfathered plans. A pension plan is a “grandfathered plan” if it is an existing plan (as defined in subsection 8500(1)) that, on March 27, 1988 contained a defined benefit provision or if it was established (in whole or in part) to replace defined benefits to which one or more individuals were entitled under another plan that is a grandfathered plan.

**“lifetime retirement benefits”**

“Lifetime retirement benefits” are periodic payments which, once they commence to be paid to a member of a pension plan, will continue to be paid until death unless suspended or commuted before that time. In contrast, bridging benefits are payable for at most a fixed period of time (usually until a member reaches age 65).

**“multi-employer plan”**

A pension plan is a “multi-employer plan” in a year if, at the beginning of the year (or the time at which the plan is established, if later), it is reasonable to expect that no more than 95 per cent of the active plan members will be employed by a single employer or by a group of non-arm’s length employers. However, a plan is not a multi-employer plan where one of the main reasons that more than one employer participates in the plan is to obtain the benefit of the provisions in the Act or the Regulations relating to multi-employer plans. In addition, a multi-employer plan includes a specified multi-employer plan (as defined in subsection 8506(1)).

Special treatment is provided to multi-employer plans under subsection 8506(4) (relief from registration requirements) and subsection 147.1(9) of the Act (pension adjustment limits). Multi-employer plans are also subject to special provisions relating to the determination of PAs under section 8301, the determination of pension adjustment reversal (PAR) amounts under section 8304 and the reporting of PAs and PARs under sections 8401 and 8402.

**“pensionable service”**

The “pensionable service” of a member of a pension plan under a defined benefit provision of the plan consists of the periods in respect of which lifetime retirement benefits are provided to the member under the provision. For this purpose, benefits are considered to be provided in respect of a particular period if the benefits are connected in some way with that period. The most common connection would be the performance of services or the receipt of remuneration in the period. Additional retirement benefits provided solely as a result of an upgrade or indexation of accrued benefits or an increase in remuneration would be considered to be provided in respect of the period in respect of which the accrued benefits are provided. Restrictions on the periods in respect of which lifetime retirement benefits may be provided are set out in paragraph 8503(3)(a).

Often, pensionable service will correspond to the credited service that is used in a benefit formula. However, this will not always be so, since pensionable service consists of periods of elapsed time. Thus, for example, if a plan member works on a half-time basis throughout a year, the full year will be considered to be pensionable service for the purpose of the registration conditions, whereas the benefit formula will generally count only one-half of the year as credited service.

Pensionable service is relevant mainly for the purposes of several rules that limit benefits payable under a defined benefit provision: the maximum pension rule in subsection 8503(4), the early retirement rules in paragraph 8503(3)(c), and the bridging benefit rules in paragraphs 8503(2)(b) and 8505(2)(a).

**“period of disability”**

A “period of disability” is a period throughout which an individual is disabled, as defined in subsection 8500(1).

**“predecessor employer”**

An employer is a “predecessor employer” in relation to a particular employer if the employer has disposed of all or part of its business or assets to the particular employer and employees of the employer have become employees of the particular employer. A “predecessor employer” to a particular employer also includes an employer who is a predecessor employer to another employer who subsequently becomes a predecessor employer to the particular employer. For example, if employer A sells part of its business to employer B, B subsequently sells part of its business to employer C and employees are transferred between employers in conjunction with each sale, A would be regarded as a predecessor employer to C. The definition of “predecessor employer” is relevant for the purposes of the eligible service rules in paragraph 8503(3)(a) and the early retirement rules in paragraph 8503(3)(c).

**“public pension benefits”**

“Public pension benefits” are defined to be benefits payable on a periodic basis under Part I of the *Old Age Security Act* or under the Canada Pension Plan or the Quebec Pension Plan. Public pension benefits do not include disability, death or survivor benefits.

**“public safety occupation”**

A “public safety occupation” is defined as the occupation of a firefighter, police officer, corrections officer, air traffic controller or commercial airline pilot. Employees in a public safety occupation may retire with an unreduced pension earlier than other employees, as discussed in the commentary on paragraph 8503(3)(c).

**“retirement benefits”**

The expression “retirement benefits” is defined as benefits provided to an individual under the terms of a provision of a pension plan that are payable on a periodic basis. For example, the pension (including bridging benefits) payable to a member and the pension payable on death to the member’s spouse are considered to be retirement benefits, while lump sum benefits payable after the death of a member are not considered to be retirement benefits.



**“surplus”**

A “surplus” under a money purchase provision of an RPP is such portion of the amount held in respect of the provision (determined at a particular time) as has not been allocated to members and is not reasonably attributable to:

- forfeited amounts (as defined in subsection 8500(1)) under the provision,
- earnings of the plan that are reasonably attributable to forfeited amounts under the provision, or
- earnings of the plan (other than earnings that are reasonably attributable to the surplus under that provision before the particular time) that will be allocated to members as part of the regular allocation of such earnings.

Generally, a money purchase surplus would exist as a consequence of the replacement of a defined benefit plan by a money purchase plan, where there was an actuarial surplus under the defined benefit plan. As discussed in the commentary on paragraph 8504(2)(c), employer contributions under a money purchase provision of an RPP are restricted when there is a surplus under the provision.

**“totally and permanently disabled”**

An individual is “totally and permanently disabled” if the individual suffers from a physical or mental impairment that prevents the individual from engaging in employment for which the individual is reasonably suited by virtue of the individual’s education, training or experience and if there is no reasonable expectation that the individual will recover from the disability.

Under the early retirement rules in paragraph 8503(3)(c), certain individuals who are totally and permanently disabled may receive unreduced retirement benefits under a defined benefit provision of a pension plan. Additional benefits may be provided to a permanently disabled individual in some circumstances as outlined in the commentary on paragraph 8503(3)(d).

**“Year’s Maximum Pensionable Earnings”**

The “Year’s Maximum Pensionable Earnings” (YMPE) has the meaning assigned by section 18 of the *Canada Pension Plan*.

ITR  
8500(2)

Subsection 8500(2) provides that the meanings given to terms in subsection 147.1(1) of the Act also apply for the purposes of Part LXXXV of the Regulations.

ITR  
8500(3)

Subsection 8500(3) provides that a person is considered to be connected with an employer at any time if, at that time, the person

- (a) owns 10 per cent or more of the issued shares of any class of the capital stock of the employer or of a corporation related to the employer,
- (b) does not deal at arm’s length with the employer, or
- (c) is deemed, by paragraph (d) of the definition of specified shareholder in subsection 248(1) of the Act, to be a specified shareholder of the employer.

(Paragraph (d) of the definition of specified shareholder contains a special rule that applies where an individual provides services to an employer who would be carrying on a personal services business if certain conditions were satisfied.)

Subsection 8500(3) contains rules which deem a person to own, for the purposes of the subsection, shares owned by a person with whom the person does not deal at arm's length, by a trust of which the person is a beneficiary, or by a partnership of which the person is a member. Special rules also apply if an individual has a right to acquire shares (instead of owning the shares) where one of the main reasons for the right is to avoid the person being considered as connected with an employer.

Subsection 251(1) of the Act sets out when persons are considered not to deal with each other at arm's length. Related persons – including individuals connected by blood relationship, marriage or adoption – are always considered not to deal with each other at arm's length. Where persons are not related, it is a question of fact whether an arm's length relationship exists at a particular time.

The rules in subsection 8500(3) for determining if a person is connected with an employer are similar to, but broader than, the rules in subsection 248(1) of the Act for determining if a person is a "specified shareholder" of a corporation. They also differ in a number of respects from the rules in paragraph 8(d) of Revenue Canada's Information Circular 72-13R8 for determining if a person is a "significant shareholder". In particular, the 10 per cent share ownership test is based on ownership of shares of any class, as in the definition of "specified shareholder", rather than shares that carry voting rights, as in the definition of "significant shareholder".

The new registration rules permit a person connected with an employer to accrue benefits under a defined benefit provision of an RPP. The current restriction in paragraph 8(d) of Information Circular 72-13R8 that a defined benefit plan not be primarily for the benefit of significant shareholders has not been included in the new rules. However, paragraph 8503(3)(e) (paragraph 8505(1)(d) in the case of grandfathered plans before 1992) requires that benefits in respect of periods before 1991 be acceptable to the Minister of National Revenue. This will permit Revenue Canada to continue to apply the existing significant shareholder rules in respect of pre-1991 service. In addition, certain restrictions will apply to the benefits provided to a person connected with a participating employer. First, as indicated in the commentary on subsection 8503(4), a special "updated career average" maximum pension rule applies to such a person. Second, the registration rules allowing survivor pensions on death prior to retirement based on projected benefits and allowing special benefits for periods of disability and eligible periods of reduced pay and temporary absence will not apply in the case of a person connected with an employer. Third, benefits in respect of periods before 1991 that become provided after 1988 to a person connected with an employer will

not be acceptable if the Minister has not been specifically notified that such benefits are provided.

It should also be noted that special rules apply with respect to the funding of an RPP if more than 50 per cent of its members are connected with employers who participate in the plan.

ITR  
8500(4)

Subsection 8500(4) is a special rule of interpretation which ensures that officers are treated in the same manner as employees for the purposes of the registration rules.

**Prescribed Conditions for  
Registration and Other  
Conditions Applicable to  
Registered Pension Plans**  
ITR  
8501(1) and (2)

Subsections 8501(1) and (2) list the prescribed conditions for the registration of a pension plan and the additional conditions that apply after registration. Most of the conditions are described by reference to other provisions in Part LXXXV of the Regulations.

The prescribed conditions for the registration of a pension plan, which are listed in subsection 8501(1), apply at the time of registration of a plan. They also apply on an on-going basis after registration, by virtue of paragraph 147.1(11)(a) of the Act. Failure to comply with these conditions at any time subsequent to registration will result in a pension plan becoming a “revocable plan” as of the time the pension plan fails to comply (which means that the registration of the plan may be revoked). The prescribed conditions for registration are conditions in respect of which compliance may generally be determined at the time of submission of plan documents. For example, the condition in paragraph 8502(e) (relating to the latest date for the commencement of the payment of a pension) can be satisfied only by the inclusion of a term in the plan text requiring pensions to commence no later than the date specified in that paragraph. The conditions with the most direct impact on the language of a plan text are those conditions requiring the inclusion of particular stipulations. Stipulations are required only with respect to the assignment of rights (paragraph 8502(f)) and the reduction of benefits and return of contributions to avoid deregistration (paragraphs 8503(10)(c) and 8504(2)(d)).

The other conditions, listed in subsection 8501(2), apply once a pension plan has been registered. If an RPP fails to comply with any of these conditions, it becomes a revocable plan and, pursuant to subsections 147.1(11) to (13) of the Act, its registration may be revoked. These conditions are also relevant at the time of registration of a plan, but only in a limited respect as noted below. Many of the subsection 8501(2) conditions relate to matters that are under the control of the plan administrator or participating employers and that do not require specific language in the plan text in order to ensure compliance. An example is the restriction (in paragraph 8502(h)) on the investments that may be made by an RPP. Some of the conditions – such as the cross-plan limit with respect to bridging benefits in paragraph 8503(3)(j) – would not be of relevance to many plans, and thus only those plans that

need to concern themselves with such conditions would have to include specific terms.

The prescribed conditions for the registration of a pension plan include, in paragraphs 8501(1)(d) and (e), conditions that enable Revenue Canada to refuse to register a plan where it is apparent that there may, immediately or at a future date, be non-compliance with certain specified conditions that are not prescribed conditions for registration. Specifically, the prescribed condition in paragraph 8501(1)(d) is that there be no reason to expect (based on the plan documents) that the conditions referred to in subsection 8501(2) or the conditions in subsection 147.1(10) of the Act (relating to the provision of past service benefits) will not be complied with. To comply with this prescribed condition as it relates to subsection 147.1(10) of the Act, a plan could include a term that provides, in effect, that all past service benefits are subject to compliance with that subsection. The prescribed condition in paragraph 8501(1)(e) is that there be no reason to expect that the PA limits in subsections 147.1(8) and (9) of the Act will not be complied with or that contributions will be made to the plan contrary to the rule in subsection 8503(21) (which prohibits certain past service contributions being made in lieu of the payment of salary or a retiring allowance).

The prescribed conditions in subsection 8501(1) and the other conditions in subsection 8501(2) are modified by special rules which apply in the case of grandfathered and existing plans (section 8505) and multi-employer plans (section 8506). For further details, reference may be made to the commentary on sections 8505 and 8506.

Table 1 below lists the prescribed conditions for the registration of a pension plan (other than the conditions in paragraphs 8501(1)(d) and (e)) and Table 2 lists the conditions referred to in subsection 8501(2).

**Table 1: Prescribed Conditions for Registration**  
(paragraphs 8501(1)(a) to (c))

(1)	8502(a)	Primary purpose of pension plan
(2)	8502(c)	Permissible benefits
(3)	8502(e)	Payment of pension
(4)	8502(f)	Assignment of rights
(5)	8502(l)	Appropriate pension adjustments
(6)	8503(10)(a)	Member contributions (defined benefit provisions)
(7)	8503(10)(c)	Reduction in benefits and return of contributions (defined benefit provisions)
(8)	8504(2)(a)	Employer contributions (money purchase provisions)
(9)	8504(2)(d)	Return of contributions (money purchase provisions)

**Table 2: Conditions Applicable to Registered Pension Plans**  
(subsection 8501(2))

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(1)	8502(b)	Permissible contributions
(2)*	8502(d)	Permissible distributions
(3)	8502(g)	Funding media
(4)	8502(h)	Investments
(5)	8502(i)	Borrowing
(6)	8502(j)	Determination of amounts
(7)	8502(k)	Transfer of property between provisions
(8)*	8503(3)(a)	Eligible service (defined benefit provisions)
(9)*	8503(3)(b)	Benefit accruals after pension commencement (defined benefit provisions)
(10)*	8503(3)(d)	Increased benefits for disabled members (defined benefit provisions)
(11)*	8503(3)(i)	Offset benefits (defined benefit provisions)
(12)*	8503(3)(j)	Bridging benefits – cross-plan restrictions (defined benefit provisions)
(13)*	8503(3)(k)	Division of benefits on marriage breakdown (defined benefit provisions)
(14)*	8503(10)(b)	Prepayment of member contributions (defined benefit provisions)
(15)*	8503(10)(d)	Undue deferral of payment (defined benefit provisions)
(16)*	8503(10)(e) and (f)	Evidence of disability (defined benefit provisions)
(17)	8504(2)(b) and (c)	Employer contributions (money purchase provisions)
(18)	8504(2)(e)	Allocation of earnings (money purchase provisions)
(19)	8504(2)(f)	Payment or reallocation of forfeited amounts (money purchase provisions)
(20)	8504(2)(g)	Retirement benefits (money purchase provisions)
(21)	8504(2)(h)	Undue deferral of payment (money purchase provisions)

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\* Subject to grandfathering rule under subsection 8505(5).

ITR  
8501(3)

Subsection 8501(3) is a general rule which modifies the conditions referred to in subsections 8501(1) and (2) to the extent that the conditions would

otherwise be inconsistent with the provisions in subsections 8503(12) and (14). The latter subsections permit an RPP to provide certain benefits or to include certain terms.

ITR  
8501(4)

Subsection 8501(4) applies where a spouse or former spouse of a member of a registered pension plan has, as a consequence of a division of property on marriage breakdown, become entitled to benefits that would otherwise be payable to the member. The purpose of the subsection is to ensure that such benefits are appropriately taken into account in determining whether the conditions in Part LXXXV of the Regulations are satisfied.

Subsection 8501(4) applies where the rights of the spouse or former spouse to the benefits are created

- (a) by an assignment of benefits by the member in settlement of rights arising on a breakdown of the conjugal relationship between the member and the spouse or former spouse, or
- (b) by a law that applies to the division of property in settlement of rights arising on a breakdown of the conjugal relationship between the member and the spouse or former spouse.

Where the spouse or former spouse has a right to receive a portion of the member's pension, but no other rights with respect to the pension, the rule in paragraph 8501(4)(c) applies. That paragraph provides that, for the purposes of the registration and other conditions in Part LXXXV of the Regulations, the benefits to which the spouse or former spouse is entitled are considered to be payable to the member. Thus, such benefits will be taken into account in determining, for example, whether the maximum pension rule in subsection 8503(4) or the bridging benefit limit in paragraph 8503(2)(b) is satisfied with respect to the member.

Where the spouse or former spouse has more extensive rights with respect to the member's benefits, and such rights exist by virtue of a law, paragraph 8501(4)(d) provides that the benefits are considered to be benefits of the spouse or former spouse, and not benefits of the member. Thus, such benefits will not be taken into account in determining whether the member's benefits satisfy the conditions in Part LXXXV of the Regulations. However, a related rule in paragraph 8503(3)(k) ensures that the aggregate benefits provided to the member and to the member's spouse or former spouse will not be excessive. Paragraph 8501(4)(d) would apply, for example, where the spouse or former spouse is permitted to choose a starting date for his or her pension that is different than the starting date for the member's pension.

Conditions Applicable to All  
Plans  
ITR  
8502

Section 8502 contains conditions that apply to every pension plan that is an RPP or is submitted for registration. Some of the conditions are prescribed conditions for registration while the rest are conditions that must be complied with by an RPP. For a discussion of the distinction between the two types of

conditions, and a categorization of the conditions in section 8502, reference may be made to the commentary on section 8501.

**Primary Purpose**  
ITR  
8502(a)

Paragraph 8502(a) requires that the main purpose of a pension plan be to provide periodic payments to individuals after retirement and until death in respect of their service as employees. A pension plan that is intended to be collapsed shortly after it is registered would consequently not qualify for registration.

**Permissible Contributions**  
ITR  
8502(b)

Paragraph 8502(b) requires that each contribution made after 1990 to a pension plan be:

- an employee contribution under a money purchase provision of the plan as registered;
- an employee contribution under a defined benefit provision of the plan that is paid in accordance with the plan as registered;
- an employer contribution under a money purchase provision of the plan as registered;
- an employer contribution in respect of a defined benefit provision of the plan, where the contribution is an eligible contribution pursuant to subsection 147.2(2) of the Act;
- a transfer from another registered plan in accordance with the transfer provisions in subsections 146(16) (transfer from an RRSP), 147(19) (transfer from a DPSP) or 147.3(1) to (8) of the Act (transfer from an RPP); or
- an amount acceptable to the Minister transferred to the plan from a pension plan maintained primarily for the benefit of non-residents of Canada in respect of services rendered outside Canada.

A special rule in paragraph 8506(5)(a) states that, for the purposes of paragraph 8502(b), contributions made to a specified multi-employer plan in accordance with the terms of the plan as registered are considered to be eligible contributions.

Where the federal government or a provincial government participates in a pension plan, any amounts held to the credit of the plan in the accounts of Canada or the province are excluded in determining whether employer contributions are eligible contributions pursuant to subsection 147.2(2) of the Act. Furthermore, in the special situation where contributions are made by the federal government or a provincial government for the benefit of employees of another person (such as a school board), such contributions are treated as contributions of the other person for the purpose of paragraph 8502(b).

Paragraph 8502(c) restricts the benefits that a pension plan may provide to, or in respect of, plan members. Benefits may be provided under a defined benefit provision of the plan if they are permissible under subsection 8503(2) and if they comply with the conditions in:

- paragraph 8503(3)(c) (early retirement rules),
- paragraph 8503(3)(e) (pre-1989 benefits),
- paragraph 8503(3)(f) (determination of retirement benefits),
- paragraph 8503(3)(g) and (h) (increase in accrued benefits), and
- subsection 8503(4) (maximum pension rule).

Benefits may be provided under a money purchase provision of a pension plan if they are in accordance with subsection 8504(1).

In order to determine whether the requirements of paragraph 8502(c) are satisfied, all benefits that could, under any circumstances, become payable under the plan are to be taken into account. It is not necessary that there be a specific plan member whose promised benefits violate a condition for the condition not to be satisfied.

Subparagraph 8502(c)(iii) permits a plan to provide benefits in addition to those that satisfy the above conditions where a designated provision of the law of Canada or a province requires the benefits to be provided. To enable plans with members in different jurisdictions to provide benefits on a uniform basis to all plan members, subparagraph 8502(c)(iii) applies as if every plan were subject to the designated laws in respect of all members. These additional benefits are permitted to avoid conflicts with federal and provincial pension benefits legislation.

