

Policy Bulletin #14

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Determination and Transfer of Commuted Values

This Bulletin has been prepared to outline the legislative requirements and related guidelines for the determination of commuted values of benefits under the *Employment Pension Plans Regulation* (the Regulation). It is a revision of a previous Bulletin, Volume 7, Issue 7, dated August 16, 1993 and reflects changes made to the *Employment Pension Plans Act* (the Act) and Regulation effective March 1, 2000. It has no legal authority. The Act and Regulation should be used to determine specific legislative requirements.

The basis for this is the Standard of Practice for Determining Pension Commuted Values (the Standard) approved by the Practice Standards Council of the Canadian Institute of Actuaries effective February 1, 2005 (and replaces the Recommendations for the Computation of Transfer Values from Registered Pensions Plans effective September 1, 1993.)

Legislative Requirements Section 1(1)(h) of the Act defines commuted value, under a defined benefit provision, as the actuarial present value of benefits determined as of the time in question

1. based on actuarial assumptions and methods that are adequate and appropriate, and in accordance with generally accepted actuarial principles;
2. in accordance with any conditions provided for in the Regulation; and
3. in a manner acceptable to the Alberta Superintendent of Pensions.

Section 29 of the Regulation requires that the commuted value of benefits must be determined in accordance with the Standard.

Application

The commuted value of benefits must be determined in accordance with the Standard and legislative requirements. It represents the minimum amount that may be provided when a person entitled to benefits from a defined benefit provision of a pension plan is to receive a transfer of, or credit for, the capitalized value of the pension benefits he or she has accrued under the plan. The situations in which this applies are

1. member termination prior to pension commencement
2. member termination at pension commencement if the plan permits transfers at that stage
3. partial or full termination of the plan, affecting the person entitled to benefits
4. death of the member before retirement
5. marriage breakdown where a Matrimonial Property Order (MPO) requires the division and transfer out of the expansion partner's share
6. conversion of a defined benefit provision to a defined contribution provision or vice versa.

ADDITIONAL RESTRICTION

Regardless of what amount is calculated as the member's commuted value in any of the above transfer situations, where the plan has a transfer deficiency, the plan administrator may transfer only the solvent portion of the benefit. Any transfer deficiency related to the benefit transferred must continue to be held as a liability under the plan, in accordance with section 35 of the Regulation¹.

This transfer deficiency must be transferred within 5 years of the initial transfer. This rule does not apply if the employer immediately and fully funds the amount of the deficit related to the former member's benefit.

¹ Please note that amendments to the Act and Regulation effective March 1, 2000 require that solvency deficiencies be paid off within 5 years of plan termination as well as during the life of the plan

Calculation Guidelines

The commuted value must meet the following criteria.

1. The computation date is the date the entitlement to elect a transfer became effective, (i.e., the date of termination of membership, retirement, termination of the plan, death, the date specified in the MPO, date of plan conversion). Except for recalculations as outlined in section 29(7) of the Regulation, the use of any other date requires the Superintendent's approval.
2. It must reflect the full benefit entitlement that the member has accrued according to the provisions of the plan and the Act as of the computation date. This must include
 - a) the full value of the normal form of pension;
 - b) the full value of any death or survivor benefits payable on death prior to commencement of pension; and
 - c) the full value of any subsidized early retirement or other ancillary benefit to which the member is fully entitled at the time in question².
3. Where, at the computation date, the former member has the unconditional entitlement to optional forms of pension or optional commencement dates, the option that has the greatest value must be used in determining the commuted value³.

² If situation #6 applies, please consult Bulletins 8 (Conversion of a Defined Benefit Plan to a Defined Contribution Plan) and 15 (Conversion of a Defined Contribution Provision to a Defined Benefit Provision) for special rules

³ In situation #5, where CV of benefit is being calculated for purposes of division, MTV is modified by assuming member will retire at pensionable age rather than the earliest age at which a pension may commence

**Interest Payable on
Commutated Values to
Date of Transfer**

In accordance with section 29(6) of the Regulation, an adjustment must be made to the commuted value of a benefit to reflect interest between the computation date and the end of the month immediately preceding the date of payment. The interest applied must be at least equal to the rate of interest that was used in determining the commuted value of the benefit at the computation date.

An exception to this rule applies on termination of the pension plan, where the applicable interest payable between the date of termination of the plan and the date of payment of the termination benefit is the fund rate of return. This provision eliminates the continual creation of experience gains / losses that can occur where a plan terminates but the payment of benefits does not occur in the month in which the commuted value of the benefit was determined.

Recalculations

Where the period between the computation date and the date of payment exceeds 120 days, instead of adjusting the commuted value for interest, the plan administrator may elect to recompute the commuted value as of the date of transfer. The election to recompute benefits should be exercised on a consistent basis for all transfer cases under the plan. Selective recomputation will not be permitted.

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