Section 8509 defines, for the purposes of subparagraph 8502(c)(iii), subsection 21(2) of the *Pension Benefits Standards Act, 1985* (PBSA) and similar provisions of provincial legislation as designated laws. Subsection 21(2) of the PBSA provides that on retirement, termination or death, a plan member's pension under a defined benefit plan must be increased by the amount that can be provided by the excess of the member's post-1986 contributions plus interest over 50 per cent of the value of the member's benefits in respect of post-1986 service (determined prior to the application of the subsection). Since the total retirement benefits provided as a consequence of the application of subsection 21(2) of the PBSA may exceed the maximum pension allowable under subsection 8503(4), it is necessary that special provision be made for such benefits.

Pursuant to paragraph 8501(4)(d), where a spouse or former spouse of a member of a plan is entitled, by virtue of a law, to a portion of the member's pension as a consequence of the breakdown of their marriage, and the law gives the spouse rights with respect to the pension in addition to the right to



receive it – such as the right to elect a starting date different than the starting date for the member's pension – the pension to which the spouse or former spouse is entitled is considered to be provided to the spouse or former spouse rather than to the member. Subparagraph 8502(c)(iv) permits a pension to be provided to a spouse or former spouse of a plan member in circumstances where paragraph 8501(4)(d) is applicable. While no conditions are imposed with respect to such benefits, paragraph 8503(3)(k) ensures that the aggregate benefits provided to the member and to the member's spouse or former spouse will not be excessive.

**Permissible Distributions**  
**ITR**  
**8502(d)**

Paragraph 8502(d) restricts the distributions which may be made out of an RPP. In addition to such distributions, a plan may provide for the payment of all reasonable administrative, investment and similar expenses incurred in connection with the plan.

Subparagraph 8502(d)(i) allows for the payment of benefits in accordance with the plan as registered. Restrictions on the benefits that may be provided by an RPP are contained in paragraph 8502(c). For the purpose of subparagraph 8502(d)(i), a payment of benefits would include the transfer of an amount on behalf of a plan member to a registered retirement savings plan (RRSP) or to another RPP, as well as a payment to a spouse of a plan member as a consequence of a settlement of rights on marriage breakdown or the enforcement of an order for support or maintenance.

Subparagraph 8502(d)(ii) permits the transfer of property held in connection with a defined benefit provision of a plan, where the property is transferred to another RPP in accordance with subsection 147.3(3) or (8) of the Act. Subsection 147.3(3) permits the transfer of property between defined benefit plans; subsection 147.3(8) permits certain transfers of property from defined benefit plans to money purchase plans where the amount transferred is not immediately allocated to members of the money purchase plan. Subparagraph 8502(d)(ii) is intended to allow such transfers where the amount transferred from a plan cannot be considered as a payment of benefits. An example would be the transfer of assets from one defined benefit plan to another on the splitting up of the plan.

Subparagraph 8502(d)(iii) permits a return of contributions made by a member of a plan or an employer who participates in the plan in order to avoid the revocation of the registration of the plan. In this connection, it should be noted that a pension plan must include a stipulation allowing such a return of contributions (paragraphs 8503(10)(c) and 8504(2)(d)).

Subparagraphs 8502(d)(iv) and (v) permit contributions (with associated interest) made by an employee to an RPP to be refunded to the employee, where such refund is pursuant to an amendment to a pension plan under which future employee contributions are reduced. Normally, employee contributions will be refunded where a plan is amended so that it no longer requires employee contributions. It should be noted that subsection 147.3(6)

of the Act allows refunded contributions in respect of pre-1991 service to be transferred to an RRSP or another RPP.

Subparagraph 8502(d)(vi) allows the payment to any person of the person's share of an actuarial surplus in respect of a defined benefit provision of an RPP. However, the transfer rules in section 147.3 of the Act do not permit a surplus payable to a member to be transferred on a tax-free basis to an RRSP or a money purchase provision of another RPP.

Subparagraph 8502(d)(vii) permits property held in connection with a money purchase provision of an RPP to be paid to an employer. This allows, for example, the payment of forfeited amounts to an employer.

**Payment of Pension  
ITR  
8502(e)**

Paragraph 8502(e) requires an RPP to provide that retirement benefits will commence to be paid to each member no later than the end of the calendar year of the member's 71st birthday. This is a slight modification to paragraph 10(b) of Information Circular 72-13R8 which requires payment to commence by a member's 71st birthday and which permits retirement benefits to be deferred beyond age 71 if the amount of the periodic payments that would otherwise have been paid to the date of actual retirement is not deferred or used to increase the benefits paid after retirement. Paragraph 8502(e) further requires that retirement benefits be payable not less frequently than annually.

**Assignment of Rights  
ITR  
8502(f)**

Paragraph 8502(f) requires an RPP to include a stipulation that no right of a person under the plan is capable of being assigned, charged, anticipated, given as security or surrendered. It should be noted that the commutation of a pension would not be considered to be a surrender for the purposes of this rule since benefits are simply paid in a lump sum rather than as periodic payments. Moreover, the stipulation would not be violated where a creditor of a plan member takes recourse against plan distributions to enforce the debt. In particular, payment from a plan in response to collection proceedings to enforce an order for support or maintenance would not violate the stipulation. Paragraph 8502(f) provides that the stipulation is not required to prohibit assignment

- pursuant to a court order or written agreement on the breakdown of marriage or other conjugal relationship; or
- by the legal representative of a deceased individual on the distribution of the individual's estate.

Also, the stipulation is not required to prohibit the surrender of benefits where the surrender consists of a reduction in benefits to avoid the revocation of the plan. In fact, if such a surrender is prohibited, the plan may not comply with the requirement of paragraph 8503(10)(c).

**Funding Media  
ITR  
8502(g)**

Paragraph 8502(g) requires that the arrangement under which property is held in connection with the plan be acceptable to the Minister of National

Revenue. The arrangements currently acceptable to the Minister are summarized in paragraph 6(e) of Information Circular 72-13R8.

Investments  
ITR  
8502(h)

Paragraph 8502(h) requires that an RPP not hold any investment prohibited under subsection 8512(1) or any investment not permitted by pension benefits legislation that applies to the plan (or, where no such legislation applies, the *Pension Benefits Standards Act, 1985*).

Borrowing  
ITR  
8502(i)

Paragraph 8502(i) prohibits an RPP from borrowing money for the purposes of the plan, except in limited circumstances. Borrowing is permitted by an RPP where the term of the loan is 90 days or less and the property of the plan is not pledged as security for the loan (unless the money is borrowed to avoid resort to a distress sale of plan assets). In addition, borrowing for the purpose of acquiring income-producing real property is permitted where the amount so borrowed (together with indebtedness incurred as a consequence of the acquisition of the property) does not exceed the cost of the property and no plan assets, other than the real property, are used as security for the borrowed money.

Determination of Amounts  
ITR  
8502(j)

Paragraph 8502(j) requires that amounts determined in connection with the administration of an RPP be determined using such reasonable assumptions as are acceptable to the Minister of National Revenue and in accordance with generally accepted actuarial principles. For example, reasonable assumptions and generally accepted actuarial principles would have to be applied in converting a pension to an optional form of payment. Sections 22 and 23 of Information Circular 72-13R8 set out the assumptions acceptable to the Minister with respect to wage and salary increases and the rate of inflation.

Paragraph 8502(j) does not apply to the extent that it is inconsistent with other provisions in Part LXXXV of the Regulations. The only relevant provision in this regard is section 8513, which imposes restrictions with respect to actuarial valuations prepared in connection with certain plans.

Transfer of Property Between  
Provisions  
ITR  
8502(k)

Paragraph 8502(k) requires that property held in connection with a benefit provision of an RPP not be made available to pay benefits under another benefit provision of the same plan. However, this is not intended to prevent the pooling of assets held in connection with two or more provisions where a proper accounting is maintained of the proportion of the assets available to provide benefits under each provision. An exception to this rule allows a transaction by which such property is, in effect, "transferred" from one provision to another where, if the provisions were in separate RPPs, the transaction would be a transfer of property that was in accordance with any of subsections 147.3(1) to (4), (6) and (8) of the Act. As a consequence of this rule, RPP conversions and "transfers" within a plan will be subject to the same limits as transfers between RPPs.

Appropriate Pension  
Adjustments  
ITR  
8502(1)

Paragraph 8502(1) requires that the terms of an RPP be such that amounts (such as pension adjustments, pension adjustment reversals and past service pension adjustments) determined under Part LXXXIII of the Regulations with respect to the plan not be inappropriate having regard to the provisions of that Part and the purposes for which the amount is determined. If the plan terms are inappropriate in this regard, the Minister of National Revenue may refuse to register the plan or may revoke the registration of the plan. Paragraph 8502(1) is intended, in particular, to prevent the registration of a pension plan where the pension adjustments are inappropriately low in relation to the benefits provided under the plan.

Reference may also be made to the rules in paragraphs 8503(3)(f) to (i) and subsection 8503(20), all of which relate to the proper relationship between pension adjustments and benefits provided under a defined benefit provision of an RPP.

Defined Benefit Provisions  
ITR  
8503

Section 8503 describes the benefits that may be provided under a defined benefit provision of a pension plan and contains conditions applicable to such benefits and to a plan that has a defined benefit provision. Special rules applicable to grandfathered and existing plans and to multi-employer plans are contained in sections 8505 and 8506, respectively.

Net Contribution Account  
ITR  
8503(1)

Subsection 8503(1) defines the net contribution account of a member of a pension plan in relation to a defined benefit provision of the plan for the purposes of paragraphs 8503(2)(h) (lump sum payment on termination) and (j) (refund of member contributions after death) and subsection 8515(2) (limit an amount that may be transferred to an RRSP or a money purchase provision of an RPP). The account is introduced as a convenient way to describe the amounts that those rules allow to be paid or transferred. Unless necessary to ensure compliance with the above rules, it is not required that a plan maintain a "net contribution account" in respect of each member (although a contributory plan will normally maintain accounts similar to net contribution accounts).

A member's net contribution account is similar to a bank account. In general terms, it is credited with contributions made by the member and with interest, and is charged with payments made in respect of the member. More specifically, a member's net contribution account in respect of a defined benefit provision is

- the sum of all contributions made by the member under the provision,
- **plus** amounts transferred on behalf of the member to the plan in respect of the provision in accordance with any of subsections 146(16) (transfer from an RRSP), 147(19) (transfer from a DPSP), 147.3(2) and 147.3(5) to (7) (transfer from an RPP) of the Act,
- **plus** amounts transferred to the plan in respect of the provision in accordance with subsection 147.3(3) (defined benefit to defined benefit

transfer), to the extent that the amounts are derived from contributions made by the member to an RPP, or interest in respect of such contributions,

- **plus** amounts held in connection with another benefit provision of the plan that are made available to provide benefits under the provision, to the extent that if the two provisions were in separate RPPs, such amounts would be included in the member's net contribution account,
- **less** the sum of all payments (whether single or periodic amounts) under the provision in respect of the member, including any amounts paid to other persons whether before or after the death of a member,
- **less** amounts held in connection with the provision that are made available to provide benefits in respect of the member under other benefit provisions of the plan,
- **plus** interest (computed at a reasonable rate) on the outstanding positive balance of the member's net contribution account from time to time, and
- **less** interest (computed at a reasonable rate) on the outstanding negative balance of the member's net contribution account from time to time.

**Permissible Benefits**  
ITR  
8503(2)

Subsection 8503(2) describes, for the purposes of paragraph 8502(c), the benefits that may be provided under a defined benefit provision of an RPP and imposes conditions with respect to those benefits.

**Lifetime Retirement Benefits**  
ITR  
8503(2)(a)

Paragraph 8503(2)(a) allows lifetime retirement benefits (as defined in subsection 8500(1)) to be paid under a defined benefit provision of an RPP to a plan member. The payments must be equal periodic amounts except where they are reduced after the death of the member's spouse or are adjusted for inflation, as permitted by paragraph 8503(2)(a).

Subparagraph 8503(2)(a)(ii) allows for automatic cost-of-living adjustments to be made to lifetime retirement benefits. Clause (A) of that subparagraph permits the use of any method of adjustment that does not result in increases larger than those warranted by increases in the Consumer Price Index (CPI) from the time that benefits commence to be paid to the time of the latest adjustment. Clause (B) permits periodic adjustments at a rate not exceeding 4 per cent per annum. Clause (C) permits (subject to the restriction discussed below) the use of the excess earnings approach, under which adjustments depend on the amount by which the rate of return on a specified pool of assets (such as the assets held in connection with the plan) exceeds a base rate of return. Clause (D) permits (subject to the restriction discussed below) a combination of the approaches described in clauses (A) to (C) to be used.

Automatic cost-of-living adjustments of the type described in clause (C) or (D) are subject to an actuarial equivalence test. The present value of additional benefits expected to be paid as a consequence of the adjustments must

not exceed the present value of additional benefits that would be expected to be provided with full CPI indexing (or with indexing at a fixed rate of 4 per cent, if this results in a larger present value).

Subparagraph 8503(2)(a)(iii) allows a plan to provide for cost-of-living adjustments at the discretion of any person, where the adjustments (when combined with any non-discretionary adjustments) are warranted by increases in the CPI. However, such discretionary adjustments are not permissible if the plan provides for an automatic adjustment other than one described in clause 8503(2)(a)(ii)(A) or (B).

As an alternative to the types of inflation adjustments permitted by subparagraphs 8503(2)(a)(ii) and (iii), benefits may be increased on an ad hoc basis from time to time to reflect increases in the CPI. Plan amendments to implement such ad hoc increases are not prohibited by the rules in section 8503.

**Bridging Benefits**  
ITR  
8503(2)(b)

Paragraph 8503(2)(b) permits an RPP to provide bridging benefits to a plan member who commences to receive lifetime retirement benefits under a defined benefit provision of the plan before age 65. Bridging benefits may be paid until a member attains age 65. This accommodates plans that provide additional retirement benefits during the period before benefits are payable under the *Old Age Security Act* (OAS) and the Canada and Quebec Pension Plans (CPP/QPP).

Paragraph 8503(2)(b) limits the amount of bridging benefits that may be paid to a plan member. If a member has attained age 60 and has at least 10 years of pensionable service (or 10 years of equivalent full-time service, where the member is connected after 1990 with an employer who participates in the plan) under the provision at the time bridging benefits commence to be paid, the bridging benefits, for the month they commence to be paid, may equal the actual or estimated amount of public pension benefits (OAS and CPP/QPP) which the member would receive if the member were age 65 throughout that month. In subsequent months, the bridging benefits may increase in line with increases in the Consumer Price Index (CPI). (In this regard, see the commentary on subsection 8503(18).) In the case of any other member, this maximum is reduced by .25 per cent for each month (3 per cent per year) between the time the benefits commence to be paid and the time the member will attain age 60. In addition, the maximum is prorated if a member has fewer than 10 years of pensionable service (10 years of equivalent full-time service where the member is connected after 1990 with an employer who participates in the plan). The estimate of CPP/QPP benefits for a member need not be precise for the purpose of this limit, but should be determined with reference to the level of the member's earnings in relation to the Year's Maximum Pensionable Earnings.

Where retirement benefits are defined in such a way that the benefits are reduced at a specified age, such as age 65, the additional benefits payable on a temporary basis are considered to be bridging benefits. Thus, they are

subject to the limit in paragraph 8503(2)(b). Where the amount of the reduction depends on amounts that are not known at the time retirement benefits commence to be paid – for example, the amount of public pension benefits payable at the date of the reduction – Revenue Canada will accept that the bridging benefits comply with paragraph 8503(2)(b) if the limit can reasonably be expected to be satisfied.

Paragraph 8503(3)(j) imposes restrictions with respect to the payment of bridging benefits to an individual under more than one defined benefit provision of the same plan or, in certain cases, under defined benefit provisions of two or more plans. Reference may be made to the commentary on that paragraph for further details.

**Guarantee Period**  
**ITR**  
**8503(2)(c)**

Paragraph 8503(2)(c) allows retirement benefits payable under a defined benefit provision of an RPP to be guaranteed for up to 15 years. This means that, after the death of a member who has commenced to receive retirement benefits, the retirement benefits may continue to be paid to one or more beneficiaries for a period ending no later than 15 years after the member commenced to receive the benefits. For each month, the total retirement benefits payable to a beneficiary or beneficiaries must not exceed the retirement benefits (bridging benefits as well as lifetime retirement benefits) that would have been payable to the member had the member survived. For this purpose, any inflation adjustments that it is reasonable to expect would have been made to the member's retirement benefits may be taken into account.

By virtue of paragraph 8503(2)(n), an RPP may permit or require guaranteed retirement benefits to be commuted rather than paid on a periodic basis.

A special rule in subsection 8503(12) also permits up to 15 years of guaranteed retirement benefits to be provided to beneficiaries of a plan member who dies before commencement of payment of retirement benefits, but after the member is eligible to retire and commence receiving benefits.

**Post-Retirement Survivor**  
**Benefits**  
**ITR**  
**8503(2)(d)**

Paragraph 8503(2)(d) permits an RPP to provide for the payment of survivor benefits under a defined benefit provision where a plan member dies after commencing to receive retirement benefits. Retirement benefits payable to the member are not required to be reduced to reflect the additional value of the survivor benefits.

Survivor benefits may be payable to any person who was, at any time, a spouse (as defined in subsection 147.1(1) of the Act) of a member, or who was a dependant (as defined in subsection 8500(1)) of the member at the time of the member's death.

The payment of survivor benefits to a spouse can continue until the death of the spouse. Where a dependant receives survivor benefits, payment can continue for the eligible survivor benefit period of the dependant (as defined in subsection 8500(1)). Such a period ends at the end of the year in which the dependant attains age 18, or, if later, the time at which the dependant ceases

to be a full-time student, except that if the individual is dependent by reason of infirmity, payment can continue for as long as the individual continues to have the infirmity.

The amount of survivor benefits payable to a person for a particular month may not exceed 75 per cent of the retirement benefits (including bridging benefits and inflation adjustments) that would have been payable to the member for the month had the member been alive. In addition, the total amount of survivor benefits payable to all eligible recipients for a month, together with any amounts payable pursuant to a guarantee, may not exceed 100 per cent of the retirement benefits that would have been payable to the member.

**Pre-Retirement Survivor  
Benefits  
ITR  
8503(2)(e)**

Paragraph 8503(2)(e) permits an RPP to provide for the payment of survivor benefits under a defined benefit provision where a member dies before commencing to receive retirement benefits.

Pre-retirement survivor benefits may be payable to a person who was, at any time, a spouse of the member or who was a dependant (as defined in subsection 8500(1)) of the member at the time of the member's death. Payment of pre-retirement survivor benefits may continue for the same period as post-retirement survivor benefits. For further details, reference may be had to the commentary on paragraph 8503(2)(d).

Where a plan member dies after attaining age 65 or the member was, at any time after 1990, connected with an employer who participated in the RPP, the amount of survivor benefits payable for a particular month to a beneficiary of the member is limited to 1/12th of 75 per cent of the lifetime retirement benefits accrued to the member to the date of the member's death adjusted to reflect increases in the CPI from the member's death to the particular month. (A substantially similar adjustment would also be permitted, as discussed in the commentary on subsection 8503(18).) The total amount payable to all eligible persons for a month is limited to 1/12th of 100 per cent of such lifetime retirement benefits.

Where a plan member dies before attaining age 65 and was not connected after 1990 with an employer who participated in the RPP, the amount of survivor benefits payable to a beneficiary for a particular month is limited to 1/12th of 75 per cent of the member's projected lifetime retirement benefits (as described below), adjusted to reflect increases in the Consumer Price Index from the member's death to the particular month. (A substantially similar adjustment would also be permitted, as discussed in the commentary on subsection 8503(18).) The total amount payable to all eligible persons for a month is limited to 1/12th of 100 per cent of the member's projected retirement benefits, adjusted in the same manner.



The projected lifetime retirement benefits of a member equals the greater of:

- (a) the annual amount of lifetime retirement benefits that would have accrued to the member to age 65 had the member survived to that age and continued in employment and had the member's rate of pay not increased, or if lower,  $\frac{4}{3}$  of the Year's Maximum Pensionable Earnings (YMPE) for the year in which the member dies, and
- (b) the annual amount of lifetime retirement benefits accrued to the member to the date of the member's death (determined without applying any early retirement reduction).

Thus, a member's benefits may be projected only to the extent that the projected benefits do not exceed  $\frac{4}{3}$  of the YMPE for the year of death of the member. This allows a substantial pre-retirement survivor benefit to be paid where a plan member dies after a short period of service.

Where, on the death of a member, benefits are payable under other benefit provisions of the same plan or under other RPPs, the YMPE-based limit that applies in determining the member's projected lifetime retirement benefits is reduced to the extent required by the Minister to take into account the other benefits. In general terms, this reduction is intended to ensure that the opportunity to base pre-retirement survivor benefits on projected pensions cannot be used, or can be used only to a lesser extent, where the total death benefits under a group of related plans have a substantial value. The precise manner in which the reduction is to be determined will depend on the particular facts of each case. In this regard, money purchase balances would have to be converted to accrued benefits in a way that is reasonable and acceptable to the Minister.

Pre-retirement Survivor  
Benefits – Alternative Rule  
ITR  
8503(2)(f)

Paragraph 8503(2)(f) permits an RPP to provide pre-retirement surviving spouse benefits under a defined benefit provision in lieu of the benefits permissible under paragraph 8503(2)(e). Paragraph 8503(2)(f) is included primarily to avoid a conflict with the requirements of pension benefits legislation. In some circumstances, that legislation requires that a surviving spouse be provided with a pension the present value of which is equal to the present value of the member's accrued benefits. The amount of such a pension may exceed the amount permissible under paragraph 8503(2)(e).

Pre-retirement survivor benefits are permissible under paragraph 8503(2)(f) if they are payable to the spouse or former spouse of a deceased member and if the present value of all benefits provided as a consequence of a member's death does not exceed the present value of all benefits accrued under the provision in respect of the member to the day of the member's death. In addition, the surviving spouse benefits must

- commence to be paid by the end of the year in which the spouse or former spouse reaches age 71 (or, if later, within one year after the death of the member),
- be payable for life, and

- satisfy the conditions in paragraph 8503(2)(a) (equal periodic payments, except for the permitted forms of indexing).

Pre-retirement Survivor  
Benefits – Guarantee Period  
ITR  
8503(2)(g)

Paragraph 8503(2)(g) permits pre-retirement survivor benefits payable to a spouse or former spouse of a member under a defined benefit provision to be guaranteed for a period not exceeding 15 years from the date that the survivor benefits commence to be paid. The benefits that may be provided to the beneficiaries of the deceased spouse are identical to the guaranteed benefits that paragraph 8503(2)(c) permits to be provided to a plan member.

Lump Sum Payments on  
Termination  
ITR  
8503(2)(h)

Paragraph 8503(2)(h) permits a lump sum to be paid under a defined benefit provision of an RPP to a plan member on the termination of the member from the plan (otherwise than by reason of death). The payment will typically be a return of contributions with interest. The payment must be the last payment which is made to the member under the provision.

Paragraph 8503(2)(h) permits a payment equal to the balance in a member's net contribution account (as defined in subsection 8503(1)). In general terms, that balance is equal to the member's contributions under the provision plus interest, less any payments made in respect of the member.

In certain cases a larger payment may be made, equal to the amount that would be the balance in the member's net contribution account if that account were credited with twice the current service contributions made by the member. Normally, the amount that may be paid will equal two times employee contributions plus interest (less any payments made previously in respect of the member). This higher limit is applicable where the contributions made by the member after 1990 would satisfy the condition in paragraph 8503(10)(a) with respect to member contributions if the limit in that condition were based on 50 per cent of the member's pension credit instead of 70 per cent, or where that condition has been waived by the Minister of National Revenue. For further details on that condition, reference may be made to the commentary on paragraph 8503(10)(a). In general, the higher limit will apply only where member contributions do not fund significantly more than one-half of the benefits provided under the defined benefit provision.

Paragraph 8503(2)(h) also permits the amount to be paid to a member on termination to be paid in two or more lump sums. This may be necessary, for example, where solvency restrictions imposed by pension benefits legislation force a deferral in the payment of part of the amount to which the member is entitled.

Paragraph 8503(2)(m) is another provision that allows lump sum payments to be made on termination of membership (as well as at any other time). This paragraph permits payments which represent the commuted value of other benefits.

**Lump Sum Payments on Death  
Before Retirement**  
ITR  
8503(2)(i)

Paragraph 8503(2)(i) allows an RPP to provide for the payment of one or more lump sum amounts to one or more beneficiaries after the death of a plan member who dies before the member's pension commences, in place of the payment of a pre-retirement survivor pension. The total of all such amounts must not exceed the present value of the member's accrued benefits (plus interest to the date of payment). Paragraph 8503(10)(d) requires that such a lump sum be paid as soon as practicable after the member's death.

**Refund of Member  
Contributions After Death**  
ITR  
8503(2)(j)

Paragraph 8503(2)(j) permits an RPP to provide for the balance of a deceased member's contributions under a defined benefit provision to be paid to beneficiaries of the member, after all other payments under the provision have been made to the beneficiaries. Such a refund is limited to the amount of the member's net contribution account in relation to the provision (as defined in subsection 8503(1)). Paragraph 8503(10)(d) requires that the refund be made as soon as practicable after all other payments have been made. Paragraph 8503(2)(j) enables a plan to guarantee that the total payments in respect of a member will not be less than the contributions made by the member plus interest.

**Additional Post-retirement  
Survivor Benefits**  
ITR  
8503(2)(k)

Paragraph 8503(2)(k) permits survivor benefits, in addition to the survivor benefits permitted by paragraph 8503(2)(d), to be provided under a defined benefit provision of an RPP to the spouse of a member who dies after commencing to receive retirement benefits. The total pension payable to the surviving spouse may not exceed the pension that would have been payable to the member had the member survived. To obtain the additional survivor benefits permitted by paragraph 8503(2)(k), a member must forego a portion of his or her lifetime retirement benefits, so that the present value of benefits provided in respect of the member does not exceed the present value of the following benefits:

- the lifetime retirement benefits that would be payable to the member if no reduction were applied on account of benefits payable after the death of the member, and
- a 75-per-cent survivor benefit payable to the spouse after the death of the member.

Thus, paragraph 8503(2)(k) permits an RPP to provide a 100-per-cent joint and survivor pension where survivor benefits are payable to a spouse. The member's pension is required to be reduced only to reflect the additional value of this form over a 75-per-cent joint and survivor pension.

**Additional Bridging Benefits**  
ITR  
8503(2)(l)

Paragraph 8503(2)(l) permits an RPP to provide bridging benefits in excess of the benefits allowed under paragraph 8503(2)(b) where that paragraph requires bridging benefits to be reduced on account of short service or retirement before age 60. The additional bridging benefits permissible by paragraph 8503(2)(l) may increase a member's bridging benefits to the amount of public pension benefits (as defined in subsection 8500(1)) that would be payable to the member if the member were age 65. The additional

bridging benefits must be provided in place of a proportion of the lifetime retirement benefits (with associated survivor benefits) otherwise payable to the member, and on a basis that is no more favourable than an actuarially equivalent basis.

**Commutation of Benefits  
ITR  
8503(2)(m)**

Paragraph 8503(2)(m) allows for the payment of a lump sum under a defined benefit provision of an RPP in respect of a member in lieu of other benefits to which the member is entitled, where the lump sum does not exceed the present value of the other benefits. This enables a plan to provide for the commutation of benefits. Payments need not be made to the member. The lump sum may be paid, for example, to a member's RRSP (subject to the limit imposed by section 147.3(4) of the Act) or to the member's spouse or former spouse as a consequence of marriage breakdown.

Where the benefits in lieu of which the lump sum is paid are not indexed, or are only partially indexed, paragraph 8503(2)(m) permits the present value to be determined as if the benefits were indexed. The assumed indexing prior to the date for commencement of payment may be based on increases in a general measure of wages and salaries while the assumed indexing thereafter may be based on increases in the Consumer Price Index. For example, if a member's accrued pension under a final average earnings plan is commuted, the present value may be determined as if the accrued pension would have been wage-indexed to commencement date and inflation-indexed once the pension started to be paid. Alternatively, the amount of the pension may be computed based on projected earnings (and an assumption made as to the post-commencement increases).

In determining the maximum payment that paragraph 8503(2)(m) permits to be paid, regard must be had to the precise nature of the benefits in lieu of which the payment is made. For example, in the case of a final average earnings plan, if 1/2 of the pension accrued to an active member is commuted (so that a fixed amount of pension is subtracted from the pension ultimately determined at retirement), the lump sum that may be paid is less than the lump sum that may be paid if the member gives up 1/2 of the actual pension that would ultimately be payable.

**Commutation of Benefits  
Payable to Beneficiary  
ITR  
8503(2)(n)**

Paragraph 8503(2)(n) enables an RPP to provide for the commutation of benefits to which a beneficiary of a member is entitled under a defined benefit provision of the plan. For example, a plan may provide for the commutation, after the death of a member, of the remainder of any guaranteed payments. A lump sum payment made in lieu of other benefits cannot exceed the present value of the other benefits.

As an exception to paragraph 8503(2)(n), a lump sum may not be paid in lieu of pre-retirement survivor benefits to which a spouse or former spouse of a deceased member is entitled if the lump sum will be transferred to an RRSP or another RPP, unless Revenue Canada has approved the transfer. The purpose of this rule is to prevent the deferral of payment of additional

survivor benefits where the survivor benefits are based on a member's projected pension rather than the member's accrued pension.

Conditions Applicable to  
Benefits  
ITR  
8503(3)

Subsection 8503(3) contains conditions applicable with respect to the benefits provided under a defined benefit provision of an RPP. The conditions in paragraphs 8503(3)(a), (b), (d), and (i) to (k) are relevant for the purposes of subsection 8501(2) (which provides that a plan becomes a revocable plan at any time that it does not comply with the conditions referred to in that subsection); the remainder of the conditions are relevant for the purposes of paragraph 8502(c) (which is the prescribed condition for registration that restricts the benefits that may be provided under an RPP).

Eligible Service  
ITR  
8503(3)(a)

Paragraph 8503(3)(a) restricts the lifetime retirement benefits that may be provided to a member under a defined benefit provision of an RPP to benefits that are provided in respect of the following periods:

- (i) a period throughout which the member is employed in Canada by, and receives remuneration from, an employer who participates in the plan,
- (ii) a period throughout which the member was employed in Canada by, and received remuneration from, a predecessor employer (as defined in subsection 8500(1)) to an employer who participates in the plan,
- (iii) an eligible period of temporary absence (as defined in subsection 8500(1)) of the member with respect to an employer who participates in the plan or a predecessor employer (as defined in subsection 8500(1)) to such an employer,
- (iv) a period of disability of the member following a period of employment (but only if the member is not connected in such part of the period as is after 1990 with any employer who participates in the plan),
- (v) a period in respect of which benefits attributable to employment of the member with a former employer accrued to the member under a defined benefit provision of another RPP, or contributions were made by or on behalf of the member under a money purchase provision of another RPP,
- (vi) a period throughout which the member was employed in Canada by a former employer where the period was an eligibility period for the participation of the member in another RPP, and
- (vii) a period acceptable to the Minister of National Revenue throughout which the member is employed outside Canada.

By virtue of subparagraph 8503(3)(a)(vii), lifetime retirement benefits may be provided in respect of foreign service only to the extent acceptable to

Revenue Canada. A description of the foreign service that is currently acceptable is found in paragraph 8(e) of Information Circular 72-13R8.

Lifetime retirement benefits that cannot be considered to be in respect of specific periods of time are not permissible. An exception is made for additional benefits provided to a member who is totally and permanently disabled, which benefits are subject to the limits in paragraph 8503(3)(d). This exception accommodates an immediate disability pension based on the pension that would have accrued to a member had the member continued in employment. Where it is not clear how the lifetime retirement benefits under a defined benefit provision are to be associated with particular periods of time, section 8516 requires that the association be made in a manner acceptable to the Minister. For further discussion of the association of benefits with periods of time, reference may be made to the commentary on the definition of "pensionable service" in subsection 8500(1).

**Benefit Accruals After Pension  
Commencement**  
ITR  
8503(3)(b)

Paragraph 8503(3)(b) prohibits the continued accrual of benefits under a defined benefit provision of an RPP after retirement benefits have commenced to be paid to the member under the provision or under any other defined benefit provision of the RPP. The prohibition also applies on a cross-plan basis where an employer who participates in one plan also participates (or does not deal at arm's length with an employer who participates) in another plan.

There are several exceptions to the condition in paragraph 8503(3)(b). Under the special rules in subsection 8503(15), benefits are allowed to accrue after the return to work of a retired plan member whose benefits cease to be paid. The cross-plan restriction on benefit accruals also does not apply to multi-employer plans by virtue of paragraph 8506(4)(b).

**Early Retirement**  
ITR  
8503(3)(c)

Paragraph 8503(3)(c) provides that lifetime retirement benefits under a defined benefit provision of an RPP may be paid without reduction on account of early retirement if they commence to be paid on or after a day determined in accordance with that paragraph. Benefits commencing earlier must be reduced by at least the percentage reduction specified in the paragraph.

For most occupations, no reduction is required if lifetime retirement benefits commence to be paid to a member on or after the earliest of:

- (a) the day the member attains age 60,
- (b) the day on which the member has 30 years of early retirement eligibility service, and
- (c) the day on which the aggregate of the member's age and years of early retirement eligibility service is equal to 80.

Where a member is employed in a public safety occupation, the age in (a) is replaced by 55, the service in (b) is replaced by 25 and the aggregate in (c) is

replaced by 75. Subsection 8500(1) defines the following occupations as public safety occupations: firefighter, police officer, corrections officer, air traffic controller and commercial airline pilot.

In the case of a plan member who has never been connected (as defined in subsection 8500(3)) with an employer who participates in the plan, or who has been so connected only before 1991, lifetime retirement benefits may be paid without reduction if the member retires after becoming totally and permanently disabled. The condition as to connectedness does not apply in the case of a multi-employer plan, by virtue of paragraph 8506(4)(a).

The "early retirement eligibility service" of a member in relation to a defined benefit provision of a pension plan consists of the pensionable service (as defined in subsection 8500(1)) of the member under the provision together with any other periods of employment of the member with an employer who participates in the plan or with a predecessor employer (as defined in subsection 8500(1)) to such an employer.

Where a pension commences prior to the earliest day set out above, the level of the member's lifetime retirement benefits must be reduced by at least .25 per cent for each month (3 per cent per year) that the commencement date precedes the earliest day on which an unreduced benefit could have been paid. This rule replaces the requirement in paragraph 10(c) of Information Circular 72-13R8 that the cost of a pension payable in cases of early retirement not exceed the cost of a maximum pension payable from the earlier of age 60 or the member's normal retirement age under the plan, as a single life annuity with a 10 year guarantee.

Paragraph 10(a)(iii) of the Information Circular permits in some cases the payment of full benefits before normal retirement age and the crediting of deemed years of service in situations where early retirement is imposed for reasons such as technological change. This rule is highly discretionary and difficult to administer. Accordingly, no equivalent provision is included in the new registration rules. However, it is anticipated that the reduced pay and temporary absence rules will provide plan sponsors with some flexibility to create special early retirement arrangements where the need exists.

Increased Benefits for Disabled  
Member  
ITR  
8503(3)(d)

Paragraph 8503(3)(d) prohibits the amount of lifetime retirement benefits payable to a plan member under a defined benefit provision of an RPP from depending on whether the member is physically or mentally impaired at the time his or her pension commences to be paid, except as permitted. The first exception is that this condition does not apply as long as the benefits that are provided satisfy the early retirement condition in paragraph 8503(3)(c). Thus, a plan may provide for different reductions on account of early retirement, depending on whether or not retirement is because of disability. As a second exception, additional benefits may be provided, as described below, if a member is totally and permanently disabled (as defined in subsection 8500(1)) at the time the member's pension commences, but only if the

member has never been connected (as defined in subsection 8500(3)) with an employer who participates in the plan, or has been so connected only before 1991. The condition as to connectedness does not apply to benefits provided under a multi-employer plan, by virtue of paragraph 8506(4)(a).

The amount of lifetime retirement benefits that may be paid to a member who is totally and permanently disabled is, for the month in which payments commence, equal to 1/12th of the greater of:

- (a) unless the member has attained age 65 at the time payments commence, the annual amount of projected lifetime retirement benefits that would have been payable to the member if the member had continued in employment to age 65 without any increase in rate of pay, or if lower, the Year's Maximum Pensionable Earnings (YMPE) for the year in which the member's benefits commence to be paid, and
- (b) the annual amount of lifetime retirement benefits accrued to the member to the time the member's benefits commence to be paid, determined as if the member were not disabled and without applying any early retirement reduction.

The above limit is adjusted for subsequent months to reflect increases in the Consumer Price Index. (In this regard, see the commentary on subsection 8503(18).)

Where a member who is totally and permanently disabled is also entitled to benefits under other benefit provisions of the same plan or under other RPPs, the YMPE limit that applies to projected benefits is reduced to the extent required by the Minister to take into account the other benefits. In general terms, this reduction is intended to ensure that the opportunity to provide a projected pension cannot be used, or can be used only to a lesser extent, where the aggregate pension under a group of related plans is a substantial amount. The precise manner in which the reduction is to be determined will depend on the particular facts of each case.

The condition in paragraph 8503(3)(d), which permits the pension payable to a totally and permanently disabled member to be determined on a projected basis, should not be confused with the condition in paragraph 8503(3)(a), which permits benefits to accrue in respect of a period of disability that is before the commencement of a member's pension.

Pre-1991 Benefits  
ITR  
8503(3)(e)

Paragraph 8503(3)(e) requires that all benefits provided under a defined benefit provision of an RPP in respect of periods before 1991 be acceptable to the Minister of National Revenue. This will permit Revenue Canada to continue to apply, with respect to pre-1991 benefits, a number of restrictions in Information Circular 72-13R8 that have not been included in these regulations or that differ from the restrictions in these regulations. These restrictions in the Circular, which include the cross-plan maximum pension rule and restrictions on the provision of benefits to significant shareholders,



are not necessary for post-1990 benefits because of the control over benefits provided by the pension adjustment and past service pension adjustment rules.

A special rule applies where pre-1991 benefits are provided after 1988 to a plan member who is or was connected with an employer who participates in the plan. The benefits are considered to be unacceptable to the Minister if the Minister is not specifically notified in writing that the benefits are provided to such a member. This rule is intended to ensure that the Minister is fully informed when benefits are provided to members connected with participating employers.

**Determination of Retirement  
Benefits**  
ITR  
8503(3)(f)

Paragraph 8503(3)(f) requires that the amount of retirement benefits under a defined benefit provision of an RPP be defined in such a manner that a member's pension credit for each year under the provision in respect of each employer be determinable at the end of the year. This condition is similar to the current rule (in paragraph 9(a) of Information Circular 72-13R8) which requires that defined benefits be in accordance with a definite formula set forth in the plan. Paragraph 8503(3)(f) would preclude, for example, the registration of a plan under which benefits in respect of a particular year could not be calculated until the exercise of discretion by an employer. The main purpose of the rule is to ensure that pension adjustments can be calculated for each year.

**Increase in Accrued Benefits**  
ITR  
8503(3)(g)

Paragraph 8503(3)(g) contains a rule intended to prohibit lifetime retirement benefits that are determined in such a way that pension adjustments may not be commensurate with the benefits that are actually paid. This condition should be read in conjunction with the broader rule in paragraph 8502(1) that prohibits plan terms that result in inappropriate pension adjustments and other amounts.

Paragraph 8503(3)(g) applies where the amount of lifetime retirement benefits provided under a defined benefit provision of an RPP to a member in respect of a calendar year depends on the member's remuneration in subsequent years. It requires that the formula for determining the amount of lifetime retirement benefits be such that accrued benefits in respect of a particular year grow no more rapidly than the member's remuneration. The paragraph also applies where the benefits in respect of a particular year depend on the value of a general measure of wages and salaries for subsequent years, and requires that accrued benefits in respect of the year grow no more rapidly than the general measure.

The following is an example of a type of benefit formula that is prohibited by paragraph 8503(3)(g):

$$((2 \text{ per cent} \times \text{final average earnings}) - \$500) \times \text{pensionable service.}$$

Under this formula, if a member's remuneration for a particular year is \$25,000, the member's pension credit for the year will be nil. However, if the

member's final average earnings turn out to be \$60,000, the member will receive a pension of \$700 in respect of the year. In this example, the pension credit is inappropriate given the actual pension that is paid.

The Minister of National Revenue is permitted to waive the condition in paragraph 8503(3)(g). It is expected that the condition will be waived where the violation of the condition is minor or where there is a reasonable expectation that the benefit formula will be amended from time to time in such a way that actual benefits will be consistent with pension credits.

Paragraph 8503(3)(g) contains an exception for a formula that would otherwise be prohibited where the formula is designed taking into account OAS or CPP/QPP benefits and the highest benefit accrual rate does not exceed 2 per cent. A typical example would be a formula of the following type:

$$(1.3 \text{ per cent} \times \text{final average earnings up to YMPE} + 2 \text{ per cent} \times \text{final average earnings in excess of YMPE}) \times \text{pensionable service}$$

It is not intended that paragraph 8503(3)(g) prohibit a benefit formula under which defined benefits are reduced by benefits provided under a money purchase provision of an RPP or under a deferred profit sharing plan.

Increase in Accrued Benefits –  
Fluctuating Service  
ITR  
8503(3)(h)

Paragraph 8503(3)(h) is included for a similar purpose to the rule in paragraph 8503(3)(g). Paragraph 8503(3)(h) applies where the amount of lifetime retirement benefits provided under a defined benefit provision of an RPP to a member in respect of a calendar year depends on the member's remuneration in subsequent years. It requires that the formula for determining the amount of lifetime benefits be such that any increase in accrued benefits as a consequence of increased remuneration is primarily attributable to an increase in the rate of a member's remuneration. In particular, this precludes a pension formula under which benefits accrued in respect of a year increase as a consequence of an increase, in subsequent years, in remuneration because of an increase in the number of hours worked.

Paragraph 8503(3)(h) generally applies only where benefits are provided to part-time workers. It effectively requires a pension plan offering a best average or final average pension to part-time workers to annualize earnings and to count as credited service the portion of each year worked.

Offset Benefits  
ITR  
8503(3)(i)

Paragraph 8503(3)(i) is a special rule applying where the amount of lifetime retirement benefits provided to a member under a defined benefit provision of a pension plan is reduced by the amount of lifetime retirement benefits provided under another benefit provision of a registered pension plan or the amount of a lifetime annuity provided to the member under a deferred profit sharing plan. In such circumstances, where a lump sum amount is paid in full or partial satisfaction of the member's entitlement to such offsetting benefits, paragraph 8503(3)(i) requires that the offset be determined as if the lump sum had not been paid. That is, it requires that the offset take into account

the lifetime retirement benefits or the lifetime annuity foregone as a result of the payment of the lump sum.

The purpose of this rule is to ensure that benefits provided under a defined benefit provision of an RPP correspond with the pension credit determined with respect to that provision. Where the benefit formula includes an offset of the nature described above, the offset is taken into account in determining pension credits. Thus, it would be inappropriate for benefits to ultimately be determined without an offset.

**Bridging Benefits – Cross-Plan  
Restrictions**  
ITR  
8503(3)(j)

Paragraph 8503(3)(j) prohibits the payment of bridging benefits under a defined benefit provision of an RPP to a member to whom bridging benefits are paid under another defined benefit provision of the RPP or under a defined benefit provision of another RPP. This rule is intended to prevent the payment of an inappropriately large amount of bridging benefits. The rule does not apply with respect to any bridging benefits that are paid in lieu of lifetime retirement benefits, as long as benefits are converted on an actuarially equivalent (or less favourable) basis.

Paragraph 8503(3)(j) does not apply where, in general terms, RPPs are independent and it would not be reasonable to expect the benefits provided under the plans to be coordinated. More specifically, the paragraph does not apply with respect to the bridging benefits paid to a member under a defined benefit provision of a particular RPP if

- no bridging benefits are paid to the member under any other defined benefit provision of the plan,
- the decision to provide the bridging benefits was not made by the member or by persons with whom the member does not deal at arm's length, and
- none of the employers who participates in any other RPP that pays bridging benefits to the member also participates, or deals on a non-arm's length basis with an employer who participates, in the particular plan.

The Minister of National Revenue may waive the condition in paragraph 8503(3)(j). It is expected that a waiver would be granted only where there are valid reasons for providing bridging benefits under more than one defined benefit provision and Revenue Canada is satisfied that aggregate bridging benefits will not exceed the maximum benefits that could be provided under a single provision.

By virtue of paragraph 8506(4)(c), paragraph 8503(3)(j) does not apply to a multi-employer plan that provides bridging benefits under a single defined benefit provision.

**Division of Benefits on  
Marriage Breakdown  
ITR  
8503(3)(k)**

Paragraph 8503(3)(k) imposes restrictions that are intended to ensure that where a spouse or former spouse of a member becomes entitled to a portion of the member's benefits as a consequence of a breakdown of their marriage or other conjugal relationship, the aggregate benefits provided to the member and to the spouse or former spouse do not exceed the benefits that would otherwise have been provided to the member. Paragraph 8503(3)(k) applies only where the entitlement of the spouse or former spouse is created by a law which gives the spouse or former spouse rights with respect to the pension, such as the right to determine the commencement date. In these circumstances, paragraph 8501(4)(d) provides that the pension is considered to be provided to the spouse or former spouse, and not to the member.

Paragraph 8503(3)(k) requires that the member's benefits be reduced so that the total present value of benefits provided in respect of the member (including benefits provided to the spouse or former spouse) does not increase as a consequence of the division of the member's benefits. Furthermore, it prohibits the adjustment of the member's benefits at any future time to replace benefits to which the spouse or former spouse has become entitled.

Paragraph 8503(3)(k) does not apply in the more common situation where a spouse or former spouse simply becomes entitled to receive payments that would otherwise be made to the member – for example, where the member assigns a portion of his or her benefits. In this case, paragraph 8501(4)(c) provides that the full amount of the member's benefits continues to be considered to be payable to the member. Thus, benefits to which the spouse or former spouse is entitled will be taken into account in determining whether the conditions in section 8503 are satisfied by the member's benefits.

**Maximum Lifetime  
Retirement Benefits  
ITR  
8503(4)**

Subsection 8503(4) requires that the lifetime retirement benefits provided under a defined benefit provision of an RPP comply with the limits in that subsection. Separate limits are specified for the year in which a pension commences to be paid (in paragraph 8503(4)(a)) and for subsequent years (in paragraph 8503(4)(b)). Rules relating to these limits are contained in subsections 8503(5) to (9). In particular, subsection 8503(6) allows certain benefits to be disregarded for the purpose of the maximum pension rule.

The maximum pension rule applies regardless of the age at which a member's pension commences to be paid. However, the early retirement rule in paragraph 8503(3)(c), when combined with the maximum pension rule, results in a lower maximum pension in the case of retirements to which paragraph 8503(3)(c) applies.

The maximum pension rule applies in respect of benefits provided under a single defined benefit provision. Unlike the current rule in paragraph 9(g) of Information Circular 72-13R8, it does not apply to the aggregate of such benefits and benefits under a money purchase provision or any other defined benefit provision. Control over aggregate benefits is provided by the PA limits in subsections 147.1(8) and (9) of the Act.

For a plan member whose pensionable service includes no period after 1990 during which the member was a person connected with an employer who participates in the plan, paragraph 8503(4)(a) provides that the maximum level of lifetime retirement benefits (expressed on an annualized basis) for the year in which the pension commences to be paid is the lesser of:

- (a) 2 per cent of highest average indexed compensation times the number of years of pensionable service, and
- (b) the defined benefit limit for the year times the number of years of pensionable service.

The rules for computing the highest average indexed compensation of a member are in subsection 8503(5). In general terms, this amount is equal to the average of the best three years (not necessarily consecutive) of indexed compensation of the member. Indexed compensation for a year is compensation for the year (as defined in subsection 147.1 of the Act) adjusted to reflect increases in the average wage to the year of pension commencement. For further details, see the commentary on subsection 8503(5).

The defined benefit limit (as defined in subsection 8500(1)) is equal to \$1722.22 for years before 1995. This amount is 1/9th of the 1994 money purchase limit of \$15,500. For years after 1994, the defined limit will be 1/9th of the money purchase limit for the year. Thus, after 1994, the defined benefit limit will increase in accordance with increases in the average wage.

The maximum pension limit is determined without restricting the number of years of pensionable service that may be taken into account. The existing limit in paragraph 9(g) of Information Circular 72-13R8 is based on credited service to a maximum of 35 years. This restriction is being removed in recognition of the fact that a member who is prevented from accruing pension benefits can obtain roughly comparable tax assistance by making RRSP contributions.

A special limit applies if a plan member is, at any time after 1990, connected with an employer (as defined in subsection 8500(3)). In this case, the maximum level of lifetime retirement benefits (expressed on an annualized basis) for the year in which the pension commences to be paid is the sum of:

- (a) the maximum pension described above, but computed without including as pensionable service any year after 1990 in which the member is connected, at any time, with a participating employer, and
- (b) for each year after 1990 in which the member is connected, at any time, with a participating employer, the lesser of:
  - 2 per cent of the member's indexed compensation for the year, and
  - the defined benefit limit for the year times the fraction of the year that is pensionable service.

For this purpose, a member's indexed compensation for a year is the member's compensation for the year (as defined in subsection 147.1(1) of the Act) adjusted to reflect increases in the average wage to the year of pension commencement.

The special limit for connected persons replaces the provisions of paragraph 8(e)(vii)(D) of Information Circular 72-13R8, which control the pension payable to controlling shareholders in a different way. That paragraph provides that service in a year can qualify as eligible service only if the person's earnings are at least the lesser of \$65,000 and 75 per cent of the person's average earnings for the prior best three consecutive years.

After lifetime retirement benefits commence to be paid, paragraph 8503(4)(b) provides that the benefits are subject to a limit equal to the maximum pension in the year of commencement, adjusted from that time to reflect increases in the average Consumer Price Index (as defined in subsection 8500(1)).

Where retirement benefits are defined in such a way that the benefits are reduced at a specified age, such as age 65, only the reduced benefits are considered to be lifetime retirement benefits. Thus, only such benefits are subject to the limits in subsection 8503(4). The additional benefits payable on a temporary basis (that is, those that are discontinued at the specified age) are considered to be bridging benefits and are subject to the limit in paragraph 8503(2)(b).

Paragraph 9(g) of Information Circular 72-13R8 provides that the maximum pension limit does not apply where a pension is \$300 or less per year of pensionable service. As the new structure of the pension and RRSP limits, including the seven-year carry forward of unused deduction room, provides considerable opportunity for tax-assisted saving by all taxpayers with earned income, continuation of the minimum pension provision is not considered to be necessary and no such provision is included in the new rules.

**Highest Average Compensation  
ITR  
8503(5)**

Subsection 8503(5) specifies how to compute the highest average indexed compensation of a plan member for the purpose of a defined benefit provision of an RPP. This amount is relevant in determining, under subsection 8503(4), the maximum lifetime retirement benefits that may be paid to the member. In most cases, this amount is equal to 1/3rd of the member's total indexed compensation for the three (not necessarily consecutive) 12-month periods of highest indexed compensation. The total indexed compensation of the member for any month is the total compensation received by the member for the month from employers who participate under the defined benefit provision for the benefit of the member, adjusted to reflect increases after the year, or after 1986, if later, in the average wage (as defined in subsection 147.1(1) of the Act).

“Compensation” is defined in subsection 147.1(1) of the Act and includes compensation that is prescribed by section 8510. For the purpose of subsection 8503(5), compensation need not be for periods of pensionable service. For example, if a plan limits pensionable service to 35 years, compensation after this limit is reached may be taken into account in determining highest average indexed compensation.

If a member of an RPP has not been employed for three 12-month periods by an employer who participates in the plan, paragraph 8503(5)(b) provides that the highest average indexed compensation of the member is equal to the average of the member’s total indexed compensation for each month of employment. For this purpose, total indexed compensation has the same meaning as described above.

**Excluded Benefits**  
ITR  
8503(6)

Subsection 8503(6) excludes the following benefits from lifetime retirement benefits for the purpose of the maximum pension rule in subsection 8503(4):

- additional lifetime retirement benefits that are provided to a plan member because the member is totally and permanently disabled, and
- additional lifetime retirement benefits provided as a consequence of an actuarial (or less favourable) increase in the pension to reflect the postponement of payment of the pension after age 65.

The additional benefits referred to in the case of a totally and permanently disabled member will normally arise because the member’s pension is determined on a projected basis.

**Alternative Compensation**  
Rules  
ITR  
8503(7)

Subsection 8503(7) contains two rules that modify the rules in subsection 8503(5) for determining the highest average compensation of a plan member. The rules in subsection 8503(7) are alternative rules; the maximum pension condition is considered to be satisfied if it is satisfied with the application of either or both of these rules.

Under the rules in subsection 8503(5), a member’s highest average compensation is determined based on the compensation actually received by the member in each year (plus compensation prescribed for the year by section 8510). The rule in paragraph 8503(7)(a) permits bonuses and back-pay to be treated, for the purpose of determining whether lifetime retirement benefits satisfy the maximum pension rule, as if they had been received in the years in respect of which they are paid.

To apply the rules in subsection 8503(5), it is necessary to determine the compensation paid to a member for each month. Paragraph 8503(7)(b) permits this to be done by prorating calendar year compensation, thereby avoiding the necessity of keeping records on a month-by-month basis.

Part-time Employees  
ITR  
8503(8)

Subsection 8503(8) provides an alternative method for determining the maximum pension that may be paid to a plan member who has, at any time, worked on a part-time basis. Under this method, the normal rules for determining the maximum pension of a member are modified in two respects:

- the member's compensation is the amount that it is reasonable to consider would have been received by the member had the member worked on a full-time basis, and
- the amount of pensionable service is determined based on the services rendered by the member as a proportion of services that would have been rendered had the member worked on a full-time basis.

The normal rules determine the maximum pension based on actual compensation and on the duration of the periods in which services are rendered, without regard to whether the services are rendered on a full-time or part-time basis.

Paragraphs 8503(8)(c) and (d) contain two rules for the purposes of subsection 8503(8). Paragraph 8503(8)(c) applies where a member of a pension plan has rendered services throughout a period to two or more employers who participate in the plan. In such a situation, those employers are treated as the same employer. Thus, if an individual works on a half-time basis for each of his or her employers who participate in a plan, the individual would not be considered to be a part-time employee.

Paragraph 8503(8)(d) deals with the following periods throughout which a member does not render services on a regular basis: an eligible period of reduced pay or temporary absence and a period of disability. It provides that the rules in paragraphs 8503(8)(a) and (b) apply as if the plan member had rendered services on a regular basis throughout such periods and had received remuneration at a rate commensurate with his or her previous rate of pay.

Alternative CPI Indexing  
ITR  
8503(9)

The maximum pension limit in paragraph 8503(4)(b), which applies after the year in which a pension commences to be paid, depends on the increase in the average Consumer Price Index (CPI). Subsection 8503(9) permits a plan to use, in place of the ratio described in paragraph 8503(4)(b), a measure of the change in the CPI that is substantially similar to that ratio. This would permit, for example, the use of a ratio equal to the CPI for the November preceding the year for which the ratio is determined divided by the CPI for the November immediately preceding the year in which a pension commenced to be paid.

Additional Conditions  
ITR  
8503(10)

Subsection 8503(10) imposes a number of conditions applicable to an RPP that contains a defined benefit provision. The conditions in this subsection are conditions other than those that relate to the benefits that may be provided under a defined benefit provision of an RPP.



Member Contributions  
ITR  
8503(10)(a)

Paragraph 8503(10)(a) restricts the contributions that may be made by plan members under a defined benefit provision of an RPP. Subparagraph 8503(10)(a)(i), which applies in respect of contributions made after 1990, requires that current service contributions made by a member in respect of a year that does not include a period of disability or an eligible period of reduced pay or temporary absence not exceed the lesser of:

- (a) 9 per cent of the member's compensation for the year from employers who participate in the plan on behalf of the member, and
- (b) \$600 plus 70 per cent of the sum of the member's pension credit for the year under the provision, determined without applying the transition rules in paragraphs 8302(2)(b) (benefit accrual cap) and 8302(3)(g) (exclusion of benefits in respect of specified ranges of earnings) that would otherwise apply before 1994.

Subparagraph 8503(10)(a)(ii) requires that current service contributions made in respect of a year that includes a period of disability or an eligible period of reduced pay or temporary absence be determined using a method consistent with that used to determine current service contributions in respect of other years, except that a member may be permitted or required to make larger contributions in respect of such periods, if such larger contributions do not exceed the amount necessary to fund benefits provided in respect of such periods.

Subparagraph 8503(10)(a)(iii) permits a member to make past service contributions, not exceeding the amount reasonably necessary to fund past service benefits provided to the member.

The Minister of National Revenue is permitted, by subsection 8503(11), to waive the application of paragraph 8503(10)(a) in certain circumstances. For further details, see the commentary on that subsection.

The purpose of the restrictions in paragraph 8503(10)(a) is to ensure that member contributions are not out of proportion to promised benefits. This should reduce the likelihood of benefits being provided that are not in accordance with the benefit formula: for example, a refund of member contributions plus interest or an additional pension to satisfy the "50 per cent employer contribution rule" contained in subsection 21(2) of the *Pension Benefits Standards Act, 1985* or a similar provision of provincial pension benefits legislation.

Prepayment of Member  
Contributions  
ITR  
8503(10)(b)

Paragraph 8503(10)(b) prohibits the making of member contributions under a defined benefit provision of an RPP before the calendar year to which the contributions relate.

Reduction in Benefits and  
Return of Contributions  
ITR  
8503(10)(c)

Paragraph 8503(10)(c) requires an RPP include a stipulation permitting benefits under a defined benefit provision to be reduced so as to avoid the revocation of the plan's registration. Such reduction could be necessary, for example, where the plan is discovered to be in violation of the maximum pension rule in subsection 8503(4) or the PA of a member for a year exceeds

the limits in subsection 147.1(8) of the Act. The stipulation required by paragraph 8503(10)(c) must also permit a return of contributions to a plan member or employer to avoid revocation of the plan's registration. A return of employer contributions could be required, for example, where employer contributions in excess of eligible contributions (as defined in subsection 147.2(2) of the Act) are made to the plan. The stipulation ensures that where plan benefits or contributions fail to comply with any condition, the situation may be remedied.

**Undue Deferral of Payment**  
ITR  
8503(10)(d)

Paragraph 8503(10)(d) requires that each lump sum amount payable after the death of a member be paid as soon as is practicable after the member's death. Where the lump sum is a final payment equal to the excess of the member's contributions over all other amounts that have been paid, the lump sum must be paid as soon as practicable after all other benefits have been paid. The purpose of this rule is to prevent an individual from leaving a lump sum in an RPP in order to benefit from the deferral of taxes on investment earnings.

**Evidence of Disability**  
ITR  
8503(10)(e) and (f)

Where additional retirement benefits are payable to a member who is totally and permanently disabled, paragraph 8503(10)(e) requires that the plan administrator be satisfied, on the basis of a written certification by a medical doctor, that the member is so disabled before the additional benefits may be paid. Paragraph 8503(10)(f) imposes a similar requirement with respect to benefits that accrue in respect of a period of disability.

**Waiver of Member Contribution Condition**  
ITR  
8503(11)

Subsection 8503(11) allows the Minister of National Revenue to waive the condition in paragraph 8503(10)(a) relating to maximum member contributions where employee contributions are determined in a manner acceptable to the Minister and it is reasonable to expect, on a long-term basis, that the regular current service contributions made by members will fund no more than 1/2 of the related benefits.

**Pre-Retirement Death Benefits**  
ITR  
8503(12)

Subsection 8503(12) permits an RPP to provide pre-retirement death benefits as if a member had retired immediately before dying. Specifically, a plan may provide benefits after the death of a member who dies before commencing to receive a pension but after becoming eligible to receive a pension (for example, by retiring) that would be permissible if the member's pension had commenced to be paid immediately before death. Subsection 8503(12) is mainly intended to enable a plan to provide guarantee payments in these circumstances. By virtue of subsection 8501(3), the conditions in Part LXXXV of the Regulations are subject to subsection 8503(12).

**Commutation of Lifetime Retirement Benefits**  
ITR  
8503(13)

Subsection 8503(13) contains special rules that apply with respect to the commutation of a member's lifetime retirement benefits under a defined benefit provision of an RPP.

Paragraph 8503(13)(a) applies where a plan member's lifetime retirement benefits are fully commuted but the member continues to be entitled to bridging benefits. By virtue of subparagraph 8503(2)(b)(i), bridging benefits

may not commence to be paid unless lifetime retirement benefits have commenced to be paid. Paragraph 8503(13)(a) provides that this condition does not apply where the member's lifetime retirement benefits are fully commuted before they commence to be paid.

Paragraph 8503(13)(b) applies where the portion of a plan member's lifetime retirement benefits payable after a particular age (such as 65) is commuted. It provides that the lifetime retirement benefits that are not commuted are to be regarded as lifetime retirement benefits (even though they are not payable for the remainder of the member's lifetime) and not as bridging benefits. This ensures that the benefits will not be subject to the limit on bridging benefits in paragraph 8503(2)(b).

Subsection 8503(13) enables an RPP to provide for the partial commutation of benefits where the commuted value of all benefits would exceed the amount that subsection 147.3(4) of the Act permits to be transferred to an RRSP. Lifetime retirement benefits, or the portion of such benefits payable after age 65, may be commuted and transferred (subject to the subsection 147.3(4) limit) while the plan continues to provide benefits to age 65.

**Suspension or Cessation of  
Pension  
ITR  
8503(14)**

Subsection 8503(14) permits an RPP to provide, in certain circumstances, for the suspension or termination of retirement benefits payable under a defined benefit provision of the plan. By virtue of subsection 8501(3), the conditions in Part LXXXV of the Regulations are subject to subsection 8503(14).

Paragraph 8503(14)(a) permits an RPP to provide for the suspension of payment of a pension where the pension payable after the suspension is not altered because of the suspension. The paragraph also permits a pension to be suspended where the conditions for the application of subsection 8503(15) are satisfied. That subsection applies where a member's pension is suspended for a period of reemployment and is then redetermined in a way specified in the subsection.

Paragraph 8503(14)(b) permits an RPP to provide for the cessation of payment of any additional benefits that are being paid to a member by reason of disability. The termination of such payments might occur, for example, where the member recovers from the disability. The rule ensures that the condition in paragraph 8503(2)(a) (requiring level payments or inflation-adjusted payments) is not violated by reason of the cessation of payment.

**Re-employed Member  
ITR  
8503(15) to (17)**

Subsection 8503(15) contains rules that enable an RPP to provide for continued accrual of retirement benefits under a defined benefit provision by a plan member who returns to work after commencing to receive retirement benefits. The rules also enable such a member's retirement benefits to be recalculated in other ways. The rules are qualified by virtue of the application of subsections 8503(16) and (17), as described below.

Subsection 8503(15) applies where a pension plan provides for the suspension of payment of retirement benefits to a plan member who is re-employed, and for the redetermination of the member's retirement benefits by:

- including benefits in respect of the period of re-employment,
- recalculating an early retirement reduction factor, or
- adjusting the benefits to compensate for any payments forgone after age 65.

Paragraphs 8503(15)(c) and (d) modify certain conditions in subsections 8503(2) to (4) so that benefits can be redetermined as described above after a period of re-employment. Specifically, paragraph 8503(15)(c) modifies the restriction in paragraph 8503(3)(b) (prohibition on benefit accruals after pension commencement) so that benefits can accrue during a period of re-employment. Paragraph 8503(15)(d) provides that the following conditions apply as if retirement benefits had not previously commenced to be paid: the bridging benefits rule (paragraph 8503(2)(b)), the early retirement rules (paragraph 8503(3)(c)), the disability benefits rule (paragraph 8503(3)(d)) and the maximum pension rule (subsection 8503(4)).

Paragraph 8503(15)(e) allows for benefits on the death of a re-employed plan member to be paid as if lifetime retirement benefits had not previously commenced to be paid.

Subsection 8503(16) provides that subsection 8503(15) does not apply to an RPP if the plan terms providing for the redetermination of retirement benefits are applicable where benefits have been paid under a provision of the plan to a member while the member was still an employee of a participating employer. This requirement complements the requirement that a member's benefits be suspended while the member is re-employed, and ensures that subsection 8503(15) will not apply if benefits commenced to be paid to a member before retirement.

Subsection 8503(17) is an anti-avoidance rule intended to prevent the re-employment of a former employee for a short period so that the amount of the member's pension will be redetermined (for example, by adjusting the early retirement reduction factor so that it is based on the member's age the second time the member retires). Where it is reasonable to consider that one of the main reasons for the re-employment of a plan member is to enable the plan member to benefit from terms of the plan providing for the recalculation of the member's pension (which terms are permissible because of subsection 8503(15)), the plan becomes a revocable plan.

**Limits Dependent on Consumer  
Price Index  
ITR  
8503(18)**

Several of the conditions applicable to benefits provided under a defined benefit provision of an RPP impose limits that depend on increases in the Consumer Price Index. Specifically, the benefits that may be paid for a particular month depend on the ratio of the Consumer Price Index for that

month to the Consumer Price Index for the month in which the benefits commenced to be paid. The limits are:

- the limit on bridging benefits, in subparagraph 8503(2)(b)(ii),
- the limits on pre-retirement survivor benefits, in subparagraphs 8503(2)(e)(v) and (vi), and
- the limit on the additional retirement benefits that may be provided to an individual who is totally and permanently disabled, in subparagraph 8503(3)(d)(ii).

Since the Consumer Price Index for a month is not known until after the month, subsection 8503(18) provides, in effect, that the limits may be computed using any measure of the increase in the Consumer Price Index that is substantially similar to the ratio described above. An example of such a measure would be the ratio of

(a) the average of the Consumer Price Index for the 12 months ending 3 months before the particular month for which the limit is being applied

to

(b) the average of the Consumer Price Index for the 12 months ending 3 months before benefits commence to be paid.

Calendar year averages of the Consumer Price Index would also be acceptable.

Statutory Plans – Special  
Rules  
ITR  
8503(19)

Subsection 8503(19) is a special rule overriding certain restrictions in paragraphs 8503(3)(b) (benefit accruals after retirement) and 8503(3)(c) (early retirement) in the case of the pension plans established by the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act*.

Paragraph 8503(3)(b) prohibits the continued accrual of benefits under a defined benefit provision of an RPP after retirement benefits have commenced to be paid the member under the provision or any other defined benefit provision of the RPP. The prohibition also applies on a cross-plan basis where an employer who participates in one plan also participates (or does not deal at arm's length with an employer who participates) in the other plan. Paragraph 8503(19)(a) provides that the cross-plan prohibition on benefit accruals does not apply in the case of the pension plan established by the *Public Service Superannuation Act* where retirement benefits have commenced to be paid under the *Canadian Forces Superannuation Act* or the *Royal Canadian Mounted Police Superannuation Act*.

Paragraph 8503(3)(c) allows lifetime retirement benefits under a defined benefit provision of an RPP to be paid to a plan member without reduction on account of early retirement only if the member meets specified criteria

relating to age, length of service or a combination thereof, or is totally and permanently disabled. Paragraph 8503(19)(b) provides that this rule does not apply to the pension plan established by the *Canadian Forces Superannuation Act*.

Artificially Reduced Pension  
Adjustment  
ITR  
8503(20)

Subsection 8503(20) contains an anti-avoidance rule designed to prevent the provision of retirement benefits that are inconsistent with the pension adjustments (PAs) that have been reported in respect of a member, where this result is achieved by manipulating pensionable earnings. For example, if bonus pay is excluded from pensionable earnings, arranging for bonuses to be a large share of total remuneration for a number of years and then replacing bonuses by regular pensionable earnings for a sufficient period to achieve a high pension level under a final or best average defined benefit provision would result in PAs during the years that do not properly reflect the true level of benefits earned under the defined benefit provision. As a result of the low PAs, the plan member would be able to make RRSP contributions that are excessive in light of the benefits actually provided under the plan.

Subsection 8503(20) provides that where a member's remuneration from an employer is manipulated in this way and it can reasonably be considered that one of the main reasons was to reduce the member's PA for a year, the member is considered to have been connected with the employer while employed by the employer and the member is considered not to have received any remuneration that is excluded from pensionable earnings. The effect of this rule is that the maximum pension rule will apply to the member on the basis of updated career average earnings rather than best average earnings, and earnings will not include amounts that are not taken into account for the purpose of determining PAs.

Past Service Employer  
Contribution  
ITR  
8503(21)

Subsection 8503(21) contains a rule intended to prevent an employee from agreeing to reduced salary or wages or a reduced retiring allowance, or to forego some other payment or benefit, in return for employer-funded past service pension benefits in respect of pre-1990 service. Employer contributions made to an RPP in these circumstances are, in substance, employee contributions. Such an arrangement could circumvent the limits on past service employee contributions in new subsection 147.2(4) of the Act. The rule is intended to apply only where individual employees agree to forego salary or wages or other cash payments or benefits; thus, it would not apply where a union negotiates additional past service pension benefits instead of a larger increase in rate of pay.

Subsection 8503(21) applies where, with the consent of an employee, an employer makes a past service contribution to an RPP to fund benefits provided to the employee in respect of pre-1990 service, and it is reasonable to consider that the contribution is made in lieu of a payment or benefit to which the employee would otherwise be entitled. The subsection provides that where such a contribution is made, the plan becomes a revocable plan. This

permits the Minister of National Revenue to revoke the registration of the plan pursuant to new subsections 147.1(11) to (13) of the Act.

Subsection 8503(21) is applicable with respect to contributions made before December 11, 1989, where the contributions have not been approved by the Minister of National Revenue under paragraph 20(1)(s) of the Act, and contributions made after December 10, 1989.

**Money Purchase Provisions**  
ITR  
8504

Section 8504 describes the benefits that may be provided under a money purchase provision of a pension plan and contains conditions applicable to a plan that has a money purchase provision.

A “money purchase provision” is defined in subsection 147.1(1) of the Act. In order for terms of a pension plan to be regarded as a money purchase provision, they must provide for a separate account to be maintained in respect of each plan member, and all benefits in respect of a member must be benefits that can be provided by the amount in the member’s account. Where the terms do not satisfy these conditions, they will be regarded as a defined benefit provision and thus subject to all the conditions in section 8503.

**Permissible Benefits**  
ITR  
8504(1)

Subsection 8504(1) describes, for the purposes of paragraph 8502(c), the benefits that may be provided under a money purchase provision of an RPP. The permissible benefits differ in some respects from the benefits which are permitted by subsection 8503(2) to be provided under a defined benefit provision of an RPP. This difference is a reflection of the fact that the benefits that can be provided under a money purchase provision are limited by the contributions and earnings available to fund the benefits; ancillary benefits or indexing can be provided only if retirement benefits are correspondingly reduced. This same trade-off of benefits need not exist in the case of a defined benefit provision.

**Lifetime Retirement Benefits**  
ITR  
8504(1)(a)

Paragraph 8504(1)(a) allows lifetime retirement benefits (as defined in subsection 8500(1)) to be paid under a money purchase provision of an RPP. The payments must be equal periodic amounts except where they are reduced after the death of the member’s spouse or are adjusted for inflation. Where lifetime retirement benefits are paid under an annuity purchased from an insurance company, paragraph 8504(1)(a) allows the annuity to be adjusted in any way that an RRSP may be adjusted, as set out in subparagraphs 146(3)(b)(iii) to (v) of the Act. These adjustments may be in the form of:

- a fixed annual increase of up to 4 per cent per annum;
- adjustments which reflect, in whole or in part, changes in the Consumer Price Index;
- adjustments linked to the return on, or value of, a pool of investment assets; and
- adjustments linked to increases and decreases in generally available Canadian market interest rates.

Where lifetime retirement benefits are paid from the plan (as permitted by subparagraph 8504(2)(g)(ii)), any inflation adjustments must be similar to the above-described adjustments and acceptable to the Minister of National Revenue.

**Bridging Benefits**  
ITR  
8504(1)(b)

Paragraph 8504(1)(b) permits an RPP to provide bridging benefits under a money purchase provision to a plan member. The bridging benefits must end no later than the end of the month following the month in which the member attains 65 years of age. There is no limit to the level of bridging benefits which may be provided.

**Guarantee Period**  
ITR  
8504(1)(c)

Paragraph 8504(1)(c) allows retirement benefits payable under a money purchase provision of an RPP to be guaranteed for up to 15 years. This means that, after the death of a member who has commenced to receive retirement benefits, the retirement benefits may continue to be paid to one or more beneficiaries for a period ending no later than 15 years after the commencement of the member's benefits. For each month, the total of the payments to beneficiaries must not exceed the retirement benefits that would have been payable to the member had the member survived. By virtue of paragraph 8504(1)(i), an RPP may permit or require guaranteed retirement benefits to be commuted rather than paid on a periodic basis.

**Post-Retirement Surviving Spouse Benefits**  
ITR  
8504(1)(d)

Paragraph 8504(1)(d) permits an RPP to provide for the payment of survivor benefits under a money purchase provision to a spouse or former spouse of a member who dies after commencing to receive retirement benefits. For this purpose, a spouse or former spouse of a member is a person who was a spouse (as defined in subsection 147.1(1) of the Act) of the member at the time that the benefits commenced to be paid or at any earlier time. Survivor benefits are periodic amounts payable until the death of the surviving spouse or former spouse. Survivor benefits, together with any benefits payable under a guarantee, must not exceed the retirement benefits that would have been payable to the member if the member were alive.

**Pre-Retirement Surviving Spouse Benefits**  
ITR  
8504(1)(e)

Paragraph 8504(1)(e) permits an RPP to provide for the payment of survivor benefits under a money purchase provision to a spouse (as defined in subsection 147.1(1) of the Act) of a member who dies before commencing to receive retirement benefits or to a former spouse of such a member. The survivor benefits may be payable in any form that is permissible for retirement benefits payable to a member, except that a surviving spouse pension to a subsequent spouse of the member's spouse or former spouse is not permitted. Payments must commence to be made to the spouse or former spouse by the end of the year in which he or she reaches age 71 (or, if later, within one year after the death of the member).

**Payment from Account**  
ITR  
8504(1)(f)

Paragraph 8504(1)(f) permits the payment, under a money purchase provision of an RPP, of a lump sum amount up to the balance in a member's account. There are no conditions restricting such payments. For example, all



or any part of a member's account could be paid to the member's spouse on marriage breakdown.

**Lump Sum Payments on Death  
Before Retirement  
ITR  
8504(1)(g)**

Paragraph 8504(1)(g) permits an RPP to provide for the payment of lump sum amounts under a money purchase provision where a member dies before commencing to receive retirement benefits. Since the provision is a money purchase provision, these payments cannot exceed the balance in the member's account. Paragraph 8504(2)(h) requires that such lump sums be paid as soon as is practicable after the member's death.

**Commutation of Benefits  
ITR  
8504(1)(h) and (i)**

Paragraph 8504(1)(h) allows for the payment of a lump sum under a money purchase provision of an RPP in respect of a member in lieu of other benefits to which the member is entitled, where the lump sum does not exceed the present value of the other benefits. The main purpose of this paragraph is to enable a plan to provide for the commutation of a pension that has commenced to be paid. (However, pension benefits legislation will generally prohibit such a commutation.)

Paragraph 8504(1)(i) is similar to paragraph 8504(1)(h), and permits the commutation of benefits payable to a beneficiary of a deceased member.

**Additional Conditions  
ITR  
8504(2)**

Subsection 8504(2) imposes a number of conditions applicable to an RPP that contains a money purchase provision.

**Employer Contributions  
ITR  
8504(2)(a) to (c)**

Paragraph 8504(2)(a) requires that the contributions to be made under a money purchase provision of an RPP by an employer be determined in a manner acceptable to the Minister of National Revenue. This requirement permits the Minister to set guidelines for minimum employer contributions. It is anticipated that such guidelines will specify a 1 per cent minimum contribution for a stand-alone money purchase plan and no minimum contribution for a money purchase provision which is supplementary to a defined benefit provision. This will accommodate voluntary employee money purchase contributions to a plan containing a defined benefit provision.

The Regulations do not directly limit contributions under money purchase provisions. However, such contributions are indirectly limited through the application of the PA limits in subsections 147.1(8) and (9) of the Act. For further details, reference may be made to the commentary on those subsections.

Paragraph 8504(2)(b) requires that each contribution made by an employer under a money purchase provision consist only of amounts paid in respect of specific plan members. Thus, unallocated contributions cannot be made under a money purchase provision.

Paragraph 8504(2)(c) prohibits an employer from making contributions under a money purchase provision at any time that there is a surplus under the provision. A "surplus" under a money purchase provision of an RPP (as defined under subsection 8500(1)) is the unallocated portion of the assets

held in respect of the provision determined at a particular time, other than assets reasonably attributable to:

- forfeited amounts (as defined in subsection 8500(1)) under the provision,
- earnings of the plan that are reasonably attributable to forfeited amounts under the provision, or
- earnings of the plan (other than earnings that are reasonably attributable to the surplus under that provision before the particular time) that will be allocated to members as part of the regular allocation of such earnings.

A surplus can be created under a money purchase plan where the plan replaces a defined benefit plan that has assets in excess of the amounts that may be transferred on behalf of each member to the money purchase plan. The transfer of the excess amount is permitted by subsection 147.3(8) of the Act where the excess will be used to satisfy employer obligations to make contributions.

**Return of Contributions**  
ITR  
8504(2)(d)

Paragraph 8504(2)(d) requires an RPP containing a money purchase provision to include a stipulation permitting a contribution made under the provision by a member or an employer to be returned to the contributor in order to avoid the registration of the plan being revoked. It is expected, for example, that contributions would be returned where the PA limits in subsection 147.1(8) of the Act have been violated.

**Allocation of Earnings**  
ITR  
8504(2)(e)

Paragraph 8504(2)(e) requires an RPP containing a money purchase provision to allocate earnings of the plan (other than earnings attributable to forfeited amounts or a surplus under the provision) on a reasonable basis and no less frequently than annually to plan members.

**Payment or Reallocation of Forfeited Amounts**  
ITR  
8504(2)(f)

Paragraph 8504(2)(f) requires that each forfeited amount under a money purchase provision of an RPP and all earnings attributable to it be paid out to employers or reallocated to other members before the end of the calendar year following the calendar year in which the amount was forfeited. (Forfeited amounts arising before 1989 are to be allocated no later than December 31, 1990.) However, the time period for the payment or reallocation of a forfeited amount may be extended at the discretion of the Minister of National Revenue under subsection 8504(3).

Forfeited amounts reallocated to plan members may be retained in the plan or paid to the members. Forfeited amounts reallocated to a plan member are included in computing the pension credit of the plan member under the money purchase provision, with the exception of an amount that was forfeited before 1990 and reallocated before 1991 or an amount that is paid to a member (and not transferred on the member's behalf to an RPP or RRSP).

Retirement Benefits  
ITR  
8504(2)(g)

Paragraph 8504(2)(g) requires that retirement benefits payable under a money purchase provision of an RPP be provided either:

- by means of annuities purchased from a licensed issuer of annuities; or
- under an arrangement acceptable to the Minister of National Revenue.

It is expected that the Minister will accept a self-insured arrangement for paying retirement benefits where the arrangement is, in substance, similar to the purchase of annuities from an issuer of annuities.

Undue Deferral of Payment  
ITR  
8504(2)(h)

Paragraph 8504(2)(h) requires that lump sums payable under a money purchase provision of an RPP after the death of a member be paid as soon as practicable after the death of the member.

Reallocation of Forfeitures  
ITR  
8504(3)

Subsection 8504(3) allows the Minister of National Revenue, on written application of the administrator of an RPP, to extend the time limit imposed by paragraph 8504(2)(f) for the reallocation of forfeited amounts under a money purchase provision of the plan. An extension may be granted only where the amount of forfeitures is greater than normal because of unusual circumstances and the RPP provides for a reallocation on a reasonable basis to a majority of the plan members. It is expected that the Minister will grant an extension, for example, where an employer lays off a large group of employees whose rights to employer contributions have not fully vested. Subsection 8504(3) is not intended to allow for the indefinite retention in an RPP of forfeited amounts which cannot be reallocated because plan members have reached their limits with respect to tax-assisted retirement saving.

Existing and Replacement  
Plans  
ITR  
8505

Section 8505 contains special grandfathering rules that apply primarily to "grandfathered plans" as defined in subsection 8500(1). In general terms, a pension plan is a grandfathered plan if it is an existing plan (as defined in subsection 8500(1)) that contains a defined benefit provision or if it is a pension plan established to replace benefits under another grandfathered plan. Many of the new rules in Part LXXXV of the Regulations do not apply to grandfathered plans until 1992. Moreover, defined benefits that have accrued prior to 1992 under grandfathered plans will generally be exempt from the rules.

Prescribed Conditions Before  
1992  
ITR  
8505(1)

Subsection 8505(1) sets out the prescribed conditions that apply prior to 1992 in determining whether a grandfathered plan qualifies for registration. These conditions, which apply in place of the conditions listed in subsection 8501(1), are as follows:

- (a) the primary purpose of the plan must be to provide lifetime pensions to individuals in respect of their service as employees (paragraph 8502(a));

- (b) if the plan also provides money purchase benefits,
  - those benefits must comply with paragraph 8502(c), which requires that the benefits be in accordance with subsection 8504(1), and
  - employer contributions under the money purchase provision must be in accordance with paragraph 8504(2)(a), which requires that contributions be determined in a manner acceptable to the Minister;
- (c) the benefits provided under each defined benefit provision of the plan must be acceptable to the Minister of National Revenue; and
- (d) the plan must contain any terms that are required by the Minister.

Where pre-1991 benefits become provided after 1988 to a member of a grandfathered plan who is or was connected with an employer who participates in the plan, the benefits are considered not to be acceptable to the Minister if the Minister is not specifically notified in writing that the benefits are provided to such a member. This rule is intended to ensure that the Minister is fully informed when benefits are provided to members connected with participating employers. This rule parallels the rule in paragraph 8503(3)(e) which would apply if the plan were not a grandfathered plan.

It is intended that defined benefit provisions which have already been approved by the Minister will continue to be acceptable until 1992. Where benefits do not conform to the registration rules applicable to new plans, the acceptability of amendments to such benefits will be dealt with on a case-by-case basis. For example, an amendment to conform to the requirements of federal and provincial pension benefits legislation will normally be acceptable. In general, amendments that bring a grandfathered plan into closer conformity with the new registration rules will be accepted, while those that move the plan further away from the new rules will not be accepted.

Where an existing plan contains only money purchase provisions, the prescribed conditions referred to in subsection 8501(1) apply commencing in 1989. However, subsection 8505(7) provides a limited exemption from the conditions applicable with respect to the benefits under such a plan. For further details, see the commentary on subsection 8505(7).

Conditions Applicable to  
Benefits After 1991  
ITR  
8505(2)

After 1991, grandfathered plans are subject to the prescribed conditions for registration listed in subsection 8501(1). One of these conditions – the condition in paragraph 8502(c) restricting benefits – requires that defined benefits be in accordance with subsections 8503(2) and (4) and certain conditions in subsection 8503(3). Subsection 8505(2) modifies several of the conditions in subsections 8503(2) to (4) in their application to defined benefit provisions of a grandfathered plan.

Paragraph 8505(2)(a) modifies the bridging benefit limit in subparagraph 8503(2)(b)(ii) as it applies after 1991 to a grandfathered plan. The modified limit applicable to bridging benefits payable to a plan member for a particular month is a weighted average of:

- (a) the amount of public pension benefits payable to the member for the month in which the member's pension commences to be paid (computed as if the member were 65 years of age), indexed to the particular month; and
- (b) the new bridging benefit limit that would be applicable if the plan were not a grandfathered plan.

The amounts in (a) and (b) are weighted by the proportion of the member's pensionable service that is before 1992 and the proportion that is after 1991, respectively. Paragraph 8505(4)(b) permits the Minister of National Revenue to allow bridging benefits in excess of the modified limit where the benefits are vested as of December 31, 1991.

**Example 33:** A member of a grandfathered plan retires at the end of 1993 with 2 years of post-1991 service and 8 years of pre-1992 service. Suppose that maximum public pension benefits are \$1,200 a month and the limit otherwise computed for bridging benefits is \$1,000 per month because the member is under 60 years of age. The maximum bridging benefit (disregarding indexing) that may be provided is \$1,160 per month ( $= \$1,200 \times 8/10 + \$1,000 \times 2/10$ ).

Although paragraph 8505(2)(a) enables increased bridging benefits to be provided under a grandfathered plan, the Minister may (pursuant to the general power given to the Minister by new subsection 147.1(5) of the Act to impose conditions with respect to RPPs) impose a lower limit in certain circumstances. For example, where a grandfathered plan provides bridging benefits to a group of plan members who were previously members of an existing plan and also to a group of plan members who were not previously members of a pension plan, the Minister may require that the bridging benefits provided to the latter group comply with the regular limit in paragraph 8503(2)(b). Also, paragraph 8507(1)(b) prohibits amendments being made to grandfathered plans to increase bridging benefits beyond the regular limit.

Paragraph 8505(2)(b) provides that certain conditions relating to lifetime retirement benefits apply in the case of a grandfathered plan only to such benefits as are provided in respect of periods after 1991. The conditions that are so modified are: the early retirement rules (paragraph 8503(3)(c)); the special rules that ensure that benefits correspond appropriately to pension adjustments (paragraphs 8503(3)(g) and (h)); and the maximum pension rule (paragraphs 8503(4)(a) and (b)).

Paragraph 8505(2)(c) modifies the way in which the maximum pension is to be computed for purposes of applying the maximum pension rule to grandfathered plans after 1991. In general terms, the maximum pension is to be computed as if a member had no pensionable service before 1992. This is consistent with paragraph 8505(2)(b) which restricts the application of the maximum pension rule to post-1991 benefits.

**Additional Prescribed  
Condition After 1991  
ITR  
8505(3)**

Subsection 8505(3) sets out an additional prescribed condition for the registration of a grandfathered plan applicable after 1991. The subsection requires that all benefits provided under each defined benefit provision of a grandfathered plan in respect of periods before 1992 be acceptable to the Minister of National Revenue. This enables the Minister to impose conditions with respect to such benefits. In general, it is expected that the Minister will continue to apply the existing rules to such benefits.

A condition similar to that in subsection 8505(3) is contained in paragraph 8503(3)(e). That paragraph is applicable with respect to pre-1991 benefits provided under all defined benefit provisions. Subsection 8505(3) extends the application of the general condition to benefits provided under grandfathered plans in respect of 1991 service.

**Defined Benefits Exempt from  
Conditions  
ITR  
8505(4)**

Subsection 8505(4) allows the Minister of National Revenue to exempt, after 1991, certain benefits provided under a defined benefit provision of a grandfathered plan from compliance with the new rules for registration. The benefits that may be exempted are:

(a) benefits payable after the death of a member, to the extent that the benefits relate to lifetime retirement benefits provided in respect of pre-1992 service, and

(b) excess bridging benefits, to the extent that the excess benefits have vested in a member as of December 31, 1991.

**Conditions Not Applicable  
ITR  
8505(5)**

Subsection 8505(5) modifies certain conditions in sections 8501, 8502 and 8503 as they apply to a grandfathered plan. The conditions affected are those which are not prescribed conditions for registration. Failure to comply with the conditions results in a plan becoming a revocable plan by virtue of subsection 8501(2).

Paragraph 8505(5)(a) provides that the conditions referred to in paragraph 8501(2)(b) do not apply before 1992 with respect to a grandfathered plan. For a summary of these conditions (which apply with respect to the defined benefit provisions of an RPP) reference may be made to Table 2 contained in the commentary on section 8501. Paragraph 8505(5)(b) provides that the condition in paragraph 8502(d), which restricts the distributions that may be made by an RPP, is not applicable to distributions made under a defined benefit provision of a grandfathered plan before 1992. Paragraph 8505(5)(c) provides that the conditions in paragraphs 8503(3)(a) (eligible service) and 8503(3)(b) (benefit accruals after pension commencement) are not applicable with respect to benefits in respect of periods before 1992 under a defined benefit provision of a grandfathered plan.

By virtue of paragraphs 8505(1)(d) and (e), subsection 8505(3) and new subsection 147.1(5) of the Act, the Minister of National Revenue is able to impose conditions in place of the above conditions. In general, it is expected

that existing rules will continue in force for grandfathered plans where the new rules do not apply.

PA Limits for 1991  
ITR  
8505(6)

New subsections 147.1(8) and (9) of the Act impose certain limits that must be satisfied by the pension adjustments (PAs) of the members of an RPP, commencing in 1991. If a member's PA exceeds any of the limits, the registration of the plan may be revoked. Subsection 8505(6) exempts a grandfathered plan from the application of subsections 147.1(8) and (9) for 1991 if the plan contains only defined benefit provisions or if it contains a money purchase provision but no contributions are made under that provision. However, where a member of a grandfathered plan also participates in a deferred profit sharing plan or another RPP that is not a grandfathered plan, such plans can be deregistered if the member's PA (which is based on benefits or contributions under all plans, including grandfathered plans) is excessive.

Money Purchase Benefits  
Exempt From Conditions  
ITR  
8505(7)

Subsection 8505(7) contains a grandfathering rule applicable with respect to benefits provided under a money purchase provision of a pension plan. The subsection permits the Minister of National Revenue to exempt such benefits from the conditions in subsection 8504(1) (which are applicable by virtue of paragraph 8502(c)) to the extent that the benefits can be considered to derive from pre-1989 contributions under a money purchase provision of an existing plan (as defined in subsection 8500(1)). It is anticipated that there are few, if any, plans for which the Minister's exemption under this subsection will be sought.

Multi-Employer Plans and  
Specified Multi-Employer  
Plans  
ITR  
8506

Section 8506 defines a "specified multi-employer plan" (SMEP) and modifies certain rules in Part LXXXV of the Regulations as they apply to multi-employer plans (MEPs) and SMEPs. (A MEP is defined in subsection 8500(1) and, by definition, includes a SMEP.)

Specified Multi-Employer  
Plans  
ITR  
8506(1) to (3)

Subsection 8506(1) defines a "specified multi-employer plan" in a particular calendar year as a pension plan that falls within any of the following three categories:

*Category 1* – a pension plan in respect of which the following conditions (set out in subsection 8506(2)) are satisfied at the beginning of the year:

- (a) the plan does not contain a money purchase provision;
- (b) it is reasonable to expect that no more than 95 per cent of the active members of the plan in the year will be individuals employed by a single employer (or employers who do not deal with each other at arm's length);
- (c) employers participate in the plan pursuant to a collective bargaining agreement or similar agreement;

(d) all or substantially all of the employers who participate in the plan are persons who are not exempt from tax under Part I of the Act;

(e) contributions are made by employers in accordance with a negotiated contribution formula that does not provide for any variation in contributions determined by reference to the financial experience of the plan;

(f) the administrator of the plan is a board of trustees (or similar body) that is not controlled by representatives of employers; and

(g) the administrator has the power to determine the benefits to be provided under the plan, whether or not that power is subject to the terms of a collective bargaining agreement;

*Category 2* – a pension plan that has, on application by the plan administrator, been designated in writing by the Minister of National Revenue to be a specified multi-employer plan; or

*Category 3* – a pension plan that was a specified multi-employer plan in the preceding year.

It is anticipated that the Minister will designate a plan as a specified multi-employer plan (Category 2) only where the plan has many of the characteristics of a plan described in Category 1 and the designation is appropriate to overcome serious PA reporting difficulties.

Category 3 plans are included as SMEPs so that a pension plan that is a SMEP in a year will not automatically cease to be a SMEP in a subsequent year simply because a condition referred to in the description of Category 1 plans ceases to be satisfied. Notice from the Minister is required before a plan ceases to be a SMEP, as described below.

Subsection 8506(1) provides that a pension plan is not a SMEP in a calendar year if, before the year, the Minister has given notice to the plan administrator that the plan is not a SMEP. Subsection 8506(3) permits the Minister to give such notice only if the notice is given when the plan is not a plan described in Category 1 (or the plan administrator has requested the notice) and the Minister is satisfied that participating employers will be able to comply with all reporting requirements applicable if the plan is not a SMEP.

Subsection 8506(4) modifies certain of the defined benefit rules in section 8503 as they apply to a pension plan that is a MEP.

A number of the rules in section 8503 apply differently in the case of a plan member who, at any time after 1990, has been connected (as defined in subsection 8500(3)) with an employer who participates in the plan. Paragraph 8506(4)(a) provides that, for the purposes of those rules, no member of a MEP is to be considered to be connected with a participating employer.



Thus, the special restrictions in those rules that apply if a member is a connected member do not apply with respect to benefits provided under a MEP. The provisions affected include paragraphs 8503(2)(b) (bridging benefits), 8503(2)(e) (pre-retirement survivor benefits), 8503(3)(a) (eligible service in period of disability), 8503(3)(c) (early retirement), 8503(3)(d) (increased benefits to disabled member) and 8503(3)(e) (pre-1991 benefits).

Paragraph 8503(3)(b) prohibits the continued accrual by a member of benefits under a defined benefit provision of a pension plan where benefits have commenced to be paid to the member under any other defined benefit provision of the plan or under a defined benefit provision of certain other plans. Paragraph 8506(4)(b) eliminates the cross-plan portion of this rule.

Paragraph 8503(3)(j) contains a cross-plan restriction on the payment of bridging benefits. Paragraph 8506(4)(c) eliminates this restriction where bridging benefits are not paid under more than one defined benefit provision of the MEP.

**Special Rules – Specified  
Multi-Employer Plan  
ITR  
8506(5)**

Subsection 8506(5) modifies certain of the registration rules in sections 8502 and 8503 as they apply to a pension plan that is a SMEP. (Subsection 8506(4) will also apply in the case of a SMEP.)

Paragraph 8502(b) restricts the employer contributions that may be made in respect of a defined benefit provision of an RPP to contributions that are eligible contributions pursuant to subsection 147.2(2) of the Act. Paragraph 8506(5)(a) provides an exemption from this requirement for SMEPs, by declaring that employer contributions made in accordance with the plan as registered are eligible contributions. Consequently, the restrictions on contributions that apply to other plans when there is a build-up of actuarial surplus will not apply to a SMEP.

Paragraphs 8506(5)(b) and (c) provide that the following rules are not applicable to a SMEP:

- the conditions to ensure that pension adjustments (PAs) are determinable and that benefits are appropriate relative to PAs (paragraphs 8503(3)(f) to (i)),
- the maximum pension rule (subsection 8503(4)), and
- the restriction on the contributions that may be made by plan members (paragraph 8503(10)(a)).

The conditions relating to PAs are not necessary in the case of a SMEP since PAs are determined on a money purchase basis. The maximum pension rule has not been imposed since for a SMEP it would be very difficult to administer. However, the level of tax-assisted saving in SMEPs is limited by a condition in subsection 8506(6).

**Additional Prescribed  
Condition**  
ITR  
8506(6)

A pension plan that is a SMEP is excluded from the application of many of the rules that control the level of contributions to and benefits from an RPP, including the PA limit rule in new subsection 147.1(9) of the Act, the maximum pension rule in subsection 8503(4) and the requirement in paragraph 8502(b) that employer contributions be eligible contributions as described in subsection 147.2(2) of the Act. Subsection 8506(6) imposes an additional prescribed condition for registration in place of the above rules. Where a SMEP is also a grandfathered plan (as defined in subsection 8500(1)), this additional condition does not apply until 1992.

Subsection 8506(6) requires that the combined employer and member contribution rates to a SMEP be such that the total contributions to be made each year (or, more precisely, the sum of pension credits of all plan members for the year) can reasonably be expected not to exceed 18 per cent of the total compensation of plan members. This test must be satisfied each time that new contribution rates are established.

**Purchase of Additional  
Benefits**  
ITR  
8506(7)

Subsection 8506(7) contains a rule applicable where a SMEP permits members to "purchase" additional pensionable hours in a year during which they do not work on a full-time basis. Generally, lifetime retirement benefits provided as a consequence of the purchase of such hours would not be permissible, since the benefits would not be in respect of a period of employment or any other period specified in paragraph 8503(3)(a) (the eligible service rule). Subsection 8506(7) provides an exemption from the rule in paragraph 8503(3)(a) where the following conditions are satisfied:

- (a) the amount of lifetime retirement benefits provided under the plan to each member is determined by reference to the hours of employment of the member; and
- (b) the plan permits a member whose actual hours of employment are less than a specified number (not exceeding a reasonable measure of full-time hours that could have been worked) to purchase additional hours up to the specified number.

**Amendments**  
ITR  
8507

Section 8507 contains conditions that apply in respect of certain amendments to RPPs.

ITR  
8507(1)

New subsection 147.1(4) of the Act provides that the Minister of National Revenue is not to accept an amendment to an RPP unless certain conditions are satisfied, including the requirement that the plan as amended comply with the prescribed conditions for registration and the requirement that the amendment comply with prescribed conditions. Subsection 8507(1) prescribes two conditions for the purposes of the latter requirement.

The first condition, in paragraph 8507(1)(a), is that, where an amendment increases accrued lifetime retirement benefits, the amendment must not be inconsistent with the conditions in paragraph 8503(3)(g) and (h). Those conditions are intended to ensure that the level of benefits provided under an

RPP corresponds with the PAs associated with the benefits. The purpose of paragraph 8507(1)(a) is to prevent the upgrading of benefits by amendments to the plan where the plan would not have been permitted to provide for the upgrades on a prospective basis. For example, if a particular final average earnings formula would not comply with paragraph 8503(3)(g) whereas the corresponding career average formula would so comply, the plan cannot provide career average benefits and then upgrade the benefits to base them on current remuneration.

The second condition, in paragraph 8507(1)(b), applies where an RPP is a grandfathered plan (as defined in subsection 8500(1)). Paragraph 8505(2)(a) permits a grandfathered plan to provide bridging benefits that exceed the normal limit in paragraph 8503(2)(b). Paragraph 8507(1)(b) provides, however, that a grandfathered plan cannot be amended to increase bridging benefits unless the increased benefits comply with the normal limit.

ITR  
8507(2)

Subsection 8507(2) applies where an RPP is amended to provide for the return of member contributions. The subsection requires that the plan pay out the contributions (and any related interest) as soon as practicable after the amendment is made. However, any amount that new subsection 147.3(6) of the Act permits to be transferred to an RRSP or another RPP is excluded from this requirement.

Subsection 8507(2) is intended to prevent a plan member from leaving his or her contributions in a plan in order to benefit from the deferral of taxes on investment earnings.

It should be noted that subparagraph 8502(d)(iv) only permits a plan to be amended to provide for a return of member contributions where the amendment also reduces or eliminates the requirement for members to make contributions in the future.

Registration and Amendment  
ITR  
8508

Section 8508 requires the filing of amendments to RPPs and sets out the procedure for applying for the registration of a pension plan and for filing amendments to RPPs.

ITR  
8508(1)

New subsection 147.1(2) of the Act requires that an application for the registration of a pension plan be made in prescribed manner by the plan administrator. Subsection 8508(1) specifies that an application must be made by forwarding the following documents by registered mail to the Deputy Minister of National Revenue:

- an application in prescribed form containing prescribed information;
- certified copies of the plan text and any other documents that contain terms of the plan;
- certified copies of all trust deeds, insurance contracts and other documents relating to the funding of benefits under the plan; and

- certified copies of all resolutions and by-laws relating to the above documents.

Subsection 8508(1) is not applicable until the day on which it is published in the *Canada Gazette*.

ITR  
8508(2)

Subsection 8508(2) applies where an RPP or the funding arrangement for an RPP is amended after 1988. It requires the plan administrator to send to the Deputy Minister of National Revenue, within 60 days after the amendment, a prescribed form and certified copies of all documents relating to the amendment.

The requirement to provide the above information does not apply until 60 days after the day on which subsection 8508(2) is published in the *Canada Gazette*. However, Revenue Canada currently requires, in paragraph 15 of Information Circular 72-13R8, that amendments be submitted promptly.

ITR  
8508(3)

New subsection 147.1(4) of the Act requires that an application for the acceptance of an amendment to an RPP be made in prescribed manner by the plan administrator. Subsection 8508(3) provides that this condition is satisfied where the administrator forwards by registered mail to the Deputy Minister of National Revenue for Taxation the documents required by subsection 8508(2).

Designated Laws  
ITR  
8509

Section 8509 defines the expressions “designated provision of the law of Canada or a province” to mean subsection 21(2) of the *Pension Benefits Standards Act, 1985* and similar provisions of provincial legislation. The definition is applicable for the purposes of paragraph 8302(3)(l) (calculation of normalized provision for the purpose of PA), subparagraph 8502(c)(iii) (permissible benefits) and paragraph 8515(5)(f) (calculation of normalized pension for the purpose of the limit on transfers from defined benefit plans to RRSPs and money purchase plans). For further discussion of this definition, see the commentary on paragraph 8502(c).

Prescribed Compensation  
ITR  
8510

Section 8510 prescribes certain amounts for the purposes of the definition of “compensation” in new subsection 147.1(1) of the Act and contains a number of rules relating to such amounts.

Subsection 147.1(1) defines “compensation” primarily for the purpose of the rules in new subsections 147.1(8) and (9) of the Act. Those rules require that PAs not exceed specified limits, including limits that depend on compensation. An individual’s compensation is also relevant for the purpose of the maximum pension rule in subsection 8503(4).

Where an individual is employed on a regular basis throughout a year, the individual’s compensation for the year from an employer, as defined in subsection 147.1(1), will generally be the salary or wages received by the individual from the employer in the year, plus any other amounts (such as

the benefit from the use of an automobile) required to be included in computing the individual's income for the year to the extent that the amounts relate to the individual's employment with the employer.

"Compensation" is defined to include prescribed amounts. This is to allow a notional amount of remuneration to be included in respect of periods when an individual's remuneration is reduced because the individual is disabled, on leave of absence or rendering services on less than a regular basis. The inclusion of such amounts in compensation enables benefits to accrue under a defined benefit provision (or contributions to be made under a money purchase provision) as if the individual had not had a reduction in remuneration, without violating the PA limits in subsections 147.1(8) and (9) of the Act.

Section 8510 contains detailed rules for the determination of prescribed amounts. Where an individual is disabled, the prescribed amount is the remuneration that the individual would have received but for the disability, less the individual's actual remuneration. Where an individual's remuneration is less than normal for a period and the period is an eligible period of temporary absence or reduced pay, the prescribed amount is the least of the following three amounts:

- the amount by which the individual's remuneration is reduced from its normal level;
- the amount that must be prescribed so that the individual's pension adjustment will not exceed 18 per cent of the individual's compensation; and
- an amount which ensures that the total amount prescribed in respect of all eligible periods of temporary absence or reduced pay of the individual does not exceed 5 years of full-time equivalent remuneration.

Compensation is defined on a calendar year basis. Thus, where an eligible period of reduced pay or temporary absence or a period of disability spans more than one calendar year, section 8510 prescribes a separate amount for the portion of the period that is in each year.

The rules in section 8510 do not directly affect the way in which benefits are determined under an RPP for a member who is disabled or on leave of absence. Benefits (or contributions, in the case of a money purchase plan) are determined solely by the plan terms, which may include rules respecting a member's remuneration during a period of disability or leave of absence. However, the plan terms must be such that the PA limits in subsections 147.1(8) and (9) of the Act will not be violated. As described above, the rules in section 8510 are relevant for determining the PA limits since those limits depend on compensation.

Normally it will not be necessary for plan administrators to actually determine the amounts prescribed by section 8510. Instead, plan benefits would be

designed so that the PA limits will not be violated, having regard to the additional compensation that may be taken into account by virtue of section 8510. However, if a plan were designed to take maximum possible advantage of the rules in section 8510, it may then be necessary to determine the prescribed amounts since plan benefits in respect of periods of reduced pay and temporary absence would likely depend directly on the rules in that section.

By virtue of subsection 8505(6), a grandfathered plan (as defined in subsection 8500(1)) is not subject to deregistration before 1992 on the failure of the PA of a member to satisfy the limits in subsection 147.1(8) or (9) of the Act (except where money purchase contributions are made to the plan). Nonetheless, amounts are prescribed for 1991 by section 8510 and are taken into account for the purpose of the aggregate limit on amounts that may be prescribed in respect of an individual.

Examples of the application of section 8510 are set out following the description of that section.

ITR  
8510(1)

Subsection 8510(1) prescribes the following amounts as amounts that are to be included in the compensation of an individual for a particular year from an employer:

- where the individual has an eligible period of reduced pay or temporary absence in the year with respect to the employer and the conditions described below are satisfied, the amount determined pursuant to subsection 8510(2) in respect of the period; and
- where the individual has a period of disability in the year, the amount that it is reasonable to expect would have been the individual's remuneration for the period from the employer if the individual had not been disabled (less the individual's actual remuneration from the employer).

No amount is prescribed by subsection 8510(1) in respect of a particular eligible period of reduced pay or temporary absence of an individual in a year with respect to an employer if benefits accrue to the individual in respect of the period under a defined benefit provision of an RPP in which the employer does not participate or if contributions are made by the individual, or on the individual's behalf, in respect of the period to a money purchase provision of an RPP or a deferred profit sharing plan in which the employer does not participate. Thus, an amount will not be prescribed if an individual works for another employer during the period of reduced pay or temporary absence and, as a consequence, participates in another RPP.

Subsection 8510(1) applies commencing with periods in 1991, which is the first year for which the PA limits in subsections 147.1(8) and (9) of the Act are applicable.

ITR  
8510(2)

Subsection 8510(2) contains the rules for determining the amount that is prescribed by subsection 8510(1) in respect of an eligible period of reduced

pay or temporary absence of an individual in a year with respect to an employer. This amount is the least of:

(a) the remuneration that the individual could reasonably be expected to have received from the employer for the period if

- the individual had rendered services to the employer on a regular basis based on the individual's employment with the employer before the commencement of the complete period of reduced services (as defined in subsection 8510(6)) of which the period is a part, and
- the individual had been paid at a rate of pay commensurate with the individual's rate of pay before the commencement of the complete period of reduced services,

less any remuneration for the period received by the individual from the employer;

(b) the smallest amount that must be prescribed so that the individual's pension adjustment for the year in respect of the employer does not exceed 18 per cent of the individual's compensation for the year from the employer; and

(c) the amount determined by the formula

$$(5 - A) \times B$$

where

- A is the individual's cumulative prescribed compensation fraction (as defined in subsection 8510(4)) in respect of the employer, determined immediately before the end of the period, and
- B is the remuneration that the individual could reasonably be expected to have received from the employer for the whole year if
- the individual had rendered services to the employer on a full-time basis throughout the year, and
  - the individual had been paid at a rate of pay commensurate with the individual's rate of pay before the commencement of the complete period of reduced services (as defined in subsection 8510(6)) of which the period is a part.

In more general terms, the amount determined under subsection 8510(2) in respect of a period is the additional amount that must be included in an individual's compensation so that the PA limits based on compensation are satisfied. This amount is subject to a maximum equal to the additional remuneration that the individual would have earned in the period had he or she rendered services on a regular basis. There is an overriding maximum which

limits the total of the amounts determined under subsection 8510(2) in respect of the individual to the equivalent of 5 years of full-time remuneration. Where an individual changes employers (other than within a group of non-arm's length employers) and the new employer does not participate in the same RPP as the former employer, a new 5-year limit is applicable.

ITR  
8510(3)

Subsection 8510(3) contains a rule that applies where two or more employers participate in RPPs on behalf of an individual and the individual has an eligible period of reduced pay or temporary absence in a year with respect to one employer that ends at the same time as such a period with respect to another employer. For example, an individual who is employed on a half-time basis by each of two employers who participate in the same RPP may take a leave of absence from both jobs, and receive pension credits in respect of both leaves of absence.

Subsection 8510(3) ensures that in these circumstances the amounts determined under subsection 8510(2) for inclusion in the individual's compensation from each employer do not result in the overriding maximum of 5 years of full-time equivalent remuneration being exceeded. In the absence of subsection 8510(3) this could happen, since the limit in paragraph 8510(2)(c) is determined with respect to a particular period without taking into account notional compensation determined under subsection 8510(2) with respect to other periods that end coincidentally with the particular period.

Where the 5-year full-time equivalent remuneration limit would otherwise be exceeded – that is, where the individual's cumulative prescribed compensation fractions would otherwise exceed 5 – subsection 8510(3) reduces the amounts of notional compensation determined under subsection 8510(2) to amounts which avoid this result. The amounts are to be determined by agreement between the employers or, if they fail to agree, by the Minister of National Revenue.

ITR  
8510(4) and (5)

Subsections 8510(4) and (5) define quantities that, in conjunction with paragraph 8510(2)(c), limit the total of the amounts that will be prescribed in respect of an individual's eligible periods of reduced pay or temporary absence. Subsection 8510(4) defines the "cumulative prescribed compensation fraction" of an individual at any time in respect of an employer to be the sum of the prescribed compensation fractions associated with periods ending at or before that time that are eligible periods of reduced pay or temporary absence of the individual in calendar years after 1990 with respect to

- the employer,
- any other employer who does not deal at arm's length with the employer, or
- any other employer who participates in an RPP in which the employer participates for the benefit of the individual.



Subsection 8510(5) defines the “prescribed compensation fraction” associated with an eligible period of reduced pay or temporary absence of an individual in a calendar year with respect to an employer as

(a) the amount determined under subsection 8510(2) in respect of the period

divided by

(b) the remuneration that the individual could reasonably be expected to have received from the employer for the whole year if the individual had rendered services to the employer on a full-time basis throughout the calendar year at a rate of pay commensurate with the individual’s rate of pay before the commencement of the complete period of reduced services (as defined in subsection 8510(6)) of which the eligible period is part.

In effect, the rules provide that, for the purpose of determining whether the PA limits in subsections 147.1(8) and (9) of the Act are satisfied, a member may, throughout his or her career, be regarded as having earned an additional 5 years of full-time equivalent remuneration during periods of reduced pay or temporary absence. For example, the rules permit a 2 per cent final average earnings plan to provide full benefits to a member in respect of leaves of absences without pay totalling 5 years. The limit is correspondingly higher where the member’s pay continues, but at a reduced level, during any leave of absence.

ITR  
8510(6)

Subsection 8510(6) defines a “complete period of reduced services” of an individual with respect to an employer as a period that consists of

- periods of disability of the individual (as defined in subsection 8500(1)), and
- eligible periods of reduced pay or temporary absence of the individual with respect to the employer (as defined in subsection 8500(1)),

and that is not part of a longer such period. This definition is relevant for the purposes of subsection 8510(2). It is used to refer to the full period throughout which an individual’s remuneration is lower than normal.

ITR  
8510(7)

Subsection 8510(7) provides that a reference in section 8510 to an eligible period of reduced pay or temporary absence in a year does not include subperiods of such periods. For example, where a leave of absence extends from July 1, 1991 to March 31, 1992, a reference to a period of temporary absence in 1991 means the full period from July 1, 1991 to December 31, 1991, and does not include any subperiod such as the period from October 1, 1991 to November 30, 1991. This rule ensures that only one amount of notional compensation is associated with the portion of an eligible period of reduced pay or temporary absence that is in a particular calendar year. A similar rule is included in subsection 8510(7) for periods of disability.

## Examples

The following examples illustrate the application of section 8510:

**Example 34:** Assume that a plan member who normally works on a full-time basis takes an unpaid leave of absence for 8 months in a year. Assume the member earned \$12,000 for the year but would have earned \$36,000 had the member rendered services on a regular basis throughout the year. Assume that the member participates in a money purchase RPP with a contribution rate of 10 per cent of pay and that contributions are made in respect of the period of temporary absence as though the member had rendered services on a regular basis throughout the year.

The money purchase contribution and, therefore, the PA for the year in respect of the member is \$3,600 (= 10 per cent of \$36,000). The PA limit in respect of the member for the year based on paid remuneration is \$2,160 (= 18 per cent of \$12,000) which is less than the PA. In this case, section 8510 would prescribe an additional amount of compensation of \$8,000 so that the PA limit would be \$3,600 (= 18 per cent of (\$12,000 + \$8,000)).

The prescribed compensation fraction would be 0.222 (= \$8,000 ÷ \$36,000). Assuming that the \$8,000 is the first amount prescribed in respect of the individual, the cumulative prescribed compensation fraction would also be 0.222. Hence, up to 4.778 years of full-time equivalent compensation could still be prescribed by section 8510 in respect of subsequent leaves of absence.

**Example 35:** A single employer RPP is a “best 3-year average earnings plan” with a benefit rate of 1.5 per cent. The earnings of part-time employees are annualized for the purpose of the benefit formula. Assume that a plan member who regularly works 3 days a week is on leave of absence for 9 months in a year and that the plan provides benefits as if the member had worked on a regular basis throughout the year. Assume that the member earned \$6,000 for the year but would have earned \$24,000 had the member rendered services on a regular basis throughout the year. The corresponding full-time annual compensation would therefore be \$40,000.

The member’s benefit accrual for the purpose of determining PA would be \$360, determined as follows:

$$\begin{aligned} & \text{benefit rate} \times \text{credited service} \times \text{annualized earnings} \\ &= .015 \times 3/5 \times \$40,000 = \$360. \end{aligned}$$

The resulting PA would be \$2,640 (= \$360 × 9 – \$600).

The PA limit based on paid remuneration would be \$1,080 (= 18 per cent of \$6,000). In this case, section 8510 would prescribe an additional amount of compensation of \$8,667 so as to increase the PA limit to \$2,640 (= 18 per cent of (\$6,000 + \$8,667)).

The prescribed compensation fraction would be 0.217, determined as follows:

$$\frac{\text{prescribed compensation}}{\text{full-time equivalent annual compensation}} = \frac{\$ 8,667}{\$40,000} = 0.217$$

**Salary Deferral Leave Plans**  
ITR  
8511

Section 8511 contains special rules applicable with respect to salary deferral leave plans. These are plans described in paragraphs 6801(a) and (b) of the Regulations for the purpose of being excluded from the definition of a “salary deferral arrangement” in subsection 248(1) of the Act. By participating in a salary deferral leave plan, an employee is able to defer receipt of salary for tax purposes. Such plans may be used by employees (in co-operation with their employers) to self-fund sabbaticals and other leaves of absence.

Paragraph 8511(a) provides that, where an employee defers salary pursuant to a salary deferral leave plan, the period throughout which salary is deferred is an eligible period of reduced pay. This ensures the application of all rules applicable with respect to eligible periods of reduced pay and, in particular, the rules in section 8510 (prescribed compensation).

Paragraph 8511(b) provides that, for the purpose of section 8510, the employee’s regular rate of pay is the rate that would apply if the employee were not participating in the salary deferral leave plan. Thus, during the deferral period while the employee is still at work, the deferred salary will be regarded as part of the employee’s remuneration. While the employee is on a leave of absence and receives the deferred salary, the employee’s remuneration will be considered to be the amount that would have been paid had the employee not taken the leave.

Section 8511 is mainly intended to ensure that section 8510 applies where an employee participates in a salary deferral leave plan. As a consequence, benefits can accrue under an RPP to the employee as if the employee did not participate in the salary deferral leave plan (subject to the limits indirectly applicable by virtue of section 8510).

**Prohibited Investments**  
ITR  
8512

Paragraph 8502(h) restricts the investments that may be made by an RPP. Subsection 8512(1) specifies, for the purposes of that paragraph, the following investments as investments that are prohibited in relation to a pension plan:

- (a) a share of, an interest in, or a debt of:
  - (i) an employer participating in the plan;

(ii) a person connected with a participating employer; (as defined in subsection 8500(3));

(iii) a plan member;

(iv) a person or partnership that controls a person referred to in (i) or (ii); or

(v) a person or partnership that does not deal at arm's length with a person or partnership referred to in (i) to (iv); or

(b) an interest in, or right to acquire, property described above.

However, subsection 8512(2) excludes from the list of otherwise prohibited investments a number of properties: government bonds and similar instruments described in clause 212(1)(b)(ii)(C) of the Act; shares and debt obligations of a corporation listed on a stock exchange referred to in section 3200 or 3201 of the Regulations (or rights to acquire such shares or debt obligations); and mortgages which bear an arm's length rate of interest and which satisfy additional conditions in certain circumstances. Where the amount paid for a mortgage (together with the indebtedness under any mortgage or hypothec ranking equally with or superior to the mortgage) exceeds 75 per cent of the fair market value of the real property subject to the mortgage, the exclusion does not apply if the mortgage is not insured. Where a mortgage is held in connection with a designated plan as defined in section 8513 (except for a plan that is a designated plan solely because more than 50 per cent of its members earn more than 2½ times the Year's Maximum Pensionable Earnings), the mortgage must be administered by an approved lender under the *National Housing Act* in order for the exclusion to apply. By virtue of subsections 8512(3) and (4), investments acquired before March 28, 1988 are also excluded, except debt obligations the term of which has been extended or the principal amount of which has increased as a result of the lending of further amounts.

Special Rules for Designated  
Plans  
ITR  
8513

New subsection 147.2(2) of the Act defines an eligible contribution for the purposes of new subsection 147.2(1) of the Act (deduction of employer contributions) and paragraph 8502(b) (permissible contributions to an RPP). An eligible contribution is a contribution made by an employer to an RPP in respect of the defined benefit provisions of the plan that is either a prescribed contribution (contributions are prescribed for this purpose by section 8514) or is made pursuant to the recommendation of an actuary based on an actuarial valuation that complies with certain conditions. New subparagraph 147.2(2)(a)(v) of the Act requires that the valuation satisfy prescribed conditions. Subsection 8513(6) prescribes conditions in relation to an actuarial valuation for this purpose. These conditions are applicable in determining whether contributions made to an RPP that is a designated plan are eligible contributions. Subsections 8513(1) and (2) specify which plans are designated plans, while subsection 8513(3) permits the Minister of National Revenue to exclude certain plans from the category of designated plans.

Subsection 8513(5) enables the Minister to declare other plans to be designated plans where steps have been taken to avoid the application of the designated plan rules.

In general terms, an RPP is a designated plan if it is a "small plan" (a plan with fewer than 10 active members) or if it is a larger plan that is primarily a "plan for connected persons or higher income persons". The latter category consists of plans where over 50 per cent of the active members are either connected persons or persons who earn over 2½ times the YMPE (over \$69,250 in 1989). Designated plans are subject to special conditions which serve to limit the level of contributions that may be made to prefund permissible benefits.

Subsection 147.2(2) of the Act, and thus the conditions in subsection 8513(6), apply in respect of contributions made after 1990. However, where a contribution is a prescribed contribution by virtue of section 8514, the contribution will be an eligible contribution regardless of whether the conditions in subsection 8513(6) are satisfied. A contribution is most likely to be a prescribed contribution by virtue of subsection 8514(3) (a contribution approved by the Minister under paragraph 20(1)(s) of the Act).

**Plan for Connected or Higher  
Income Persons**  
ITR  
8513(1)

Subsection 8513(1) provides, for the purposes of subsection 8513(6), that an RPP with a defined benefit provision is a designated plan at any time that more than 50 per cent of its active members are "specified active members". Paragraph 8513(4)(b) defines a specified active member for this purpose. As an exception, a plan that is maintained pursuant to a collective bargaining or similar agreement is excluded from being a designated plan.

**Small Plan**  
ITR  
8513(2)

Subsection 8513(2) provides, for the purposes of subsection 8513(6), that an RPP with a defined benefit provision is a designated plan at any time that it has fewer than 10 "active members". Paragraph 8513(4)(a) defines an active member for this purpose. Subsection 8513(2) is subject to subsection 8513(3), which permits the Minister to exempt a plan from the application of the subsection.

**Exemption**  
ITR  
8513(3)

Subsection 8513(3) permits the Minister of National Revenue to exclude an RPP from the category of designated plans where the plan would otherwise be a designated plan solely because it has fewer than 10 "active members". An exemption is not effective unless written notice thereof has been given to the administrator of the plan. It is expected that, in determining whether to exclude a plan, the Minister will take into account such factors as whether any members of the plan are "specified active members", whether the plan provides maximum benefits and whether more generous benefits are provided to some members than to others.

Active Members and Specified  
Active Members  
ITR  
8513(4)

Subsection 8513(4) defines the expressions “active member” and “specified active member” for the purposes of section 8513. An RPP member is an active member of the plan at a particular time if he or she is accruing benefits under a defined benefit provision of the plan at the particular time. The definition thus excludes retired plan members, former employees entitled to deferred pensions and other plan members no longer accruing benefits at the particular time.

An active RPP member is a specified active member of the plan at a particular time if

- (a) the member is connected at that time with an employer who participates in the plan, or
- (b) it is reasonable to expect at that time that the member’s aggregate remuneration, for the calendar year that includes that time, from employers who participate in the plan (or from other non-arm’s length employers) will exceed  $2\frac{1}{2}$  times the YMPE for the year.

Subsection 8500(3) assigns a meaning to the statement that a person is connected with an employer. In general terms, a connected person is a person who, together with other non-arm’s length persons, owns at least 10 per cent of the shares of the employer or a person who does not deal at arm’s length with the employer.

The YMPE is the year’s maximum pensionable earnings under the Canada Pension Plan. It is \$27,700 in 1989 and is adjusted each year in line with the growth in wages.

Anti-avoidance  
ITR  
8513(5)

Subsection 8513(5) permits the Minister of National Revenue to specify that a plan is a designated plan, where it is reasonable to consider that steps have been taken primarily to ensure that subsection 8513(1) or (2) does not apply to render the plan a designated plan. Such steps might include:

- (a) setting remuneration levels just below the YMPE-related cut-off level to avoid members being counted as specified active members, or
- (b) artificially increasing the plan membership by providing nominal benefits to plan members who are not specified active members.

For subsection 8513(5) to apply, the Minister must give notice in writing to the plan administrator and specify an effective date for the application of the conditions set out in subsection 8513(6).

Conditions Applicable to  
Actuarial Valuation  
ITR  
8513(6)

Subsection 8513(6) sets out, for the purposes of subsection 147.2(2) of the Act (definition of an eligible contribution), the prescribed conditions applicable to an actuarial valuation. These conditions apply for the purpose of determining whether contributions made to a plan at a time when the plan is a designated plan are eligible contributions. They do not apply with respect to other contributions. It is important to note that the conditions relating to

the valuation of liabilities apply with respect to all plan members, not just specified active plan members.

Paragraph 8513(6)(a) requires that the projected accrued benefit method be used for the purpose of determining actuarial liabilities and current service costs. Under this method (also known as the projected unit credit method), actuarial liabilities are based on benefits accrued to the date of the valuation, with an allowance for the effect of expected salary increases and inflation adjustments on the accrued benefits. Current service costs are determined in a consistent manner.

Paragraph 8513(6)(b) requires that, except where retirement benefits have commenced to be paid to a member before the effective date of the valuation, the valuation be based on the assumption that benefits commence to be paid to the member on or after the day on which the member attains age 65. Where a designated plan provides bridging benefits or a pension commencing before age 65, the condition in paragraph 8513(6)(b) prevents the additional value of such benefits from being taken into account until such time as benefits commence to be paid. (There are no special rules restricting the benefits that may be provided by designated plans.)

Paragraph 8513(6)(c) requires that actuarial liabilities and current service costs not exceed amounts determined under the assumption that each member survives and (for members employed as of the effective date of the valuation) continues in employment until the time that the member's retirement benefits commence. This condition does not prevent the use of non-zero rates for mortality, termination or disability prior to retirement. However, where non-zero rates are used, the actuarial liabilities and current service costs cannot exceed the amounts that would result if such rates were assumed to be zero.

Paragraph 8513(6)(d) requires that the valuation rate of interest be no less than 7.5 per cent per annum. In conjunction with the condition set out in paragraph 8513(6)(e), this condition limits the extent to which conservative assumptions regarding the rate of return on plan funds can be used to increase plan contributions.

An important determinant of estimated plan costs is the assumed differential between the rate at which plan assets will grow through the accumulation of investment returns and the rate at which projected liabilities will grow. The growth in projected liabilities often depends on the projected growth of salaries up to the time of pension commencement and the projected growth of benefits as a result of inflation adjustments (as specified in the plan) after pension commencement. Paragraph 8513(6)(e) requires that these assumed differentials be no less than specified amounts. The assumed differential between the valuation rate of interest and the rate of increase in each member's rate of remuneration must be no less than 2 per cent per annum. The assumed differential between the valuation rate of interest and the rate

of increase in the Consumer Price Index (that is, the maximum permissible rate of increase in retirement benefits after their commencement) must be no less than 3.5 per cent per annum. Where varying interest rates or benefit growth rates are assumed, these minimum spread requirements apply for each year in the projection, not simply on the basis of averages over the projection period.

Paragraph 8513(6)(f) requires that each assumption made with respect to economic factors other than those referred to in paragraph 8513(6)(e) be consistent with the conditions imposed by that paragraph. This condition is meant to ensure that the requirements of paragraph 8513(6)(e) are not avoided where benefits are adjusted in accordance with economic factors other than those specifically set out in paragraph 8513(6)(e).

Paragraph 8513(6)(g) requires that actuarial liabilities and current service costs be determined without regard to certain ancillary benefits. Before a member's retirement benefits commence to be paid, post-retirement death benefits are to be disregarded except for a survivor benefit payable to the member's spouse not exceeding 66⅔ per cent of the member's pension or, if no such survivor benefit is taken into account, benefits payable pursuant to a guarantee not exceeding 10 years. In addition, anticipated cost-of-living adjustments or similar increases in benefits before or after pension commencement are to be disregarded to the extent that they are not required to be made by the terms of the plan. (By virtue of paragraph 147.2(2)(c) of the Act, such anticipated increases may normally be taken into account.)

Paragraph 8513(6)(h) requires that the plan's assets be valued at an amount not less than their fair market value as of the effective date of the valuation.

Eligible Contributions –  
Transition Rules  
ITR  
8514

New subsection 147.2(2) of the Act provides that a contribution made by an employer to an RPP in respect of the defined benefit provisions of the plan is an eligible contribution if it is a prescribed contribution or if certain conditions are satisfied. Eligible contributions are defined for the purposes of new subsection 147.2(1) of the Act (deduction of employer contributions) and paragraph 8502(b) (permissible contributions to an RPP). Subsection 8514(1) prescribes, for the purpose of subsection 147.2(2), those contributions described in subsections 8514(2) to (5).

Subsection 8514(2) applies where the actuarial surplus under an RPP exceeds the amount that subsection 147.2(2) of the Act permits to be ignored for the purpose of determining the contribution requirements. In general terms, the subsection does not require the excess surplus to be taken into account immediately, but permits it to be brought into account as if it were employer contributions made uniformly throughout the period from January 1, 1991 to December 31, 1993.



More specifically, a contribution made by an employer to an RPP is an eligible contribution pursuant to subsection 8514(2) if

- (a) the contribution is made before 1994;
- (b) the contribution would be an eligible contribution under subsection 147.2(2) of the Act if the plan's actuarial surplus were ignored; and
- (c) the recommendation pursuant to which the contribution is made is such that the contributions required to be made by the employer do not exceed the contributions that would be required if
  - (i) except as described in (ii), employer contributions were determined without regard to any actuarial surplus, and
  - (ii) employer contributions to be made after 1990 were determined on the basis that the "excess" actuarial surplus (as described below) becomes available uniformly throughout the period from January 1, 1991 (or, if later, the effective date of the actuarial valuation prepared in connection with the recommendation) to December 31, 1993 to fund benefits as if the amount that becomes available were additional employer contributions.

The amount of "excess" actuarial surplus referred to above is the amount by which the actuarial surplus exceeds the portion of the actuarial surplus that paragraph 147.2(2)(d) of the Act permits to be disregarded in determining employer contributions (i.e. the lesser of the amounts determined under subparagraphs 147.2(2)(d)(ii) and (iii)). Where the effective date of an actuarial valuation is before 1991, the "excess" actuarial surplus is reduced to the extent that employer and employee contributions made before 1991 were less than the current service contribution requirements of the plan.

Subsection 8514(3) provides a grandfathering rule for certain contributions that would have been deductible had the rules for 1990 continued in force. A contribution is an eligible contribution pursuant to subsection 8514(3) if the Minister of National Revenue has approved the contribution under paragraph 20(1)(s) of the Act and the contribution would have been deductible under that paragraph had it continued in force. Thus, where an actuarial valuation has been prepared and contributions approved by the Minister, it is not necessary to prepare another valuation until a valuation would have been required for the purposes of the old rules (unless the Minister has given an approval that is limited in time).

Subsection 8514(4) provides a grandfathering rule for certain negotiated contributions. A contribution is an eligible contribution pursuant to subsection 8514(4) if it is made in 1991 pursuant to a formula in a statute, by-law or collective bargaining agreement that was in existence on March 27, 1988, and the formula for determining employer contributions has not been amended after March 27, 1988 and before the time at which the contribution is made.

Subsection 8514(5) provides a grandfathering rule for certain contributions that an employer is required to make to a plan. A contribution is an eligible

contribution pursuant to subsection 8514(5) if it is made in 1991, the employer was required by the terms of the plan as they read on March 27, 1988 to make the contribution and the Minister of National Revenue has approved the contribution. Subsection 8514(5) is intended to grandfather certain contributions other than those described in subsection 8514(4), but only where the contributions are acceptable to the Minister.

**Transfer – Defined Benefit to  
Money Purchase  
ITR  
8515**

New subsection 147.3(4) of the Act restricts the amount that may be transferred on a tax-free basis from a defined benefit provision of an RPP to an RRSP or to a money purchase provision of an RPP. Paragraph 147.3(4)(c) requires that the amount not exceed a prescribed amount. Section 8515 contains rules for determining the prescribed amount for this purpose.

The restriction on the amount that may be transferred prevents the use of such transfers as a means of obtaining larger tax-assisted retirement benefits than intended. In particular, the limit restricts the extent to which early retirement benefits, including bridging benefits and the additional value of a pension that is not actuarially reduced to reflect its commencement prior to age 65, can be converted into additional lifetime retirement benefits commencing at a later age. The restriction also limits the further tax deferrals that might otherwise be gained by the use of conservative assumptions in determining the commuted value of benefits.

In determining the amount that may be transferred on behalf of an individual, a number of other restrictions must be considered:

- paragraph 147.3(4)(a) of the Act, which prohibits the transfer of an amount where any part of the amount is derived from an actuarial surplus;
- paragraph 8503(2)(m) of the Regulations, which requires that a lump sum paid in lieu of other benefits under a defined benefit provision not exceed the present value of the benefits; and
- paragraph 8502(j) of the Regulations, which requires the use of actuarial assumptions that are reasonable and acceptable to the Minister.

**Prescribed Amount  
ITR  
8515(1)**

Subject to subsections 8515(2) and (3), the prescribed amount in relation to a transfer from a defined benefit provision on behalf of an individual equals:

- (a) where the individual has attained age 72 at the time of the transfer, nil, and
- (b) in any other case, the amount determined by the formula

$$A \times B$$

where

- A is the amount of the individual's annual lifetime retirement benefits under the provision commuted in connection with the transfer (as determined pursuant to subsection 8515(4)), and
- B is the present value factor, set out in the following table, which corresponds to the attained age of the individual at the time of the transfer, unless the individual is between 49 and 64 years old, in which case it is the present value factor determined based on the individual's exact age (including any fraction of a year) by interpolating between the factors set out in the table for the individual's attained age and for the next higher age.

Attained age	Present value factor	Attained age	Present value factor
Under 50	9.0	61	11.7
50	9.4	62	12.0
51	9.6	63	12.2
52	9.8	64	12.4
53	10.0	65	12.4
54	10.2	66	12.0
55	10.4	67	11.7
56	10.6	68	11.3
57	10.8	69	11.0
58	11.0	70	10.6
59	11.3	71	10.3
60	11.5		

The present value factors set out in the table are based on the value of a pension that includes reasonably generous ancillary benefits and that commence at age 65. The value has been determined using interest rate, wage and price growth and mortality assumptions consistent with those underlying the factor of 9 by which defined benefits are multiplied to obtain pension credits.

Minimum Prescribed Amount  
ITR  
8515(2)

Subsection 8515(2) provides that where a transfer is made in *full* satisfaction of an individual's entitlement to benefits under a defined benefit provision of an RPP, the prescribed amount is the greater of the amount determined under subsection 8515(1) and the balance in the individual's net contribution account. "Net contribution account" is defined in subsection 8503(1). In general terms, the balance is equal to the contributions made by the individual under the provision plus interest, less any payments made in respect of the individual.

Subsection 8515(2) ensures that an individual is able to transfer, as a minimum, the balance in the individual's net contribution account. It is anticipated that this minimum will rarely exceed the amount determined under subsection 8515(1).

Plan Wind-Up or Replacement  
ITR  
8515(3)

Subsection 8515(3) applies where amounts are transferred before 1991 on the winding-up of an RPP or on the replacement of a defined benefit provision of an RPP by a money purchase provision of another RPP. If the winding-up or replacement commenced before 1989 and, at the time the winding-up or replacement commenced, the plan had been in existence for at least 5 years and had at least 50 members (or these two conditions are waived by the Minister), the prescribed amount with respect to an individual for the purpose of subsection 147.3(4) of the Act is the amount transferred on behalf of the individual. As a consequence, the prescribed amount does not limit the amount that may be transferred. (However, there are other restrictions on the amount that may be transferred, as described above.)

By virtue of the rule in paragraph 8502(k) regulating the "transfer" of property between benefit provisions of an RPP, subsection 8515(3) will also apply where the conversion of a defined benefit plan to a money purchase plan commenced before 1989.

Amount of Lifetime  
Retirement Benefits Commuted  
ITR  
8515(4)

Subsection 8515(4) sets out rules for determining the amount of an individual's lifetime benefits under a defined benefit provision of an RPP commuted in connection with a transfer to which subsection 147.3(4) of the Act applies. Where retirement benefits have commenced to be paid, the amount is equal to the reduction in the individual's annual lifetime retirement benefits under the provision as a result of the transfer. Otherwise, the amount is equal to the reduction in the individual's "normalized pension" (as defined for this purpose in subsection 8515(5)) as a result of the transfer. In either case, the amount determined is subject to paragraph 8515(4)(c) and the anti-avoidance rule in subsection 8515(6), both of which are discussed below.

Paragraph 8515(4)(c) applies where, in conjunction with a transfer from an RPP on behalf of an individual, another payment is also made from the plan on behalf of the individual. The other payment would generally be a lump sum cash amount, such as an excess amount that cannot be transferred in accordance with subsection 147.3(4) of the Act. Paragraph 8515(4)(c) provides that the reduction in the individual's lifetime retirement benefits or normalized pension, as the case may be, as a result of that other payment is taken into account in determining the lifetime retirement benefits commuted in connection with the transfer (except to the extent that the reduction is taken into account with respect to another transfer on behalf of the individual). Paragraph 8515(4)(c) does not apply, however, with respect to a payment made in settlement of rights on the breakdown of a marriage if the payment is transferred to an RPP or an RRSP in accordance with subsection 147.3(5) of the Act.

The following example illustrates the combined operation of subsections 8515(1) and (4):

**Example 36:** Suppose individual X is 53 years of age and has not started to receive a pension. The present value of X's accrued benefits under a non-contributory defined benefit pension plan as of December 1, 1989 is \$350,000. X's normalized pension is \$30,000 per year. X wishes to transfer as much as possible of the \$350,000 amount to an RRSP on that date. What is the prescribed amount under subsection 8515(1), if the amount that cannot be transferred is paid to X?

(1) As a result of the transfer and the cash payment, X will have forgone \$30,000 per year of normalized pension.

(2) Consequently, as the present value factor applicable for the transfer is 10.0, the maximum allowable transfer would be \$300,000. The remaining \$50,000 would be paid to X directly.

Normalized Pension  
ITR  
8515(5)

Subsection 8515(5) defines the "normalized pension" of an individual under a defined benefit provision of an RPP at a particular time for the purpose of subsection 8515(4). This amount is equal to the annual amount of lifetime retirement benefits that would be payable under the provision at the particular time if:

- (a) lifetime retirement benefits commenced to be paid to the individual at the particular time;
- (b) where the individual has not attained age 65 before the particular time, the individual attained age 65 at the particular time;
- (c) all benefits vested immediately;
- (d) no early retirement reduction were applied;
- (e) where the amount of the individual's lifetime retirement benefits depends on the amount of benefits provided under another benefit provision of the plan or under another plan or arrangement, a reasonable estimate were made of such other benefits;
- (f) where the individual's lifetime retirement benefits would otherwise include benefits that the plan is required to provide by reason of a designated provision of the law of Canada or a province (as defined in section 8509), or that the plan would be required to provide if each such provision were applicable to the plan in respect of all its members, such benefits were not included; and
- (g) where the amount of the individual's lifetime retirement benefits depends on the level of survivor benefits or other ancillary benefits provided under the provision, or on circumstances (such as marital status) relevant in determining the form of the individual's benefits, the level of the ancillary benefits and the circumstances were such as to maximize the amount of lifetime retirement benefits (except that, where the

normal form of death benefit is a guarantee for ten years or less and the individual is entitled to additional benefits in lieu of all or part of the guarantee, the additional benefits are to be ignored).

These assumptions are substantially similar to the assumptions used in determining “normalized pension” for pension adjustment purposes, as described in the commentary on subsection 8302(3).

**Replacement Benefits**  
**ITR**  
**8515(6)**

Subsection 8515(6) is primarily an anti-avoidance rule that applies where benefits forgone by an individual under a defined benefit provision of an RPP are replaced with benefits under another defined benefit provision of the plan or of another RPP in conjunction with the transfer of an amount on behalf of the individual to an RRSP or to a money purchase provision of an RPP. Where the same employer participated for the benefit of the individual under both defined benefit provisions, the replaced benefits are to be disregarded in computing, under subsection 8515(4), the amount of the individual's lifetime retirement benefits commuted in connection with the transfer.

**Association of Benefits with**  
**Time Periods**  
**ITR**  
**8516**

Many of the provisions in Part LXXXIII (calculation of pension adjustments and other amounts) and Part LXXXV of the Regulations, as well as the condition in new subsection 147.1(10) of the Act (past service benefits), refer to the benefits of a member of an RPP in respect of a particular period. Moreover, paragraph 8503(3)(a) prohibits (except in a special case) the provision of lifetime retirement benefits under a defined benefit provision of an RPP that are not in respect of particular periods. For these purposes, benefits are considered to be provided in respect of a particular period if the benefits are connected in some way with that period. The most common connection would be the performance of services or the receipt of remuneration in the period.

Section 8516 applies where it is not entirely clear how particular benefits should be associated with time periods and requires that the association be made in a manner acceptable to the Minister of National Revenue.

**Minister's Actions**  
**ITR**  
**8517**

A number of the provisions in Part LXXXV of the Regulations permit the Minister of National Revenue to waive a requirement, to extend a time limit or to modify in some other way the requirements of the Part. Other provisions provide for the approval of the Minister to be obtained.

Section 8517 provides that a waiver, extension of time or other modification of the requirements or an approval is not effective unless it is in writing and expressly refers to the requirement that is modified or the matter in respect of which the approval is given.

**Clause 8**

The Regulations are amended by replacing the expression “registered pension fund or plan” by the expression “registered pension plan” everywhere that it appears in the Regulations. This amendment is applicable after 1985.

**Clause 9**

This sets out the effective dates for clauses 1 to 8.

## Appendix

### Acronyms Used in the Explanatory Notes

AVC	–	Additional Voluntary Contribution
CPI	–	Consumer Price Index
CPP	–	Canada Pension Plan
DPSP	–	Deferred Profit Sharing Plan
OAS	–	Old Age Security
PA	–	Pension Adjustment
PAR	–	Pension Adjustment Reversal
PBSA	–	Pension Benefits Standards Act, 1985
PSPA	–	Past Service Pension Adjustment
QPP	–	Quebec Pension Plan
RCA	–	Retirement Compensation Arrangement
RPP	–	Registered Pension Plan
RRIF	–	Registered Retirement Income Fund
RRSP	–	Registered Retirement Savings Plan
YMPE	–	Year's Maximum Pensionable Earnings